

**LOS ANGELES COMMUNITY COLLEGES
OFFICE OF THE CHANCELLOR
ADMINISTRATIVE REGULATIONS**

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**Los Angeles Community College District
Proposition A/AA and Measure J Cost Principles**

I. INTRODUCTION AND GENERAL PROVISIONS

Upon consultation with the Los Angeles Community College District (LACCD or District) and Bond Counsel, the District’s performance auditor drafted cost principles for LACCD consideration in its determination of allowable Proposition A/AA and Measure J Construction Bond Program (Bond Program) costs, under the California Constitution. These cost principles do not pertain to any other legal requirement or restriction on the use of Bond Program funds. These cost principles do not consider all potential project costs and will be considered in addition to other sources for the District’s consideration and decisions regarding the content of policies and procedures that the District might choose to adopt.

These cost principles are conservative in nature, provide information on cost reasonableness and do not supplant the requirements of the California Constitution. These cost principles will only be used in establishing a basis for future cost allowability pertaining to the cost principles identified. These cost principles apply the language of the California Constitution as well as recommended practices for determining allowable costs incurred.

No set of cost principles can define all of the specific activities, circumstances and situations that result in cost or cause a cost incurred to be determined as expressly unallowable, unreasonable or reasonable. Additionally, the interpretation of cost reasonableness can be subjective and differs from person to person, depending on the observer’s frame of reference and individual perceptions. Therefore, at best, the cost principles provided in this document can only provide guidance and cannot be considered a means for absolute determination of cost reasonableness. Anyone who applies these cost principles should consider how the actions impact the Bond Program and how these actions may be perceived. Those who monitor the actions of personnel working on the Bond Program are cautioned to recognize that interpretation and application of cost principles cannot be defined in absolute terms, and cannot be applied without actively seeking an understanding of the process and activity that resulted in the cost incurred. In all cases, consideration should be given to how a cost contributes to the completion of Listed Projects in an effective, efficient and expressly compliant manner.

II. DEFINITIONS

A. Bond Program Purpose: In order for costs to be considered to have a valid Bond Program purpose, the following criteria must be met:

1. Documentation must be provided that establishes a clear causal/beneficial relationship between the cost and the related cost objective. Generally the cost objective is a Bond Program project or projects.
2. The cost must not violate the provisions in the California Constitution, which states in part:
 - a. Article XIII A, Section 1(b)(3) definition of costs which qualify as Bond Program expenditures: “Bonded indebtedness incurred by a school district, community college district, or county office of education for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities...”
 - b. Article XIII A, Section 1(b)(3)(A) definition of costs which do not qualify as Bond fund expenditures: “A requirement that the proceeds from the sales of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3), and not for any other purpose, including teacher and administrator salaries and other school operating expenses...”

B. Listed Projects: Listed projects are specified by Proposition A/AA and Measure J as required construction, reconstruction, rehabilitation, or school facilities replacement projects indicated in the LACCD Construction Bond Program Documents under the California Constitution (Listed Projects). Listed Projects pertain specifically to the Bond Program.

C. Expressly Unallowable: Costs which meet the California Constitution definition of costs that cannot be paid for using Bond Program funds (Bond Program Purpose 2.b. above). Although not required by California law, as a matter of policy, the Board may require that costs of this category that are incurred or committed after the adoption of this policy may have to be quantified and repaid using general funds.

D. Unreasonable Costs: Costs are considered unreasonable, as a matter of policy by the District, when in nature and amount these Bond Program charges exceed the amount that would be incurred by a prudent person in the conduct of school construction. Cost unreasonableness depends on a variety of circumstances, including:

1. Whether the cost is not ordinary and/or necessary for the conduct of school construction.
2. Good business practices, arms length bargaining, and District Policies have not been applied.
3. District or contractor actions are contrary to fulfilment of the public responsibilities of the District.
4. Proven deviation from established contractor practices.

Costs may be considered unreasonable for the purposes of the cost principles indicated in this document and not be specified as unallowable costs under the California Constitution and the Education Code. The California Constitution addresses certain aspects of the identification and allocation of certain costs to Listed Projects in determining cost allowability. Specifically, the California Constitution requires costs to be incurred for construction, reconstruction, rehabilitation, or school facilities replacement. The cost principles add the concept of cost reasonableness to the determination of whether a cost may or may not be a cost to be paid for out of Bond Program funds.

