MEMO

To: VLCT Board of Directors
Fr: Ted Brady, VLCT Executive Director
Dt: Tuesday, October 27, 2026
Re: Review of PACIF and VERB Consultant Materials

On October 2nd, the PACIF and VERB Boards of Directors received presentations from several consultants summarizing their evaluation of the VLCT, PACIF and VERB relationships and making recommendations for changes to the relationships. The recommendations included suggestions for changing governance structures, renegotiating the financial relationship with VLCT, and questioning the value of VLCT services to PACIF and VERB.

PACIF paid external consultants RHR Smith, former VLCT Deputy Director of Risk Management Fred Satink and former VLCT Chief Financial Officer Mike Gilbar a total of $99,390 through September to produce their reports. VLCT reviewed the reports and identified several instances where facts appear to have been miscalculated or presented without sufficient support or context. This memo serves to bring your attention to those miscalculations and provide context to the claims to ensure you are able to make decisions in negotiations based on accurate information.

1. PACIF's consultants shared selected portions of the PACIF June 2026 proposal to VLCT, omitted VLCT's response to the proposal and did not mention PACIF's decision to ignore VLCT's counter proposal.

On June 17, 2026, PACIF submitted a draft proposal to VLCT that included the level funding of VLCT operations for 2027 and proposed to take control of 60 percent of VLCT's staff, including VLCT's finance team.

VLCT Board Members were apprehensive about giving operational control of a majority of the organization to PACIF, and transitioning from PACIF's administrator to the equivalent of an employment agency. However, the VLCT Board of Directors stated that it believed staying together as an integrated state municipal association and government risk pool benefited the members. VLCT issued a counter proposal to PACIF to remain an integrated organization on July 22, 2026, that aimed to address PACIF's concerns:

- Gave PACIF and VERB veto authority over the VLCT budget;

- Gave PACIF direct management authority of key risk management staff, including the Director of Risk Management and PACIF General Counsel;
- Established a new matrixed reporting structure that gave PACIF more oversight and control of the VLCT CFO; and
- Reduced the general expense allocation by more than 10 percent from about 79.5 precent to 70.5 percent.
- Tied the institutional value fee to the dues paid by PACIF members to VLCT, roughly the same $1.2 million proposed by PACIF.

VLCT received no response to its counter proposal and was informed by the PACIF and VERB Working Group members on August 24th that no response would be forthcoming. The PACIF Board of Directors suggested the two organizations should evaluate an "amicable separation".

VLCT provided a recommended set of "amicable separation" principles at PACIF's request on August 28th that proposed to:

- Fully allocate VLCT's 55 staff across the two organizations and operationally separate.
- Agree to keeping 100 percent of VLCT's current employees through 2027 employed at the two organizations.
- Establish an institutional value fee of $1.2 million to be paid by PACIF and VERB to VLCT that provides the trusts with the use of the VLCT name and the endorsement of VLCT to the members and to NLC Mutual.
- Implement governance changes to PACIF and VERB that ensure the fidelity of VLCT's endorsement, including VLCT Board members and the VLCT Executive Director serving on the boards of PACIF and VERB.
- Follow a six-month transition plan in 2027, and reduce PACIF's allocated costs from 76.5 percent to 67 percent for any remaining shared services.

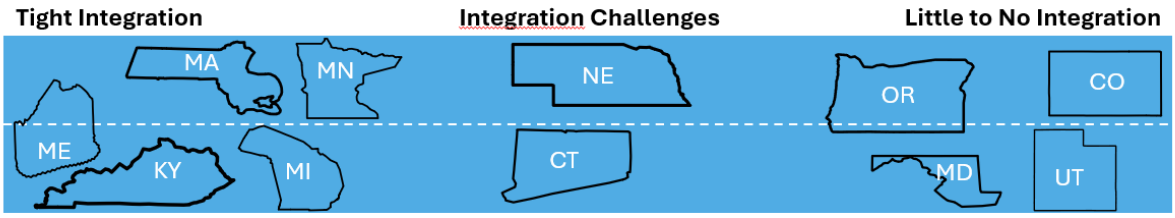
On September 22nd, PACIF responded to VLCT's principles, proposing instead to:

- Allocate more of the current staff to VLCT than VLCT could afford to retain, and propose to eliminate 2 positions immediately.
- Establish an institutional value fee of less than half VLCT's proposal.
- Reject VLCT's proposed governance changes, and create ex-officio roles for VLCT, PACIF and VERB Boards to facilitate fidelity of endorsements.
- Follow a six-month transition plan that did not clearly commit to any allocated costs for remaining shared services.

