September 29, 2026

Aaron Frank, Board President
VLCT Property and Casualty Intermunicipal Fund, Inc.
C/O Town of Colchester
781 Blakely Road
Colchester, Vermont 05446

Dear Mr. Frank,

In regards to our service agreement with PACIF, dated January 22, 2026, we are pleased to provide you with the following report.

PACIF requested that we perform the following services:

Review existing administrative service agreement (ASA) between VLCT Property and Casualty Intermunicipal Fund, Inc. (PACIF) and the Vermont League of Cities and Towns (VLCT).

- Review documentation that is related to and/or supports the indirect charges and total cost of PACIF's administrative service agreement with VLCT. Documentation subject to review should include but is not limited to information from all trusts, VLCT programs, grants, and any other costs that are included within the PACIF cost allocation.
- Use the information gained from the completed review to determine:
    1. The existing cost allocation plan (or methodology) used by VLCT,
    2. Whether such documentation supports the amount being charged to PACIF,
    3. If the amounts of charges and percentage allocation of costs appear to be commensurate with PACIF's use and benefits from such administrative resources, services, and staff.
- Provide findings and recommendations regarding the existing agreement, allocation methodology used by VLCT, and equity of allocations from PACIF to VLCT, as they exist within the years subject to review.
- Discuss potential recommendations for revising the administrative services agreement, the methodology used in future contract agreements with VLCT, advice on whether some services may be more effective to PACIF, if delivered via third party contract or other means, and advise on whether there should be structural changes to reporting and/or direct employment status for personnel whose job duties are dedicated to PACIF.

The schedules provided in this report are based on the following reference materials made available to us by PACIF and VLCT.

Our commentary and supporting schedules focus on the following documents:

- PACIF Bylaws
- 2025 & 2026 Annual Addendum to the ASA
- 2025 Trust Allocation Breakdown
- VLCT Administrative Positions Allocation to Trusts 2024, 2025 and 2026
- 2025 Direct costs budget vs actual true-up
- 2026 Annualized Salary & Benefits
- VLCT memo: Preliminary financial statements for FYE December 31, 2025
- VLCT Preliminary 2025 Q4 financial statement detail
- VLCT memo: Proposed VLCT 2026 Budget
- VLCT Proposed 2026 Budget
- Payroll journals for FY25 & 24
- VLCT spreadsheet detailing PACIF portion of overall VLCT expenses
- VLCT audit report for FY24
- PACIF audit report for FY25
- Memo to the Budget Advisory Committee from Ted Brady, dated 08/15/2025 (Section D)
- IR2a 2025 assets as of 12/31/2025 (Section C)
- "Analysis of RMS Indirect Cost Allocations" provided to us by PACIF experts Fred Satink & Mike Gilbar (Section D)

Based on our review of requested documents and information that PACIF and the VLCT have provided to us, the following observations, findings and recommendations are outlined in Schedule 1 & Schedule 2 of this report.

Based on our review of all materials provided to us, the following is a summary of our conclusions.

- Due to the complexity of the business that PACIF is in, it appears the PACIF Board has been put in a position to consider a change in their service company. Since FY2000, PACIF's Budgeted Allocation has grown from $1,324,965 to $6,607,868, which is approximately a 6.38% growth rate and exceeded the inflation rate by approximately 2%.

- PACIF has an obligation under its bylaws to administer the revenue that it receives from its clients responsibly. The service company has not been transparent in all negotiations or explanations, on what it is charging PACIF for staffing, benefits and other direct and indirect costs, although this is expected from the Board.

- VLCT and PACIF should develop a more formalized indirect cost allocation plan (we recommend using "Uniform Guidance" models available to organizations and agreements such as this) to support the service agreement fee paid by PACIF.

- The Administrative Master Services Agreement and addendums are written in broad terms that do not provide PACIF with any recourse after the annual budget is approved. While the VLCT Board has provided the Executive Director with authority for day-to-day operations, this in effect has cut the PACIF Board out of operational decisions.

- We believe that distributing the cost of the 14 positions that make up the Administrative Group at the current 79.5% allocation rate implies that each position provides the same amount of service to the Trust, which we believe would be difficult to substantiate.

- The VLCT and PACIF should address the unfunded pension obligation as outlined in the agreement and provide value with logic and supporting documentation, annually, for both parties. Under the current method of cost allocation, PACIF would be assuming liability for staff positions that are unfairly being allocated to PACIF. This is unfairly allocating a liability to PACIF for services that PACIF has not received.

- The VLCT and PACIF should review the position of Risk Management Service Director (currently employed by VLCT) and consider PACIF employing the Risk Management Service Director as their Administrator under the bylaws. The Risk Manager should be involved in all budgeting aspects for any expenses associated with the trust. Also, the PACIF Board should negotiate with the League an operational understanding whereby key employees within the RMS Group should report to the Administrator to facilitate efficiency within the Group and alleviate confusion on lines of communication. (see sections 5.7 & 5.8 in Bylaws)

- The calculations and information provided to and reviewed by us, by Fred Satink and Mike Gilbar, including the "Analysis of RMS Indirect Cost Allocations" dated September 18, 2026, appear reasonable with regard to potential excessive cost allocation to PACIF/RMS. The data included in their report is the same data that we have reviewed, and that was provided to us by VLCT.

