



Mayor – Sandy Sanders

Acting City Administrator – Jeff Dingman

City Clerk – Sherri Gard

Board of Directors

Ward 1 – Keith Lau

Ward 2 – Andre’ Good

Ward 3 – Mike Lorenz

Ward 4 – George Catsavis

At Large Position 5 – Tracy Pennartz

At Large Position 6 – Kevin Settle

At Large Position 7 – Don Hutchings

AGENDA

Fort Smith Board of Directors

STUDY SESSION

January 26, 2016 ~ 12:00 Noon

Fort Smith Public Library

3201 Rogers Avenue

CALL TO ORDER

1. Review of existing insurance coverage, minimum insurance requirements and insurance coverage proposals ~ *Lau/Good requested said review at the January 12, 2016 study session, which was to be discussed during consideration of a Resolution authorizing an agreement for broker services at the January 19, 2016 regular meeting. The resolution was tabled pending the subject review at a study session ~*
2. Discuss enactment of prepared food tax ~ *Discussed at the September 22, 2015 study session / Deferred from the January 12, 2016 study session ~*
3. Review preliminary agenda for the February 2, 2016 regular meeting

ADJOURN

Interoffice Memorandum

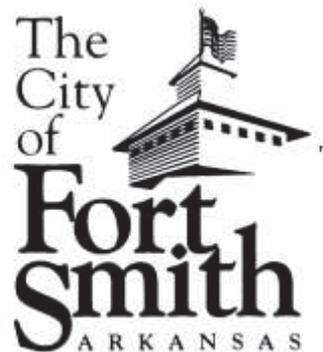
TO: Jeff Dingman, Acting City Administrator

COPY TO: Jennifer Walker, Finance Director

FROM: Alie Bahsoon, Purchasing Manager *AB*

SUBJECT: Auto & Property Insurance Coverage Review

DATE: January 22, 2016



As directed by the board at last Tuesday's regular meeting, the ensuing facts and comparison charts (in no particular order of importance) are to provide information about the Arkansas Municipal League's (AML) self-funded program for both auto and property coverage. Staff from the AML will be in attendance and will present additional information at the upcoming study session on Tuesday, January 26, 2016.

For the benefit of the board, I have outlined below a summary of the city's insurance history:

- The city carries a traditional, fully insured plan on auto, equipment, and property.
- An annual premium is charged to each city department based on the size of their fleet, the equipment on hand, and the value of the buildings and content.
- Brown Hiller Clark (BHC) is currently the city's agent/broker; they research the market and solicit potential underwriters and match us with the best value on the dollar based on the city's current needs and its claims history. BHC and Travelers have to this point served as the city's advisor on risk management issues.

Although the actual quote is pending from Travelers, they have committed to a reduction (from last year's rates) for the upcoming renewal policy period of March 1, 2016 - 2017. Below are the rates for the 2015-2016 year and the anticipated rates will be available from both Travelers and the AML at the study session.

	<u>Travelers Insurance</u>
	2015-2016
Type of coverage	Actual Rates
Auto	\$408,101
Equipment	\$33,619
Fine Arts & Misc.	\$26,830
Property	\$357,794
Total	<u>\$826,344</u>

Should the board entertain the AML's auto or property coverage, I would caution that it would not benefit the city to have two different policies with two carriers. Having one carrier benefits the account by lowering the premiums which are offset by the loss ratio of either the property or auto.

Depending on the board's recommendations, a resolution could be presented to the Board as early as February 2nd to approve the insurance coverage for the 2016-2017 billing period.

Please let me know if you should have any questions.

Insurance Program Comparison - Automobile

Travelers Insurance	Arkansas Municipal League
Provides “Fleet Automatic coverage”; does not require notification of changes throughout the policy period.	Changes or endorsements must be in writing within 10 days
Limits of Liability: \$100,000 combined single limit (limit reduced from \$1,000,000 in 2012)	Limits of Liability: \$25,000 each person/ \$50,000 each accident/ \$25,000 property damage; these are Compulsory Limits (minimum required by Arkansas law); Punitive damages are excluded.
Premiums are at an average annual rate of \$780 per vehicle	Premiums are at \$100 per vehicle
\$1,000 deductible on liability	\$1,000 deductible on liability
Collision coverage: based on .254 multiplied by the value of the vehicle; \$1,000 or \$5,000 deductible depending on the cost of vehicle; Comprehensive coverage: based on 1.006 multiplied by the value of the vehicle; \$1,000 or \$5,000 deductible depending on the cost of vehicle	Collision and comp coverage is based on .005 multiplied by the value of the vehicle (we set the limits); \$1,000 deductible
Travelers extends \$100,000 limits for each	Does not offer Uninsured/Underinsured Motorist coverage (there is a large percentage of uninsured drivers in the area)
No such limits; maintains list of covered drivers	Covers vehicles operated within the scope of employment and proper authorization; claim could potentially be denied if vehicle was used without permission
Travelers is the second largest commercial U.S. Property and Casualty insurance company; assets over \$110 billion; rated A+ by AM Best	Pooled, self-funded program (not an insurance company); not regulated by the Arkansas Insurance Department; re-insurance program provided by Alliant Services
Policy extends the limits above regardless of what state the vehicle is driven in.	Vehicles operated out of Arkansas, liability limits are the lesser of the limits stated above or financial responsibility limit in the other state.

