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The Utah Local Governments Trust (the "Trust") appreciates the opportunity to provide a response to the State Auditor's Findings and Recommendations for its audit of the calendar years 2014 and 2015 (the "Audit"). The Trust recognizes the diligent efforts of the audit staff as they conducted this Audit over the past thirteen months, and believes that this Audit has resulted in helping the Trust identify and improve certain weaknesses in its procedures and policies. The Trust will be a better organization and will be even more effective in providing its members with the greatest value because of the Audit.

The Trust is an interlocal government agency formed under Utah's Interlocal Cooperation Act. It has more than 526 governmental entity members which include 41% of Utah's counties, 88% of its cities and 72% of its special service districts—from the largest and most complex to the smallest of government entities. The Trust is what is commonly referred to as risk pool and is owned by its government members. It is not an insurance company, although it serves a similar function. More than (85%)of all governmental entities in the United States participate in pools rather than purchasing insurance through private markets.

Risk pools are better able to cover the unique risks of government entities that may not be covered by commercial insurance or that may be prohibitively expensive to cover. Government risk pools are not subject to the whims of the private markets, which are driven by profit and have abandoned the market when it has become unprofitable. For example, the commercial markets are currently pulling back coverage in some areas and are even eliminating coverage, such as for Law Enforcement Liability. We are currently seeing a trend in commercial markets of providing less coverage for greater cost, while the trend of the Trust is just the opposite—more coverage for less cost. Pools are also more efficient than commercial insurance because there is no profit motive. The Trust also provides significant training to its members to minimize exposures to risk, reduce costs and save lives. Protecting against the risks of public agencies is an inherently governmental function. For these and many other reasons, pools are the preferred method to protect governmental entities because they increase protection, reduce costs, and reduce liability, ultimately saving taxpayer money.

While commercial insurance rates have been volatile and coverage terms and conditions have become more restrictive, because of the Trust's skillful management, it has not only been able to provide more than $5 million in rate stabilization for its members over the past five years, but has also returned more than $6.5 million to the members over that same period in the form of dividends. The Trust's 3-year expense ratio, measuring operational efficiency for Auto/Property, Liability, and Workers Compensation, insurance is 35% less than the insurance industry average, 29% less than the average for the Top 25 insurance carriers, and 27% less than the average for comparable governmental public entity pools (Analysis provided by Aon Risk Solutions | Actuarial & Analytics Practice). Despite a shrinking insurance market, the Trust continues to grow. During the past six years, Trust membership has expanded by more than 17%, with member retention at 99.2%. Growing and maintaining membership is critical to the performance of the Trust, because it is only through large numbers that self-insurance risk coverage works to the benefit of the members and ultimately taxpayers.

The Trust's recent impressive performance is not by accident. It is a result of running a lean operation with some of the lowest costs and highest performance of any organization of its kind, not just in Utah, but throughout the United States. Not coincidentally, this period of growth and high performance coincides with the hiring of Mr. Steven Hansen as the chief executive officer of the Trust in 2010. One simple measure of Trust management's performance under Mr. Hansen's tenure is the return of $6.5 million to Trust members. Prior to hiring Mr. Hansen as CEO, the Trust had never paid a dividend in its previous 36-year history.

The Board of Directors is proud of the Trust's accomplishments. We recognize that there is always room for improvement, and since meeting with the auditors, the Trust has proactively made the necessary changes recommended in the Audit. We will continue to take all steps necessary to make sure the Trust complies with all laws and operates as efficiently as possible for the benefit of its members and the citizens of Utah.

The following are the Trust's specific responses to the Audit findings.

1. **Questionable Expenditures for the Board**. We agree with the Audit's finding and recommendation that there have been some board expenses that can and should be minimized or avoided. While we maintain that the Trust did not violate any laws relating to board expenditures, the Trust recognizes that it has an obligation to avoid even the appearance of impropriety and that it should rigorously seek transparency. The Board has adopted an appropriate policy for the issuance and return or purchase of electronic reading devices to Board members. Expenses for meals and lodging will be limited to the newly enacted per diem rates. Furthermore, the Trust will no longer pay any expenses of board member spouses.

2. **Weaknesses Related to Compensation to Board Members and Per Diem For Meetings Attended**
    a. **Nonidentification of Board Member Compensation in the Trust's Annual Budget**. As noted in the Audit, in 2015, the Utah Legislature passed a number of changes to the Interlocal Cooperation Act, which became effective in the middle of 2015. One of those requirements was that preliminary budgets of interlocal agencies specifically identify the board compensation of each board member. The Trust was unaware of this new requirement and therefore did not comply with the requirement. It is worth noting that only two of the dozens of other interlocal agencies attempted to meet this requirement, one of which was the agency that prompted the legislation. The Board has already adopted a revised budget identifying the individual compensation of each board member. Newly enacted section 11-13-403(1)(e) states that if a member of an interlocal entity appoints someone to the interlocal entity's board, that appointing entity must annually approve of the board member's compensation. Members of the Trust's Board are not appointed. They are elected by the membership at large.

