



Memo

To: Commissioners, First 5 Ventura County

From: Jennifer Johnson, Director of Operations (On behalf of the Administration/Finance Committee)

Date: February 28, 2019

Re: Recommendation to update administrative cost policy and adopt administrative cap at 12% of total operating budget for FY 2019-20

Background

County commissions are statutorily required to adopt a policy establishing a limit on the percentage of the Commission's operating budget that may be spent on administrative functions and to have a process in place to monitor these costs.

Administrative costs, as defined by the Financial Management Guide for First 5 commissions, are costs incurred in support of the general management and administration of a First 5 commission, for a common or joint purpose that benefits more than one cost objective and/or those costs that are not readily assignable to a program or direct service. Program costs and evaluation costs are to be separated from administrative costs. Each county commission develops an individualized policy and procedures.

In accordance with the Commission's Administrative Cost policy, the Commission: identifies and allocates administrative costs following guidelines outlined in the policy; annually reviews the established cap on administrative costs as a percentage of total operating budget; and monitors actual administrative costs on an ongoing basis. An annual review of the policy has been conducted. Please see the attached policy for proposed changes.

The previously established administrative cap was maintained at 5.5% in FY 2018-19. Because this percentage is derived by taking total administrative costs over the total operating budget, economies of scale have enabled the Commission to operate on a cap of 5.5% since its inception, with annual spending levels running between \$11 million and \$13 million. As the Commission transitions to a reduced overall spending level beginning in FY 2019-20, it is necessary to revisit the cap and set a new limit.

Data collected from First 5 Commissions in 2015 reports average caps ranging from 9.5% to 22.5% for all allocation groups. Ventura County was reported in the allocation group that ranges from \$5.5 to \$9.9 million. The average cap for this group was 11.6% and the median was 15.0%. When controlling for Ventura County within this allocation group, the average cap rises to 12.7%.

Based on the proposed operating budget (inclusive of the Operating Fund and the Community Investment Loan Fund), the projected administrative rate for FY 2019-20 is 7.5%. Since the rate will be based upon actual operating expenditures, it is recommended that the limit be set higher than projected due to budget variances and the probability that some initiatives and programs will not expend their full allocation. A proposed limit of 12.0% would allow for this budget variance and align closer to other commissions that are similar in allocation size.

Recommendation

The recommendation is to approve updates to the administrative cost policy and establish the administrative cap at 12%, following the annual review of the Commission's policy limiting the percentage of the Commission's budget that may be spent on administrative functions, in compliance with legislative requirements.



ADMINISTRATIVE COST POLICY

Policy

It is the policy of First 5 Ventura County to consistently identify administrative costs following guidelines outlined in this policy, to annually review the established ~~targeted~~ cap on administrative costs as a percentage of total operating budget, and to monitor actual administrative costs on an ongoing basis.

Guidelines Definition of Administrative Costs

Administrative costs, as defined by the ~~First 5~~ Financial Management Guide for First 5 commissions (March 2006), are costs incurred in support of the general management and administration of a First 5 commission, for a common or joint purpose that benefits more than one cost objective and/or those costs that are not readily assignable to a program or direct service. Program costs and evaluation costs should be separated from administrative costs. ~~Program costs are costs incurred by the Commission that are readily assignable to a program or service provider and/or in the execution of direct service provision.~~

Procedures

For the Commission, administrative costs include all salaries, benefits, services, and supply costs not readily identifiable as costs of the Commission's evaluation or programmatic activities. Commission staff will adhere to the above definition ~~in its~~for budgeting, accounting, and financial reporting processes. Staff utilizes certain codes ~~in its~~for reporting processes to identify costs as program, evaluation, or administrative ~~on~~ve according to their nature. Except when there is information to determine a direct allocation of operating costs, shared operating costs/office expenses will be allocated by a systematic, valid and rational allocation methodology. The methodology will be reviewed annually and presented with the annual budget.

The Commission shall allocate in a responsible manner the funds necessary for the proper control and administration of the Commission's operations and activities. An annual budget will be adopted by the Commission, along with the annual administrative rate which establishes the upper limit on administrative costs as a percentage of the total operating budget.

Administrative costs will be monitored on an ongoing basis. Because of timing issues, comparisons between the actual percentage of administrative expenditures and the ~~targeted~~ established cap based on budget will be reported at the close of the fiscal year. In the event that administrative expenditures exceed the ~~targeted~~ established cap, the Executive Director will inform the Commission in open session. The Commission may increase or decrease the maximum allowable administration percentage based on changing fiscal or legislative circumstances.

This policy will be reviewed on an annual basis.