

AUG 01 2003



WISCONSIN LEGISLATIVE AUDIT BUREAU
AUDIT SUMMARY

Report 98-13

August 1998

**ADMINISTRATIVE SALARIES AND STAFFING
IN TECHNICAL COLLEGE DISTRICTS**

The Wisconsin Technical College System Board sets statewide policies and standards for technical college educational programs and services and is the coordinating agency for the State's 16 technical college districts. Each district is governed by a local board, which is authorized to hire staff and determine salaries. In fiscal year (FY) 1996-97, the districts spent \$63.4 million to compensate 787.4 full-time equivalent administrators. This figure includes salaries and fringe benefits paid to senior administrators, such as technical college presidents; other professional administrators and supervisors, such as directors of admissions and student development; and faculty with assigned administrative responsibilities, whose teaching time is counted separately.

Compensation of Senior Administrators Varies Significantly Among Districts

We examined FY 1996-97 salary information for four senior-level administrative positions in the Wisconsin technical college districts: the president or chief executive officer, the chief academic officer, the chief business affairs officer, and the chief student affairs officer. The salaries of district presidents averaged \$101,700 but ranged from a high of \$128,600 to a low of \$74,397. The highest and lowest salaries for chief academic officers and chief business officers differed by approximately \$30,000, while salaries for student affairs officers varied by almost \$40,000. On average, however, salaries for senior administrators in the 16 districts were lower than the average salaries for similar positions at 56 two-year midwestern public colleges. For example, other midwestern college presidents earned 5.6 percent more than the average annual salary of Wisconsin technical college presidents.

In addition to salaries, senior administrators—particularly technical college presidents—receive a variety of fringe benefits that other district staff do not typically receive. The value of these expanded benefits also varies significantly among districts. In FY 1996-97, 15 districts provided their presidents with an automobile or a vehicle allowance, the value of which ranged from \$8,640 to \$1,268. Eight districts provided their presidents with tax-sheltered annuities, which ranged in value from \$10,000 to \$1,500, and two districts paid their presidents bonuses: one was \$5,000, and the other was \$4,000. In addition, several districts provided their presidents with enhanced retirement benefits, paid health insurance after retirement, and paid sabbatical leaves.

-over-

Total Administrative Salaries Have Increased

From FY 1991-92 through FY 1996-97, average salary increases for senior and other professional administrators, supervisors, and faculty working in assigned administrative capacities were higher at Wisconsin technical colleges than increases nationwide. Nationally, hourly administrative salaries at public colleges and universities increased 17.1 percent; the Wisconsin technical college districts showed an average increase of 22.3 percent. However, administrative salaries increased at different rates among the districts: in 4 Wisconsin districts the increase was less than or similar to the national rate; in the remaining 12 districts it exceeded 20 percent, and in 3 of these it exceeded 30 percent.

Salary increases were lower for administrators than for faculty and other staff. The average rate of increase was 25.3 percent for faculty in Wisconsin technical college districts, and 26.1 percent for staff.

Administrative Positions Increased While the Number of Students and Faculty Decreased

Although administrative staffing levels vary substantially among the districts, the number of administrative positions increased 4.5 percent overall from FY 1991-92 through FY 1996-97. The number of full-time equivalent students decreased by 10.5 percent during the same period, while the number of faculty decreased by 2.1 percent. Five districts reduced the number of administrators by 10 percent or more; five other districts increased the number of administrators by more than 10 percent.

District Boards Need More Information On Salaries and Staffing

The Wisconsin Technical College System Board collects salary and staffing data to help determine the amount of state aid for each district, and this information is provided to the districts. However, the Wisconsin Technical College System Board has not analyzed and reported system-wide salary and staffing information in a way that could help local districts understand how their staffing and salary decisions compare to those of other districts or the system as a whole. Because such information has not been available, the local boards have not determined whether variances are the result of differences in organizational structure, geographic area, educational programs, cost of living, enrollment, or other factors.

To facilitate comparisons of current salaries and staffing levels among districts, as well as salary and staffing trends, we have recommended that the Wisconsin Technical College System Board regularly provide local district boards with additional management information.



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

DATE: March 11, 2003

TO: Karen Asbjornson and Erin Bilot
Committee Clerks to the Joint Legislative Audit Committee

FROM: Kate Wade *KW*
Program Evaluation Director

SUBJECT: Report 03-4: An Evaluation of the Milwaukee Area Technical College District

Enclosed is our evaluation of the Milwaukee Area Technical College District (MATC), as requested by Senator Alberta Darling. MATC is the largest of the 16 technical college districts in Wisconsin, with 12,504 FTE students, 1,944 FTE staff, and operating expenditures of \$152.0 million in FY 2001-02. The audit request focused on financial management of the district, which had a "negative outlook" attached to its debt rating in December 2001.

We reviewed a number of financial indicators and found that while the district addressed projected deficits and ended the year with a small surplus, significant challenges remain. For example, although the negative outlook was removed in December 2002, MATC is at the mill rate limit for its property tax levy and is thus dependent on property value growth to generate additional revenue from this source. Furthermore, while MATC is concerned about the equity of the state aid formula, the state aid received per FTE student is 15.7 percent above the statewide average, and MATC is third among the districts in state aid as a percentage of operating costs per student.

We address the district's financial management on several fronts, and make several recommendations for improvement, including complying with district policy requiring full cost recovery for specialized training contracts. In addition, we recommend MATC improve the management of its enterprise activities to eliminate property tax subsidies, which have totaled more than \$1.2 million annually since FY 1999-2000. MATC's business incubators, known as the Milwaukee Enterprise Centers, merit special attention by the Board to determine their costs and benefits and to track their performance in creating jobs and graduating tenants. We also include recommendations for reviewing of the use of consultants and ensuring there is clarity in the roles and authority of the Board and the president on personnel matters.

Employee wages and benefits were of concern to Senator Darling. We found that wages paid to represented staff at MATC, as well as recent salary increases, are higher than at comparable districts. MATC achieved significant changes in its health care plans, but by agreeing to forego additional changes until 2007, it may be limited in its ability to control future cost increases. The report also discusses a number of issues related to the operation of the district board and its governance of MATC.

The report is scheduled to be released on Wednesday, March 12 at 9:00 a.m. Should a hearing be scheduled, we will provide you with a list of individuals to be notified.

**Milwaukee Area
Technical College District**

March 2003

Report Highlights ■

***A number of MATC's
financial decisions
warrant review.***

***Instructor salaries are
higher than at
selected institutions.***

***MATC has not
effectively managed the
cost of health care
benefits.***

***MATC agreed to forego
additional health plan
changes until 2007.***

***Information provided
to the Board has been
incomplete and
inaccurate in some
instances.***

The Milwaukee Area Technical College (MATC) District is the largest district in Wisconsin's technical college system. In fiscal year (FY) 2001-02, MATC enrolled 12,504 full-time equivalent (FTE) students and employed 1,944 FTE staff. Its FY 2001-02 operating expenditures totaled \$152.0 million.

During FY 2001-02, MATC experienced significant financial difficulties. In response to an anticipated general fund deficit of \$3.5 million, Moody's Investors Service attached a "negative outlook" to MATC's debt rating in December 2001. As a result, some legislators and members of MATC's Board of Directors raised concerns about MATC's financial management and governance. Therefore, at the direction of the Joint Legislative Audit Committee, we analyzed:

- MATC's financial status;
- financial management issues, including management of revenue sources such as training contracts and enterprise activities, as well as compensation for administrators and contracting for professional services;
- employee wages and benefits, including those negotiated during the 2001 collective bargaining process; and
- MATC's governance, including adherence to state statutes and the Board's policies.

Key Facts and Findings

MATC has both the largest enrollment and the largest budget of Wisconsin's technical college districts.

In FY 2001-02, operating expenditures were \$152.0 million.

A "negative outlook" was attached to MATC's debt rating in December 2001 but removed in December 2002.

MATC receives general state aid equivalent to \$2,149 per FTE student. The statewide average is \$1,857.

MATC does not comply with its policy of recovering 100 percent of costs associated with specialized training contracts.