We appreciate the opportunity to work with the PACIF Trust and look forward to any questions or conversations that we can assist with as a result of this engagement.

Sincerely,

RHR Smith & Company

RHR Smith and Company, CPA's LLC

Schedule 1: Observations

PACIF

- In the event that the League is obligated during 2025 to pay all or part of its pension liability with VMERS, currently $2,853,293 as of 12/31/2023, PACIF agrees to reimburse the League for its proportionate share of this obligation. The proportionate share will be calculated based on the Trust's share of the League's overall compensation expense subject to VMERS contributions (e.g. salaries and bonuses). Under the current cost allocation, we believe that PACIF would be assuming pension liability for employees that provide shared services to the Trust, in addition to employees dedicated to the Trust.
- Of a total **$8,954,000** of total revenue the League received ***$6,310,437*** in 2025 from PACIF **(or 70%)**
- There is nothing we can see in agreement that prohibits the League from generating "profit" in this agreement.
- There is no formal "administrative cost allocation plan" negotiated by both parties that defines the basis for allocating costs to PACIF (with supporting data). As a result, VLCT is dictating the allocation of indirect costs without input from PACIF.
- Identifying all "direct costs" associated with the contract by both parties.
- The Trusts generated an estimated $303,000 of "net gains" of VLCT's improved fund balance in 2025 according to unaudited financial statements. The Total "net gains" of the League was $324,000 in FY25. Essentially this means that PACIF contributed 93% to VLCT's 2025 "net gains."
- We requested the methodology that the League uses to calculate the apportionment of the indirect costs for FY26, currently set at 79.5% for RMS, 76.5% for PACIF, and 3% for VERB, but it was not provided or explained.

Schedule 1: Observations (continued)

VLCT

- There is nothing we can see in this agreement that prohibits the League from generating "profit."
- There is no formal "administrative cost allocation plan" (with supporting data) negotiated by both parties. We see no logic with little to no supporting documentation.
- The League struggles with the recordkeeping of supporting documentation (i.e. time). From memo generated to PACIF. "Anecdotally, I heard many staff say it was very hard to determine what entity was the primary beneficiary of their work."
- The VLCT would struggle with day-to-day cash flow for operations for all program services without the Trusts paying what appears to be in excess of their fair share.
- The VLCT appears to be charging PACIF a "premium" for its services, so as to maintain flat or lowered VLCT membership dues. The additional cost to PACIF appears to cloud the math of what VLCT dues should really be.

Schedule 2: Findings and Recommendations

A: Allocation of indirect costs:

Section A Finding: We requested the methodology that the League uses to calculate the apportionment of the indirect costs for FY26, currently set at 79.5% for RMS, 76.5% for the Trust, and 3% for VERB, but it was not provided or explained. Our assumption is that the League does not have a methodology but rather develops the annual budget for all of the League programs, including RMS, and determines what the shortfall is for the League's other programs and adjusts the indirect costs to RMS to make up the shortfall. This results in PACIF paying a disproportionate share of the cost of operating the League.

We also noted that the cost of salaries and benefits for the administrative positions are apportioned to RMS at the same indirect rate, regardless of the level of service that individual positions provide to the Trust. There are six members specifically questionable: Executive Director, Membership and Admin Coordinator, Digital Marketing Specialists, Director of Communications and Marketing, Content Specialist, and Event & Partnership Coordinator. We question why PACIF requires that much marketing considering that their client base is static.

Section A Recommendation:

- We recommend that PACIF work with the League to develop a more transparent system to allocate indirect costs based on a logical methodology that is generally accepted, such as basing it on salaries.
- One authoritative source that we consulted was the Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards section of the Uniform Guidance. The Guidance states that "charges to Federal awards for salaries must be based on records that accurately reflect the work performed". The Guidance provides an exception for States, local governments, and Indian Tribes whereby they "may use substitute processes or systems for allocating salaries and wages to Federal awards either in place of or in addition to the records if approved by the cognizant agency for indirect costs. Such systems may include, but are not limited to, random moment sampling, "rolling" time studies, case counts, or other quantifiable measures of work performed." While this is a layer of detail that would be cumbersome to administer, it is indicative of an industry standard.

B: PACIF Administrator (per Bylaws):

Section B Finding: The PACIF Bylaws (excerpts are in Appendix A) defines the Appointment of an Administrator, which we understand is currently the Director of Risk Management. The Bylaws continue to define the Administrator who "shall not be an owner, officer or employee of any Service Company." The Bylaws definition of a Service Company in fact

describes the relationship between PACIF and the League. We do not believe that the current arrangement for the Administrator is in compliance with the Bylaws.