Insurance Program Comparison - Property

Travelers Insurance	Arkansas Municipal League
Premium is based on ISO Rating multiplied by .0012 per \$100 of value	Premium is based on a rate of .12 per \$100 of value
Deductible is \$25,000 for main peril; flood or earthquake coverage has a \$100,000 deductible (\$50,000 deduct with Travelers for all peril except hail and windstorm)	Deductible is \$5,000 for main peril; flood or earthquake coverage has a \$100,000 deductible
Replacement cost coverage with no account for depreciation; blanket limit of insurance based on total value listed on the Statement of Value schedule	Valuation is determined at the time of loss with deduction for depreciation accounted; settlement based on amount listed on the Statement of Values schedule
Hail & windstorm is covered: \$50,000 deductible	Hail & windstorm is covered: \$5,000 deductible
Flood and Earthquake coverage is included: \$50,000 deductible (\$10 million aggregate limit)	Flood and Earthquake coverage is included: \$100,000 deductible
Coverage applies to municipal property for unconditional use (concerts, volleyball tournaments, boat shows, wedding receptions, etc.)	Coverage applies only to participating municipality's property and used as municipal property for proper municipal purposes under the direction or approval of officials in charge.
Mechanical breakdown coverage is provided (boilers)	Exclusions: program does not cover mechanical breakdown
Travelers provides Blanket Building/Contents limits on a Replacement Cost basis for over \$250,000,000 of values; therefore, if a location on the schedule is insufficient for replacement then the Blanket limit applies	"The terms of the Program shall apply separately to each article listed and each shall be held to be separate pieces of property as respects limits of liability".

Memo



To: Honorable Mayor & Members of the Board of Directors
From: Jeff Dingman, Acting City Administrator
Date: 1/7/2016
Re: Prepared Food Tax

Discussed at June & August, 2015 study sessions, and then mentioned again briefly during the November deliberations for the FY2016 city budget is the possibility of implementing a Prepared Food Tax. The topic was deferred for discussion until after the first of the year.

Prepared Food Tax revenues are authorized by state law and specifically intended for use in supporting tourism and promotion activities. The revenues from a Prepared Food Tax would flow directly to the A&P Commission, who could then support operations and capital improvement of the Fort Smith Convention Center. Doing this would free up the \$777,000 currently authorized from the City's General Fund to subsidize operations of the convention center, and also possibly allow for capital improvements at the center, such as the replacement of furniture and mechanical equipment, which the city's General Fund cannot provide.

The \$777,000 could then be specifically applied to the LOPFI contribution fund, thereby reducing the need to further cut service levels from the city's General Fund departments. As you are aware, the General Fund budget for FY2016 is \$3.3 million less than the FY2015 budget, but we still have work to do in order to meet a 15% fund balance.

Attached for your review are projections for a one-half cent Prepared Food Tax, which show that it could generate as much as \$917,609 per year. Such a tax is collected by restaurants and other venues selling prepared food for immediate consumption. A significant portion of the revenue from a Prepared Food Tax collected at restaurants in Fort Smith would be derived from non-residents, from both visitors and local residents that reside outside the city limits. The discussion around implementation of such a tax in the current environment would be centered on the fact that the tax would replace the General Fund's subsidy of the convention center and allow the city a significant source of general funds to apply to its liability for the police & fire pension programs.

Operating a convention center is a typical use for A&P funds derived from such a tax. For the past few years, the city's General Fund budget has contributed to other tourism related projects that could also be eligible for A&P funding. Using Prepared Food Tax revenues for these purposes could provide further relief to the city's General Fund and further stimulate our growing local tourism economy.

The city contracted with the A&P Commission to operate the convention center for the city in 2012. That arrangement is working well and the convention center continues to bring business and visitors to the city that support a large number of hospitality jobs. Even with this success, convention centers usually operate at a direct deficit, but their purpose is to generate economic activity in a community, resulting in major contributions to the tax base. Every convention center in Arkansas, except the one in Fort Smith, is supported by a prepared food tax.

Efforts to reduce the General Fund operating budgets while maintaining levels of service must be augmented by increases in General Fund revenues in order to meet the Board's expressed interest of proactively addressing the projected funding requirements for the police and fire pension program and achieving the standards set forth in the city's financial performance policies.

The LOPFI fund needs approximately \$2 million per year in order remain solvent for the foreseeable future. This liability is a sizeable issue that will require one or more significant revenue sources, such as a prepared food tax, fees for business licenses, and/or increases in utility franchise fees. The collaborative efforts of the Board and staff to reduce the operating budgets as much as possible while mitigating impacts on service levels will continue, but those efforts will not provide the required amount of funding needed to address the LOPFI issue.

Please contact me if you have questions regarding this agenda item.

City of Fort Smith, Arkansas
 Sales Tax from Prepared Food Entities
 For the Years Ended December 31, 2014 and December 31, 2015

NAICS Code	NAICS Classification	2% Sales Tax Collections	
		2014	2015
7221	Full-Service Restaurants	3,458,575	3,250,413
7222	Limited-Service Eating Places	256,537	478,204
7223	Special Food Services	112,667	55,338
	Total	3,827,780	3,783,955
	3% Collection Fee to State	(114,833)	(113,519)
	Net Taxes to City	3,712,947	3,670,436

Estimate for Prepared Food Tax Revenue:			
1% Tax		\$ 1,856,473	\$ 1,835,218
1/2% Tax		\$ 928,237	\$ 917,609

Source: NAICS data provided by the Arkansas Department of Finance and Administration.

Note: The city assesses 2% local sales and use taxes. Therefore, the amount of collections is combined.