

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN SESSION

Saturday, November 20, 2004

11:05 a.m.

The Westin Cincinnati
21 E. Fifth Street
Cincinnati, Ohio

COMMITTEE MEMBERS PRESENT:

Robert J. Dieter, Chairman
Thomas A. Fuentes (by telephone)
Herbert S. Garten
Frank Strickland, Board Chairman, ex officio

BOARD MEMBERS PRESENT:

Lillian R. BeVier
David Hall
D. McKay
Thomas R. Meites
Florentino A. Subia
Ernestine P. Watlington (by telephone)

STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President
David Richardson, Treasurer and Comptroller
Richard (Kirt) West, Inspector General
Patricia Batie, Manager of Board Operations; and
Other staff and members of the public

C O N T E N T S
OPEN SESSION

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1 P R O C E E D I N G S

2 OPEN SESSION

3 (11:05 a.m.)

4 MR. DIETER: For the record it's about five
5 minutes after 11:00 and I'm calling the meeting of the
6 Finance Committee to order.

7 APPROVAL OF AGENDA

8 MR. DIETER: The first order of business is
9 approval of the agenda and I'm going to propose that we
10 move Item 6 up and Item 7 up because Tom Fuentes is
11 only available for an hour and I want to be sure that
12 we get through those items.

13 M O T I O N

14 Okay. So with that I propose that we amend
15 the agenda to re-number Item 6 and 7 to be Items 2 and
16 3 and then adjust the other item numbers accordingly.

17 MR. GARTEN: So moved.

18 MR. RICHARDSON: If I can, Mr. Chairman, a
19 part of the closed session is a report regarding the
20 directors' and officers' liability insurance and you
21 just moved that prior to the closed session. So, by
22 chance maybe you want to handle the closed session

1 first to be able to discuss that and then come back for
2 the action item there.

3 MR. DIETER: Okay. I need to clarify. My
4 suggestion was that we move the two items under closed
5 session.

6 What I'm suggesting is that we move the closed
7 session Items 6 and 7 up in closed session and take
8 them under consideration before Items 2 -- before Items
9 3, 4 and 5.

10 Do you second that?

11 MR. GARTEN: Yes, I second.

12 MR. DIETER: And there being no objection it
13 passes unanimously.

14 APPROVAL OF SEPTEMBER 24, 2004

15 FINANCE COMMITTEE MINUTES

16 MR. DIETER: Secondly, is there a motion to
17 approve the minutes of the meeting of September 24th,
18 which is Item No. 2?

19 M O T I O N

20 MR. GARTEN: So moved.

21 MR. DIETER: Okay, without objection then the
22 minutes are approved.

1 M O T I O N

2 MR. DIETER: And at this time then I move that
3 we go into closed session.

4 MR. GARTEN: Second.

5 MR. DIETER: There being no objection, then I
6 declare that the committee is in closed session.

7 (Whereupon, at 11:12 a.m., the meeting was
8 adjourned to closed session.)

9 * * * * *

1 OPEN SESSION

2 MR. DIETER: At this time then the Finance
3 Committee goes back into Open Session and committee
4 members that are present and that were present at the
5 commencement of the committee meetings are Robert
6 Dieter, the chair; Herb Garten and Tom Fuentes by
7 telephone.

8 At this time, we're going to take Item 5 in
9 the Open Session out of order and deal with it at this
10 time because Tom Fuentes has to leave shortly. So,
11 Item 5 is to consider and act on a proposed revision to
12 LSC's fiscal year 2006 appropriations request and
13 making the presentation is David Richardson.

14 CONSIDER AND ACT ON A PROPOSED REVISION TO
15 LSC'S FISCAL YEAR 2006 APPROPRIATIONS REQUEST

16 MR. RICHARDSON: At the September meeting of
17 the Finance Committee and then later approved by the
18 board there was a great deal of discussion involving
19 the 2006 appropriation request. The original
20 management request was amended and the board approved a
21 budget request of \$362,900,000.

22 Included in that budget was \$2.7 million for

1 the inspector general. Since Mr. West was new onboard
2 at that time he did not have comment about the budget
3 request; however, since that time he has come forward
4 and he would like to amend, ask the board to amend his
5 request for the Inspector General's Office to increase
6 that appropriation request \$209,000. That would raise
7 his appropriation line to \$2,909,000 and it would
8 increase the \$362,900,000 an additional \$209,000, also
9 creating a revised budget request.

