Analysis of the PACIF – VLCT Relationship

OVERSIGHT, COST MANAGEMENT & MANAGING RATES

OCTOBER 2, 2026

Today's Presenters

- Russell Young, ESQ, PACIF Corporate Counsel – *Review of PACIF Board Consideration of the Administrative Support Service Agreement with VLCT*
- Ron Smith, RHR Smith & Company, CPA – *3rd Party Review of the Financial, Contractual, and Operational Relationship of PACIF – VLCT*
- Frederick Satink, Former PACIF Deputy and Interim Director and B. Michael Gilbar, Former VLCT Chief Financial Officer – *Analysis of RMS Cost Allocation*
- Phillip Woodward, ESQ, PACIF General Counsel – *Statutory and Regulatory Review*

History

- Pools established over twenty-year period from 70s through 90s
  - Addressed insurance market crises
  - State authorizing statutes
  - Only municipal, governmental and instrumentality members
  - Only members from one state
- VLCT Members requested VLCT sponsor enabling legislation in Vermont
- PACIF Members formed PACIF in 1986
  - Non-profit corporation owned exclusively by its Members
  - Members elect Board of Directors
  - Regulated by Vermont Department of Financial Regulation
- PACIF insures nearly all Vermont cities and towns
  - Exceptions Burlington, South Burlington and Goshen
- Since formation, PACIF partnered with VLCT to provide administrative services and staffing

PACIF & VLCT Comparison

- Both PACIF and VLCT exist to serve Vermont municipalities
- PACIF has 360 Members
- VLCT has 247 Full Members
- PACIF requires its members be VLCT members to qualify for coverage
- VLCT does not require its members to be PACIF members
- Three VLCT members are not PACIF members; Burlington, South Burlington, and Goshen

Origin of Discussions

- Late 2025, VLCT proposed to PACIF an "Addendum" to the Administrative Support Service Agreement (essentially the agreement for services between the parties)
  - Agreement amended last in 2022
  - No fee among contract terms
  - Parties agree annually to fee addendum

Proposed Addendum for 2026 of ~ $6,500,000 - Nearly 80% of League revenue

- Provides nearly all PACIF administrative services
- All employees, direct expenses,
- Shared costs allocated to PACIF ~ 76.5%

Basis for allocations not contained in ASA or Addenda

- PACIF declined to sign VLCT proposed addendum
- Instead, PACIF offered a six-month agreement at the same dollar value per quarter as was proposed by VLCT while a new agreement was negotiated.
- VLCT declined to sign the six-month agreement

The ASA

- ASA fee to PACIF is based on VLCT annual budget. The PACIF Board approves its portion of this budget.
- In recent years, the draft PACIF budget included only lump sum indirect cost allocations and did not include the basis of allocation of shared services or operating expenses.
- PACIF Board could not determine, without request to VLCT staff – with whom they were contracting – the basis for costs of staff, shared staff, benefits, overhead, profit, cost allocations, costs of underlying services to be provided, etc.
- No desire to issue RFP or seek alternate service provider, given cooperation, relationship and expected continued cooperation into the future

PACIF Advisors

- PACIF engaged independent accountancy and auditing firm familiar with public entities to evaluate VLCT cost allocations and charges
  - Goal to determine fairness/reasonableness cost allocations
  - Whether additional “margin” was present
- PACIF engaged corporate legal counsel
  - Goal to update, amend or replace ASA
  - Hired firm familiar with insurance and alternative risk financing including captives, public risk pools
  - Counsel also to address questions for PACIF Board
  - Fiduciary duties of Board members
  - Terms of all service provider contracts
  - Possible updates to corporate documents

Working Group

- PACIF and VLCT Board representatives formed “Working Group”
  - PACIF paid addendum amount during discussions to keep VLCT "whole"
  - Goal of parties to cooperate and protect League and joint staff during discussions
- PACIF requests
  - Limited, non-conflicted staff in key roles
    - Overseen, directed by PACIF
    - Still employed by VLCT
  - Transparency in Fees
    - Understand costs of pass-through expenses
    - Understand basis for allocation of shared costs
  - Support of League through "reasonable and sustainable" annual “Institutional Value Fee”
    - Recognizes value of cooperation to shared membership
    - Compensates for benefits VLCT provides to PACIF and some services that favorably impact risk
    - Marketing, cooperation and licensing of League “brand”

Revised ASA

- Proposal for amended ASA
  - Based on terms of existing ASA
  - Modeled also on other insurer-association and league/pool relationships
  - Costs of services plus IVF equal to or greater than 2026 amount
  - Employees remain hired by League
    - Key roles report to and directed by PACIF Board through League
    - Assumption of retirement obligations
- Proposal not accepted

ASA “Margin” Over Cost

- Pro-forma financials for budgeting indicated ASA “margin” of ~$1.2m
- Conclusion supported by accounting consultant
- Approximately 3.5% of annual PACIF premium
- Total ASA payment of almost 20% of annual PACIF premium to VLCT

Status

- Recent consideration of “amicable separation”
- Parties continue earnest discussions with no predetermined outcome

3rd Party Review-RHR Smith

RHR Smith & Company, Certified Public Accountants, was hired by the PACIF Board of Directors to review the financial, contractual, and operational relationship between PACIF and VLCT and to provide findings and recommendations.