E. Reasonable Costs: Examples and definitions of reasonable costs are provided throughout this document. The burden of cost reasonableness proof is the responsibility of the District and/or the contractor. Costs which are inconsequential in amount and not material to the Bond Program will be considered reasonable in amount.

F. Reimbursable Costs: Costs incurred on cost reimbursable type contracts (including time and material contracts and guaranteed maximum price contracts).

III. Cost Principles

Cost Category	Cost Principles
Allocation of Program Management and other District Wide Costs	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Significantly inequitable cost allocations that result in excess cost allocation to Bond Program funded projects (as opposed to other non-Bond Program funded projects) is unreasonable. For example, program management costs associated with a project that is partially funded with Bond funds and partially with state funding should have a reasonably proportionate share of costs charged to each source of funding.</p>
Bad Debts	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of bad debt costs, including actual or estimated losses arising from uncollectible receivables, are considered an unreasonable use of Bond funds.</p>
Bonuses and Incentive Compensation	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of bonuses and incentive compensation that are not supported by an established plan or which appear to be a distribution of profits to owners are unreasonable.</p> <p>Reasonable Use of Bond Funds: Established plan incentives or acceleration costs in support of a Bond Program purpose, such as timely occupancy of a building for classes or overtime, are reasonable.</p>
Conference Costs	<p>Expressly Unallowable: Conference costs for which documentation is not provided to establish that a valid Bond Program purpose exists. For example, speaking on a panel when the purpose is to share information with other organizations, but for which no specific benefit to the Bond Program can be demonstrated, would be considered an expressly unallowable cost.</p> <p>Unreasonable Use of Bond Funds: Conference costs for which a Bond Program purpose can be established, but do not fit the definition of training are not considered a reasonable Bond Program cost. For example, even as to conferences that qualify</p>

	<p>as training, sending a large number of staff members to a conference that does have value to the Bond Program, but for which fewer staff could attend and then share the information with the remaining BuildLACCD staff may be considered an unreasonable cost. The exception definitions above do not apply to training related activities. Please see the separate section on training activities for exception definitions on training costs.</p>
Contingencies	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of contingency costs are considered an unreasonable use of Bond funds because these costs are estimated future costs and Bond fund expenditures should be based on actual costs.</p>
Contributions or Donations	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of contributions and donations are considered an unreasonable use of Bond funds. Efforts by BuildLACCD staff to solicit contributions are an unreasonable use of staff resources.</p>
Credits	<p>“Credits” means credits against billings in the program, and does not relate or refer to tax credits.</p> <p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Credits related to Bond fund expenditures shall be credited to the Bond Program. Failure to credit the Bond program results in an unreasonable cost.</p>
Curriculum Development	<p>Expressly Unallowable: Development of curricula for District college course or for use related to general District education programs. For example, development of curriculum on sustainability for use in college courses would be expressly unallowable as a use of Bond funds.</p> <p>Unreasonable Use of Bond Funds: Curriculum development costs which do not support allowable training cost (as defined above) are not considered reasonable.</p> <p>Reasonable Use of Bond Funds: For example, “bidders’ boot camp” training material development is considered a reasonable cost to the extent it provides guidance required to comply and assist with qualified bidder participation in Bond Program procurement requirements.</p>
Entertainment Costs	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Entertainment costs (as defined below) are considered an unreasonable use of Bond funds.</p> <p>Entertainment costs are defined as costs of amusement,</p>