10 M O T I O N

11 MR. DIETER: Okay. I'll make a motion to
12 amend the 2006 budget mark request by increasing the IG
13 line from \$2,700,000 to \$2,909,000, thereby increasing
14 the total budget mark \$363,109,000?

15 MR. RICHARDSON: That is correct, sir.

16 MR. DIETER: And that the information provided
17 to Congress with respect to the IG budget clarify that
18 the IG would be paying out of the \$2,909,000, \$209,000
19 in rent to LSC for space at the LSC offices and that
20 this would be a change from past practice and that this
21 additional rent money, if the IG budget were increased
22 to \$2,909,000 that that would be a net increase and not

1 be -- and that money not be deducted from M&A or any
2 other line in our overall budget request, is that clear
3 enough?

4 MR. FUENTES: If you entertain that motion,
5 I'll so move it, Mr. Chairman.

6 MR. GARTEN: Second.

7 MR. DIETER: Second and all in favor say aye.

8 (A chorus of ayes.)

9 MR. DIETER: Tom.

10 MR. FUENTES: Aye.

11 MR. DIETER: Okay it's passed unanimously and
12 we'll present that to the board in the board meeting
13 later this afternoon. Okay.

14 CONSIDER AND ACT ON INCREASING COVERAGE
15 LIMITS UNDER LSC'S DIRECTORS' AND OFFICERS'
16 LIABILITY INSURANCE POLICY

17 MR. DIETER: Then I'd also like to take out of
18 order Item No. 8, which is consider and act on
19 increasing the coverage limits under LSC's directors'
20 and officers' liability insurance policy. Tom, can you
21 remain for consideration of that item?

22 MR. FUENTES: Yes, sir.

1 MR. DIETER: David, do you want to just
2 summarize quickly the information that you found out
3 with respect to increasing policy limits from the
4 current \$1 million coverage with a \$50,000 deductible
5 to a \$5 million limit with a \$50,000 deductible and if
6 other members of the committee need information
7 regarding other policies they can ask you for that?

8 MR. RICHARDSON: Okay. We are currently
9 covered by Axis Reinsurance Company. Our coverage
10 period is September 30th through September 30th
11 basically on our fiscal year process. Our current
12 coverage allows for a \$50,000 retention and a \$1
13 million maximum coverage per occurrence.

14 The cost for that insurance is \$57,150. I
15 have requested and have gotten information from our
16 insurance company to review the possibility of
17 increasing that coverage to go to \$2 million. The
18 total increase would be \$28,575 or basically coverage
19 in cost \$85,725.

20 If we would choose to go to a \$3 million
21 coverage, it would be a \$100,000 premium and, if we
22 would choose to go to a \$5 million per occurrence, it

1 would be \$128,600.

2 In my discussions with the insurance company
3 we could amend that coverage to any one of the three
4 higher amounts. It would just mean that we would send
5 a letter certifying that we have no preexisting claims
6 that would lead to this type of coverage needs and then
7 they would underwrite the policies at a higher limit.

8 MR. DIETER: My understanding is that this is
9 the only quote you received back from all those
10 inquiries you put out for bid and that the \$50,000
11 deductible is the only deductible option that's offered
12 on the policy is that right?

13 MR. RICHARDSON: That is correct. Last year
14 the same company provided us coverage. The coverage
15 was actually slightly higher but was for \$100,000
16 retention and under this particular insurance company
17 we've had some good results and our history is much
18 shorter with them, so they have come back with a lower
19 retention and actually a lower premium amount.

20 MR. DIETER: Okay. Herb, do you want to make
21 a motion?

22 MR. GARTEN: Yes.

1 MR. FUENTES: We're losing you.

2 CHAIRMAN DIETER: Tom Meites has a question.

3 MR. MEITES: What about the first \$50,000?

4 Does the corporation indemnify us for the first \$50,000
5 I hope?

6 MR. RICHARDSON: As far as the board of
7 directors, yes, sir, we do.

8 MR. MEITES: Thank you.

9 MR. GARTEN: I might add that the bylaws,
10 we're told that the bylaws of the corporation, Tom,
11 also provide indemnification provisions but, of course,
12 the funds would have to be there for it to be
13 collected.