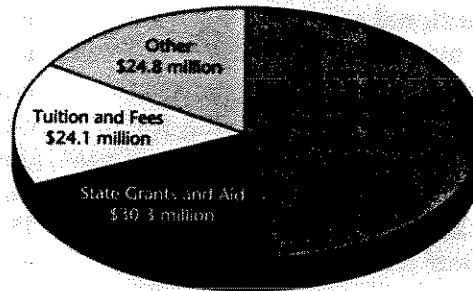
Enterprise activities required nearly \$1.4 million in property tax levy support in FY 2001-02.

In 2002, 64.4 percent of MATC instructors earned more than \$76,000, and 12.0 percent earned more than \$100,000.

MATC's health care costs are projected to increase 15.7 percent in FY 2002-03.

Financial Indicators

In FY 2001-02, local property taxes provided nearly half of MATC's operating revenues. State grants and aid were another 19.8 percent, and tuition and fees were 15.7 percent.



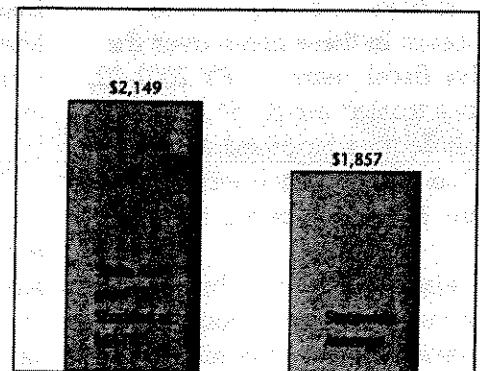
Other revenue sources were enterprise activities such as the bookstore, food service operations, and child care centers; specialized training contracts with local businesses, government agencies, school districts, and nonprofit organizations; and federal grants and aid.

Although its financial status has improved since December 2001, and steps have been taken to reduce costs, MATC faces challenges over the long term.

For example, it cannot raise additional operating revenue by increasing property tax rates because it has been at the

statutory mill rate limit of \$1.50 per \$1,000 of assessed property value since FY 1990-91. Therefore, MATC must rely on growth in property values to gain additional operating revenue from property taxes.

MATC officials have expressed concern about declining general state aid levels. Aid to the district has declined. However, in FY 2001-02, MATC was third among the 16 technical college districts in general state aid as a percentage of operating costs per FTE student. The State provided \$2,149 per FTE student, which was 15.7 percent more than the statewide average.



Financial Management

The negative outlook attached to MATC's debt rating was removed in December 2002. However, management decisions and policies

in several areas may reduce MATC's ability to improve its financial status in the future.

For example, the fees MATC charges for providing specialized training to businesses and others do not cover its costs. This is a violation of district policy and has resulted in average annual losses of \$468,196 from FY 1997-98 through FY 2001-02. We include a recommendation for MATC to comply with its cost recovery policy related to training contracts.

Enterprise activities such as MATC's bookstore, food service operations, and child care centers are generally expected to generate enough aggregate revenue to cover their costs. However, property tax subsidies have been required to cover losses in these areas over the past five fiscal years. In FY 2001-02, subsidies totaled nearly \$1.4 million. We include a recommendation for MATC to eliminate property tax subsidies for its enterprise activities.

MATC also operates two business incubators to promote economic development in the Milwaukee area. The Milwaukee Enterprise Centers have lost more than \$257,000 over the past five fiscal years. Complete information about their financial status has not been provided to MATC's Board of Directors. We include recommendations for MATC to evaluate the

costs and benefits of the centers and to track key performance indicators.

MATC continues to contract for legal, public relations, and lobbying services although it has hired senior administrators at above-market salaries with responsibilities in these areas. Other contracts for professional services may have been avoidable considering the availability of MATC staff. We include a recommendation for MATC to review the continued use of consultants and ensure these costs are justified in light of existing staff resources.

Employee Wages

Instructor salaries are higher at MATC than at selected Wisconsin technical college districts. For example, as of January 2003, the maximum instructor salary at MATC is \$78,271. That is 6.7 percent higher than the maximum instructor salary at Madison Area Technical College, which has the second-highest instructor salary levels among selected Wisconsin technical college districts.

MATC's most recent collective bargaining agreements included higher salary increases than were budgeted by the administration. The two-year agreements provide annual increases of 4.0 percent in both FY 2001-02 and FY 2002-03.

Employee Benefits

In an environment of rapidly increasing health care costs, MATC officials separated health care plan changes from collective bargaining discussions in November 2001. The 4.0 percent annual salary increases were predicated on achieving zero percent growth in health care costs in the two-year agreements covering FYs 2001-02 and 2002-03. However, MATC was unable to control health care costs to that degree, and health care costs instead are projected to increase by 15.7 percent, or from \$16.9 million in FY 2001-02 to an estimated \$19.5 million in FY 2002-03.

In October 2002, MATC and its unions reached agreements for significant health plan changes that include deductibles and co-payments. However, further changes to MATC's health plans cannot be pursued until July 2007 without the unions' agreement. This could limit MATC's ability to adjust health plans if costs continue to increase rapidly.

District Board Governance

In several instances, MATC's administration has not provided the MATC Board with complete or accurate information. For example, the Board was not informed of all health care proposals made by MATC's insurer in April 2002, nor was it given complete information on the fiscal effects of a March 2002 administrative restructuring plan.

In addition, the Board has not consistently complied with state statutes and MATC policies, including the policy requiring probationary periods for new employees and statutory requirements for closed-session meetings. We include several recommendations related to MATC's governance.

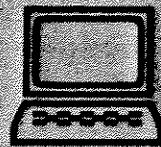
Recommendations

Our recommendations address the need for MATC to:

- comply with district policy requiring aggregate full cost recovery for training contracts (p. 36);
 - develop and implement plans to eliminate property tax subsidies for enterprise activities (p. 37);
 - evaluate the costs and benefits of the Milwaukee Enterprise Centers (p. 41);
 - review the use of consultants, especially in light of expanded internal capacities (p. 45);
 - clarify the roles and authority of the Board and the president in personnel matters (p. 48);
- ensure that complete and accurate information is provided to the Board in a timely manner (p. 61);
 - comply with district policy regarding probationary periods for new employees (p. 62); and
 - seek guidance from the Wisconsin Department of Justice regarding its use of closed sessions (p. 63).

Additional Information

For a copy of report 03-4, which includes a response from the Milwaukee Area Technical College District, call (608) 266-2818 or visit our Web site:



www.legis.state.wi.us/lab

Address questions regarding this report to:

Kate Wade
(608) 266-2818

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Legislative Audit Bureau

22 East Mifflin Street
Suite 500
Madison, WI 53703
(608) 266-2818

Janice Mueller
State Auditor

An Evaluation

Milwaukee Area Technical College District

2003-2004 Joint Legislative Audit Committee Members

Senate Members:

Carol A. Roessler, Co-chairperson
Robert Cowles
Alberta Darling
Gary George
Dave Hansen

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Dean Kaufert
David Cullen
Mark Pocan

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to Leg.Audit.Info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab/windex.htm.

State Auditor - Janice Mueller

Audit Prepared by

Kate Wade, Director and Contact Person
Kellie Monroe
David Bajkiewicz
Tim Coulthart
Thomas Osmanski
Conor Smyth
Robert Sommerfeld

CONTENTS

Letter of Transmittal	1
Report Highlights	3
Introduction	9
Technical College Governance	9
Student Enrollment and Graduation Statistics	12
Revenues and Expenditures	14
Staffing	16
Financial Indicators	19
Debt Rating	19
Cost per FTE Student	22
Property Tax Revenue	23
State Aid	26
Reserve Funds	28
Financial Management	31
Training Contracts	31
Enterprise Activities	37
Milwaukee Enterprise Centers	38
Administrators' Compensation	42
Contracts for Professional Services	44
Administrative Organization	45
Employee Wages and Benefits	49
Wage Increases for Represented Employees	50
Health Care Benefits	53
District Board Governance	59
Election of Board Officers	59
Provision of Information to the Board	60
Contracts for New Employees	61
Use of Closed Sessions	62

Appendices

- Appendix 1—Map of Wisconsin Technical College Districts
- Appendix 2—General State Aid for Technical College Districts
- Appendix 3—Health Care Contracting Time Line

Response

From the Milwaukee Area Technical College District



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

March 12, 2003

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53703

Dear Senator Roessler and Representative Jeskewitz:

As requested by the Joint Legislative Audit Committee, we have completed an evaluation of the Milwaukee Area Technical College (MATC) District. During fiscal year (FY) 2001-02, MATC enrolled 12,504 full-time equivalent (FTE) students, and its total operating expenditures were \$152.0 million. It received \$29.2 million in general and categorical state aids, in addition to revenue from local property taxes, tuition and fees, and contracts to provide specialized training.