Section B Recommendation:

- We recommend that the Director of Risk Management be hired directly by PACIF to ensure that the Bylaws are being administered correctly and that a direct, unfiltered line of communication is provided to the Board. The Bylaws state that "The Service Company shall adhere to guidelines established by the Directors", which the Administrator would monitor.

C: Capital Assets owned by PACIF:

Section C Finding: The Bylaws allow PACIF to "acquire, hold, own, rent or lease", capital assets. We noted that PACIF requires specialized software to maintain its insurance activities and currently includes a "subscription asset" within its financial statements and amortizes the asset over its useful life.

In addition, we noted in the League's form IR2a, "2025 Assets as of 12/31/2025", which is a schedule that details depreciation including computers, equipment and vehicles that are identified as PACIF equipment. We also noted that the depreciation was charged against "Deferred Income PACIF Equipment" in the schedule "VLCT Capital Assets Analysis as of December 31, 2025" within the Asset Tab of the VLCT 2025 Q4 Financial Statements.

If equipment and vehicles are purchased for the specific benefit of PACIF, it would be our expectation that the equipment would be included in the PACIF financial statements as an asset of the Trust. It is our understanding that the League purchases the equipment on behalf of PACIF and charges them for it over the useful life of the item.

Section C Recommendation:

- Consideration should be given to purchasing equipment necessary for the operations of PACIF and include the assets in the Trust's financial statements. This would more accurately reflect the activity of PACIF and facilitate an easier transition if PACIF were to make a change in the future in their Service Company.

D: Memo to the Budget Advisory Committee by Ted Brady:

Section D Finding: During our review of a memo written by the Executive Director, Ted Brady, dated August 15, 2025, concerning the VLCT Operations/PACIF Administrative Agreement (Appendix C), he stated the following points:

<u>What role does PACIF have over VLCT operations</u>?

The VLCT Board, and through delegation, the VLCT Executive Director, is responsible for ensuring these agreements are carried out on a day-to-day basis- including deciding on staffing levels, compensation, and other operations decisions.

The relationship between the League and the Trust, according to the Bylaws, is a service company (VLCT) and a client (Trust). Based on the general terms of the administrative agreement, it does not appear that PACIF has direct input on the decisions concerning staffing levels, compensation and other operations decisions, other than during the budget process. However, once the League has added staffing, especially in the Administrative Group, PACIF is responsible for payment of indirect cost for the staffing, currently at 76.5%, regardless of the benefit it receives.

How big is the VLCT Staff and has it grown? **In 2026, I anticipate the organization to be near 55 FTE, up from 48 in 2020. Most of that growth has no impact on PACIF.**

The growth within the League may not have had any direct impact on the workload of the Trust, we observed that the cost of employees that are added to the administrative function is being charged to RMS at 79.5%, regardless of the value that they may provide to the RMS. Also, the grant programs receive a very limited allocation of indirect costs, which has resulted in an increase in the indirect costs charged to the Trust. The 2025 Budget Memo states that the cost of the audit increased 25.2% as the result of additional grants and various other items, but no allocation of the audit expense has been made in the FY26 budget to the grants. Other indirect cost categories are apportioned to the various programs administered by the League, except for the Grants category. It is usual for grant applications to be written to include the cost of administering the grant including direct costs such as salaries, benefits and other direct costs plus a factor for indirect costs.

How does VLCT establish pay rates? **VLCT has an established compensation system that is approved by the VLCT board annually. We also conduct a third-party salary study every three to five years. That study looks at regional salaries for similar jobs, provides us a range, and we attempt to ensure positions are compensated in the 80-120 percent of the recommended wage midpoint. All VLCT employees fall into that band at this time.**

How do VLCT wages compare to the industry? **VLCT attempts to keep wages competitive for similar jobs in Vermont – including those in municipal government and those in the insurance industry.**

Salary studies are important tools to demonstrate that the salaries being paid are within the industry average for the geographic area of the employer. Does the study also include benefits? Are the metrics used to conduct the survey provided to PACIF Board? Are the results of the survey shared with the Trust's Board when it is presented to the League's Board?

It is our experience that the employment market for municipal government and the insurance industry are two very different markets requiring different skill sets. How does the salary study performed by the League differentiate between the two populations in order to provide an accurate representation of each?

How do other state municipal associations fund indirect costs? **Most integrated pools operate similarly to VLCT, charging the pool for all direct costs and charging them for a portion of other League costs using an indirect rate or formula. *VLCT is becoming increasingly unique in that it does not also charge the pool an institutional fee*.**

Is the relationship between the other insurance trusts and associations that were used as examples in the memo set up similar to the relationship between the League and the Trust? The relationship between the League and PACIF is a service company/client relationship and should be based on fair practices and negotiations. It is our observation that the other trusts are legally part of the League or Association, which certainly changes the dynamics.

