

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
BUSINESS PROCEDURES MANUAL

Procedure 5.15
Page 1 of 14

Effective Date: April 1, 2012
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Applies To: System Office and Colleges
Procedure Responsibility: KCTCS Office of Payroll

Bridge Loan Payments/Opt Overs

Section 5.15.1 – General

Section 5.15.2 – Initial Award

Section 5.15.3 – Completed Forms Distribution

Section 5.15.4 – Repayment Options

Section 5.15.5 – Collection of an Unpaid Bridge Loan received by Separated Employee

Section 5.15.6 – Impact on College Financial Reporting for Uncollected Bridge Loans –
Write Off

Section 5.15.7 – Attachments

Section 5.15.1 – General

This procedure is presented as the defined process for implementing a “bridge loan” when chosen as an option by the employee to bridge the gap in current to arrears pay methodologies.

Historically as part of the process for employees from the University of Kentucky (UK) personnel system to opt over to the Kentucky Community and Technical College System (KCTCS) personnel system (one-time irrevocable option), a process was put in place to allow the individual to receive a bridge loan to offset the financial circumstances of converting from a current method of payment, to arrears method of payment in pay check status. In other words, KCTCS employees still under the UK personnel system are paid current. Example: the paycheck received on May 15, is for the time worked from May 1 to 15 versus the paycheck paid on May 30, being for work performed between May 1 and May 15.

The employment of a bridge loan is an *optional* payment intended to offset the gap in pay for the switch from current to arrears in paycheck payment method. Employees are not required to elect this loan. Rather, employees may choose not to take a bridge loan or to choose to take a lesser amount of loan versus an amount equal to the net pay for the gap in pay for that pay period. The maximum amount that can be loaned is the amount the employee would have received normally for the pay period had they not exercised their one -time irrevocable option to opt to the KCTCS personnel system.

Other options available in addition to the use of a bridge loan are:

- An employee may choose to go a payday without a check, receiving no pay for the first payday under the KCTCS personnel system. (Employee changes personnel systems on May 1, receives no pay for May 15 (as this is now the payday under KCTCS polices for April 16-30). The employee will receive a normal check for the pay period May 1-15, paid on May 30.
- An employee may choose to use vacation time to offset the change to arrears paid and maintain two checks in a given month (**note:** vacation hours paid as wages – will be taxed at normal rates and retirement deductions will be withheld).

Section 5.15.2 – Initial Award

The KCTCS Office of Human Resources (HR) will calculate the maximum amount of the potential bridge loan in consultation with KCTCS Office of Payroll. **Note:** the maximum amount to be loaned an employee cannot exceed their semi-monthly gross salary. Human resources will consult with the employee and determine the dollar amount the employee wishes to receive as a bridge loan up to the maximum available. An employee may choose to borrow a lesser amount.

Human resources will then complete the bridge loan form called “Payroll Authorization for KCTCS” (Attachment A) and secure the employee’s signature on the form; payroll staff are required to sign as witness. Human resources will retain the *original*, signed completed form, but a copy of the form shall be given to the employee.

Human resources will then complete a One Time Payment form (Attachment B) for the amount of the loan and submit the *original* One Time Payment form with a copy of the Payroll Authorization for KCTCS form to the college payroll office. Copies of both forms will be retained for the employee’s personnel file and forwarded to the KCTCS Office of Payroll and KCTCS Office of Human Resources.

Payroll will load the appropriate information into PeopleSoft for payment and work with HR in the loading of the required data to switch the individual to the KCTCS Personnel System and benefits, including loading the gross dollar amount in the PeopleSoft HRMS Custom Pages for recordkeeping.

All bridge loan payments shall be included as wages and reported on W-2 form at year end.

In the event the bridge loan is not repaid as per the agreed terms, KCTCS reserves the right to issue the appropriate tax form to the individual for the amount of the ‘loan’. In either instance individual shall be liable for any and all applicable taxes and penalties. KCTCS further reserves the right to outsource the loan determined to be in arrears and/or in default.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
BUSINESS PROCEDURES MANUAL

All employees who elect to receive a bridge loan will be periodically reminded of the amount of their bridge loan on an annual basis. A sample letter (Attachment C) has been developed that colleges can customize for their use for this periodic reminder. The letter shall be sent by the college's HR department.