Uncertainty about MATC's financial status led to the attachment of a "negative outlook" to its debt rating in December 2001, in part because of a projected general fund budget deficit of \$3.5 million. The district was able to eliminate the deficit and ended FY 2001-02 with a surplus of \$784,000. Because of the surplus and the level of reserve funds the district was able to maintain, the negative outlook was removed in December 2002. However, MATC will need to continue to monitor its financial condition, including its management of employee health care costs. In October 2002, MATC signed an agreement with its unions that achieved significant health care plan changes intended to control costs. However, to achieve union acceptance, MATC signed agreements with its unions to forego further plan changes until mid-2007. These agreements could limit MATC's ability to address future health care cost increases.

We also examined the operations of MATC's nine-member Board of Directors, which is appointed by local school board presidents. We include a recommendation that the Board seek guidance regarding its use of closed sessions, as well as a number of recommendations to ensure compliance with state statutes and its own policies. In addition, we include recommendations to improve the information provided to the Board in making its governance decisions.

We appreciate the courtesy and cooperation extended to us by MATC staff and the Board of Directors. MATC's response follows Appendix 3.

Respectfully submitted,

Janice Mueller
State Auditor

JM/KW/ss

Report Highlights ■

A number of MATC's financial decisions warrant review.

Instructor salaries are higher than at selected institutions.

MATC has not effectively managed the cost of health care benefits.

MATC agreed to forego additional health plan changes until 2007.

Information provided to the Board has been incomplete and inaccurate in some instances.

The Milwaukee Area Technical College (MATC) District is the largest district in Wisconsin's technical college system. In fiscal year (FY) 2001-02, MATC enrolled 12,504 full-time equivalent (FTE) students and employed 1,944 FTE staff. Its FY 2001-02 operating expenditures totaled \$152.0 million.

During FY 2001-02, MATC experienced significant financial difficulties, including an anticipated deficit of \$3.5 million in its general fund. Moody's Investors Service attached a "negative outlook" to MATC's debt rating in December 2001. As a result, some legislators and members of MATC's Board of Directors raised concerns about MATC's financial management and governance. Therefore, at the direction of the Joint Legislative Audit Committee, we analyzed:

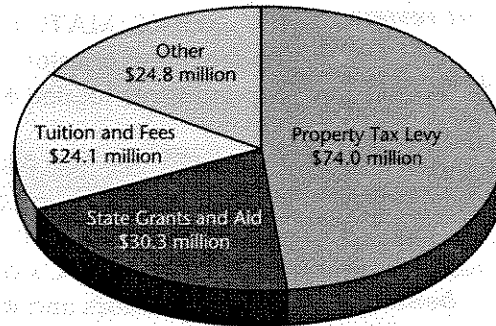
- MATC's financial status;
- financial management issues, including management of revenue sources such as training contracts and enterprise activities, as well as compensation for administrators and contracting for professional services;
- employee wages and benefits, including those negotiated during the 2001 collective bargaining process; and

- MATC's governance, including adherence to state statutes and the Board's policies.

Financial Indicators

In FY 2001-02, local property taxes provided nearly half of MATC's operating revenues, as shown in Figure 1. State grants and aid were another 19.8 percent, and tuition and fees were 15.7 percent. Other revenue sources were enterprise activities such as the bookstore, food service operations, and child care centers; specialized training contracts with local businesses, government agencies, school districts, and nonprofit organizations; and federal grants and aid.

Figure 1
Sources of Operating Revenue
(FY 2001-02)



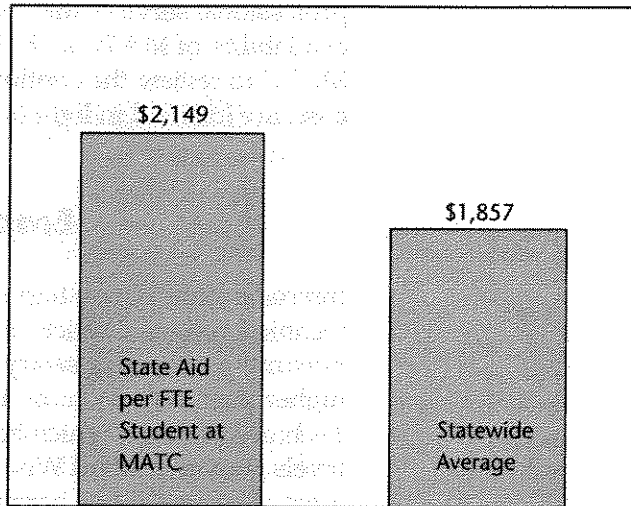
Although its financial status has improved since December 2001, and steps have been taken to reduce costs, MATC faces challenges over the long term. For example, it cannot raise additional operating revenue by increasing property tax rates because it has been at the statutory mill rate limit of \$1.50 per \$1,000 of assessed property value since FY 1990-91. Therefore, MATC must rely on growth in property values to gain additional operating revenue from property taxes.

MATC officials have expressed concern about declining general state aid levels. Aid to the district has declined. However, in FY 2001-02, MATC was third among the 16 technical college districts

in general state aid as a percentage of operating costs per FTE student. As shown in Figure 2, the State provided \$2,149 per FTE student, which was 15.7 percent more than the statewide average.

Figure 2

**General State Aid per FTE Student
(FY 2001-02)**



Financial Management

The negative outlook attached to MATC's debt rating was removed in December 2002. However, management decisions and policies in several areas may reduce MATC's ability to improve its financial status in the future. For example, the fees MATC charges for providing specialized training to businesses and others do not cover its costs. This is a violation of district policy and has resulted in average annual losses of \$468,196 from FY 1997-98 through FY 2001-02. We include a recommendation for MATC to comply with its cost recovery policy related to training contracts.

Enterprise activities such as MATC's bookstore, food service operations, and child care centers are generally expected to generate enough aggregate revenue to cover their costs. However, property tax subsidies have been required to cover losses in these areas over the past five fiscal years. In FY 2001-02, subsidies totaled nearly \$1.4 million. We include a recommendation for MATC to eliminate property tax subsidies for its enterprise activities.

MATC also operates two business incubators to promote economic development in the Milwaukee area. The Milwaukee Enterprise Centers have lost more than \$257,000 over the past five fiscal years. Complete information about their financial status has not been provided to MATC's Board of Directors. We include recommendations for MATC to evaluate the costs and benefits of the centers and to track key performance indicators.

MATC continues to contract for legal, public relations, and lobbying services although it has hired senior administrators at above-market salaries with responsibilities in these areas. Other contracts for professional services may have been avoidable considering the availability of MATC staff. We include a recommendation for MATC to review the continued use of consultants and ensure these costs are justified in light of existing staff resources.

Employee Wages

Instructor salaries are higher at MATC than at selected Wisconsin technical college districts. For example, as of January 2003, the maximum instructor salary at MATC is \$78,271. That is 6.7 percent higher than the maximum instructor salary at Madison Area Technical College, which had the second-highest instructor salary levels among selected Wisconsin technical college districts. MATC's most recent collective bargaining agreements included higher salary increases than were budgeted by the administration. The two-year agreements provide annual increases of 4.0 percent in both FY 2001-02 and FY 2002-03.

Employee Benefits

In an environment of rapidly increasing health care costs, MATC officials separated health care plan changes from collective bargaining discussions in November 2001. The 4.0 percent annual salary increases were predicated on achieving zero percent growth in health care costs in the two-year agreements covering FYs 2001-02 and 2002-03. However, MATC was unable to control health care costs to that degree, and health care costs instead increased by 15.7 percent, or from \$16.9 million in FY 2001-02 to an estimated \$19.5 million in FY 2002-03.