It appears that this section is making the case for PACIF. If the indirect costs are calculated based on a generally accepted practice, for example using direct PACIF salaries, then the indirect costs applied to PACIF are charged more fairly. Each Administrative Group employee should be assigned a fair percentage of their time to PACIF based on an estimated time/value contributed to the PACIF mission. It was mentioned that the League had tried to conduct an internal study of time that shared employees spent on specific cost centers and found that it was difficult to track. Keeping it simple is best and provides less opportunity for interpretation and manipulation.

The second step of the process is negotiating the "institutional" fee. The fee is the "profit or subsidy" that the League will realize for providing services and "value" to PACIF which should be fair, not based on the proposed budget's unfunded deficit.

Section D Recommendations:

- The Board of PACIF has a responsibility to understand what PACIF is paying for and the value that it is receiving from the services provided by the League. While the staff dedicated to PACIF may have been static over the past several years, the Administrative Group has grown resulting in an increase in the indirect cost of salaries, benefits and other costs charged to the Trust.
- All positions within the Administrative Group are charged to PACIF at the same rate. The Board should have more input into the addition of new positions and input into the percentage that each Administrative Group member's salary and benefits are charged to the Trust.
- The Board should also conduct an independent salary and benefits survey for the employees directly servicing the Trust. A study performed specifically for RMS would assist in attracting quality employees and retaining current employees. The survey should include similar organizations across northern New England, both public and private insurance companies.

- While the Executive Director mentioned that the League is unique by providing an end-of-year reconciliation, we believe that it is reasonable and appropriate to perform such a reconciliation in order to adjust the proposed activity to the actual activity, considering the relationship between the League and the Trust. This is a recommended best practice.
- We recommend that PACIF and the League negotiate a fair institutional fee that is constant from year to year and not be tied to the budget deficit of the League. PACIF should not be the "cookie jar" for the League.

E: Town Fair:

Section E Finding: Town Fair is an example of an indirect cost being apportioned to RMS with questionable limited direct benefit to the Trust. The FY26 budget includes an expense of $110,000 with 79.5% allocated to RMS. The remaining 20.5% of the expenditure is apportioned to Advocacy, Municipal Assistance Center and External Consulting.
The FY26 budget also includes a revenue line "Town Fair and BAP Sponsorships" with a projected revenue of $209,750. Revenue generated from the Town Fair is not allocated to the Trusts in any way – despite the Trusts paying a bulk of the cost. The FY26 Budget Memo notes that a commission of $70,000 from Acrisure, the broker for VLCT's group benefits offerings, would be applied to this line. The Acrisure commission and other sources of revenue are applied as revenue to the Advocacy and Municipal Assistance Center funds.

Section E Recommendation:

- We believe that this is another example of RMS being called upon to support the League's programs. The "contribution" is certainly included in the budget but is PACIF aware of the other sources of revenue that are being applied to League programs with limited support of Town Fair by these programs.

F: Office Space Sublease Revenue:Section F Finding: We noted in the FY26 Budget that the indirect revenue received from subleasing office space is apportioned to RMS at 67% rather than 79.5%, the difference distributed to the revenue of the Advocacy and Municipal Assistance Center funds.

Section F Recommendation:

- We believe that this is another example of PACIF being called upon to support the League's programs. Shared revenues, like shared expenses, should be allocated at the same rate.

Final Thoughts:

Since FY2000, PACIF's Budgeted Allocation has grown from $1,324,965 to *$6,310,437*, which is approximately a 6.38% growth rate and exceeded the inflation rate by approximately 2%.

PACIF has an obligation under its bylaws to responsibly administer the revenue that it receives from its clients. It should expect its service company to be open and up front on what it is charging PACIF for staffing, benefits and other direct and indirect costs.

The Administrative Master Services Agreement and addendums are written in broad terms that do not provide PACIF with any recourse after the annual budget is approved. While the VLCT Board has provided the Executive Director with authority for day-to-day operations, are decisions made that benefit the League to the detriment of the Trust? We feel that our analysis of the financial data does demonstrate bias.

We believe that the current distribution of the cost of the 14 positions that make up the Administrative Group implies that they each provide the same amount of service to the Trust, which we believe would be difficult to substantiate.

