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

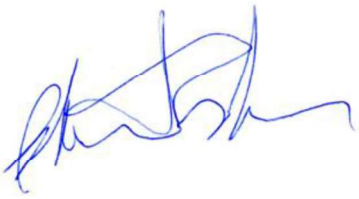
Fred Satink, former VLCT PACIF Deputy Director and Interim Director of Risk Management Services, and Mike Gilbar, former VLCT Chief Financial Officer, reviewed and analyzed multiple sources of information as part of the process of analyzing the growth of VLCT cost allocation to risk management services (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%