



**To:** Commissioners, First 5 Ventura County

**From:** Jennifer Johnson, Director of Finance & Administration (on behalf of the Administration/Finance Committee)

**Date:** April 22, 2021

**Re: Recommendation to update administrative cost policy and maintain administrative cap at 12% of total operating budget for FY 2021-22**

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### **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 related to the allocation of centralized administrative support services (also called central services).

The established administrative cap in FY 2020-21 was set at 12.0%. Administrative costs for FY 2020-21 are currently forecasted at 11.8%.

Based on the proposed operating budget (inclusive of the Operating Fund and the Community Investment Loan Fund), the projected net administrative rate for FY 2021-22 is 5.7%. 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. This rate would be charged for administrative costs when grant funding is received, to the extent allowable. This rate is relatively commensurate with the percentage of allocated centralized administrative staffing support for programmatic and evaluation activities.

### **Recommendation**

The recommendation is to establish the administrative cap at 12.0% of the total operating budget for FY 2021-22 and to update the policy as attached.