Appendix A:

Excerpts from PACIF Bylaws

PACIF (Fund) is an independent special purpose government entity formed under Vermont state statute. It is governed by Bylaws that were ratified and adopted at the Annual Meeting of PACIF on October 6, 2022. Some excerpts of the Bylaws to remember while reviewing our report are:

- Administrator shall mean the person(s) or entity appointed by the Directors to be responsible for the daily management, operation and activities of the Fund.
- Administration is deemed to include, but not limited to, costs and expenses related to loss prevention, claims administration, data processing, reporting and other Fund Expenses.
- Service Company shall mean any person or entity other than the Administrator designated to provide claims administration, loss prevention, or similar or other services as directed by the Board.
- All members of PACIF shall maintain membership in the VLCT.
- Conflict of Interest. A director shall discharge the Director's duties, including those as a member of a committee, in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances and in a manner the Director reasonably believes to be in the best interests of the Fund. If a Director has a conflict of interest because of duties or obligations as a elected or appointed official of a Member, or because of a proprietary interest or affiliation with an entity that may compete or have conflicting interests with the Fund, or otherwise, the Director shall disclose such conflict to the other Director and shall recuse himself or herself from participating in any action on the matter involving the conflict, and endeavor to not obtain any confidential information, or influence other Directors in their consideration of the matter.
- General Powers of the Board:
    1. Determine the general policy for operation of the Fund that shall be followed by all committees, officers, agents and independent contractors employed by the Fund.
    2. Adopt Rules for the conduct of the affairs of the Fund and recording of data required by law and sound management.
    3. To receive, hold, manage, invest and reinvest such monies and property of the Fund in stocks, bonds or other investments.
    4. To employ such agents, advisors, and counsel as reasonably necessary in collecting, managing, administering, investing and distributing the assets of the Fund, and to charge the expense thereof to the Fund.
    5. To enter into any and all contracts and agreements for carrying out the purposes of the Fund and for the administration of the Fund.
    6. To acquire, hold, own, rent or lease, alone or in conjunction with any other party or parties, and for use in connection with the purposes of the Fund any

property, real or personal, and to pay the appropriate pro rata part of the mortgage payments, property taxes, assessments, insurance, maintenance and ordinary repairs on all such property.

- Appointment of an Administrator. The Directors shall designate and provide compensation for an Administrator to administer the daily affairs of the Fund, provided such Administrator shall not be an owner, officer, or employee of any Service Company.
  The duties of the Administrator shall include, without limitation, carrying out of policies established by the Board, locating and recommending various contractors, supervising and reporting on contractors' performance, the provision of financial and accounting reports, and the maintenance of excess, reinsurance, or other insurance.
- Service Company. If services are not otherwise to be provided by the Fund or Administrator, the Board shall obtain the services of a Service Company for such purposes as directed by the Board. The Service Company shall adhere to guidelines established by the Directors.
- Cause to be maintained accounts of all investments, receipts, disbursements and all other transactions affecting all or any portion of the Fund.
- Cause the terms and provisions of the Bylaws, the Articles of Incorporation and the Rules to be performed and carried out and the assets of the Fund to be properly held and administered.

Appendix B:

Administrative Support Service Agreement

PACIF entered into a service agreement with the League on December 15, 2022. The following excerpts are relevant to our analysis:

Recitals:

> 2. PACIF finds it will be a more efficient use of PACIF resources and will provide for more economical operation of PACIF to contract for the aforementioned services as opposed to providing said services itself.

Agreement:

D. Preparation, dissemination, and filing of all memoranda, notices, minutes, reports, correspondence or other materials pertinent and necessary to the conduct of the affairs of the Trust. **How are these items filed, and can they be easily extracted from the Leagues system?**

E. Preparation and presentation of quarterly financial reporting as well as other relevant or requested, or required financial analyses and regulatory compliance reporting. **We believe that the League provided everything that we requested except for the basis of the apportionment of shared expenses including the salaries and benefits of administrative staff. We believe that there is no actual justification but rather a simple apportionment using a random percentage that fits into their cost structure.**

G: Maintenance of an office for the conduct of the affairs of PACIF and provision of equipment and supplies, including secure IT infrastructure, mailing, photocopying, telephone, reproduction, and other office support services normally utilized in the course of business. Said office support services shall be provided through utilization of the League's office equipment but shall not include office furniture, filing equipment, and ancillary equipment owned directly by the Trust. **Does PACIF know what capital assets they own and does the PACIF Board approve proposed purchases? Why doesn't the PACIF audit include Capital Assets in their financial statements? The question of whether PACIF owns the vehicles or whether the League owns them was difficult to conclude based on the information provided. If PACIF paid for them, it appears that they are reimbursing the League through depreciation that is included in indirect costs.**

H: Provision of all supervisory, professional technical, staff support, and financial management services not otherwise contracted for by PACIF and necessary to the conduct of the affairs of the Trust. **What metrics are utilized to determine whether additional staff, not specifically assigned to PACIF, need to be hired and the appropriate apportionment of their time to PACIF? Does PACIF have veto rights over the hiring of indirect staff? It is our observation that there are a finite number of members in**

Vermont and that several positions that PACIF is paying 75% of the salary and benefits for, are not providing significant benefit to PACIF.

7. Fees. The cost of services provided under this Agreement shall be mutually agreed upon by PACIF and the League and shall be affixed to this Agreement as an addendum.

