

## MEMORANDUM

**TO:** Board of Directors

**FROM:** Helaine M. Barnett

**DATE:** August 11, 2008

**SUBJECT:** Budget Shortfall and Reprogramming of LRAP Funds

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As requested at the Finance Committee meeting on August 2, this memorandum outlines for the Board's consideration Management's proposal to reprogram FY 2008 Loan Repayment Assistance Program (LRAP) funds.

### Background

As previously discussed in my memorandum to the Finance Committee of July 28, 2008, LSC is facing a budget shortfall in FY 2009 of approximately \$1.48 million. The budget shortfall for Management and Administration (M&A) has been building over a period of four years. LSC's FY 2005 appropriation for M&A was \$12.8 million, FY 2006 was \$12.6 million, FY 2007 was \$12.7 million, and FY 2008 was \$12.5 million. Management, anticipating the need for more funds, recommended to the Finance Committee at its January 20, 2007 meeting an increase in the M&A budget request to Congress for FY 2008 to \$13.8 million from the previously approved \$12.8 million, which the full Board approved.

We have absorbed inflationary cost increases and pay increases for the past four years with a combination of carryover funds and interest income. Our carryover funds are now greatly diminished and our interest income has declined by 75% as a result of greatly reduced interest rates. Carryover funds from FY 2008 are also less than in previous years as a result of our having very few vacant positions during 2008. Our financial position has been further impacted by other recent cost increases, such as the air travel associated with program oversight visits and litigation costs defending the LSC statutory restrictions in *LSC of Oregon v. LSC*. Due to this combination of flat revenue and cost increases, LSC no longer has the reserves necessary to maintain operations at the level of the past four years.

Working with LSC office directors, Management has identified \$724,000 in non-compensation costs for one-time savings that we can achieve in FY 2009 but not on a continuing basis. However, with the largest component of the LSC M&A budget being personnel compensation and benefits (68%), LSC will have to take a significant reduction in personnel in the event of a continuing resolution at current levels for FY 2009 and no other action to increase M&A funds. To achieve the balance of \$756,000 in reductions solely from compensation costs would require a reduction of eight to ten staff positions.

### Reprogramming Recommendation

As an alternative to staff reductions, Management recommends that LSC reprogram \$500,000 from LRAP to M&A in FY 2008 in order to have funds as a carryover for use by M&A in FY 2009. Reprogramming of funds requires Board approval and notice to Congress, which reserves the right to disapprove any reprogramming proposed by a federal agency or entity. Should the Board and Congress approve reprogramming, it would be unnecessary to pursue the alternative of staff reductions. Reprogramming \$500,000 of LRAP funding to M&A would reduce the budget shortfall to \$256,000. Although this additional amount of reduction in non-compensation costs will require significant sacrifices, Management has this week identified additional expenses which we would postpone or temporarily operate without in order to achieve the necessary reduction.

We propose LRAP as a source for potential reprogramming for the following reasons. The Corporation continues to support wholeheartedly the concept of law school loan repayment as a method of recruiting and retaining legal aid attorneys in LSC-funded programs. We are currently soliciting applicants for the FY 2008 class of recipients but will not be issuing the checks to them until after October 1. Therefore, we will be able to continue the pilot program at current levels, meeting our stated commitments, by using funding to be provided in the FY 2009 continuing resolution to make awards to the class of 2008.

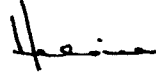
It would be our intention to recommend a second reprogramming to restore the \$500,000 to the LRAP account after a final FY 2009 LSC appropriation is passed, provided that the final M&A appropriation is at least at the mid-point (\$14.5 million) between the House and Senate committee-approved levels of \$13 million and \$16 million. If the second reprogramming is approved, the reprogramming of the FY 2008 LRAP funds will have had no impact upon the continuation of the pilot LRAP and we will have avoided staff reductions.

If less than \$14.5 million is appropriated for M&A for FY 2009, then the LSC LRAP pilot program will end with the class of 2008. All recipients will receive the full three years of LRAP funding to which we have committed, but no new class will be selected for 2009. It is important to emphasize that all legal services attorneys to whom we have committed an LRAP will receive it and the reprogramming proposal does not have any impact on any of the participants selected to participate, including those selected in 2008. With the passage of the Higher Education Act (HEA) last week and the authorization of \$10 million in that Act for loan repayment for legal aid attorneys, attorneys in LSC-funded programs will be eligible to receive more from the HEA loan repayment program than they receive from the LSC LRAP once the HEA program is operational.