2. **<u>VLCT proposed that their relationship with PACIF and VERB should adhere to national best practices and include an institutional value fee.</u>**

VLCT hired a former government risk pool director and former state municipal association employee known nationally by both government risk pool directors and state municipal association directors to do a peer analysis of pool/league relationships. VLCT also asked the consultant to evaluate how state municipal associations are compensated for the use of the state municipal association's name and endorsement of affiliated government risk pools.

VLCT selected 11 leagues across the country, including leagues that are fully integrated with their pools (like Vermont), leagues that sponsor their pools but operate independently, and leagues that have limited to no relationship with their pools:



Some of the findings of that survey included:

a. **Little consensus on best allocation methodology of administrative costs.** Of the six state municipal associations that were integrated with their pool, the allocation methodology of administrative costs varied widely, from across the board percentages, to granular "usage-based" allocations, to contractual estimates, to formal allocation studies.
b. **It is common for league and pool boards to have overlapping board members.** Ten of the 11 leagues surveyed reported having board members that served on both their league board and the trust board.
c. **The Executive Director of the league usually has a role in the governance of the trust.** Eight of the 11 leagues surveyed reported their executive director had a formal role on the trust board.
d. **The most common employment arrangement is for the league to serve as the administrator of the trust, and employees to all report through the league board.** Seven of the 11 leagues surveyed reported government risk pool staff reported to the League Board.

e. **Most leagues charge their trusts an institutional value fee** to compensate them for creating the trusts, the use of the league name, the endorsement of the trust, and general marketing of the trust. Nine of the 11 leagues surveyed received an institutional value fee from their government risk pools ranging from $222,000 a year to $9.3 million a year. The two that didn't were completely independent of their trusts, which served more than just cities and towns. VLCT does not currently charge PACIF or VERB an institutional value fee.

In the RHR Smith consultant report, RHR Smith incorrectly characterizes the VLCT, PACIF and VERB relationship as different from other state municipal association / government risk pool arrangements: "It is our observation that the other trusts are legally part of the League or Association, which certainly changes the dynamics."

VLCT's survey of 11 other state municipal associations revealed that every single respondent league reported their affiliated government risk pool was a separate legal entity with a separate board.

The RHR Smith consultant report characterizes the relationship between VLCT and PACIF as one of a "Service Company". The PACIF Bylaws define the administrator as: "…the person(s) or entity appointed by the Directors pursuant to Section 5.7 of the Bylaws or any other power, to be responsible for the daily management, operation and activities of the Fund." The existing Administrative Support Service Agreements and Fee and Service Agreements between VLCT and PACIF and VERB assign the daily management of the trusts to VLCT.

The RHR Smith report claims the Director of Risk Management Services, a VLCT employee, is PACIF's administrator. There is no legal agreement defining the Director of Risk Management Services as the administrator of PACIF or VERB.

VLCT is the administrator of both PACIF and VERB.

3. **VLCT is unique in that it doesn't charge its affiliated government risk pools an institutional value fee.**

Institutional value fees are paid by government risk pools to their affiliated state municipal associations for the endorsement and affiliation with the association. These fees are paid in most states, but not Vermont, in addition to any direct or indirect administration fees. VLCT has requested that as part of the negotiations, PACIF and VERB begin paying such a fee.

The fees are paid in recognition of the work the state municipal association did to create the pools, the financial and reputational investment they've made, the continued endorsement of the pools, the use of the association's name, and as a royalty to the association.

PACIF and VERB have not paid an institutional value fee to VLCT. Of the 11 municipal associations the consultant surveyed for VLCT, VLCT was the only integrated league/pool not to impose a fee.

