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AUTHOR Wade, Kate; Monroe, Kellie; Bajkiewicz, David; Coulthart, Tim; Osmanski, Thomas; Smyth, Conor; Sommerfeld, Robert

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ABSTRACT

The Legislative Audit Bureau of the State of Wisconsin analyzed financial issues concerning the Milwaukee Area Technical College (MATC). The MATC District is the largest district in Wisconsin's technical college system, with 12,504 FTE students enrolled and 1,944 staff in the 2001-02 academic year. Operating expenses for that year were \$152.0 million. This report covers the following topics: (1) MATC's financial status; (2) financial management issues, including management of revenue resources, compensation for administrators, and contracting for professional services; (3) employee wages and benefits; and (4) MATC's governance, including adherence to state statutes and the Board's policies. In 2001-02, local property taxes provided nearly half of MATC's operating revenues, state grants and aid provided 19.8% of the budget, and tuition and fees contributed 15.7%. The report contends that MATC cannot raise additional operating revenue by increasing property tax rates because it has been at the statutory mill rate of \$1.50 per \$1,000 of assessed property value since 1990-91. In addition, state aid to the district has declined. The report points out that the MATC fees for providing specialized training to businesses do not cover costs, and business incubators are losing money. Among the recommendations made is that MATC discontinue hiring outside contractors to perform duties that could be performed by senior administrators. (Contains 25 tables.) (NB)

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An Evaluation

Milwaukee Area Technical College District

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An Evaluation

Milwaukee Area Technical College District

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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

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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

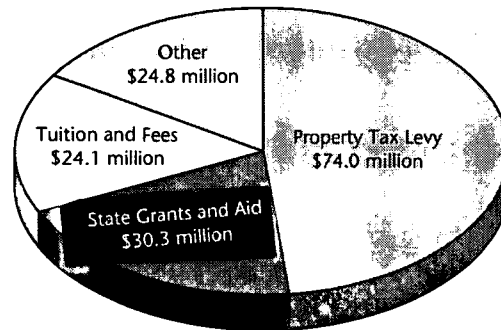
- MATC's governance, including adherence to state statutes and the Board's policies.

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)



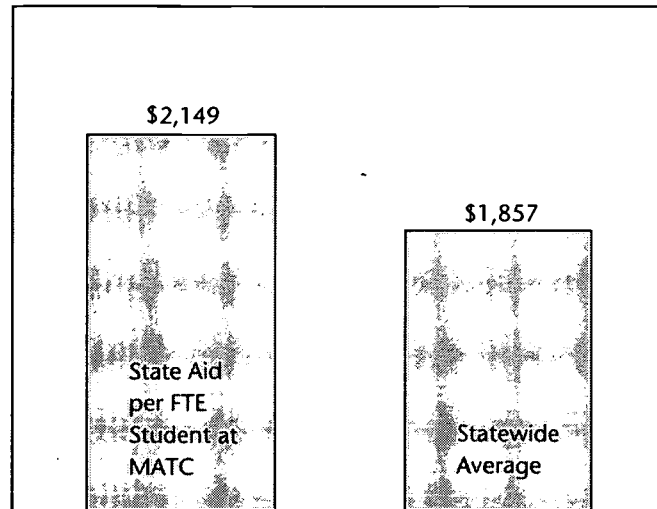
Although its financial status has improved since December 2001, and steps have been taken to reduce costs, MATC faces challenges over the long term. For example, it cannot raise additional operating revenue by increasing property tax rates because it has been at the statutory mill rate limit of \$1.50 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.