Requiring all 526 members of the Trust to annually approve the compensation of the Trust's Board is not a workable policy. Since the specific board compensation is now required to be reported on the state transparency website, the members will be informed of the compensation, so the primary concern of the statute will be satisfied. Nevertheless, the Board has adopted a policy going forward of having each Board Member's respective entity approve of the Board Member's compensation annually in an open meeting.

b. **Payments to Board Members not identified as Compensation vs Per Diem**. The Trust provided the auditors with minutes of its December 19, 1996 board meeting, in which the Board explicitly approved the payment of $300 in compensation to the Board Members for each meeting. That compensation has not changed in twenty years. While there appears to be little room for confusion as to what the $300 payments to Board Members were for, the Trust will clarify the policy pertaining to Board compensation and per diem expenses so there is no opportunity for confusion going forward. The Trust agrees that the Executive Committee meeting compensation was not approved in the minutes and agrees that under current law, the Executive Committee Meeting compensation must be set by the Board. The Trust will adopt a specific resolution for all Board compensation at its next Board meeting.

c. **Possible Per Diem for Board Meetings In Excess of Amounts Set by Administrative Rule.** As mentioned above, since the $300 was clearly identified as compensation in the official minutes of the Board, there were no issues with excessive per diem payments. Furthermore, the rule cited was not in effect during the reviewed periods.

d. **Compensation for Board Members Who Are Possibly Being Paid by Other Governmental Entities**. The Trust will ensure that to the extent per diem payments are made in addition to approved compensation, such per diem amounts will conform to applicable laws and rules.

3. **Improper Influence over Public Officers and Employees Through Questionable Promotional Activities.**
   a. **Improper Gifts**. The Trust was unaware that any specific event it held exceeded the statutory safe harbor $50/per person "gift." The Trust of course does not want to put any governmental employee or official in the position of even appearing to violate the law, and will work diligently to ensure the laws cited in the Audit are being followed. Going forward, the Trust will not hold any events in which the value attributable to any one governmental official or employee exceeds $50.00. It is important to note that none of the Trust's "promotional" activities were or are intended to improperly influence a government employee for official action taken. The fact that the cited golf tournament exceeded the $50 safe harbor, does not mean the tournament violated the law. The Trust is a non-profit governmental entity itself and exists only to serve the

needs of its members; it does not stand to gain anything by influencing other governmental entities to self-insure through the Trust.

b. **Promotional Activities**. Most of the promotional activities conducted by the Trust are tied to increasing safety in the workplace and minimizing liability exposure and other training. Given the size and reach of the Trust's membership, we do not believe that $73,603 in expenses is out of line with the mission of the Trust. Unlike State Risk Management, the Trust is not funded by the legislature and none of its members are required to participate with the Trust, which is the case with many of Risk Management's participants. Therefore, it is not surprising that Risk Management would spend little on educating public entities about the benefits of participating in its pool. However, we do believe it is important to carefully review these expenses to ensure they are properly reported and properly targeted for the benefit of the members. The Trust agrees that truly promotional expenses should be targeted at new potential members. However, the Trust also recognizes the benefits of continuing to educate its existing members of the benefits of self-insuring through the Trust and believes that some of those expenditures should continue.

c. **Competitive Quotes**. The Trust does not know which governmental entities were surveyed to determine how regularly those entities obtained quotes. The Trust frequently participates in bidding processes with existing members. Furthermore, the Trust has encouraged members to obtain quotes and has even facilitated entities researching other options for covering their risk, including helping members determine whether switching to stand-alone self-insurance would make sense. Ultimately, the Trust wants what is best for its members. Having said that, to the extent members do not regularly obtain outside bids, there is a good reason for that — the members own the Trust. Furthermore, commercial insurance cannot replicate what self-insuring through the Trust can in coverage, in training, and, most importantly, in the ability to receive cash dividends if the Trust is run efficiently. We agree with the Audit's recommendation that members should periodically obtain other bids to ensure they are getting the best coverage at the best rates, even though members are not likely to be able to replicate the value and performance of self-insured pool membership with the private market or even other pools.

4. **The Board Failed to Formally Adopt Purchasing Procedures**. The Board formally adopted purchasing procedures in 2000, although it was not required by law to do so at the time. We agree with the Audit's finding that the purchasing procedures adopted in 2000 could have been more robust. While we respect Mr. Hansen's independent efforts to mandate better purchasing controls, the Board also recognizes that setting such policies should be through Board action. When Section 11-13-516 was enacted in 2015, requiring interlocal agencies to formally adopt a purchasing policy, the Trust's legal counsel made us aware of the change in the law. The law became effective as of May 12, 2015, and the Board adopted the new, comprehensive purchasing policy on August 21, 2015. No further action is necessary.