The VLCT consultant, who conducts institutional value fee studies for municipal associations across the country, reported that there is no standard way to establish a fee, but that most associations do charge a fee to their affiliated pools. The consultant reported the following methods were used elsewhere:

- Percentage of member contributions
- Percentage of net member contributions (less reinsurance costs)
- Percentage of league dues, allocated based on member participation in each of the insurance programs
- Different percentages to each insurance program based on health of program
- Premium-based calculations that reduce the percentage collected as premium increases
- Flat fees paid that change based on CPI
- A specific percentage of "profit factor" in addition to direct / indirect costs
- A dollar amount intended to quantify the value of the league brand to the pool

4. <u>VLCT allocation methodology was created to be easily understood and ensure each entity paid its fair share.</u>

VLCT's allocation methodology is based on an estimated number of hours staff dedicate to PACIF, VERB and VLCT. This methodology was created by VLCT's former CFO, who currently is serving as a consultant for PACIF.

Up until 2022, VLCT attempted to estimate the hours per staff by department each year – and allocated the cost of each department based on the ratio of hours worked for each entity. These estimates were prepared by the former CFO, now a PACIF consultant. As he has described the method, estimates were based on annual conversations with each department head.

This allocation methodology resulted in allocations between 95 percent and 50 percent to PACIF depending on the department. Since 2023, VLCT simplified the allocation methodology by averaging the historical estimated hour ratio across all departments and applying an across-the-board allocation to each entity. This change did not cause an increase in the overall indirect allocation for 2023 compared to the old methodology.

Since 2023, VLCT has relied on the new average allocation methodology, and adjusted it as necessary to meet the staffing and operational needs of servicing PACIF and VERB.

For 2026, VLCT allocated 76.5 percent of VLCT's administrative costs to PACIF, and 3 percent of VLCT's administrative costs to VERB. This reflects the fact that a majority of VLCT's infrastructure, both human and physical, serves the two trusts.

5. PACIF's consultant reports undervalue VLCT's services.

Much of the PACIF consultants' arguments for substantially reducing PACIF contributions to VLCT are based on a draft 2027 budget prepared by VLCT that attempted to depict the June 2026 PACIF proposed new administrative service agreement. The draft 2027 budget took the shared service staff allocation proposal from PACIF (which averaged 22 percent instead of 76.5 percent for the 10 remaining shared service staff) and a revised headcount allocation methodology of 75 percent for risk management services (PACIF and VERB) for all other indirect costs. This draft 2027 budget demonstrated that the PACIF June 2026 proposed allocation methodology would result in a $1,176,740 budget gap for VLCT.

VLCT observes that the PACIF and VERB consultants appear to use that $1,176,740 budget gap as their foundational claim of an overpayment, despite the fact that the allocation methodology used to arrive at that number was based on opinion and observation, not data or actual value of service.

a. The consultant reports calculate an overcharge based on subjective, opinion-based valuations of VLCT costs.

The Satink/Gilbar consultant memo alleges VLCT is overcharging risk management services (RMS) for indirect costs (note that when RMS is used, it refers to PACIF and VERB jointly). This conclusion is based on the difference between the actual allocation rate used by VLCT historically and the June 2026 PACIF proposed allocation methodology mentioned above. In addition, the PACIF consultants propose ending allocated costs of certain activities (e.g. Town Fair, National League of Cities dues, audit expense and marketing costs).

The Satink/Gilbar consultant memo states: *"…it is our opinion that there is presently a total annual overcharge to RMS that ranges between $1,150,350.39 and $1,362,256, due to excessive and unjustified indirect cost allocations for salaries, benefits, and VLCT operational overhead."*

The Satink/Gilbar consultant memo repeatedly states they arrived at these numbers using what they defined as their opinions, their value judgements, and "what they feel is appropriate." Their final recommendation is that PACIF and VERB pay only 60 percent of the indirect costs of VLCT instead of the 79.5 percent of indirect cost for 2026. They further propose reducing certain shared services staff allocations from 79.5 percent to between 5 and 60 percent.

b. PACIF's proposed 60 percent allocation is not supported by data.

The Satink/Gilbar consultant memo proposes an opinion-based allocation percentage of approximately 59.1 percent for PACIF, rounded to 60 percent to account for VERB.

The 60 percent value-based allocation rate appears to be a line-by-line expense review with the consultants making a judgment call on each line about what value they think each item provides PACIF and VERB. VLCT's overall indirect allocation rate has fluctuated between 75 percent and 80 percent over the past ten years.

The consultant's recommendation would require a reduction in services to PACIF, VERB and VLCT members, with no corresponding objective data to support doing so.

c. The administrative services provided to PACIF and VERB have real value.