In October 2002, MATC and its unions reached agreements for significant health plan changes that include deductibles and co-payments. However, further changes to MATC's health plans cannot be pursued until July 2007 without the unions' agreement. This could limit MATC's ability to adjust health plans if costs continue to increase rapidly.

District Board Governance

In several instances, MATC's administration has not provided the MATC Board with complete or accurate information. For example, the Board was not informed of all health care proposals made by MATC's insurer in April 2002, nor was it given complete information on the fiscal effects of a March 2002 administrative restructuring plan. In addition, the Board has not consistently complied with state statutes and MATC policies, including the policy requiring probationary periods for new employees and statutory requirements for closed-session meetings. We include several recommendations related to MATC's governance.

Recommendations

Our recommendations address the need for MATC to:

- ☑ comply with district policy requiring aggregate full cost recovery for training contracts (*p. 36*);
- ☑ develop and implement plans to eliminate property tax subsidies for enterprise activities (*p. 37*);
- ☑ evaluate the costs and benefits of the Milwaukee Enterprise Centers (*p. 41*);
- ☑ review the use of consultants, especially in light of expanded internal capacities (*p. 45*);
- ☑ clarify the roles and authority of the Board and the president in personnel matters (*p. 48*);
- ☑ ensure that complete and accurate information is provided to the Board in a timely manner (*p. 61*);
- ☑ comply with district policy regarding probationary periods for new employees (*p. 62*);
and
- ☑ seek guidance from the Wisconsin Department of Justice regarding its use of closed sessions (*p. 63*).

■ ■ ■ ■

Introduction ■

The MATC District includes all of Milwaukee County, most of Ozaukee County, and portions of Washington and Waukesha counties. In addition to associate degrees in 67 fields of study and technical diplomas in 39 fields, MATC offers non-degree courses in adult basic education, English as a second language, adult high school, and general educational development preparation programs, as well as community enrichment courses. A total of 58,864 students took at least one course in FY 2001-02, when 12,504 FTE students were enrolled.

MATC is one of three technical college districts in Wisconsin to offer a college parallel course of study, which allows students to directly transfer credits to many four-year institutions. MATC has four campuses, as shown in Figure 3, and courses are also taught at evening centers, area high schools, and other locations.

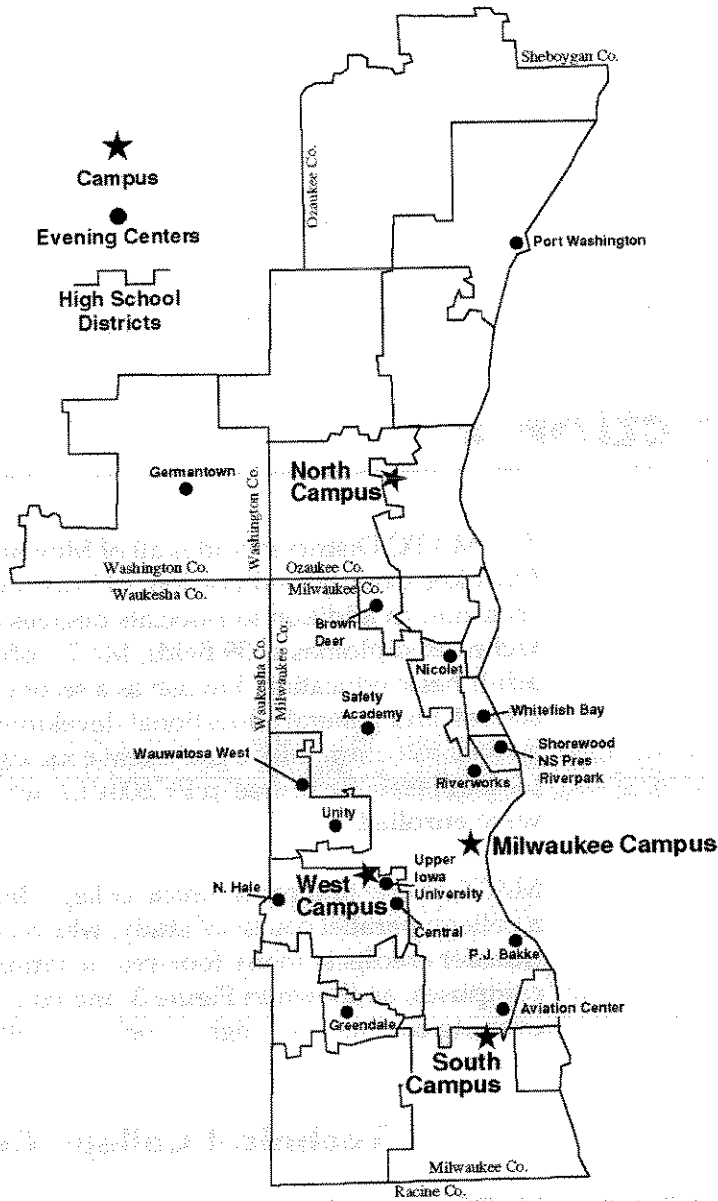
Technical College Governance

***The WTCS Board
develops statewide
policies and standards.***

MATC is part of the Wisconsin Technical College System (WTCS). The system is managed through a shared governance structure intended to ensure consistent educational opportunities and occupational programs throughout the state. The WTCS Board sets statewide uniform tuition and fee rates, administers state and federal aid, develops statewide policies and standards, and approves the qualifications of districts' educational personnel and courses of study. However, each of the 16 technical college districts within WTCS is governed by its own Board of Directors.

Figure 3

MATC District Boundaries and Campuses



State of Wisconsin Department of Transportation
Wisconsin Department of Transportation
10/10/10

MATC's Board of Directors has statutory authority to hire staff, set salaries, and purchase facilities and equipment.

MATC's nine-member Board of Directors has statutory authority to hire staff and determine salary levels and to purchase the facilities, equipment, and materials necessary to operate district programs. It is a volunteer board with employer, employee, school board, local government, and citizen representation. Members are appointed by school board presidents from the 21 school districts within MATC's boundaries.

Some governing authority is delegated to the college president.

Statutes define the authority of technical college district boards and allow boards some discretion in delegating responsibility to district employees. As prescribed in s. 38.12(1), Wis. Stats., a technical college district board has exclusive control of the college and its property. Under s. 38.12(3)(a)(1), Wis. Stats., the district board is required to employ a district director—commonly called the president—who is responsible for general supervision and management of the college. MATC district policy vests responsibility for operating, maintaining, and preserving the college with the president.

MATC's Board of Directors provides oversight to the district through its monthly meetings and the work of standing committees, which also typically meet monthly. The Board does not have its own staff, but instead receives information and staff support from the administration. As a result, the Board must depend on the administration to provide it with the information necessary to make informed governance decisions.

The significant financial challenges MATC experienced during FY 2001-02 began in June 2001, when officials projected a general fund budget deficit of approximately \$1.2 million for that year. By November 2001, the projected general fund deficit had increased to approximately \$3.5 million because wage increases under collective bargaining negotiations with faculty and staff completed in November 2001 were higher than anticipated. As a result, a "negative outlook" was attached to MATC's debt rating in December 2001 by Moody's Investors Service. Subsequently, some legislators and members of the Board raised concerns about MATC's financial management decisions. In particular, questions were raised about:

- the debt rating assigned to MATC, and its level of reserve funds;
- the cost per FTE student at MATC compared to the cost in other technical college districts;

- the effects of the technical college state aid formula on MATC compared to other districts;
- the process by which consultants in academic and administrative positions have been chosen and compensated;

- the process by which MATC has entered into contracts with other organizations to provide rental space;

- adherence to financial and personnel management policies established by the Board; and

- the size of employee salary and benefit packages authorized by the collective bargaining process.

We examined MATC's overall financial status, the operations of its Board of Directors, and recent financial management decisions. In conducting our evaluation, we examined state statutes and administrative code governing the operations of technical colleges; reviewed WTCS Board policies and the policies of MATC's Board of Directors; analyzed MATC's financial and management information; interviewed members of the MATC Board, district officials, faculty, and staff; and spoke with WTCS Board and Wisconsin Technical College District Boards Association officials. MATC operates Milwaukee Public Television channels 10 and 36, but we did not evaluate public television operations as part of this audit.

