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

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

**Date:** April 17, 2025

**Re:** **Recommendation to approve administrative cap at 13% of total operating budget for FY 2025-26**

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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 (see attached), 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. There are no changes recommended for FY 2025-26.

The established administrative rate cap in FY 2024-25 was set at 12.0%.

Based on the proposed operating budget (inclusive of the Operating Fund and the Community Investment Loan Fund), the projected net administrative rate for FY 2025-26 is 4.5%. This percentage is derived by taking total net 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 rate of 13.0% is commensurate with the percentage of allocated centralized administrative staffing support for programmatic and evaluation activities and would allow for budget to actual variances. This rate of 13.0% would be charged for administrative costs when grant funding is received, to the extent allowable.

## Recommendation

The recommendation is to approve the administrative cap at 13.0% of the total operating budget for FY 2025-26.

# 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. Administrative costs also referred to as “central services”, e.g., finance/accounting, human resources, procurement/ purchasing, should be apportioned to benefiting cost centers by some systematic and rational allocation methodology and that methodology should be disclosed.

## Procedures

To accurately reflect the cost of operating programs and services, centralized administrative support (central services) shall be apportioned to program and evaluation cost centers using a systematic, rational allocation methodology. This allocated method of distributing centralized administrative support costs is based on the premise that all programs benefit to some degree from administrative support services and they are essential to implement programs. Therefore, these centralized administrative support services shall be included with program and evaluation costs. Consistent with the definition of administrative cost to be general in nature and those costs not specifically and directly benefitting a programmatic or evaluation activity, the remaining amount, after allocating centralized administrative support, shall be the Commission’s administrative cost.

For the Commission, administrative costs include all salaries, benefits, services, and supply costs not directly benefitting the Commission’s programmatic or evaluation 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 and rational allocation methodology. The methodology will be reviewed annually and presented with the annual budget. When the

Commission receives grant funding, the approved administrative rate in effect shall be charged for administrative costs/indirect costs to the extent allowable by the grantor. Thus, expenses for grants shall be excluded from the allocation methodology. The Commission may provide its administrative costs as in-kind match on grant funding, as determined by the Executive Director.

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.