14 M O T I O N

15 My motion would be as follows: That subject
16 to the corporation's counsel determining that there was
17 no limit of liability under any district or county or
18 state or federal law that this \$1 million of coverage
19 which has been in existence for many years, we're told,
20 be increased to \$5 million with the total premium of
21 \$128,600, which is \$71,600 more than the present
22 premium covering \$1 million with the \$50,000

1 deductible.

2 CHAIRMAN DIETER: And I guess I could add to
3 that that we do that effective this policy year.

4 MR. GARTEN: At such time as corporate counsel
5 determines that we're not covered under any other
6 statute or provision.

7 CHAIRMAN DIETER: Okay. Is there any
8 discussion of the motion?

9 MR. FUENTES: Well, my concern would be that
10 we need to shop policies to get a better handle on
11 this. I'm not prepared to vote to expend or approve
12 monies with one quote.

13 CHAIRMAN DIETER: David, do you want to
14 address that?

15 MR. RICHARDSON: Certainly. We used an
16 insurance broker who went out and solicited quotes
17 based on a proposal.

18 MR. FUENTES: Can't hear you.

19 CHAIRMAN DIETER: He can't hear you.

20 MR. RICHARDSON: Can you hear me now, sir?

21 MR. FUENTES: Yes.

22 MR. RICHARDSON: Okay. Our insurance broker

1 went out and requested quotes on this. Prior to this
2 year we had insurance with Kemper and Hartford and
3 neither one of those would bid on the insurance. I can
4 certainly go back in the future and I have done this
5 already, told him that we would need a broad -- we want
6 a broader range of quotes but those are the three
7 companies that he solicited and only one responded to
8 the proposal.

9 MR. FUENTES: Thank you.

10 CHAIRMAN DIETER: Okay, is there any further
11 discussion? Then, I call the motion for a vote of the
12 committee. All in favor say aye.

13 (A chorus of ayes.)

14 CHAIRMAN DIETER: Noes?

15 MR. FUENTES: No.

16 CHAIRMAN DIETER: Okay, the motion passes two-
17 to-one. We'll record that Tom Fuentes voted against
18 the motion. I think then we're back to whatever number
19 it is, Items 3 and 4 in the agenda and it's my
20 understanding that we do not need to take consideration
21 of those items at this time, is that correct?

22 MR. RICHARDSON: There are no votes required

1 on this. These are reports only for the finance
2 committee and to the board as to the financial
3 condition and the results of the budget for the year.

4 CHAIRMAN DIETER: Okay. Then proceed with
5 your report.

6 MR. RICHARDSON: Okay. On pages 97 and 98
7 you'll see a synopsis of the key elements of the
8 budget. Within the delivery of legal assistance,
9 you'll see that we have actual expenditures of the year
10 of \$321,614,000.

11 For the purposes of this presentation, I will
12 round to thousands. The annual budget was
13 \$325,217,000, so we have an amount remaining for the
14 year. The variance is \$3,604,000. This money that is
15 a variance, for instance, in the basic field category
16 there is one program that is on short term funding and
17 there's two additional programs that are no longer
18 grantees that we've set money aside for closeout
19 audits. So, basically all the money is earmarked. It
20 will go to those three particular programs.

21 Within the Court of Veterans Appeal, the money
22 there is totally earmarked for that program, so the

1 money that's remaining, the \$44,491, will be carried
2 forward to next year to help underwrite the operations
3 of that program.

4 The grants from other funds available at this
5 point we have \$207,000. I don't have the figure with
6 me today but we have awarded some additional money to a
7 Florida program because of the recent storms in that
8 area to help support the needs that they have because
9 of the increase in service to their area created
10 because of the disaster there.

11 The technology funds, there's \$2,167,000
12 there. The Office of Program Performance is working
13 diligently to get most of that, get that money awarded
14 very quickly and should be taken care of in the next
15 few weeks.

16 With results of the management and
17 administration for the year and this is covered on page
18 100, you'll see that we have a budget of \$14,360,000.
19 That's found in Column 2. And we have contracted
20 expense to date \$12,780,000.

21 So, we have a carryover of \$1,580,000 and this
22 is pre-audit. There's a few little things that may

1 come up because of submitting of late expense reports
2 that may adjust this a little bit. It will go down
3 very slightly I believe.

4 As you see, this is \$458,000 less than was
5 spent last year in 2003. Last year the expenses for
6 the year were \$13,238,000, so we've been very diligent
7 in watching our expenses. Certainly there have been
8 some open positions that have created some of this
9 decreased spending but we do have that money available
10 to help with next year's operations.