Student Enrollment and Graduation Statistics

In FY 2001-02, enrollment at MATC was at a five-year high.

As shown in Table 1, FTE student enrollment at MATC has fluctuated from FY 1997-98 through FY 2001-02 but is currently at its highest point in the five-year period. MATC officials attribute the recent 5.0 percent increase in enrollment to increased marketing and outreach efforts, as well as to enrollment increases throughout the technical college system since FY 1997-98. Enrollment growth tends to be related to downturns in the state economy.

Table 1

FTE¹ Student Enrollment at MATC

Fiscal Year	College Parallel	Associate	Technical Diploma	Other ²	Total	Percentage Change from Previous Year
1997-98	2,361	5,770	1,086	2,486	11,703	-
1998-99	2,571	5,836	1,157	2,639	12,203	4.3%
1999-2000	2,434	5,648	1,050	2,558	11,690	-4.2
2000-01	2,316	5,825	1,074	2,691	11,906	1.8
2001-02	2,560	6,135	1,128	2,681	12,504	5.0

¹ An FTE student is enrolled in 30 credits per year.

² Includes adult vocational, non-post-secondary, and community enrichment courses.

Although enrollment has generally increased, the number of graduates generally declined before increasing in FY 2001-02, as shown in Table 2. MATC officials attribute the decline to reasons that include the strong economy in the late 1990s, which caused some students to seek employment rather than finish their degree programs.

Table 2

MATC Graduates by Degree Program¹

Fiscal Year	College Parallel	Associate	Technical Diploma	Short-term Diploma	Total	Percentage Change from Previous Year
1997-98	76	1,311	348	170	1,905	-
1998-99	63	1,070	364	213	1,710	-10.2%
1999-2000	53	1,161	284	179	1,677	-1.9
2000-01	62	1,090	274	189	1,615	-3.7
2001-02	60	1,078	328	288	1,754	8.6

¹ Does not include adult vocational, non-post-secondary, or community enrichment courses.

Revenues and Expenditures

MATC receives operating revenues from six major sources, as shown in Table 3:

- property taxes, which are currently assessed at the maximum rate permitted by statute of 1.5 mills, or \$1.50 per \$1,000 of assessed property value;
- state grants and aid, which include general and categorical aid distributed by the WTCS Board, as well as grants and aid from other state agencies;
- tuition and materials fees paid by students;
- federal grants and aid;
- auxiliary services, which are revenues generated by enterprise services such as the bookstore, food service operations, and child care centers; and
- institutional revenues, which include revenue generated from interest earnings and specialized training contracts with businesses and organizations.

Table 3

MATC Operating Revenues¹

Source	FY 1997-98	FY 2001-02	Percentage Change
Property tax levy	\$ 58,417,002	\$ 74,010,739	26.7%
State grants and aid ²	30,379,279	30,327,724	-0.2
Tuition and fees	19,891,310	24,102,160	21.2
Federal grants and aid	4,954,682	7,037,938	42.0
Auxiliary services	9,146,295	10,453,909	14.3
Institutional revenues	6,860,752	7,273,598	6.0
Total	\$129,649,320	\$153,206,068	18.2

¹ Does not include public television revenues.

² Includes aid received from WTCS, as well as grants and aid from other state agencies.

MATC divides operating expenditures into six categories:

- instruction, which includes instructor salaries, instructional materials, academic administration and related clerical support, and other activities related to teaching;
- student services, which includes costs such as recruitment, admissions, registration, counseling, and health services;
- institutional services, which includes activities that support the entire district, such as human resources, general liability insurance, marketing and public relations, and accounting and general administration;
- the physical plant, which includes all maintenance, utilities, public safety, construction, and purchasing and receiving expenditures;
- auxiliary services, which includes enterprise activity expenditures; and
- instructional resources, which includes supplies and services that directly support instruction, such as libraries and audio-visual aids.

As shown in Table 4, MATC's total operating expenditures increased 16.2 percent from FY 1997-98 to FY 2001-02. The largest category of growth was instructional resources, which grew by 28.3 percent from FY 1997-98 to FY 2001-02, or from \$2.6 million to \$3.4 million. Not surprisingly, expenditures for instruction represent the single largest category of costs, totaling \$94.1 million in FY 2001-02, or 61.9 percent of expenditures in that year.

Table 4

MATC Operating Expenditures¹

Category	FY 1997-98	FY 2001-02	Percentage Change
Instruction	\$ 79,785,065	\$ 94,082,457	17.9%
Student services	14,764,457	16,369,469	10.9
Institutional services	11,585,215	13,699,997	18.3
Physical plant	11,836,500	12,602,713	6.5
Auxiliary services	10,133,075	11,846,448	16.9
Instructional resources	2,637,773	3,383,394	28.3
Total	\$130,742,085	\$151,984,478	16.2

¹ Does not include public television expenditures.

Staffing

MATC employs a wide range of staff, including instructors, technicians, administrators, counselors, maintenance workers, and food service personnel. The staffing level of 1,944 FTE positions in FY 2001-02 included part-time staff and instructor overload hours that occur when full-time instructors develop curricula, teach summer courses, or teach additional courses beyond the standard workload during the academic year. Table 5 shows staffing levels by employment type. There have been no significant trends in staffing levels from FY 1997-98 through FY 2001-02.

Table 5
FTE Staffing Levels at MATC
FY 2001-02

Type of Staff	Number	Percentage of Total
Instructors, instructional supervisors, and instructional support staff	1,019.0	52.4%
Technical/paraprofessional	276.0	14.2
Clerical/secretarial	236.0	12.1
Administrative/managerial and professional non-faculty	163.8	8.4
Skilled crafts and service/maintenance	152.6	7.9
Student employees	59.4	3.1
Non-instructional supervisors/coordinators	37.2	1.9
Total	1,944.0	100.0%

■ ■ ■ ■

Debt Rating
 Cost per FTE Student
 Property Tax Revenue
 State Aid
 Reserve Funds

Financial Indicators ■

Two significant financial indicators—MATC's debt rating and its cost per FTE student—are in the middle of the range for Wisconsin's technical college districts. Nevertheless, MATC faces financial challenges over the long term. The most significant challenges include:

- limits on property tax revenues, which are the largest source of funding for technical college districts;
- declining state aids, which result, in part, from recent reductions in MATC's aidable costs; and
- developing additional reserve fund balances to buffer the district against unexpected cost increases or revenue loss.

Debt Rating

Moody's attached a "negative outlook" to MATC's debt rating in December 2001.

MATC issues debt for both short- and long-term financial needs. Its debt rating has remained stable at Aa2 since 1997, although a negative outlook was attached by Moody's Investors Service in December 2001. In assigning the negative outlook, Moody's cited several factors, including:

- MATC could not generate additional property tax revenue for operations by increasing the mill rate because it was already at the statutory maximum rate;
- MATC's total general fund balances had declined over the past several fiscal years;
- the district projected a deficit of approximately \$3.5 million in its general fund budget for FY 2001-02, which Moody's noted was largely driven by salary costs associated with new collective bargaining agreements signed in November 2001; and
- because of its inability to generate additional property tax revenue, MATC faced challenges in ensuring long-term structural balance in its financial operations.

MATC's debt rating is in the middle of the range for Wisconsin technical college districts.

MATC's debt rating is in the middle of the range for Wisconsin's technical colleges, as shown in Table 6. This debt rating is also better than those of other selected public entities: currently, Milwaukee County and the State of Wisconsin both have Aa3 ratings.

The MATC Board adopts a budget for a fiscal year that runs from July 1 through June 30, but it does not establish a property tax levy until October, after it receives property value information from the Department of Revenue. Because of higher-than-projected growth in property values, the Board's FY 2001-02 total property tax levy for operations and debt service was \$101.2 million, or \$3.3 million more than its June 2001 estimate of \$97.9 million.

Other increases in revenue, such as increased tuition from the 5.0 percent growth in enrollment, resulted in a total revenue increase of \$4.0 million. However, wage and health care cost increases negotiated by the administration and MATC's unions totaled more than that amount. In October and November 2001, the Board approved budget adjustments reflecting those increased costs. MATC's general fund budget deficit increased from \$1.2 million, as projected in June 2001, to \$3.5 million in November 2001.