The Satink/Gilbar consultant memo states: "The reality is that many of the services that RMS is currently being charged for have only cursory value to the trusts. Further, cost centers such as Administration and Communications are now particular overweighted in their cost allocation to RMS – given the actual value the trusts receive."

PACIF and VERB receive tremendous value from VLCT's executive leadership,

finance, HR and administration, and communications departments. The consultants provide no data that refutes the value of these services, but dismiss their value almost entirely based on their opinions.

As one example, VLCT's entire 2026 communications and marketing budget is slated to be $760,000 (including Town Fair). PACIF is budgeted to be allocated $581,400 of these costs in 2026. Compared to PACIF's current projected $32 million 2026 revenue, PACIF is paying 1.8 percent of its revenue for marketing, far below industry averages for marketing costs. The marketing VLCT does for PACIF and VERB has contributed to 100 percent retention of members in the past five years, increased membership, record net position, and members who are more informed about risk management resulting in lower loss rates.

d. PACIF and VERB pay a portion of the dues to the National League of Cities because they are a major beneficiary of NLC membership.

The National League of Cities (NLC), like VLCT, is a membership organization that charges dues to both its regular members (cities and towns) and each of the country's 49 state municipal leagues. The NLC state municipal league dues formula is heavily weighted on the municipal association's operating budget – and includes other factors based on the number of members the association has and a state's population.

VLCT's annual dues of approximately $19,000 to NLC are the 34th highest state municipal association dues in the country, despite being the second smallest state in the country, largely because VLCT's budget includes more than $6 million of PACIF and VERB administration. VLCT's dues would be half to two thirds less if it did not administer PACIF and VERB.

PACIF also benefits from VLCT's membership in NLC – as it gives them access to the NLC Risk Information Sharing Consortium and NLC Mutual, where PACIF currently has $4.6 million of equity.

e. PACIF and VERB receive significant benefit from Town Fair, and they pay for that benefit.

PACIF's consultants recommend PACIF should not pay for any expenses related to Town Fair. PACIF has historically benefited from Town Fair in the following ways:

- The Director of Risk Management sits on the Town Fair Planning Committee.
- The PACIF annual meeting has historically been held at Town Fair.
- VLCT dedicates several breakout sessions to PACIF topics. In 2026, 3 of the 13 sessions were specifically dedicated to risk management topics and several other sessions had ancillary benefits to PACIF.
- PACIF and VERB are given a free prime exhibit spaces.
- PACIF and VERB staff interact with many members that day, increasing familiarity and building relationships.

f. **PACIF and VERB pay for a significant portion of VLCT's audit because the audit is required and more complicated due to our relationship with PACIF and VERB.**

VLCT is the administrator of both the PACIF and VERB intergovernmental risk pools. A majority of our financial transactions are generated because of PACIF and VERB. This includes payroll, benefits, and capital assets related to PACIF and VERB. The annual audit is a business expense of both PACIF and VERB, and therefore is treated as a shared expense.

6. PACIF's consultant reports incorrectly allege VLCT administration costs are primary driver of cost increases.

a. PACIF's increased contribution to the VLCT budget in the past quarter century is largely due to business decisions made by PACIF, natural salary and benefit growth, and the increased cost of doing business.

The Satink/Gilbar consultant report alleges that PACIF funding grew from 54.9% of VLCT's budget in 2003 to an estimated 73.2% in 2026. This is inaccurate, as the chart below shows that PACIF's contribution to the 2026 VLCT budget was estimated to be 70.4 percent.

Using a nearly quarter century time period for analysis provides limited value. For example, VLCT administered a health insurance trust in the early 2000s, and for a significant portion of the early 21st century, a portion of VLCT's budget included administration of the health trust, suppressing PACIF's percentage of

the total VLCT budget.