Section 5.15.3 – Completed Forms Distribution

| | Payroll Authorization for KCTCS Form | One Time Payment Form |
|---------------------------------|--------------------------------------|-----------------------|
| College Human Resources Office | Original | Copy |
| College Payroll Office | Copy | Original |
| Employee's File | Copy | Copy |
| KCTCS Office of Human Resources | Copy | Copy |
| KCTCS Office of Payroll | Copy | Copy |
| Employee | Copy | |

Section 5.15.4 – Repayment Options

The intent of the bridge loan is that the gross amount of the loan would be repaid to KCTCS no later than the end of the individual's active regular full-time employment with KCTCS. However, at any time prior to separation an individual may choose to repay the loan in several ways.

A. Use of Available Unused Vacation Leave

Prior to separation of employment, employees have the opportunity to payback all or part of the bridge loan by applying salary that would have been received for available vacation time toward the amount paid on the bridge check. The salary value of the vacation leave time will be calculated on the current daily salary rate for the employee's current position. Vacation leave exchanged for this payment shall be no less than five (5) days per installment -- unless the total amount of the loan constitutes less than the amount that would have been received for 5 days. In this instance the repayment shall be in one installment. Vacation hours paid as wages are taxed at normal rates and retirement deductions are withheld.

Payback of any bridge loan will be set up on the general deduction panel within PeopleSoft HRMS by KCTCS Office of Payroll, using figures supplied by college human resource office and verified by the college payroll office. To avoid duplication and miscommunication with the employee college HR will notify college payroll of the repayment arrangement.

An employee may make any number of installments (paybacks) each year. However the number of vacation leave days in each installment is limited to a minimum of 5 vacation leave days with each installment, unless the last installment pays off a remaining balance equal to less than 5 vacation days.

B. Repayment by Deductions to Regular Paycheck

An employee may decide to pay back the loan by setting up a limited series of salary deductions from their regular paycheck, prior to separation. With such an option the college HR and payroll shall coordinate the process and determine a schedule of deductions with corresponding dates to implement the deductions.

This schedule shall be in a written format and contain the employee's signature, and an authorized signature from both the HR and payroll areas. A copy of this signed schedule shall be given to the employee for their records. Payback of the entire loan amount via salary deduction shall be done in one installment (payback) over no more than four (4) consecutive paychecks. A smaller number of paychecks are acceptable and the formula of calculations will be determined by KCTCS Office of Payroll, in consideration of tax implications.

Repayment of any bridge loan will be set up on the general deduction panel within PeopleSoft HRMS by KCTCS Office of Payroll, using figures supplied by college HR/payroll personnel.

EXAMPLE:

Gross Bridge Loan Amount: \$1059.14 divided by 4 installments = \$264.79 per check. This deduction will appear on the employee's paycheck under the deductions section.

Instructions to set up deduction:

Deduction set up on General Deduction panel as below:

Effective Date – (1st day of payroll that deduction should begin)

Deduction Calculation Routine – Flat Amount

End Date – (last day of last pay period that deduction should pull)

Flat/Add Amount – (amount to pull per pay check)

Goal Amount – (total payback amount)

NOTE: Journal will be completed for each installment by KCTCS Office of Payroll.

Section 5.15.5 – Collection of an Unpaid Bridge Loan received by Separated Employee

In the event an employee separates from KCTCS and the bridge loan is not repaid prior to their departure, a good faith effort (including documentation of effort to collect) must be made. The use of registered or certified mail is strongly recommended.

The first attempt to collect shall be made by sending the individual the first in a series of letters (to their last known address via registered/certified mail) requesting repayment. (See Attachment D for a sample letter for a first attempt to collect.) If no response is received, approximately 14-21 calendar days later, but no more than a month after the first letter, send the second collection letter via registered/certified mail. (See Attachment E for a sample letter for the final attempt to collect.) Sample letters are available online, in the HR Operations manual, under Bridge Loans.



If after 30 calendar days there is no response, please consult with the college's business office regarding the process to place the debt for collection.

In the event that an employee applies for and is approved for long term disability benefits prior to the full repayment of his/her loan, he/she will not be required to repay the balance of the bridge loan.

In addition, in the event that an employee's death occurs prior to the full repayment of his/her bridge loan, including the time period that approval is pending for a long term disability benefits application, he/she will not be required to repay the balance of the bridge loan.

