



To: Commissioners, First 5 Ventura County

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

Date: May 21, 2020

Re: Recommendation to maintain administrative cap at 12% of total operating budget for FY 2020-21.

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. No changes are recommended for FY 2020-21.

The established administrative cap in FY 2019-20 was set at 12.0%. Administrative costs for FY 2019-20 are forecasted at 10.0%.

Based on the proposed operating budget (inclusive of the Operating Fund and the Community Investment Loan Fund), the projected administrative rate for FY 2020-21 is 8.0%. This percentage is derived by taking total administrative costs over the total operating budget. 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 variance.

Recommendation

The recommendation is to maintain the administrative cap at 12% of total operating budget for FY 2020-21, 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 cap on administrative costs as a percentage of total operating budget, and to monitor actual administrative costs on an ongoing basis.

Definition of Administrative 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 should be separated from administrative costs.

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 for budgeting, accounting, and financial reporting processes. Staff utilizes certain codes for reporting processes to identify costs as program, evaluation, or administration 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 established cap based on budget will be reported at the close of the fiscal year. In the event that administrative expenditures exceed the 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.