The most recent 10-year analysis demonstrates the percentage of VLCT's budget paid for by PACIF is declining. The most recent 10 years of budgeted allocations show the following pattern from 2017-2026 and this data was shared at the August 22, 2025, Joint Budget Advisory Committee meeting:

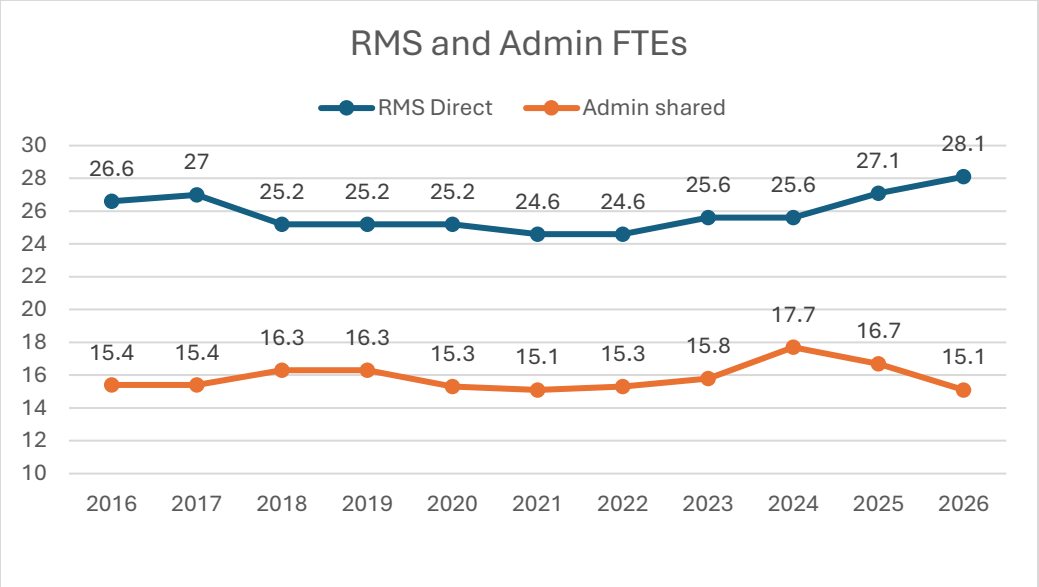
		PACIF Allocation (budgeted)					
Year	Capital Reimb	Equity & IT Asmnts	MAC training	Direct	Indirect	Total	% of VLCT
2017	72,909		55,000	2,600,852	2,208,772	4,937,533	74.2%
2018	135,857		55,000	2,414,018	2,325,922	4,930,797	73.1%
2019	113,656		55,000	2,476,930	2,409,276	5,054,862	75.2%
2020	78,985		55,000	2,390,834	2,304,547	4,829,366	72.7%
2021	75,986		55,000	2,455,826	2,270,173	4,856,985	73.9%
2022	94,520	250,000	55,000	2,604,356	2,428,902	5,432,778	72.2%
2023	94,520		55,000	2,893,259	2,766,547	5,809,326	71.1%
2024	56,464		100,000	3,047,064	2,983,987	6,187,515	74.5%
2025	72,877	50,000	105,000	3,298,762	2,906,675	6,433,314	69.7%
2026	48,592		107,625	3,537,357	2,914,084	6,607,658	70.4%

b. <u>VLCT has not increased its shared service staff / administrative staff.</u>

The Satink/Gilbar consultant report alleges "…VLCT's now dense support staff further increases VLCT's reliance on RMS for funding."

VLCT's total FTE for support staff is lower in 2026 than it was ten years ago.

The 10-year history of staffing for RMS and administrative positions (referred to by the consultants as "support staff" is graphed below:



Overall budgeted VLCT FTEs by function are shown below since 2016:

Dept	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Grants	0.8	0.8	0.8	0.8	0.8	0	1	2	2	4	4
IGR	2	2	2	2	2	2	2	2	1	2	2
MAC	4	4	5	5	5	5	6	6	6	6	6
RMS	26.6	27	25.2	25.2	25.2	24.6	24.6	25.6	25.6	27.1	28.1
Admin	15.4	15.4	16.3	16.3	15.3	15.1	15.3	15.8	17.7	16.7	15.1
Total	48.8	49.2	49.3	49.3	48.3	46.7	48.9	51.4	52.3	55.8	55.2
Change		0.4	0.1	0	-1	-1.6	2.2	2.5	0.9	3.5	-0.6

These staffing exhibits were shared with the Joint Budget Advisory Committee on August 22, 2025, and clearly show that the cost driver has not been increased support staff.