Table 6

Moody's Debt Ratings for Wisconsin Technical College Districts
 (ranked from highest to lowest)
 December 2002

District	Rating
Madison Area	Aaa
Waukesha County	Aaa
Fox Valley	Aa1
Gateway	Aa1
Northeast Wisconsin	Aa1
Chippewa Valley	Aa2
Lakeshore	Aa2
Mid-State	Aa2
MATC	Aa2
Moraine Park	Aa2
Blackhawk	Aa3
Nicolet Area	Aa3
Northcentral	Aa3
Wisconsin Indianhead	Aa3
Southwest Wisconsin	A1
Western Wisconsin	A1

Moody's removed the negative outlook from MATC's debt rating in December 2002.

In response, MATC administrators undertook several cost-cutting measures, including holding positions vacant and reducing travel and other expenditures. As a result, expenditures decreased by approximately \$4.4 million, and MATC ended FY 2001-02 with a general fund surplus of \$784,000. A transfer of \$600,000 in property tax revenue from the public television fund into MATC's general fund further increased general fund reserves. As a result of the increase in reserves and elimination of the deficit, Moody's removed the negative outlook from MATC's debt rating in December 2002.

Cost per FTE Student

MATC's operational cost per student is below the statewide average and has increased more slowly than the statewide average.

Individual technical college districts' operational cost per FTE student is monitored by the WTCS Board and can be used to compare districts. As shown in Table 7, MATC's operational cost per student was below the statewide average for FY 2001-02, and it increased less than the statewide average over the last five fiscal years. In FY 2001-02, MATC's operational cost per FTE student was tenth among the 16 districts.

Table 7

Operational Cost per FTE Student

District	FY 1997-98	FY 2001-02	Percentage Change
Waukesha County	\$14,141	\$15,369	8.7%
Nicolet Area	14,572	14,815	1.7
Fox Valley	10,679	12,190	14.1
Gateway	11,758	11,708	-0.4
Northcentral	11,047	11,323	2.5
Lakeshore	10,525	11,282	7.2
Moraine Park	10,211	11,202	9.7
Wisconsin Indianhead	10,324	11,197	8.5
Northeast Wisconsin	8,784	11,186	27.3
MATC	10,323	11,181	8.3
Southwest Wisconsin	9,552	11,054	15.7
Blackhawk	10,462	11,003	5.2
Mid-State	8,897	10,516	18.2
Madison Area	8,857	10,204	15.2
Western Wisconsin	9,196	10,132	10.2
Chippewa Valley	9,668	10,036	3.8
Statewide Average	10,281	11,330	10.2

It might be expected that MATC's size would make its operational cost per FTE student significantly lower than smaller technical colleges'. However, we did not find a relationship between the number of students and operational costs per student. Among the five largest technical college districts in terms of FTE student enrollment, MATC's operational cost per student was greater than the Madison Area Technical College District's, but it was lower than the Fox Valley, Gateway, and Northeast Wisconsin technical college districts' costs.

MATC officials asserted that given its size and urban setting, MATC cannot be compared to other districts in Wisconsin, and it would be more appropriate to compare it to similar two-year institutions in other states. With assistance from Wisconsin Technical College District Boards Association staff, we identified six public two-year colleges in Illinois, Ohio, and Michigan with enrollment levels similar to MATC's. However, after reviewing federal data sources and available state budget documents and financial reports from each institution, we concluded that differences in their definitions of operating cost and full-time equivalency did not allow meaningful comparisons.

Property Tax Revenue

Property tax revenue is the largest source of funding for the technical college system and is limited by statute. To fund operations, technical college districts may levy property taxes at a rate not to exceed 1.5 mills for operational costs, or \$1.50 per \$1,000 of assessed property value. In addition, districts may levy property taxes to fund the cost of debt. There is no statutory limit on the mill rate for debt funding, but a district's bonded indebtedness may not exceed 2.0 percent of its equalized property valuation.

In FY 2001-02, MATC and two other districts—Southwest Wisconsin and Western Wisconsin—were at the statutory maximum mill rate for operational costs, as shown in Table 8. In addition, MATC has the second-highest total mill rate including debt service.

Table 8

**Technical College Property Tax Mill Rates
FY 2001-02**

District	Operational	Debt Service	Total
Western Wisconsin	\$1.50 ¹	\$0.91	\$2.41
MATC	1.50¹	0.53	2.03
Fox Valley	1.42	0.46	1.88
Northcentral	1.39	0.49	1.88
Chippewa Valley	1.43	0.39	1.82
Southwest Wisconsin	1.50 ¹	0.28	1.78
Blackhawk	1.37	0.32	1.69
Lakeshore	1.36	0.31	1.67
Mid-State	1.37	0.28	1.65
Gateway	1.43	0.19	1.62
Northeast Wisconsin	1.23	0.39	1.62
Moraine Park	1.22	0.34	1.56
Waukesha County	1.20	0.26	1.46
Madison Area	1.26	0.15	1.41
Nicolet Area	1.18	0.14	1.32
Wisconsin Indianhead	1.09	0.21	1.30
Statewide Median	1.37	0.32	1.66

¹ At statutory limit for mill rate.

MATC has been at the property tax rate limit for operational costs since FY 1990-91.

MATC has been at the maximum operating mill rate since FY 1990-91, leaving the MATC Board unable to raise additional property tax revenue through rate increases. Property tax revenue for operations can therefore increase only through growth in district property values. However, as shown in Table 9, the percentage growth in equalized value in the MATC district has been significantly lower than that for the other 15 districts taken as a whole, except in FY 2001-02.

Table 9

Change in Equalized Property Values

Fiscal Year	MATC Equalized Value	Percentage Change	Non-MATC Equalized Value	Percentage Change
1997-98	\$40,019,499,908	-	\$188,381,861,844	-
1998-99	41,715,407,989	4.2%	202,136,572,375	7.3%
1999-2000	43,555,143,106	4.4	217,528,335,766	7.6
2000-01	45,957,547,951	5.5	234,128,264,940	7.6
2001-02	49,963,298,603	8.7	255,002,162,840	8.9

Although MATC's growth in property values has not kept pace with the rest of the state's growth, percentage increases in property tax revenue have consistently been higher than increases in the Midwest Urban Consumer Price Index (CPI), as shown in Table 10. The largest difference occurred in FY 2001-02, when property tax revenue grew by 8.7 percent while the CPI rose by only 2.0 percent.

Table 10

MATC Total Property Tax Revenue Compared to the Midwest Urban Consumer Price Index

Fiscal Year	Property Tax Revenue	Percentage Increase	Consumer Price Index
1997-98	\$ 81,025,000	-	1.7%
1998-99	83,123,000	2.6%	2.1
1999-2000	88,839,000	6.9	3.4
2000-01	93,120,000	4.8	2.7
2001-02	101,240,000	8.7	2.0

State Aid

Technical college districts receive both general and categorical state aid.

The State provides two types of aid to technical colleges: general unrestricted aid, which may be used for any aid-eligible purpose, and categorical aids to support specific programs or services. General state aid is distributed according to a formula that considers a technical college district's eligible expenditures, equalized property values, and FTE student enrollment in relation to those of the other districts. It accounts for approximately 85 percent of total state aid. General state aid provided to the technical college system increased from \$111.9 million in FY 1997-98 to \$118.4 million in FY 2001-02, or by 5.9 percent.

Categorical aid consists of 16 different programs, which together account for approximately 15 percent of total state aid. Statewide technical college district boundaries are shown in Appendix 1. General aid amounts for all technical college districts are shown in Appendix 2.

As shown in Table 11, total state aid to MATC was \$29.2 million in FY 2001-02. MATC's state aid decreased from FY 1997-98 through FY 2001-02, and it is expected to decline slightly in FY 2002-03. Although several factors are considered in the distribution of state aid, MATC's general state aid has decreased, in part, because some other districts experienced faster growth in enrollment and increased their aidable costs while MATC reduced its aidable costs.

