

**Santa Maria Valley Tourism Improvement District**

**FINANCIAL RESERVES POLICY**

The Santa Maria Valley Tourism Improvement District (SMTID) generates operating revenues from assessments collected by hotel/lodging facilities within the district. These funds must be used to achieve the objectives of SMTID. General budgeting guidelines are included in the original Management Plan approved by the lodging properties and the City of Santa Maria when SMTID was formed in 2016.

Given the fluctuating nature of SMTID's revenues and expenses, prudent management practices support the organization maintaining a reasonable level of cash reserves. This policy is intended to provide guidance on how those reserves are funded and deployed.

**PURPOSE AND INTENT OF RESERVES**

It is the intent of the SMTID to establish reserves to ensure the stability of the mission, programs, and ongoing operations of the SMTID. Reserves are intended to provide an internal source of funds for situations in which unforeseen or special needs/opportunities arise that are outside the normal budgeting process.

SMTID will maintain two reserve funds, a Contingency/Renewal Reserve as defined by the official Management Plan adopted at the establishment of the SMTID, and an Opportunity Reserve directed by the SMTID Steering Committee.

**DEFINITIONS AND TARGETS**

**Contingency/Renewal Reserve**

The adopted Management Plan calls for a Contingency/Renewal Reserve to be funded and maintained. The relevant section of the Plan states:

*"A prudent portion of the SMTID budget will be set aside in a contingency fund, to be used for unforeseeable costs in carrying out the sales and destination marketing programs. If at the expiration of the district there are contingency funds remaining, and business owners wish to renew the district, the remaining contingency funds may be used for renewal costs.*

*The four percent (4%) annual budget allocation to the contingency fund will continue until the fund reaches a balance of \$60,000. If/when the contingency fund reaches the \$60,000 threshold, the contingency portion of the budget will be redirected to the sales and destination marketing portion of the budget."*

Full funding of this reserve was completed during the 2018-2019 fiscal year, and the 4% budget

allocation was redirected to the marketing portion of the budget.

**Opportunity Reserve**

The Opportunity Fund is intended to provide a ready source of funds that allow the Steering Committee to respond to unique opportunities to advance the mission of the SMTID that are outside the current adopted budget. The Opportunity Reserve could also be used to fund organizational capacity building such industry training, or investments in infrastructure that will build long-term capacity. It is expected that a primary use of funds in this Reserve will be sponsor or provide marketing support to events that demonstrate a potential for generating significant hotel stays within the boundaries of the SMTID.

**ACCOUNTING FOR RESERVES**

The reserve funds will be recorded in the financial records as the Contingency/Renewal Reserve and Opportunity Reserve respectively. These funds will be treated as “board-designated” funds and balances will be available in cash or cash equivalent funds. Reserves will be comingled with the general cash accounts of the organization.

**FUNDING OF RESERVES**

**Contingency/Renewal Reserve**

The Contingency/Renewal Reserve will be funded by allocating 4% of the annual revenues of the SMTID until a balance of \$60,000 is achieved. In the event that funds from this reserve as used, they will be replenished by reactivating the 4% allocation in the following year until the reserve is fully refunded.

**Opportunity Reserve**

The Opportunity Reserve will be funded primarily from surplus, unrestricted operating funds. The Steering Committee may also, from time to time, direct that a specific source of revenues by assigned to the reserve. Examples could include one-time gifts or bequests, special grants, etc.

**USE OF RESERVES**

**Contingency/Renewal Reserve**

As directed by the Management Plan, this Reserve may be used to cover unforeseen operating costs, or to cover unexpected short-term drops in revenues. In the event this use becomes necessary, staff will present a request and analysis of the reasons for using funds, availability of other sources that could be used before the reserves, and the time period required to replenish the fund. This report will be presented to the Steering Committee for approval.

**Opportunity Reserve**

Requests to use funds from this Reserve may be initiated by staff or by a member of the Steering Committee. A detailed review of the anticipated use, including how the activity supports the mission of the SMTID and the expected ROI, will be presented to the full Steering Committee for their approval.

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*Note: As of 6/30/19, the balance of the reserves would be:*

- *Contingency/Renewal Reserve: \$60,000*

- *Opportunity Reserve: \$35,986*