The temporary increase in FTE for 2024 and 2025 in the admin row related to transition planning for the IT director who was retiring and the creation of a new admin position that was not hired and eliminated in 2026 for budgetary savings.

c. **RMS indirect cost allocations have increased at less than one third the rate alleged in the past five years.**

The Satink/Gilbar consultant report incorrectly claims that there has been an

average annual increase of 14 percent in indirect salary and benefit costs from 2021-2026, for a total increase of 61.3 percent during that period.

As demonstrated in the historical data analysis reference tables on page six of the Satink/Gilbar memo, the consultants reviewed the salaries and benefits of admin support only for years 2022-2026 (five years). It appears the consultants omitted the costs of benefits for 2022, 2023, and 2024, while including the cost of benefits for 2025 and 2026. Comparing years with only salaries to years with salaries and benefits overstates the increase dramatically.

The actual increase in salary and benefits amongst admin staff was 19.7 percent over the five years, a third of the consultants claim. The average annual increase was 6.32 percent, less than half their claim. The below chart demonstrates the actual increase in salaries and benefits of administrative staff over the five-year period:

Salaries and Benefits Admin Support Only - Corrected					
		RMS Admin Share			
Source	Year	Salaries	Benefits	Total	% Increase
Actual audited	2022	1,056,474	367,036	1,423,510	13.1%
Actual audited	2023	1,110,976	424,966	1,535,942	7.9%
Actual audited	2024	1,284,840	491,635	1,776,475	15.7%
Actual audited	2025	1,279,466	520,976	1,800,442	1.3%
Budgeted	2026B	1,237,406	466,323	1,703,729	-5.4%
Total Increase 2022 to 2026 budgeted amount:				$ 280,219	19.7%

Total indirect costs allocated to the trusts increased 20 percent between 2022 and 2026. There were 15.1 FTEs in administration in 2021 and 15.1 in 2026, so this is not an increase due to administrative staff increases. These increases were modestly above CPI during the time period, largely due to the 59.6 percent increase in health insurance costs during the same time period.

d. **VLCT grant programs are not putting cost pressure on PACIF and VERB.**

RHR Smith's consultant report claims that VLCT's grant funded work has "…resulted in an increase in the indirect costs charged to the Trust." The Satink/Gilbar consultant memo alleges that VLCT should have allocated $246,179.43 in indirect costs to grants in 2026. VLCT budgeted to receive

$565,833 in state and federal grants in 2026. The Satink/Gilbar memo proposed allocating 44 percent of VLCT's grant revenue to indirect costs in 2026. VLCT is limited to utilizing the federal government's 15 percent de minimis indirect limit unless it negotiates an indirect cost rate that is approved by a federal agency. As a small non-profit, VLCT has not done so, and it would be unusual for an organization that does relatively little federal grant work to have done so.

In 2026, VLCT received a $500,000 Northern Border Regional Commission grant. The grant included $75,000 of indirect costs. In 2024, VLCT received a $1,000,000 USDA Rural Development grant. The grant included $86,000 in indirect costs.

VLCT has not hired more support staff, has not increased our lease, or made any substantial administrative investments due to the grants. The grants did not increase VLCT's costs more than the grants reimbursed VLCT for associated indirect costs.

e. **VLCT's "overhead" rate is in line with other non-profit "overhead" rates.**

The total indirect cost charged to PACIF in 2026 was budgeted to be $3,021,919. PACIF's approved 2026 budget was approximately $32 million. VLCT's indirect charge to PACIF equates to less than 9.5 percent of PACIF's budget.

Claims by the PACIF consultants that VLCT charges PACIF in excess of 20 percent for indirect overhead is incorrect.

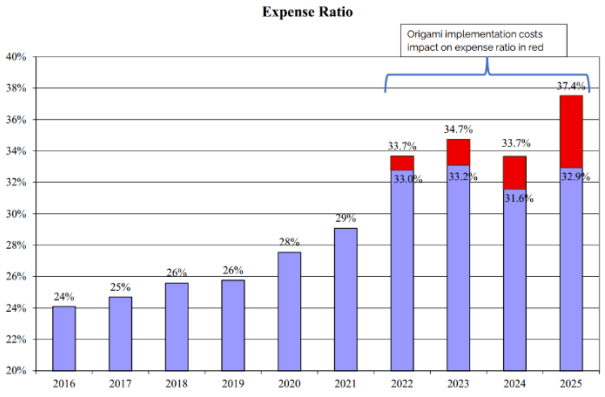
The $6.6 million in total direct and indirect admin costs VLCT charged PACIF in 2026 represents approximately a 20 percent administrative rate, in line with PACIF consultant's expectations of typical overhead for a non-profit (which may or may not be an appropriate benchmark for an insurance company).