	diversion, social activities, and any directly associated costs such as tickets to shows or sporting events, holiday parties, and other similar events are considered entertainment.
Fines and Penalties	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of fines and/or penalties incurred by the contractor or consultant are considered an unreasonable use of Bond funds. Fines and penalties incurred by the LACCD may or may not be an appropriate use of Bond funds.</p>
Food Service Costs	Bond funds may not be used for food of any type except for groundbreaking ceremonies, “topping off” ceremonies, ribbon-cutting ceremonies and events for safety promotion. Food expenses for these events should be limited to a reasonable amount and require the advance, written approval of the Chancellor, Deputy Chancellor or Executive Director of Facilities Planning and Development when they will be in excess of \$10,000 for any one day on any one campus. This financial limit shall not apply to the expenses associated with physical set-up for one of the enumerated events that is unrelated to food service, such as the rental of a tent and chairs.
Grant Writing	<p>Expressly Unallowable: Grant writing for the purpose of obtaining funds to provide for College operating costs or for other unallowable activities as defined in the California Constitution.</p> <p>Reasonable Use of Bond Funds: Costs related to management of grant funds, regardless of source, that are associated with Bond-funded projects are considered a reasonable use of bond funds.</p>
Internship Program Costs	<p>Expressly Unallowable: Internship costs for which documentation is not provided to establish that a valid Bond Program purpose exists. For example, internship program costs incurred to place students in jobs that are not related to the Bond Program are considered unallowable costs.</p> <p>Unreasonable Use of Bond Funds: Internship costs for which a Bond Program purpose can be established, but the value to the Bond Program is questionable in nature or the amount is unreasonable.</p> <p>Costs related to time spent recruiting interns is considered an unreasonable cost because it is considered unnecessary.</p> <p>Reasonable Use of Bond Funds</p> <p>Costs related to managing interns, including training interns prior to placement are considered reasonable if reasonable in amount. Costs related to placement of interns in specific Bond-funded positions is considered reasonable if reasonable in amount. Costs related to advertising internship opportunities in publications or web sites, including the time spent preparing the</p>

	<p>advertisements, are considered reasonable costs if reasonable in amount.</p>
<p>LEED Costs</p>	<p>Expressly Unallowable: Leadership in Energy and Environmental Design (LEED) related costs for which documentation is not provided to establish that a valid Bond Program purpose exists. LEED certification of BuildLACCD staff for the purpose of personal certification and not caused by the Bond Program or necessary for use on the Bond Program would fall into this category.</p> <p>Unreasonable Use of Bond Funds: LEED costs for which a Bond Program purpose can be established, but the value to the Bond Program is questionable in nature or the amount cannot be proven by the contractor to be reasonable. Costs that are not ordinary and/or necessary to the accomplishment of Bond Program objectives are to be presumptively considered unreasonable.</p> <p>Reasonable Use of Bond Funds Training that is required to address unique Bond Program technical objectives, to perform complex activities to achieve required Bond Program outcomes and/or to fulfil specific instructions required for work performance may be considered allowable in nature. The reasonableness of the cost amount will depend, in part, on whether the cause of the training requirement came from Bond Program objectives and the nature of supplier contract pricing with the District. Costs to obtain LEED certification of buildings are considered reasonable if reasonable in amount.</p>
<p>Lobbying Costs</p>	<p>Expressly Unallowable: Bond-funded staff time and resources, such as photocopiers and email, may not be used to support or oppose any campaign for an individual, ballot measure or legislative initiative or to advocate for or oppose any regulation or administrative rule of any government agency. Bond-funded staff time may be used to evaluate the potential impact of pending legislation on the bond-funded projects, for the sole purpose of advising District management of these considerations. Bond-funded staff time and resources may not be used to communicate or meet with State legislators or local politicians, except as necessary to negotiate land use, transportation, or environmental mitigation issues related to the Bond Construction Program, or to advise them of overall program status, but not to discuss proposed or pending legislation.</p> <p>Unreasonable Use of Bond Funds: N/A, always unallowable.</p>
<p>Outreach Costs</p>	<p>Expressly Unallowable: Outreach costs for which documentation is not provided to establish that a valid Bond Program purpose exists.</p> <p>Unreasonable Use of Bond Funds: Outreach costs for which a Bond Program purpose can be established but the value to the</p>