5. **Excessive CEO Compensation**. As stated above, the Board selected Mr. Steven Hansen to act as its CEO in 2010, after conducting a national search for the position. Mr. Hansen has a long and impressive resume both in the private and public sector and brings a unique skill-set to the Trust. At the time Mr. Hansen was hired, the Trust conducted a compensation study and set his salary accordingly. The Board is aware of the NLC Risk salary survey referred to in the Audit. That study is not scientific or comprehensive, nor are the positions and responsibilities of the voluntary respondents adequately compared. Of the voluntary respondents to that survey, only three of the organizations generally compare in terms of responsibilities and size of organizations. Of those three, two have greater compensation than Mr. Hansen and one has a lower total package. The Board recently commissioned a professional compensation survey. That survey places Mr. Hansen's salary plus bonus slightly above the middle of the pack of similarly situated professionals. Additionally, the Board is aware that the salaries of a number of CEO's of similarly situated pools are much higher than Mr. Hansen's.

   The Board is not insensitive to the fact that Mr. Hansen's compensation is significant. The Board annually sets performance standards for the CEO, which he has always exceeded. Furthermore, because of his background, he is able to fill the role of several different employees resulting in significant savings to the Trust. One example of this is that he personally runs the treasury management for the Trust, rather than outsourcing that function to a third party or hiring another individual, saving the Trust hundreds of thousands of dollars. This is a function he performed for the Trust prior to being hired as CEO, and that CFO/treasury position was eliminated at the Trust after he became the CEO. Mr. Hansen had extensive treasury experience in the private sector prior to joining the Trust. He restructured global treasury and risk management for Autoliv ASP, Inc., a Fortune 500 company. During his 5-year tenure there, he managed an $850 million commercial paper facility and 23 banking relationships, cutting seven basis points from daily funding costs, amounting to $3,000,000 in savings. Mr. Hansen was also responsible for Autoliv's risk management and was instrumental in reducing workers compensation costs by 55%. He has also been the director of risk management for Salt Lake City Corporation and West Valley City Corporation, and also worked in the claims department of the Utah Division of Risk Management. In short, Mr. Hansen is uniquely qualified for his position, and has performed at the highest levels that could be expected.

   We believe that the CEO's performance speaks to the incredible value he has brought to the trust. The fact that he and his team have been responsible for rate stabilization and returning dividends to the members of the Trust over the past five years, when there had never been a dividend in the preceding 36-year history of the Trust, is just the tip of the iceberg. He has streamlined operations, maintained or reduced coverage costs, increased coverage terms, acquired and retained talented employees, and placed the Trust in the position of being one of the most efficiently and successfully run pools in the country.

   The Board does not believe that the Trust's CEO position is comparable to the State Risk Director. The two entities have some similarities, but are very different organizations. For example, the Utah State Risk Management is mostly funded by captive State agencies and colleges and universities and many of its members are required by law to participate in the fund. Furthermore, the head of State Risk Management does not perform treasury functions, nor is she responsible for obtaining and retaining members to the same extent required by the Trust. The Trust services a complex array of members and insurance needs and must deliver the best product at the lowest cost to retain its members. No member is required to self-insure through the Trust and members can leave the Trust without any strings attached.

The Board believes that Mr. Hansen's compensation is in line with the market compared to similarly situated government risk pools. The Board understands the Audit's concern regarding the Trust's CEO compensation. We will continue to set performance standards and compare the CEO's compensation with industry standards moving forward and make any adjustments necessary to ensure the Trust is run in the most efficient manner possible for the benefit of its members.

6. **Trust's Direct Payment of CEO's Personal Credit Card.** While neither this Audit nor any previous annual audit conducted by the Board has revealed any instances of inappropriate reimbursements for Trust charges to a personal credit card, the Board agrees that all Trust purchases should be made on Trust issued credit cards and that personal credit cards should not be used for Trust purchases.

7. **Improper Exclusion of Commute Vehicle Use from Gross Income.** Because of the Trust's vehicle purchasing policy, the actual non-fuel cost of operating one of its vehicles (approximately $1,600/year) is far less than the fuel costs of the vehicle. Nevertheless, the Trust agrees that absolute transparency is important and will determine the possible benefit to Trust employees and ensure that benefit is properly reported.

8. **Failure to Adequately Justify Vehicle Commute and Take Home Privileges.** The Board will review the Trust's existing policy and the State Fleet Operations policy and adopt policies to ensure efficient use of taxpayer funds. However, the Board does believe the current policy is beneficial to the Trust's members given the geographic area Trust employees must cover throughout the entire State of Utah.

Again, the Board appreciates the efforts of the State Auditor's office. We are committed to bringing the best value to our members possible and we are grateful for the Auditor's recommendations.

Mayor Joe L. Piccolo
Chairman of the Board of Directors