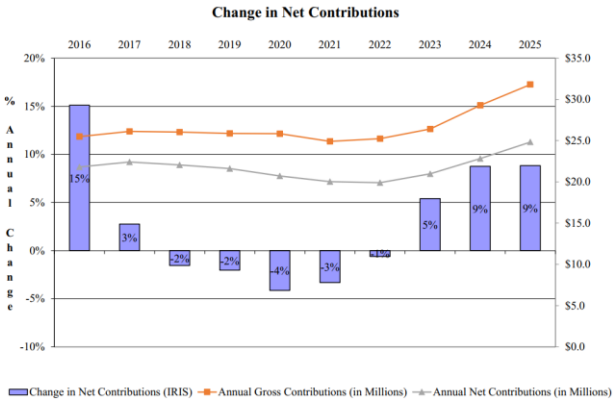
f. **The cost of running an insurance company is rising.**

The Satink/Gilbar report concludes PACIF and VERB are paying a substantially disproportionate share of support service costs and that costs are effectively being shifted from VLCT dues payers to PACIF and VERB members.

Cost pressures are not something to be ignored. The main measurement for

general and administrative costs for PACIF is the expense ratio. This is different than the "indirect costs" VLCT charges for administering the insurance programs. This does not appear to be addressed in either of the consultant's reports. PACIF has an increasing expense ratio and it is reviewed with the PACIF board annually. In 2025, the expense ratio stood at 32.9 percent excluding one-time technology upgrade costs. That expense ratio is driven by direct and indirect costs, other expenses and also by net contributions (the denominator in the calculation, which excludes reinsurance). The simultaneous increase in general and administrative costs over time combined with the declining or stagnant net contributions have resulted in a higher than historical ratio in recent years. Shown below are exhibits taken from the 2025 PACIF 10 Year Analysis presented on June 6, 2026.





The increase in the expense ratio is notable particularly in 2022 when VLCT requested one time funding for technology improvements (the implementation of an association management system) and equity training, however, it has remained elevated. PACIF lacks scale to keep this ratio at levels that other larger risk pools are able to achieve (below 25 percent) and may wish to seek efficiencies where possible.

7. **<u>PACIF and VERB are not subsidizing VLCT member services, operations or net gains.</u>**

During the October 2nd PACIF and VERB Board meeting, Fred Satink, one of the PACIF consultants, alleged that "PACIF members are providing a VLCT dues subsidy of about $97,000 for 3 VLCT full members who are not PACIF Members: Burlington, South Burlington & Goshen." The Satink/Gilbar consultant memo does not mention this claim, nor provide any information to substantiate it.

The alleged subsidy relies on the Satink/Gilbar subjective, “value-based”/ “what we think is appropriate” allocation methodology created by Satink and Gilbar. It dismisses the value of the shared services PACIF receives from VLCT and relies on a series of assumptions that are not substantiated with data in any of the consultant reports provided to PACIF or VERB.

The RHR Smith report makes an observation that that PACIF contributed 93% ($303,000) of VLCT's overall 2025 net gains ($324,000), effectively helping VLCT maintain flat or lowered membership dues while clouding true municipal dues math. There is no supporting documentation explaining this observation.

VLCT’s audited net gain in 2025 was $250,879 and preliminary results were $271,064, so it is not clear where these figures were obtained. The audited net gain includes a true-up adjustment to return funds to PACIF for direct expenses coming in lower than expected by $92,000. There is no mechanism in the administrative support service agreement for settlements of direct or indirect expenses, however, historically there has been a true-up of direct salary and benefit costs for RMS.

The $250,879 gain in 2025 was the result of higher sponsorship and interest revenue combined with underspending on consulting and underspending on software maintenance as the website upgrade was delayed. Some of these savings would likely be attributable to PACIF, but not at the magnitude of the RHR Smith report. Additionally, the GASB 87 lease amortization contributed $145,570 towards the gain as VLCT continues to recover the approximately $570,000 downward adjustment to net position caused by the GASB 87 adoption in 2022.