	<p>Bond Program is questionable in nature or the amount cannot be proven by the contractor to be reasonable. Conference “take aways” are considered to be unreasonable, regardless of amount. Costs that are not ordinary and/or necessary to the accomplishment of Bond Program listed projects are to be presumptively considered unreasonable.</p> <p>Water bottles and other similar take away items are not considered reasonable. For example, the dissemination of “stress relief” hammers at conferences would be considered an unreasonable cost.</p> <p>At this point in the Bond Program, sufficient awareness should be present necessitating significant burden of proof that these costs are necessary.</p> <p>Reasonable Use of Bond Funds Business cards caused by and purchased for the LACCD Bond Program are allowable in nature.</p>
Pension Costs	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of direct pension costs in excess of the current period funding obligation are unreasonable. Pension costs that are assumed as part of a contractor or consultant’s general fees or charges are not considered unreasonable.</p>
Public Relations	<p>Expressly Unallowable: Public relations costs for which documentation is not provided to establish that a valid Bond Program purpose exists.</p> <p>Unreasonable Use of Bond Funds: Public relations costs that do not constitute public information are considered unreasonable costs.</p> <p>Reasonable Use of Bond Funds: Public information costs include costs incurred to:</p> <ol style="list-style-type: none"> 1. Respond to inquiries on Bond Program-related policies and activities 2. Communicate with the public, press and other interested parties in relation to the Bond Program listed projects or the administration of those projects 3. Conduct general liaison with news media 4. Sponsor tours of facilities related to the Bond Program 5. Sponsor special events related to building groundbreaking or opening
Recycling Costs	<p>Expressly Unallowable: Recycling costs for which documentation is not provided to establish that a valid Bond Program purpose exists. Recycling competitions, recycling outreach and college recycling operations (not related to construction) fall into this category.</p> <p>Unreasonable Use of Bond Funds: Recycling costs for which a Bond Program purpose can be established, but the value to the Bond Program is questionable in nature or the amount cannot be</p>

	<p>proven are considered unreasonable. Costs that are not ordinary and/or necessary to the accomplishment of Bond Program objectives are to be presumptively considered unreasonable.</p> <p>Reasonable Use of Bond Funds: For example, recycling of construction materials on Bond Program projects is a reasonable cost, as is the cost of training users on how to use recycling equipment purchased with Bond Program funds.</p>
Relocation Costs	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant pass-through of losses on home sales, costs incident to acquiring a home in a new location, and costs related to employees that resign within 12 months of relocation are considered unreasonable costs.</p>
Severance Pay	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant severance payments that were not required by (a) law; (b) employer-employee agreement; or (c) established policy will be considered unreasonable.</p>
Tenant Improvement Costs	<p>Expressly Unallowable: Tenant improvement costs for which a clear Bond Program purpose cannot be identified are an unallowable use of Bond funds.</p> <p>Unreasonable Use of Bond Funds: Bond funds shall not be spent on building improvements solely to benefit a current or prospective tenant, but reasonable building improvements may be made with bond funds when the College has committed to use the proposed building improvements without change for at least five years after the expiration of the final lease term. No furnishings or equipment shall be purchased with bond funds or installed using bond funds for the exclusive use of a tenant; however, where the leased facility will be used jointly by the College and the tenant during the period such furnishings or equipment is being used, bond proceeds may be expended for furnishings and equipment expressly tied to the College's use. In this connection, the acquisition and installation of major food services equipment in a College food court where both the equipment and the food court will be owned by the District shall be considered expressly tied to the College's use, but shall first require confirmation from the District's CFO/Treasurer designating an appropriate source of funds. For purposes of this Cost Principle, the term "tenant" shall mean any public, private or private nonprofit agency, partnership, corporation or other legal entity, other than the District or a College.</p>
Termination Costs	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Contractor and consultant</p>

	pass-through of termination costs that include unreasonable cost allocations are considered unreasonable costs.
Training Costs	<p>Expressly Unallowable: Training costs for which documentation is not provided to establish that a valid Bond Program purpose exists.</p> <p>Unreasonable Use of Bond Funds: Training costs for which a Bond Program purpose can be established but the value to the Bond program is questionable in nature or the amount cannot be proven by the contractor to be reasonable.</p> <p>Reasonable Use of Bond Funds: Training that is required to address unique Bond Program technical objectives, to perform complex activities to achieve required Bond Program outcomes, and/or to fulfil specific instructions required for work performance may be considered allowable in nature. The reasonableness of the cost amount will depend, in part, on whether the cause of the training requirement came from Bond Program objectives and the nature of supplier contract with the District.</p> <p>“Bidders Boot Camp” and other costs of helping contractors respond to Bond program Bid Requests, Requests For Proposal (RFP) and requests for Quotations (RFQ) are considered reasonable if reasonable in amount.</p>
Travel Costs	<p>Expressly Unallowable: Any costs for which documentation does not exist to validate that a Bond Program purpose exists are considered unallowable.</p> <p>Unreasonable Use of Bond Funds: Travel costs which exceed the maximums specified in the Federal Travel Regulation (FTR) and the Joint Travel Regulation (JTR) are considered unreasonable costs.</p>