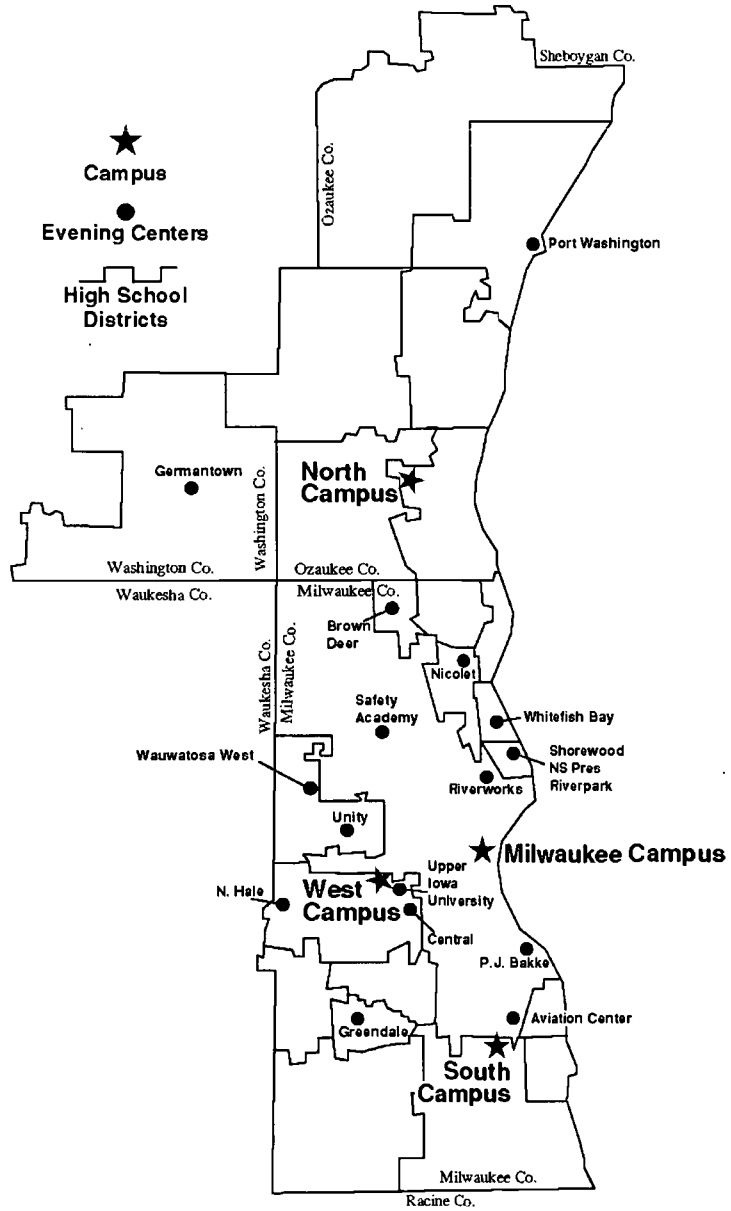
Technical College Governance

***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



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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%

■ ■ ■ ■

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.

■ ■ ■ ■

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 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;

- in two of five fiscal years, a \$91,200 annual payment to the foundation for technical assistance and consulting was not included in the centers' operating costs, thus understating the centers' expenditures; and
- other non-rental income was understated in some years and overstated in others.

Table 18
MEC Operating Revenues, Expenditures, and Outside Subsidies

	1997-98	1998-99	1999-2000	2000-01	2001-02
Revenues					
Rental income	\$584,846	\$773,742	\$818,170	\$870,614	\$843,867
Other income ¹	15,315	8,747	8,654	7,966	17,921
Total	600,161	782,489	826,824	878,580	861,788
Expenditures					
Staff costs	296,788	273,948	329,083	272,511	362,286
Technical assistance payments ²	91,200	91,200	0	0	0
Other costs ³	587,974	611,789	558,687	610,268	542,139
Total	975,962	976,937	887,770	882,779	904,425
Subsidy payment⁴	274,740	146,000	0	0	0
Net Profit (Loss)	(\$101,061)	(\$48,448)	(\$60,946)	(\$4,199)	(\$42,637)

¹ Commissions on soda machine sales, pay phone revenues, etc.

² Technical assistance and consulting fees paid to the Wisconsin Technical College Foundation.

³ Includes utilities, building repairs, office supplies, and contracted services such as custodial work.

⁴ Subsidies from the Wisconsin Technical College Foundation.

Although the centers have not required any property tax levy support to fund their operations, we believe a review of the centers' operations and mission is appropriate. Although s. 38.001(1), Wis. Stats., includes economic development as part of the mission of Wisconsin's technical college districts, the centers' measurable contributions to economic development and their link to MATC's central mission of teaching and learning cannot readily be determined for several reasons.