If the Board and Congress approve Management's recommendation to reprogram \$500,000 of FY 2008 LRAP funds to the M&A account, these funds will be carried forward into FY 2009 in the M&A account. Attachment A to this memorandum is a proposed Temporary Operating Budget (TOB) for FY 2009 including the reprogramming. Attachment B compares the proposed M&A TOB for FY 2009, including the reprogramming, with the FY 2008 budget and shows the proposed budget reductions by category.

We are polling the Board to set a time for a meeting via conference call on either August 13 or August 18. Once that time is set, as directed by the Board, we will publish notice of the meeting in the Federal Register to allow for public comment on Management's proposal.

If you have any questions concerning this memo, please let me know.

A handwritten signature in black ink, appearing to read "Heina".

Attachments

cc: Jeffrey E. Schanz, Inspector General

LEGAL SERVICES CORPORATION  
 PROPOSED TEMPORARY OPERATING BUDGET  
 FOR THE FISCAL YEAR 2009

	(1)	(2)	(3)	(4)
	PROJECTED FY 2009 APPROPRIATION	FY 2008 CARRYOVER	COURT OF VETS APPEALS & ADJUSTMENTS	PROJECTED TEMPORARY OPERATING BUDGET
1. Basic Field Programs	332,390,000	550,000	---	332,940,000
2. US Court of Veterans Appeals Funds	---	5,000	1,210,000	1,215,000
3. Grants From Other Funds	---	847,000 *	---	847,000
4. Technology Initiatives	2,100,000	25,000	---	2,125,000
<b>DELIVERY OF LEGAL ASSISTANCE TOTALS</b>	<b>334,490,000</b>	<b>1,427,000</b>	<b>1,210,000</b>	<b>337,127,000</b>
<b>II. MANAGEMENT &amp; ADMINISTRATION</b>	<b>12,500,000</b>	<b>1,400,000 **</b>	<b>100,000</b>	<b>14,000,000</b>
<b>III. LOAN REPAYMENT ASSISTANCE PROGRAM</b>	<b>500,000</b>	<b>470,000 ***</b>	<b>---</b>	<b>970,000</b>
<b>IV. INSPECTOR GENERAL</b>	<b>3,000,000</b>	<b>700,000</b>	<b>---</b>	<b>3,700,000</b>
<b>TOTAL BUDGET</b>	<b>\$350,490,000</b>	<b>\$3,997,000</b>	<b>\$1,310,000</b>	<b>\$355,797,000</b>

\*This amount includes a property recovery of \$450,000 from Gulfcoast Legal Services, a former LSC grantee in Florida. The current grantee, Bay Area Legal Services, has requested the funds be returned to the service area.

\*\* Management and Administration projected carryover includes \$500,000 from operations; \$400,000 from the insurance settlement; and \$500,000 from the proposed reprogrammed Loan Repayment Assistance Program funds.

\*\*\* Loan Repayment Assistance Program has \$329,000 in 2008 outstanding loans that will be forgiven in 2009 provided the recipient attorneys have met the requirements of the contract.

ATTACHMENT B

LEGAL SERVICES CORPORATION  
 MANAGEMENT AND ADMINISTRATION  
 PROPOSED FY 2009 TEMPORARY OPERATING BUDGET COMPARED TO FY 2008 BUDGET

BUDGET CATEGORY	FY 2008 MANAGEMENT & ADMIN	FY 2009 MANAGEMENT & ADMIN	INCREASE/ (DECREASE)
COMPENSATION & BENEFITS	10,238,035	10,278,500	40,465
TEMP. EMPLOYEE PAY	76,575	0	(76,575)
* CONSULTING	1,055,825	517,075	(538,750)
TRAVEL & TRANSPORTATION	707,150	617,075	(90,075)
COMMUNICATIONS	153,740	149,225	(4,515)
OCCUPANCY COSTS	1,678,350	1,666,000	(12,350)
PRINTING & REPRODUCTION	113,100	97,650	(15,450)
OTHER OPERATING EXPENSES	683,075	610,525	(72,550)
CAPITAL EXPENDITURES	169,500	63,950	(105,550)
TOTAL	<u>14,875,350</u>	<u>14,000,000</u>	<u>(875,350)</u> ***

\* Consulting includes the of Board of Directors' attendance fees, outside counsel costs, technology consultants, and consultants for program quality, technical assistance, and compliance visits.

\*\* The proposed reprogrammed Loan Repayment Assistance Program funds are included in creating the Temporary Operating Budget for Management and Administration.

\*\*\* In addition to the decrease of \$875,350, the FY 2009 budget also absorbs a \$100,000 increase to personnel compensation and benefits as a result of annualizing the 2008 pay increase. The total of \$975,350 represents the reduction of \$724,525 previously identified by office directors, plus an additional \$250,925 identified by the Executive team and Treasurer.