Table 11

Technical College System Aid to MATC

Fiscal Year	General Aid	Categorical Aid	Total	Percentage Change
1997-98	\$29,220,200	\$1,378,500	\$30,598,700	-
1998-99	30,123,100	1,470,900	31,594,000	3.3%
1999-2000	28,814,400	1,517,600	30,332,000	-4.0
2000-01	28,565,300	1,911,700	30,477,000	0.5
2001-02	26,872,500	2,295,200	29,167,700	-4.3
2002-03 ¹	26,851,600	1,834,000	28,685,600	-1.7

¹ Budgeted.

MATC ranks third-highest among the districts in general state aid as a percentage of operational cost per FTE student.

MATC officials have expressed concern about declining general state aid levels and the equity of the current aid formula, because decreases in aid-eligible expenditures reduce general state aid. However, it should be noted that MATC currently receives an amount of general state aid per FTE student that is 15.7 percent higher than the statewide average. Furthermore, at 19.2 percent, MATC ranks third-highest among the districts in general state aid as a percentage of operational cost per FTE student, as shown in Table 12.

Table 12

**General State Aid to Technical College Districts
FY 2001-02**

District	General State Aid per FTE Student	Operational Cost per FTE Student	General State Aid as Percentage of Operational Cost
Western Wisconsin	\$3,080	\$10,132	30.4%
Chippewa Valley	1,950	10,036	19.4
MATC	2,149	11,181	19.2
Mid-State	1,967	10,516	18.7
Southwest Wisconsin	2,044	11,054	18.5
Northcentral	2,013	11,323	17.8
Fox Valley	2,128	12,190	17.5
Lakeshore	1,863	11,282	16.5
Blackhawk	1,760	11,003	16.0
Moraine Park	1,679	11,202	15.0
Madison Area	1,485	10,204	14.6
Northeast Wisconsin	1,592	11,186	14.2
Gateway	1,589	11,708	13.6
Wisconsin Indianhead	1,295	11,197	11.6
Waukesha County	1,426	15,369	9.3
Nicolet Area	692	14,815	4.7
Statewide average	1,857	11,330	16.4

Reserve Funds

MATC has established and maintained reserve funds intended to protect it from fluctuations in revenues or expenditures. The Board of Directors adopted reserve fund policies in 1994 as a means of improving financial management, reducing the need for short-term borrowing to meet cash flow needs, and maintaining its debt rating. The reserve policies indicate that:

- the reserve fund designated for operations should be maintained at 10.0 to 15.0 percent of budgeted general fund revenue; and
- the reserve fund designated for state aid fluctuations should be maintained at 5.0 to 10.0 percent of budgeted state aid revenue.

MATC's levels of reserves have generally been maintained at minimum levels.

We examined actual reserve fund balances for FY 1997-98 through FY 2001-02 and found that the operations reserve fund was generally slightly above or below the 10.0 percent minimum level. However, as shown in Table 13, the state aid reserve fund has generally declined, particularly between FY 1998-99 and FY 1999-2000, when it decreased by \$1.1 million. General state aid to the district declined from \$30.1 million to \$28.8 million, or by \$1.3 million, in that period.

Table 13

MATC General Fund Reserve Balances

Fiscal Year	Operations Reserve Fund Balance	Percentage of Actual General Fund Revenue	State Aid Fluctuation Reserve Fund Balance	Percentage of Actual State Aid Revenue
1997-98	\$11,748,000	10.8%	\$2,500,000	8.5%
1998-99	11,473,000	9.9	2,250,000	7.4
1999-2000	11,465,000	9.7	1,150,000	3.9
2000-01	13,072,000	10.4	1,150,000	4.0
2001-02	13,943,000	10.8	1,150,000	4.3

As noted, higher-than-anticipated increases in property value and enrollment increased MATC's revenues by \$4.0 million during FY 2001-02. However, budgeted expenditures increased by \$6.3 million over the same period, using all of the additional revenue and increasing the general fund budget deficit by \$2.3 million. Increases in instructional expenditures, such as instructor salaries, accounted for \$5.6 million, or 88.9 percent, of the increase.

MATC's current projections for FY 2003-04 indicate a general fund budget deficit of approximately \$2.4 million, calling for that amount to be taken from the operations reserve fund. If that occurs, the fund balance designated for operations would fall to 8.0 percent of budgeted general fund revenues. The continuing nature of MATC's financial challenges will require additional efforts to reduce expenditures or to increase reserve fund balances to buffer the district against unexpected revenue shortfalls or cost increases.

■ ■ ■ ■

Training Contracts	31
Enterprise Activities	31
Administrators' Compensation	31
Contracts for Professional Services	31
Administrative Organization	31

Financial Management ■

Because MATC has little control over property tax revenue or state aid funding levels, it is important for the district to maximize revenue from other sources and to carefully manage its available resources. However, MATC has not complied with its policy to recover 100 percent of its aggregate costs for providing specialized training to businesses and other organizations. Enterprise activities such as food service operations, which could in some cases be expected to cover their costs or generate revenue, have instead required increasing amounts of tax levy support to cover losses over the past five fiscal years. In addition, MATC recently hired some administrators at salaries higher than the market rate, and it has continued to contract for professional services in areas that may duplicate staff responsibilities. The Board of Directors and the administration should improve management practices to strengthen MATC's long-term financial outlook.

Training Contracts

Under s. 38.14(3)(a), Wis. Stats., technical college districts may provide educational services to public and private organizations. Districts have broad authority to set prices for these contractual services, in contrast to WTCS Board authority to set uniform statewide rates for tuition and fees. Examples of the services provided by MATC to businesses and public agencies include basic computer skills training for displaced workers, and updates on new automotive repair procedures for mechanics.

Technical College Districts

Technical College Districts

Technical College Districts

Technical College Districts

Technical college districts determine their costs associated with training contracts using cost allocation formulas provided by the WTCS Board. Each contract includes direct costs, such as instructor salaries and fringe benefits, and indirect costs. Indirect costs are based on an institutional cost factor that reflects items such as the use of district facilities.

The district has not complied with its policy requiring 100 percent annual aggregate cost recovery for training contracts.

Since 1983, MATC Board policy has stated that the district shall recover 100 percent of annual direct and indirect training contract costs on an aggregated basis, allowing MATC to provide some reduced-rate contracts as long as the associated costs are covered by higher rates for other contracts. However, as shown in Table 14, MATC recovered only 86.0 percent of training contract costs from FY 1997-98 through FY 2001-02.

Table 14

MATC Specialized Training Contract Revenue

Fiscal Year	Contract Cost ¹	Contract Revenue	Subsidized Cost	Percentage of Costs Recovered
1997-98	\$2,841,256	\$2,614,115	\$227,141	92.0%
1998-99	3,242,016	2,618,629	623,387	80.8
1999-2000	3,100,753	2,483,176	617,577	80.1
2000-01	4,880,575	4,328,175	552,400	88.7
2001-02	2,715,357	2,394,881	320,476	88.2
Total	\$16,779,957	\$14,438,976	\$2,340,981	86.0

¹ MATC's estimate of staff costs, indirect costs, and miscellaneous expenses such as textbooks.

MATC failed to collect its full cost for training contracts largely because it exercised its broad discretion to provide reduced-rate contracts to some clients. District policy allows nonprofit agencies to be charged reduced rates under three broad criteria:

- if the training is provided to certain populations, such as disadvantaged individuals;
- if the agency receives the majority of its funding from government sources; or
- if the “clientele served by the agency is consistent with the MATC mission.”

MATC has broad criteria for offering reduced-rate training contracts.

There are also seven broad criteria for approving reduced-rate contracts for for-profit businesses, including the provision of training that is:

- related to locating a new business in the MATC district;
- related to an existing business that is expanding to create new jobs in the district;
- needed because a business’s continued existence is jeopardized by the absence of a trained workforce;
- related to providing job opportunities for minority and/or disabled workers;
- related to introducing new technology and industrial skills by upgrading a product, process, or service;
- included in a business’s proposal to attract local, state, or federal aid to expand its operations; or
- to ensure compliance with federal, state, or local government rules, regulations, or laws.

From FY 1997-98 through FY 2001-02, 173 of MATC's 967 service contracts, or 17.9 percent, were reduced-rate contracts provided to businesses, government agencies, school districts, and private nonprofit organizations. Table 15 shows the recipients of the largest subsidies. MATC provided each of these nine organizations reduced rates that totaled \$100,000 or more. The total subsidized cost of all training contracts from FY 1997-98 through FY 2001-02 was \$2.3 million.