Appendix C:

MEMO

To: Budget Advisory Committee
Fr: Ted Brady, Executive Director
Dt: Friday, August 15, 2025
Re: VLCT Operations / PACIF Administrative Agreement

At the request of the PACIF Board Chair, Aaron Frank, VLCT CFO Seth Abbene has included additional financial information – both current and historical -- about portions of the VLCT budget funded by PACIF. Since joining VLCT, I have not altered the fundamental funding relationship between VLCT and PACIF, and I welcome a discussion about ensuring the VLCT and PACIF financial relationship continues to best serve our members. To aid us in this discussion, I've tried to anticipate some questions you may have and provide you with additional context.

What role does PACIF have over VLCT operations?

The VLCT and PACIF relationship is governed by an administrative master services agreement executed annually between the PACIF board chair and the VLCT Executive Director, and an addendum that outlines the cost of those services including a breakdown of direct and indirect costs. The VLCT Board, and through delegation, the VLCT Executive Director, is responsible for ensuring these agreements are carried out on a day-to-day basis – including deciding on staffing levels, compensation, and other operations decisions. While the formal opportunity to weigh in on these decisions is during the budget process, I welcome input from any member, especially our PACIF and VERB Board members, at anytime about the how VLCT is servicing PACIF. I would also like to institute informal quarterly meetings between the Board Chairs of the three organizations to ensure seamless communication.

How big is the VLCT Staff, and has it grown?

In 2026, I anticipate the organization to be near 55 FTE, up from 48 in 2020. Most of that growth has no impact on PACIF: the grant-funded Municipal Operations Support Team (4 positions) and a MAC lawyer to meet the increasing demand (1 position funded by dues and sponsorships). We've also repurposed some positions, including eliminating a communications associate position and a mail room clerk position, allowing us to hire other positions.

How does VLCT establish pay rates?

VLCT has an established compensation system that is approved by the VLCT board annually. We also conduct a third-party salary study every three to five years. That study looks at regional salaries for similar jobs, provides us a range, and we attempt to ensure positions are compensated in the 80-120 percent of the recommended wage midpoint. All VLCT employees fall in that band at this time.

How do VLCT wages compare to the industry?

VLCT attempts to keep wages competitive for similar jobs in Vermont – including those in municipal government and those in the insurance industry. The National League of Cities conducts salary studies

for state municipal associations and pools. The Vermont ED is in the bottom 25 percent of all association director compensation in the country, and the lowest of all directors that manage a municipal association with an integrated trust. Vermont's RMS director is the second lowest NLC RISC-affiliated pool administrator in the country.

Does the PACIF and VLCT membership overlap?

All but four full VLCT members (cities and towns) are members of PACIF (Burlington, Goshen, Landgrove, and South Burlington). The majority of the other non-overlapping members are regional planning commissions (which we have not marketed PACIF to), county courts or sheriffs, housing authorities and fire districts.

VLCT Full Members:	247 (every city and town in Vermont)
VLCT Associate Members (including restricted):	147
Total VLCT Members:	394
PACIF Members:	357
Total Number of Non-PACIF Members:	37 (9 percent)

How do other state municipal associations fund indirect costs?

Most integrated pools operate similarly to VLCT, charging the pool for all direct costs and charging them for a portion of other League costs using an indirect rate or formula. VLCT is becoming more and more unique in that it does not also charge the pool an institutional fee. Below are some examples:

Maine: Indirect rate allocated on an hourly basis across most League staff. In addition, they charge an institutional fee of $1.2 million.
Massachusetts: Indirect rate between 15 and 65 percent for League staff, depending on role (advocacy has the smallest while finance has the largest). Institutional fee of $1.6 million based on a formula that looks at member contributions and other factors.
Minnesota: Indirect rate allocated based on a tri-annual study that equates to about 70 percent. Institutional fee greater than $2 million.
North Carolina: Fees charged for administrative services and a fee for using the League's branding to market pool products. Percentage is based on a study every two years.
Michigan: Negotiated contract (established in 2006) that covers direct and admin costs, and accounts for institutional value ML provides.

VLCT is also an outlier in that it trues up at the end of the year with the trust. Many pools affiliated with their municipal associations enter into a contract each year for a set dollar figure (similar to what VLCT does). However, if the municipal association spends less than the contract for the provision of services, the municipal association keeps the balance. If it spends more, it charges the trust more. VLCT "trues up" the contract at the end of the year and either gives money back to the trust or charges the trust for actual costs above the contract.

MEMORANDUM - PACIF Negotiating Committee

To: PACIF Negotiating Committee

Cc: RHR Smith, PACIF Non-Conflicted Staff

From: Fred Satink and Mike Gilbar

Re: Analysis of RMS indirect Cost Allocations

Date: September 18, 2026

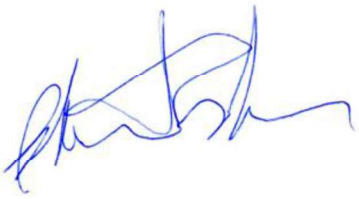
Fred Satink, former VLCT PACIF Deputy Director and Interim Director of Risk Management Services, and Mike Gilbar, former VLCT Chief Financial Officer, reviewed and analyzed multiple sources of information as part of the process of analyzing the growth of VLCT cost allocation to risk management services (RMS) as well as the "fairness" of those allocations. These cost allocations represent charges from VLCT to both PACIF and VERB, for the provision of support services and the cost of shared staff. Further, budget information was analyzed in detail to develop estimates of the true value of the services that VLCT provides, versus the costs that were charged.