MATC does not track tenant turnover in the Milwaukee Enterprise Centers.

First, MATC has not regularly tracked the number of jobs created by center tenants to determine their contribution to job growth in the Milwaukee area. Second, MATC does not measure the effectiveness of the centers as business incubators. A typical goal of incubators is the timely graduation of tenants from those locations, thereby making rental space available for new businesses. The National Business Incubation Association reports that financially viable and freestanding businesses should graduate in two to three years. The director of the centers indicated that businesses should leave the centers in four to five years. However, MATC has not established an overall graduation time goal, nor has it routinely tracked and reported business graduations. As shown in Table 19, 35 tenants, or 30.7 percent, have occupied space for five or more years. A woodworking company has occupied space the longest, 16 years, and six other firms have been in the centers for more than a decade.

Table 19

Length of Tenancy in the Milwaukee Enterprise Centers¹
(as of December 2002)

Length of Tenancy	Number of Tenants	Percentage	Occupied Square Footage	Percentage
Less than three years	53	46.5%	41,579	29.5%
Three to four years	13	11.4	15,594	11.1
Four to five years	13	11.4	29,540	21.0
Five or more years	35	30.7	54,014	38.4
Total	114	100.0%	140,727	100.0%

¹ Does not include five firms renting rooftop space for communications antennas.

Third, some members of the MATC Board have expressed concerns about whether MATC should operate business incubators, because this type of effort may not be central to the district's mission. We note that no other Wisconsin technical college district currently operates such facilities.

Finally, MATC administrators did not provide complete information when the MATC Board was considering the renewal of the MEC-South's lease with the Wisconsin Hispanic Chamber of Commerce. MATC officials informed the Board that the Chamber's lease would expire in June 2002, causing members to believe that

prompt action was necessary. The Board acted in January 2002 to extend the lease through the remainder of 2002. In September 2002, the Board voted to further extend the Chamber's existing lease in MEC-South through 2003, although only two members who had attended a prior week's committee meeting were given the proposed resolution before the Board's meeting. In addition, the Board was not informed that the official lease did not expire until June 2003 or that the centers' standard business practice was to convert expired leases to month-to-month tenancies, thus mitigating the need for new leases.

We believe the Board of Directors should reassess the centers' connection to MATC's educational mission, as well as their economic viability. MATC administrators contend that the centers provide educational opportunities and demonstrate MATC's commitment to the community; however, MATC administrators cannot cite any center tenants that consult regularly with MATC faculty or employ MATC students and thereby promote links between classroom training and employment opportunities. An assessment of the centers could include a determination of their long-term self-sufficiency via rental income, whether a targeted number of new jobs can be created annually by center tenants, and if center tenants are generally successful enough to graduate.

Recommendation

We recommend the MATC District Board of Directors evaluate the costs and benefits of the Milwaukee Enterprise Centers. While the evaluation takes place, we recommend MATC:

- *establish a goal for each center tenant to graduate within a specified number of years, and report regularly to the Board of Directors on progress toward each goal;*
- *track the number of jobs created by center tenants; and*
- *report complete information on current and projected center revenues and costs to the Board on a quarterly basis, including any subsidies provided to the centers and any expenditures made to augment MATC staff resources.*

Administrators' Compensation

Concerns have been expressed regarding compensation levels for existing and newly hired MATC administrators, including the president, who took office in July 2001. We found that some administrators' salaries were set at levels above those determined to be the market rate by a consulting firm hired by the district.

MATC took steps in early 2001 to determine the competitiveness of its salary plan, hiring the consulting firm of Grant Thornton, as it had in previous years, to compare salaries at MATC with those at comparable midwestern institutions. Salaries for technical college presidents were not included in this analysis.

In March 2001, the consultant provided MATC with the results of its analysis: the salary plan for nonrepresented employees had generally remained comparable to the market, indicating that beyond standard annual adjustments, no additional adjustments to salary grades were necessary. However, the consultant noted that salaries for several positions, including three vice president positions, were below the market rate and recommended incremental increases over a two- to three-year period.