Section 5.15.6 – Impact on College Financial Reporting for Uncollected Bridge Loans – Write Off

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
BUSINESS PROCEDURES MANUAL

Each individual college is responsible for the collection of their respective bridge loan receivables. In the event college leadership decides that they do not wish to pursue collection of a specific bridge loan or the employee receiving the bridge loan has terminated and not repaid the loan and the due date (from date of employee separation) is longer than one fiscal year and collection activities are not in process and collection activities are not desired by the college leadership, the bridge loan shall be written off.

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| Procedure 5.15 Page 6 of 14 |
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Under applicable IRS regulations, KCTCS will issue an appropriate tax form for the amount of the 'loan' and the individual will be liable for any and all applicable taxes and penalties.

Section 5.15.7 – Attachments

(See Below)

ATTACHMENT A

PAYROLL AUTHORIZATION FOR KCTCS

I acknowledge that due to my election to opt over to the KCTCS personnel system from UK policies, my pay frequency will change from current to arrears.

I agree upon my separation from KCTCS, to have deducted from my final separation pay, the gross amount of my “bridge” loan covering the period of time necessary to switch between current to arrears pay frequency. Said amount is \$_____. It will be the responsibility of my college payroll department to load said deduction. I also am aware that there are other mechanisms to repay this loan, and it is my responsibility to research and determine if an alternate form for repayment is of interest.

I agree, should the deduction not occur on the separation paycheck, to reimburse KCTCS, via a personal check, the gross amount of received “bridge” loan (check).

I further understand and agree that that failure to repay KCTCS for this bridge loan, may result in this matter being turned over to Commonwealth of Kentucky – Department of Revenue for collection.

In testimony witness my signature this _____ day of _____, 20____.

Employee Signature

Witness Signature

- cc: Employee
- Employee’s Personnel File
- College Payroll Office
- KCTCS Office of Payroll
- KCTCS Office of Human Resources



ATTACHMENT B

ONE TIME PAYMENT FORM

(Also to be used to pay lump sum payments)

EmpID: _____ **Emp Record #** _____

Name: _____ **College:** _____

Description/Justification:

| |
|---|
| <p>GROSS AMOUNT TO BE PAID: \$ _____</p> <p>Earnings code: _____</p> <p>Payperiod dates: _____ Payday date: _____</p> |
|---|

Completed by: _____ **Date:** _____

College approved by: _____ **Date:** _____

| |
|--|
| <p><i>SYSTEM OFFICE APPROVAL – IF REQUIRED</i></p> <p>Budget Sector approval _____ Date: _____</p> <p>Chancellor’s approval _____ Date: _____</p> |
|--|

Entered by: _____ **Date:** _____

REMARKS:

ATTACHMENT C

DATE

Example:

NAME

Reminder

ADDRESS

CITY, STATE ZIP

Letter

Re: Repayment of Bridge Loan

Dear **NAME**:

On **00/00/00** you exercised your one-time irrevocable option to participate in the Kentucky Community and Technical College System (KCTCS) policies/personnel system in lieu of the University of Kentucky personnel policy under which you originally were employed. At this time your pay frequency was changed from current to arrears paid, and you elected to receive a "bridge" loan to offset this change in pay frequency. According to our records the amount of your bridge loan is **\$000.00**

This letter is to remind you of your loan and the repayment requirement at the separation of your employment or retirement. Please know in the event this amount is not deducted for any reason on your final paycheck, it will remain your responsibility to reimburse KCTCS, via a personal check, the gross amount received.

You may not be aware, but should you desire to repay this amount sooner, payment arrangements can be made, including the possibility of utilizing unused, available vacation leave. For further details regarding the options available to you for repayment, or if you have any questions regarding this, please see me and I will be happy to provide details specific to your needs.

Sincerely,

NAME

College HR Director

cc: KCTCS Office of Payroll

ATTACHMENT D

DATE

Example:

NAME

ADDRESS

CITY, STATE ZIP

1st Notice

Re: Repayment of Bridge Loan

Dear **NAME**:

This letter is to inform you that our records indicate your bridge loan payment in the amount of **\$000.00** is still outstanding. Per our records you opted over to KCTCS policies effective **00/00/00**. You requested a bridge loan payment instead of using vacation hours or missing a paycheck to bridge the accrued versus current pay frequency.

Enclosed is a copy of the *Payroll Authorization Form* that you signed agreeing to repay the bridge loan amount upon separation of employment on your last payroll check or by reimbursing KCTCS via a personal check. Your employment terminated **00/00/00** and we do not have record of receipt of payment on this loan.