3rd Party Review-Findings & Observations

- PACIF has an obligation under its bylaws to administer the revenue that it receives from its clients responsibly. The service company (VLCT) 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 it is expected from the PACIF Board.
- 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

3rd Party Review-Findings & Observations

- 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%.

3rd Party Review-Findings & Observations

- 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. With the (VLCT) Executive Director having authority for day-to-day operations, this has effectively cut the PACIF Board out of operational decisions.

3rd Party Review-Findings & Observations

- 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.

3rd Party Review-Findings & Observations

- 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 have operational understanding whereby key employees within the RMS Group should report to the Administrator to facilitate operations within the Group and alleviate confusion on lines of communication.

3rd Party Review-Findings & Observations

- Town Fair is an example of an indirect cost being apportioned to RMS with questionable limited direct benefit to the Trust.
- All positions within the Administrative Group are charged to PACIF at the same rate. The PACIF Board should have more input into the addition of new VLCT positions and input into the percentage that each Administrative Group member's salary and benefits are charged to the Trust.
- 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

3rd Party Analysis-Findings & Observations

- 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 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.

Analysis of RMS Cost Allocations

- The PACIF Board of Directors retained retired VLCT employees, Mike Gilbar and Fred Satink as consultants. They were tasked with reviewing the fairness and appropriateness of the cost allocations from VLCT to PACIF.
- Both had major responsibilities for PACIF operations at VLCT during their tenure, serving as VLCT Chief Financial Officer and Deputy Director/Interim Director of RMS respectively.

Analysis of RMS Cost Allocations

- Analyzed the growth in the allocation of costs to Risk Management Services (RMS) by VLCT, focusing on 2026 and 2027 draft budgets

- Analyzed VLCT and PACIF salary, benefits, and budget data to develop the true value of the services provided by VLCT to PACIF.

- Analyzed shared staff and line-item expenses and assigned value-based costs assigned to each.

Results of RMS Cost Allocation Analysis

- PACIF and VERB combined were allocated 79.5% of the cost of shared services and overhead, with 76.5% allocated to PACIF
- This was substantially more than a 60% allocation - which was the result of the value-based analysis.
- It is estimated that PACIF is overpaying VLCT for services received by $1,200,000.

Impact of Current Cost Allocation

- **VLCT is charging $1.2M or about 67% more than the value those services provided to PACIF.**
  - There is no apparent basis for VLCT's current cost allocation
  - This is an excessive overcharge, compared to typical admin overhead of 20% for non-profits
  - The "overage" increases PACIF member rates while subsidizing VLCT member dues.
  - The “overage” puts PACIF at a competitive disadvantage versus the commercial insurance market
- Why is the subsidy important?
  - 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.
  - PACIF funds not exclusively used to benefit PACIF members
  - Unfairly increases PACIF rates for its members
  - The cost of administrative services to PACIF, which is paid by its members, is $1.2 million higher than it needs to be.

Statutory & Regulatory Review

PACIF Enabling Statute

24 V.S.A. § 4942

§ 4942. Contents of agreement

Two or more municipalities, by resolution of their respective legislative bodies or boards, may establish and enter into agreements for obtaining or effecting insurance by self-insurance, for obtaining or effecting insurance from any insurer authorized to transact business in this State as an admitted or surplus lines carrier, or for obtaining and effecting insurance secured in accordance with any other method provided by law, or by combination of the provisions of this section for obtaining and effecting insurance. **Agreements made pursuant to this section may provide for pooling of self-insurance reserves, risks, claims and losses, and of administrative services and expenses associated with the same, among municipalities**. To accomplish the purposes of this subchapter, two or more municipalities may form an association under the laws of this State to develop and administer an intermunicipal risk management program, having as its purposes reducing the risk of its members; safety engineering; distributing, sharing, and pooling risks; acquiring insurance, excess loss insurance, or reinsurance; and processing, paying, and defending claims against the members of such association.

Statutory & Regulatory Review

VERMONT DEPARTMENT OF BANKING, INSURANCE AND SECURITIES

RULE I-90-1

RULES GOVERNING INTERMUNICIPAL INSURANCE AGREEMENTS

Section 11. Distribution of Surplus Funds

B. Surpluses accumulated within an Association's fiscal year shall be used exclusively for the benefit of those Members belonging to the Association during that year. The accounting shall be separate for each year.

Statutory & Regulatory Review

PACIF Bylaws

ARTICLE VI. ACCRUAL OF NET INCOME

6.1 Net Income to Accrue to Members. The net income shall accrue to the Members of the Fund as it is earned and each Member shall have a legal enforceable right to its respective share thereof. As used in these Bylaws, "net income" shall be determined in accordance with the Code. In the event that the Code does not provide adequate provisions for such determination, then ***if the Directors should find that the amount in the Loss Fund shall be more than sufficient to pay claims and maintain prudent reserves, such surplus funds may be returned to the Members. Such return, if any, shall be by means of reduction in Contributions due in subsequent Fund Years in accordance with all applicable laws and regulations including any validly adopted regulations of the Vermont Commissioner Of Banking, Insurance, Securities and Health Care Administration***

Questions or More Information

Questions or requests for additional information can be emailed to:

info@vtpacif.org

or go to

www.VTPACIF.org