11 Within the Inspector General's Office you see
12 that there's a budget there of \$3,932,000 and the
13 actual expenses for the year is \$2,730,000, so there's
14 a carryover on this particular line of \$1.201 million.

15 The Inspector General's Office, as you see,
16 the expenses were higher than in prior years, about
17 \$440,000, so the carryover that they've had in the past
18 has been -- is being spent down.

19 On page 102, you'll see that there's --
20 contrasting the two pages you'll see that in each of
21 the lines we are certainly under budget. This compares
22 to 100. When you compare the two lines, you'll see the

1 comparison by office and then this is a comparison
2 within budget category. So, at this point, there is no
3 budget categories that are overspent for 2004.

4 MR. WEST: Kirt West, Inspector General.
5 Regarding the carryover of the \$1,201,000, I wanted to
6 let you know that \$122,000 of those dollars have
7 already been obligated so that our carryover is
8 actually in effect \$1,078,771 and depending upon
9 congressional action with the program it may be a
10 carryover of only \$78,000.

11 CHAIRMAN DIETER: Thanks.

12 MR. RICHARDSON: Also, to draw a comparison
13 with what management and administration has encumbered
14 at this time, we have contracts outstanding of \$23,680,
15 so most of the money that we have that we're showing is
16 available for carryover is available for next year's
17 operations with the exception of this \$28,000.

18 One additional line to bring up, not in this
19 particular report, but we had included \$100,000 of
20 other income that was money from interest and the
21 "Equal Justice" magazine. We only had income -- we
22 have a shortfall there of \$40,500, so we will have to

1 offset that with the operating carryover and show that
2 difference as the money available for next year's
3 operation.

4 CHAIRMAN DIETER: I have one question
5 regarding the carryover and the creation of reserves.
6 How does that work in terms of should the carryover be
7 reduced by the anticipated amount of a reserve that
8 you're going to build up?

9 MR. RICHARDSON: Actually, you already have a
10 reserve in the budget of \$130,000, so increasing that
11 is one way of doing it and then we would adjust the
12 total money available for other operations based on the
13 reserve that's set up.

14 When you look back and let me just -- I think
15 it's 100. On page 100, you'll see that there's a
16 contingency line of \$130,000. If we wanted to increase
17 that to \$200,000, then we would review their internal
18 operations and make the appropriate adjustments to our
19 budget.

20 If I can also just remind everyone that when
21 we did our temporary operating budget we based that on
22 carryover of \$1,250,000. Basically, we're going to

1 have \$1,500,000, so we do still have \$250,000 to
2 allocate to our budget to increase it at this point.
3 If you wanted to set that amount of money aside for an
4 additional contingency or a part of it, we could do
5 that.

6 CHAIRMAN DIETER: Tom.

7 MR. MEITES: I know I shouldn't ask this
8 question but at some point Congress tells us how much
9 money they're giving us right, Mr. Chairman?

10 CHAIRMAN DIETER: At some point, Congress
11 tells us how much money they're giving us, right?

12 MR. RICHARDSON: That is correct.

13 MR. MEITES: And we add to that the carryover
14 amounts, right?

15 MR. RICHARDSON: To create the current
16 operating budget, yes.

17 MR. MEITES: And you bring all that before us
18 and we adopt a budget that's actually based on real
19 numbers is that correct?

20 MR. RICHARDSON: That is correct.

21 MR. MEITES: And the two real numbers are the
22 carryover plus the congressional appropriation?

1 MR. RICHARDSON: That's correct, although we
2 in the past have added a projection of interest income
3 for the year.

4 MR. MEITES: Oh, interest income. And when is
5 that likely to occur?

6 MR. RICHARDSON: The appropriation process is
7 ongoing. We should know maybe as early as Monday.

8 MR. MEITES: So, at our next meeting we can
9 adopt a real budget?

10 MR. RICHARDSON: That is correct.

11 CHAIRMAN DIETER: That's for '05 though?
12 We're considering '04 here in terms of we have to
13 approve this budget, is that right?