The maximum salary for vice presidents was raised by 25.9 percent in FY 2001-02.

MATC's Board of Directors took two salary-related actions in November 2001. First, in response to the consultant's report, the Board approved the designation of \$250,000 for salary adjustments to existing positions. Second, the Board approved an annual increase in salaries for nonrepresented employees for FY 2001-02. The maximum salary for each grade was increased by 4.0 percent. However, the maximum salary for vice presidents was increased by 25.9 percent, to \$150,000.

This additional increase to the maximum vice president salary was not recommended by the consultant and allowed the administration to hire new vice presidents at salaries between \$23,000 and \$25,000 higher than they would have been if the increase had been consistent with increases for other positions. Table 20 shows the salaries for MATC vice presidents for FY 2000-01 and FY 2001-02, as well as the market rates determined by the consultant.

Table 20

Vice President Salaries

Position Title	FY 2000-01 Salary	Market Salary ¹	FY 2001-02 Salary
Vice President, General Counsel	\$96,066	\$102,100	\$125,000 ²
Vice President, Student Services	100,405	102,100	119,000 ²
Vice President, College Advancement	N/A ³	N/A ³	119,000 ²
Vice President, Facilities	N/A ³	N/A ³	118,948
Vice President, Finance	108,334	135,500	112,667
Vice President, Academic Affairs	101,234	100,900	105,283

¹ As determined in the Grant Thornton salary study in March 2001.

² Starting salary for newly hired employee.

³ Position did not exist in FY 2000-01.

The current president's annual salary is \$185,000, plus comprehensive fringe benefits and additional funds for retirement.

We also reviewed the current president's compensation package. In April 2001, the president signed a three-year contract with an annual base salary of \$185,000. In addition to his annual salary and his participation in the Wisconsin Retirement System, the president receives the following compensation and fringe benefits:

- a one-time payment of \$15,000 in July 2001;
- a salary supplement of \$875 per month, or \$10,500 annually, for retirement purposes;
- an annual stipend of \$2,000 for business expenses in addition to reasonable and necessary business expenses reimbursed by MATC;
- use of an automobile during his tenure as president;
- 25 days of vacation per year;
- a bank of 30 days of sick leave at the time of his appointment; and
- all other fringe benefits, such as health and life insurance, granted to senior administrators.

Furthermore, after evaluating the president's performance during his first year, the Board approved an additional payment of \$7,400 in June 2002. This one-time payment, which represents 4.0 percent of the president's annual base salary, was deferred until July 2003.

Contracts for Professional Services

MATC expanded internal capacities in some areas but continued to contract for similar services.

We were asked to review MATC's use of professional consultants in response to legislators' and Board members' concerns about compliance with district procurement and contracting policies. We examined the use of legal, lobbying, and public relations services by MATC and found several instances in which purchased services appear to duplicate existing staff resources.

First, since September 1997, MATC has retained a Milwaukee law firm to consolidate its outside legal services contracting. The firm also provided general counsel services to the administration and the Board while the district's general counsel position was vacant. The monthly retainer fee varied from \$43,500 to \$45,750 between November 2000 and mid-April 2002, when the general counsel position was filled. At that point, the retainer fee decreased to \$36,000 per month. MATC appears to have secured its contracted legal services at a competitive rate, paying \$527,135 for 3,258.2 hours of service in FY 2001-02, a rate of \$161.79 per hour. However, MATC may want to consider performing additional legal work internally as a means of reducing costs.

Second, in September 2001, MATC created and filled a new administrative position, the Vice President for College Advancement, to perform external communications and legislative relations duties. However, MATC continues to receive lobbying and public relations services from at least two external sources: the Wisconsin Technical College District Boards Association, to which MATC paid membership dues of \$43,100 in FY 2001-02, and the WTCS Board, which represents the interests of all districts. Furthermore, MATC paid a private lobbying firm \$20,564 in FY 2001-02 for tasks such as analyzing state budget issues and attending meetings of the WTCS Board, and MATC paid a public relations firm \$21,595 for work such as preparing biographical information for the president, drafting correspondence to local government officials, and coordinating meetings between the president and community leaders. In January 2003, the MATC Board of Directors approved an increase in the lobbying firm's compensation to \$30,000 annually.