The attached report provides the results of our analysis, which we believe will be useful to the PACIF negotiating team as they continue to engage VLCT to determine how the organizations will function together in the future, as well as costs associated with that relationship.

Respectfully submitted,



Frederick J Satink



B. Michael Gilbar

Overview

The PACIF Board requested that two former VLCT employees (Mike Gilbar, former CFO and Fred Satink, former RMS Deputy Director and Interim Director) conduct a detailed review of indirect costs that are charged to PACIF. Because VLCT often combines administrative cost allocations to Risk Management Services (RMS) as a group, rather than by PACIF and VERB as individual trusts, data that is noted may be stated as RMS (combined data), or PACIF specific data.

As described in this document, "indirect" costs include VLCT administration elements such as *portions of salary and benefits for non-RMS staff that support RMS operations, as well as a portion of costs for operating overhead such as office space, internet, electrical and internet, IT, etc.*

Based upon the analysis that follows, 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. Adjusted to reflect what we feel is appropriate, for the services that in our opinion PACIF *actually* receives, VLCT charges to RMS for the provision of Administrative Services should be reduced by an amount within this range.

Indirect cost allocation to RMS has been increasing, especially since 2021. In the period 2021-2026, the annual average increase to indirect cost allocation to RMS was 14.0% with a total increase during that period of 61.3%, despite PACIF adding less than10 municipal members in that time period.

Supporting Data Tables are located in Data Table Section, at the end of this report.

This analysis required a review of the following data:

- Financial Information workbook that shows the historical data for VLCT and PACIF expenses as well as PACIF's payments to VLCT from 1987 through 2025. Also included in this workbook is an analysis of VLCT salaries from 2003 to 2024. This was compiled by Mike Gilbar from VLCT and PACIF financial audits.
- PACIF Expense Breakdown workbook that breaks out the PACIF expense data in the Financial Information workbook into greater detail. Also compiled by Mike Gilbar from VLCT and PACIF financial audits.
- The 2026 final VLCT budget and staff salary/benefit data provided by Seth Abbene.
- An operationalized 2027 budget developed by current VLCT CFO, Seth Abbene, which partially reflected a value-based staffing proposal that PACIF had put forward during the negotiations early this summer.

2026 Budget Review

We reviewed the 2026 final VLCT budget that was provided and the indirect cost allocations and confirmed that indirect expenses were allocated at the rate of 79.5% to RMS. Subsequently, we completed an independent review of individual non-RMS "support staff" providing services to PACIF and assigned an "full-time equivalent value" to each, reflecting what we believe to be reasonable value, based on our accumulated knowledge of the services delivered to PACIF by these staff. These percentages were then applied to the 2026 salary and benefits for each administrative support position to develop a total "value-based" cost allocation percentage for the salary and benefits. We then applied this same value-based percentage to "overhead costs" to arrive at what we believe to be a more reasonable indirect cost allocation value for 2026.

In addition to indirect cost allocations for support staff costs and overhead, there were other noteworthy adjustments made to costs which in our opinion were unfairly allocated to RMS. Our overall comments and findings are outlined below. See 2026 Budget Allocation Table 1 in the Data Tables for more details.

1) Our independent value-based allocation percentage as described above was 59.1% for PACIF. In an attempt to account for VERB's indirect costs, we rounded that up to 60% allocation and applied that value to RMS indirect costs as a whole.
2) We identified that the VLCT Grant Program had no indirect cost allocation made to them. Using the direct costs for that program as a basis for allocating indirect costs, we developed an estimate of what those costs should be, as noted below.
3) Special overhead costs including: VLCT and Communications consultants, NLC Dues, VLCT audit, and Town Fair Costs were allocated to RMS. We revised these allocations downward from our base 60% level (Consultants 10%, NLC Dues, 0%, VLCT Audit, 0%, Town Fair 0%) and reflect that total adjustment as a separate line in Table 1. For these items, we did not believe that the original 79.5% allocation percentage, nor the (60%) adjusted allocation percentage was commensurate with the value RMS receives.)

2027 Operationalized Budget Review

This is a draft budget that was produced by the current VLCT CFO and was completed in order to "operationalize" the staff value-based work that is described in the 2026 analysis above. This draft was intended to put PACIF's proposal to VLCT into numbers.

During review, we noted that the salary and benefits portion of the budget followed the 60% value-based cost allocation model we had previously proposed, though we also noted that other overhead items were still were allocated to RMS at a 75% level – or a 67% level in

some cases. After a line-by-line review, we adjusted the cost allocations in Office, Equipment, Communications, Supplies, Travel Training, VLCT Audit, and Dues and Subscriptions to address this issue.