14 MR. RICHARDSON: No, this is only a report.

15 CHAIRMAN DIETER: Oh, okay.

16 MR. RICHARDSON: Your budget has already been
17 adopted.

18 CHAIRMAN DIETER: Right.

19 MR. RICHARDSON: This is just a report on the
20 spending.

21 CHAIRMAN DIETER: Okay. Are there any other
22 questions of David?

1 MR. FUENTES: Mr. Chairman.

2 CHAIRMAN DIETER: Yes.

3 MR. FUENTES: Tom Fuentes here with apologies.

4 I have to sign off now and I must say for the record
5 that I could not hear but every other word or every
6 other few words of David's report. I'm going to sign
7 off and I'm probably not going to come back to the
8 meeting because I think the system that is in play
9 there is so woefully inadequate. I really cannot
10 function as a member. So, I apologize for having to
11 interrupt your meeting to sign off but if you would
12 convey that to Chairman Strickland that the technical
13 aspect here is just impossible.

14 CHAIRMAN DIETER: Okay. Chairman Strickland
15 is informed of that.

16 MR. STRICKLAND: Got your message, Tom. We'll
17 do better on the system next time.

18 MR. FUENTES: Thank you.

19 CHAIRMAN DIETER: Okay, then. Ernestine, do
20 you have anything to add?

21 MS. WATLINGTON: It's really hard to
22 participate.

1 CHAIRMAN DIETER: Could you speak up?

2 MS. WATLINGTON: I said it's really hard to
3 participate because you only hear a word every now and
4 then.

5 CHAIRMAN DIETER: Okay. There doesn't seem to
6 be anything that we can do to correct that at this
7 time.

8 MS. WATLINGTON: No.

9 CHAIRMAN DIETER: And we apologize for that.

10 MS. WATLINGTON: So, I just listen when I can.

11 CHAIRMAN DIETER: Okay. Well, speak up when
12 you don't hear us because we can hear you pretty well.

13 MS. WATLINGTON: Okay.

14 CHAIRMAN DIETER: All right. Then, do you
15 have a briefing regarding the '05 revised temporary
16 operating budget?

17 MR. RICHARDSON: Yes, very short. We, of
18 course, have provided you information in regards to the
19 House markup. That markup was \$335,282,000. It had a
20 slightly different mix than the Senate budget. It was
21 \$335 million.

22 We have been told that we may have an

1 agreement in place but the numbers are embargoed, so we
2 should have information on Monday or Tuesday that we'll
3 be able to come back to you with however the conference
4 report come about.

5 Additionally, this budget should be between
6 \$335 million and \$335,282,000. Whatever that budget
7 mark is we are told that there's going to be a
8 rescission of .75 reducing that, so just to alert you
9 to that fact but as soon as we get the information it
10 will, of course, be related to our president who will
11 then transmit it to you very quickly.

12 CHAIRMAN DIETER: Okay, thank you. Any other
13 questions? I guess just to backtrack one question in
14 terms of my thought in terms of asking about how you
15 create the reserve and how you account for it. There
16 isn't any problem creating a reserve for a liability
17 that occurred in a prior fiscal year and then you don't
18 go back and change all the numbers in that fiscal year
19 and we just incur the liability at the time it's
20 determined that we owe a liability even if the
21 liability was incurred in a prior fiscal year, is that
22 correct?

1 MR. RICHARDSON: Yes. We've already accrued
2 all the expenses but if there is an issue, such as the
3 one we've been discussing with the rent, we can have
4 some money set aside out of the carryover to help
5 accommodate whatever adjustment that may be needed in
6 the future.

7 CHAIRMAN DIETER: And the 2004 budget then
8 need to reflect some sort of contingent liability for
9 that fiscal year.

10 MR. RICHARDSON: It does not.

11 OTHER BUSINESS

12 CHAIRMAN DIETER: Okay. All right then,
13 moving on to Item 9, is there any other business to
14 bring before the committee?

15 PUBLIC COMMENT

16 CHAIRMAN DIETER: And is there any -- being
17 none then Item 10, any comment by members of the
18 public?

19 M O T I O N

20 CHAIRMAN DIETER: There being no public
21 comment, then I make a motion that the meeting of the
22 Finance Committee be adjourned.

1 MR. GARTEN: Second.

2 CHAIRMAN DIETER: All in favor.

3 (A chorus of ayes.)

4 CHAIRMAN DIETER: Motion passes and the
5 meeting of the Finance Committee is adjourned.

6 MR. STRICKLAND: Let's see if we can shorten
7 our lunch to about 50 minutes and try to reconvene as
8 close to one o'clock as we can. Thanks.

9 (Whereupon, at 12:10 p.m., the Finance
10 Committee meeting was adjourned.)

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