Please allow this correspondence to serve as notice to submit your payment in the amount of **\$000.00** within 30 days of the date of this letter, in order to close out this debt. Please forward payment to the attention of {HR Director}. Failure to respond to this letter may result in this matter being turned over to Commonwealth of Kentucky – Department of Revenue for collection.

Thank you in advance for taking care of this matter promptly. Should you have questions or need clarification in any way, please contact **NAME, PHONE NUMBER**.

Sincerely,

NAME

HR Director

cc: KCTCS Office of Payroll

ATTACHMENT E

DATE

Example:

NAME
ADDRESS
CITY, STATE ZIP

Final Notice

Re: Bridge Loan Payment - Second Request for Payment

Dear **NAME**:

This letter is to inform you that we have not received payment on your outstanding bridge loan in the amount of **\$000.00**. I have attached a copy of the bridge loan *Payroll Authorization Form* that you had signed agreeing to repay the loan. This letter serves as the last request for payment and in order to avoid collection action we must receive payment in full within 30 days of the date on this letter.

Please make your check payable to KCTCS and forward to my attention in order to close out this delinquent debt. If you have any questions regarding the bridge loan please contact me as soon as possible.

If payment is not received within 30 days, the following action may be pursued.

Kentucky Revised Statue KRS 45.239(4) and KRS 45.241 et seq. authorizes KCTCS, working with the Department of Revenue of the Commonwealth of Kentucky, to take action in order to collect the debt due. These actions include:

- 25% of collection fee may be added to the total debt amount due to defray the cost of collection.
- Any tax refund or other monies that may become due to you from the Commonwealth of Kentucky may be offset to your outstanding debt.
- A Notice of State Lien may be filed with your County Clerk. This lien will encumber all real and personal property you now own or may acquire in the future. It should be understood that the filing of a lien may be reflected in credit reports maintained by various credit bureaus.

- Seizure may be made on all property, both real and personal. This includes but is not limited to, the attachment of any funds held by a bank on your behalf, any wages paid to you by your employer, and the seizure and sale of any real estate you may own.
- In the event the bridge loan is written off as uncollectable, under applicable IRS regulations, KCTCS is required to issue a 1099 for the amount of the 'loan' and the individual will be liable for any and all applicable taxes and penalties.

Sincerely,

NAME
College HR Director

cc: KCTCS Office of Payroll

KCTCS BRIDGE LOAN REPAYMENT FORM

ATTACHMENT F

Employee Name: _____ College: _____

EmpID : _____ Amt of Gross Bridge Loan: \$ _____

Effective date in PS of effective date of opt over: _____

Number of checks amount to be repaid over? _____ (1-4; max 4)

PAYDATE repayment to begin : _____ **Note:** repayment MUST be consecutive
 _____ paychecks beginning to later than 45 days from the
 _____ effective date of the opt over indicated above.

| |
|---|
| $\frac{\text{GROSS AMOUNT}}{\text{no of checks}} = \$ \text{Dollar amount to be loaded as general deduction}$ |
|---|

| PAYCHECK Dates | PAYPERIOD dates | Dollar amount to be loaded | Loaded by: | Dated loaded: |
|----------------|-----------------|----------------------------|------------|---------------|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

I understand and agree that my bridge loan taken out at the point of my decision to opt over to KCTCS personnel policies shall be repayable as indicated above. These payments will be collected via a general deduction on my payroll information.

Signed: _____ Employee Date: _____

Witnessed by: _____ College HR Date: _____

Witnessed by: _____ College Payroll Date: _____

Bridge Loan Collection Worksheet (optional form)

ATTACHMENT G

Employee Name: _____ College: _____

EmpID : _____ Amt of Gross Bridge Loan: \$ _____

Effective date in PS of effective date of opt over : _____

Date of Employee Separation: _____

| For Bridge Loans issued prior to 7/1/10: | | | |
|---|--------------------------------|---------------------------------|-----------------|
| Annual reminder letter sent (date) | First collection letter (date) | Second collection letter (date) | Letter sent by: |
| | | | |
| | | | |
| | | | |
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| | | | |
| | | | |

For Bridge Loans issued on or after 7/1/10:

| | Sent by: | Date Sent: |
|---|----------|------------|
| First Collection Letter sent | | |
| Second Collection Letter sent | | |
| Bridge Loan issue referred to College Business Services area | | |
| College Business Office sends to KCTCS Office of Payroll for Write Off of debt: | | |

College President notified HR of decision to: _____

Signed : _____ **HR Director** _____ **Date**