Third, a contract was signed by MATC's president for services that appeared to duplicate existing outreach staff services. From December 2001 through March 2002, a consultant was paid

\$23,993 to "provide expertise in coordinating community interface and interaction with [the] college president." No deliverable work products were specified in the contract, but reported tasks included attending meetings of the MATC Board; traveling to a South Bend, Indiana community center; and coordinating meetings between the president and outside groups. While employing this consultant, MATC also funded several staff involved in public relations and community services, as well as an associate vice president for community and urban affairs. Moreover, in October 2002, the president signed another contract, without deliverable work products, with the same consultant to develop and maintain community relationships at a maximum cost of \$45,000 for one year.

Recommendation

We recommend the MATC District Board of Directors:

- *review consulting contracts to ensure adequate justification for the employment of consultants to augment existing staff resources; and*
- *review the annual costs of contracting for legal, lobbying, and public relations services and determine if the continued use of these services is justified in light of expanded internal capacities in these areas.*

Administrative Organization

In response to financial pressures and the hiring of a new president, MATC undertook three efforts to modify its administrative structure and to reduce costs in late 2001 and throughout 2002. First, in October 2001, the Board adopted a strategic plan for FY 2001-02 through FY 2006-07. The plan is intended to maximize MATC's financial resources and improve managerial accountability.

Second, in response to the expected \$3.5 million general fund deficit for FY 2001-02, and as the outlook for the FY 2002-03 budget seemed to worsen, the administration took steps to consider staffing reductions. In February 2002, the administration requested that the MATC Board approve the issuance of preliminary nonrenewal notices to 55 nonrepresented employees. Typically, nonrepresented employee contracts expire at the end of a fiscal year. Board policy requires that notices of possible nonrenewal must be provided by February 28. Although it was not clear if staff would need to be laid off, the administration requested the approval of notices so that it would have the flexibility to do so if necessary.

Third, the president requested board approval of an administrative restructuring plan in March 2002. The plan was developed by a task force of MATC officials who studied the district's administrative structure and recommended changes to reduce costs and improve efficiency. The plan included the elimination of 18 positions: 3 with layoffs, and the remaining 15 through a combination of retirements and leaving vacant positions unfilled.

The Board was not consistently given adequate information about proposed restructuring efforts.

The administrative restructuring plan resulted in an estimated savings of \$1.4 million in salaries and fringe benefits in FY 2002-03. However, our review of meeting minutes indicates that the Board was not consistently given adequate information about the administration's efforts, especially the fiscal and organizational effects of the restructuring. For example:

- In a six-month period from September 2001 to March 2002, one member of the Board requested an organization chart at three separate meetings but was not provided one.
- Listings of open positions and other staffing data were not provided to members who requested them.
- Although the Board received some information on salaries for new positions created by the strategic plan initiatives, no information was provided concerning additional salaries for modified existing positions. Without this information, the Board was unable to determine the full fiscal effect of the strategic plan initiatives.
- The Board did not receive any information concerning the fiscal effect of the strategic plan initiatives for FY 2002-03. We estimate that the positions added in FY 2001-02 resulted in an additional \$734,000 in salaries and benefits in FY 2002-03, but this information was not shared with the Board.
- The Board was informed in November 2001 that the newly created position of Director of Enterprise and Auxiliary Services had been filled. Although the Board had approved the creation of this position as part of the strategic plan, some members believed that the position was to be held open because of budgetary constraints.

- A restructuring plan presented to the Board in March 2002 did not list positions that would be eliminated or held open, and it did not contain a proposed organization chart. At that time, several members of the Board expressed concern about the lack of available information, and others expressed concern that in a committee meeting, some members had seen an organization chart that was not provided to the entire Board.