Table 15
MATC Clients with Over \$100,000 in Subsidized Training Contract Costs
 FY 1997-98 through FY 2001-02

Client	Number of Contracts	Total Contract Costs	Contract Revenue Collected	Subsidized Contract Costs	Percentage of Costs Recovered
Central City Worker's Center	3	\$355,629	\$ 0	\$355,629	0.0%
Milwaukee County	9	630,706	294,801	335,905	46.7
NE Milwaukee Development Corp.	8	402,195	118,688	283,507	29.5
General Motors	2	941,778	675,620	266,158	71.7
Ford Motor Company	10	785,645	563,297	222,348	71.7
Shorewood School District	7	255,540	87,791	167,749	34.4
Harley Davidson Motor Company	8	724,606	565,679	158,927	78.1
Ladish Company	3	186,532	61,591	124,941	33.0
Maximus Corporation	15	430,179	323,900	106,279	75.3

MATC records indicate the district determined that reduced rates were allowable for a variety of reasons. For example:

- The Central City Worker's Center, a nonprofit organization dedicated to training downtown Milwaukee residents, was provided free mathematics, reading, and writing instruction because it served a targeted population of displaced workers. The Center went out of business shortly after its last contract with MATC was completed in FY 2000-01.

- MATC charged reduced rates for contracts with the Ladish Company, a precision metalworking and tool-making firm, because the company's continued existence was threatened by a lack of trained workers and because the training introduced new technology.
- MATC provided ten reduced-rate contracts to Ford Motor Company for dealership mechanic training on new Ford products and justified this decision based on the criterion related to the introduction of new industrial skills.
- The Shorewood School District was given a reduced rate on contracts for drafting and computer-assisted design instruction for students because the school district is a public entity.

Despite increased financial pressures, MATC has not closely examined specialized training contract criteria or costs.

The administration regularly reports training contract cost recovery information to the Board. However, although MATC has been under increased financial pressure in recent years, the administration has not worked with the Board to develop strategies for improving cost recovery rates until recently. In a November 2002 committee meeting, a member of MATC's Board raised specific concerns about offering reduced-rate contracts, noting that the public might expect large corporations such as Ford Motor Company to pay the full cost of specialized training services. MATC officials responded that the district benefits from its relationship with Ford in two ways: first, Ford has recognized MATC's dealership mechanic instructor as one of the best in the nation; and second, Ford provides in-kind contributions in the form of vehicles used to train MATC students. While these benefits may be helpful to MATC, neither meets the criteria in current district policy to justify reduced-cost training services.

MATC ranked fifth in cost recovery among districts with \$1.0 million or more in training contracts.

We compared MATC's cost recovery experience with that of other technical college districts and found that MATC's performance in this area is better than some districts' and worse than others'. As shown in Table 16, 11 of 16 technical college districts provided more than \$1.0 million in training contracts in FY 2000-01, and MATC ranked fifth among them in cost recovery. Northcentral, Fox Valley, and Madison Area technical college districts actually profited from training contracts, collecting more than 100 percent of their costs.

Table 16

**Technical College Districts with at Least \$1 Million in Training Contract Costs
FY 2000-01**

Technical College	Number of Contracts	Estimated Contract Costs	Cost Recovery Percentage
Northcentral	122	\$1,057,375	125.8%
Fox Valley	1,563	3,717,192	120.5
Madison Area	548	1,651,134	108.6
Gateway	155	1,194,519	91.9
MATC	194	4,880,575	88.7
Waukesha County	624	2,934,400	87.2
Northeast Wisconsin	434	2,020,827	80.6
Chippewa Valley	236	1,036,663	76.9
Western Wisconsin	203	1,188,902	71.5
Moraine Park	388	2,679,430	66.8
Lakeshore	497	1,810,686	65.0

As noted, MATC has little ability to raise additional revenues from some sources, given that it is at the maximum statutorily allowable property tax rate for operations and that student tuition and fee rates are set on a statewide basis by the WTCS Board. In contrast, technical college districts have considerable latitude in determining rates for specialized training services, as well as any criteria under which clients may receive reduced rates. Some districts have used that flexibility to generate revenue over and above costs, but MATC has subsidized these contracts, losing an average of \$468,196 annually from FY 1997-98 through FY 2001-02.

Recommendation

We recommend the MATC District Board of Directors review MATC's current policies and practices for offering reduced-rate specialized training contracts and consider adjustments to either the criteria or the application of the criteria for reduced-rate contracts, to ensure compliance with the district's policy of 100 percent annual aggregate cost recovery.

Enterprise Activities

Enterprise activities required increasing property tax levy support through FY 2001-02.

MATC's enterprise activities include the bookstore, the child care centers, food service operations, and two business incubators. The operations of Milwaukee Public Television are considered an enterprise activity as well, but as noted, we did not include station operations in the scope of our review. We found that, as shown in Table 17, the enterprise activities we reviewed required increasing support from the property tax levy every year from FY 1997-98 through FY 2001-02. Although total support more than doubled over the period, the amount of support is projected to decrease slightly in FY 2002-03. In addition to providing tax levy support, bookstore profits and retained earnings are used to cover losses in the other enterprise activities.

Table 17

Enterprise Activity Support from the Property Tax Levy¹

Fiscal Year	Child Care	Food Service	Total Support
1997-98	\$655,967	\$ 0	\$655,967
1998-99	765,000	0	765,000
1999-2000	833,000	447,000	1,280,000
2000-01	918,000	408,000	1,326,000
2001-02	955,000	424,000	1,379,000
2002-03 ²	1,000,000	300,000	1,300,000

¹ Does not include public television operations.

² Budgeted.

MATC created a new position, Director of Enterprise and Auxiliary Services, to manage the enterprise activities, excluding public television, and to minimize property tax support. The director began employment in January 2002 and has set goals for producing enough aggregate program revenue to cover the costs of all enterprise operations and to recover capital investment costs. While the director's initial plans appear to be steps in the right direction, the plans provide financial projections only through FY 2002-03.

Recommendation

We recommend MATC continue to develop and implement plans to meet its goal of eliminating property tax subsidies for enterprise activities and establish a date certain for accomplishing this goal.

Milwaukee Enterprise Centers

MATC operates two business incubators intended to stimulate economic development.

MATC operates the Milwaukee Enterprise Centers (MECs), which are two business incubators intended to stimulate economic development in the Milwaukee area by providing low-cost rental space and business amenities and by promoting entrepreneurial activities.

MATC's first business incubator, MEC-North, was started in a donated building in 1985. In 1993, MATC and the Wisconsin Foundation for Vocational, Technical and Adult Education jointly purchased another business incubator that the Wisconsin Hispanic Chamber of Commerce, a local nonprofit organization, had operated since 1990. In 1994, MATC purchased the Foundation's half-interest in the property and assumed full ownership of what became MEC-South. As of December 2002, MEC-North, located on North 4th Street, rented space to 77 small businesses and 10 nonprofit organizations. MEC-South, located on West National Avenue, rented space to 24 small businesses, 2 nonprofit organizations, and a large shoe manufacturing company.

We reviewed the operations of the centers in response to concerns about the provision of rental space at MEC-South to the Wisconsin Hispanic Chamber of Commerce for \$1 per year. Concerns have been raised about whether the centers are economically self-sufficient as an enterprise activity; how their contribution to economic development in Milwaukee can be measured; how quickly tenants "graduate" from the centers; and whether the operation of business incubators is consistent with MATC's educational mission, particularly as financial pressures on the district increase.

Financial performance data related to the Milwaukee Enterprise Centers have been incomplete.

We examined the financial performance of the centers from FY 1997-98 through FY 2001-02 and found that they failed to generate enough revenue to cover expenses in any of those years, as shown in Table 18. A \$21,000 loss is projected for FY 2002-03. The information presented in the centers' business plans from FY 1997-98 to FY 2001-02 mistakenly indicated that profits had been earned in three of the last five years. However, these reports omitted several key facts, including:

- for two of five fiscal years, the reported operating revenue for the centers included substantial subsidy payments from the Wisconsin Technical College Foundation, thus overstating the revenue the centers actually earned from lease payments;