The initial budget, developed by Seth Abbene had a shortfall (without our adjustments) of $1,176,740. The additional adjustments described above were $185,516, for total overcharge of $1,362,256. This overcharge exists because, with the indirect cost allocations for salaries, benefits, and VLCT operational overhead now adjusted to reflect what we feel is appropriate for the services that VLCT is providing, VLCT should be reducing the allocation assessed to RMS by $1,362,256. That overcharge, if eliminated from the VLCT budget, would result in a deficit for VLCT. Lastly, we believe that a fair portion of this overcharge is also driven by VLCT's existing staffing patterns – which over the years, resulted in higher allocations for RMS. See 2027 Operationalized Budget Review Table 2.

As a final note to this section, it is important to understand that our analysis represents our best estimates of cost allocations. We expect that there may be differing opinions on the total amount of overcharge.

Historical Analysis and Findings

This analysis focused on the salary and benefits portion of the allocated indirect costs, as that was the primary driver of the allocation increases over time. That said, it is reasonable to assume that non-salary/benefits indirect costs such as those for office space, VLCT audit, NLC dues, postage, and other overhead, increased at a similar rate as the salary and benefits indirect costs. Findings include:

1) PACIF's payment to VLCT for all staff and services, as a percentage of the VLCT budget has increased from 54.9% in 2003 to an estimated 73.2% in 2026.
2) During the period 2009 through 2021, the average annual RMS indirect cost allocation increased an average of 6.1% annually.
3) In the period 2021-2026, the annual average increase was 14.0%. Described in another way, these costs increased 61.3% from 2021 to 2026.
4) Since 2021, PACIF has added less than 10 municipal members.
5) From 2003 through 2026, PACIF will have paid VLCT $86,809,349 for staff and services.

Summary

We believe that the current RMS allocations within the 2026 VLCT budget substantially exceed the value of the services that the trusts receive. Aside from the over-allocation of existing VLCT administrative costs, RMS provides a vast majority of the financial support for

VLCT-centric items such as the VLCT Audit, NLC Dues, VLCT Consultants, Town Fair, and other line items. Additional elements within the 2026 budget are questionable, including under-allocation of sublease revenue and no allocation for Town Fair derived revenue.

The 2027 draft budget estimate provided by VLCT's CFO attempts to numerically implement the "value-based cost allocation proposal" that PACIF put forth to VLCT. After making additional line-item adjustments to correct some deficiencies, that adjusted budget should be reflective of what RMS should reasonably be expected to spend on all of its staff, including reasonable cost allocations for the cost of administrative support services.

While this analysis does by its very nature have a measure of subjectivity, we tried our best to make accurate and unbiased assessments of the true value that the various VLCT support staff provide. 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 particularly overweighted in their cost allocation to RMS – given the actual value that the trusts receive. Additionally, VLCT's now dense support staff further increases VLCT's reliance on RMS for funding.

In summary, our analysis clearly shows that RMS has been paying a substantially disproportionate share of VLCT support services costs. This additional financial burden on PACIF and VERB members ultimately puts RMS at a competitive disadvantage during renewals and shifts costs from VLCT dues, to PACIF and VERB members.

DATA TABLES

2026 Budget Allocation Table 1

Cost Item	Allocation at 79.5%	Allocation at 60%	Difference/Overpayment
RMS-Salary & Benefits	$1,703,728.79	$1,285,833.05	$417,895.74
RMS- All other Overhead	$1,356,486.96	$1,020,763.75	$335,723.22
VLCT Grant Prog	$0.00	$246,179.43	$246,179.43
*Special Overhead Adjustment	-	-	$150,552.00
Total Overcharge to RMS	$3,060,215.75	$2,552,776.23	**$1,150,350.39**

2027 Operationalized Budget Review Table 2

Description	Amount
Initial Budget Shortfall	$1,176,740.00
Line-item Adjustments	$185,516.25
Total Overcharge to RMS	**$1,362,256.25**

Historical Data Analysis - Reference Tables

Salaries and Benefits Admin Support Only		
	RMS $ Admin Share	RMS % Increase
2022	1,056,474	10.5%
2023	1,110,976	5.2%
2024	1,284,840	15.6%
2025	1,800,446	40.1%
2026	1,703,729	-5.4%
Overall increase during 5 year Period		61.3%

Salary Increases	% Change Year to Year			
	VLCT Direct and Admin Share	RMS Direct	RMS Admin Share	RMS Direct + Admin Share
Average 2003-2024	15.2%	7.8%	7.8%	7.4%
Averages for:				
2003-2013	24.8%	12.4%	10.0%	10.9%
Pre-2021	18.0%	8.4%	6.7%	7.5%
Post-2021	3.5%	5.0%	12.4%	7.3%