The administration's request for approval of nonrenewal notices concerned some members of the Board because MATC had hired several new employees during the fiscal year and was now considering laying off long-time employees. The motion to approve the preliminary notices of nonrenewal passed by a 5-4 margin. A total of 34 employees appealed their notices, after which the Board voted 5-4 to issue final notices of nonrenewal to all 55 nonrepresented employees. While layoffs were being considered, MATC continued to hire employees, including seven for new positions. In the first three months of 2002, MATC hired 18 permanent full-time nonrepresented employees, including 2 vice presidents and 2 directors.

Ultimately, none of the employees who received nonrenewal notices were laid off, although three retired and two transferred to other MATC positions. The salaries and benefits for these five positions were included in the position savings in the administrative restructuring plan. Although the Board was provided with some information about the restructuring, it was not provided a comprehensive summary regarding all organizational and fiscal effects of the restructuring, despite specific requests for additional information made during its meetings.

The lack of information led some members to question the president's authority to hire staff—especially for new positions—and the Board's role in providing oversight. The president asserted that the new positions did not have an effect on the organization chart, but he did not provide any additional information.

During MATC's restructuring efforts, there was considerable disagreement about the president's discretion to make personnel decisions, as well as several concerns about the amount of information provided to the Board.

Recommendation

We recommend the MATC District Board of Directors review its policies to ensure they clearly delineate the roles of both the Board and the president, including any delegated authority in personnel matters the Board chooses to vest in the president.

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Employee Wages and Benefits ■

Salaries and fringe benefits accounted for the highest percentage of MATC's total expenditures in FY 2001-02, making effective management of these costs important. However, recent total compensation increases have exceeded budgeted amounts, and salary increases for instructors at MATC have been higher than those at selected Wisconsin institutions. In addition, MATC officials have not proactively managed rapidly increasing health care costs, leading the district to pursue an emergency procurement of health care services in April 2002. MATC achieved significant health plan benefit changes effective January 2003. However, it agreed to forego further changes until July 2007 unless mutually agreed upon with its unions, which could limit its flexibility to address future cost increases.

As shown in Table 21, as of November 2002, a total of 2,181 full- and part-time staff, or 89.6 percent of MATC's employees, were represented by MATC's three unions. An additional 252 employees, primarily administrators, were not represented.

MATC provides an early retirement benefit for some employees and health insurance for retirees.

Full-time represented and nonrepresented MATC employees participate in the Wisconsin Retirement System. Full-time Local 212 employees with ten or more years of service at MATC may retire with full benefits at age 55 because MATC pays the difference between a reduced early retirement benefit and the full benefit payable at age 65. The district pays the full cost of health insurance premiums until age 65 for two types of early retirees: those who retire between the ages of 55 and 59 and have at least 15 years of

service at MATC, and those who retire between the ages of 60 and 64 and have at least ten years of service at MATC. The district also pays half of the monthly health insurance premium for retirees 65 and older.

Table 21

Head Count of MATC Staff
(November 2002)

National Union Affiliation	Union	Employees Represented	Number of Employees	Percentage of Employees
American Federation of Teachers	Local 212	Full- and part-time instructors and certain non-teaching professionals, such as guidance counselors; certain full- and part-time paraprofessional employees, such as information systems staff and librarians	1,671	68.7%
American Federation of State, County, and Municipal Employees	Local 587	Full- and part-time employees in clerical, buildings/grounds, food service, and public safety positions	460	18.9
International Brotherhood of Electrical Workers	Local 715	Milwaukee Public Television staff such as engineers, videographers, associate producers, and set designers	50	2.0
Subtotal			2,181	89.6
None	Nonrepresented employees	Administrators and others	252	10.4
Total			2,433	100.0%

Wage Increases for Represented Employees

Wages, benefits, and other labor issues for represented employees are determined during periodic collective bargaining negotiations with MATC. The district has typically executed three-year agreements with its unions, and salary and benefit increases for nonrepresented staff are generally consistent with those agreements. Although collective bargaining negotiations can include many issues with fiscal effects, we focused our analyses on wage and fringe benefit levels because they typically account for a large majority of MATC's annual expenditures from its general fund. In FY 2001-02, salary and fringe benefit expenditures accounted for \$115.9 million of the district's \$128.1 million in general fund expenditures.

In February 2001, MATC and its unions began negotiations to replace existing agreements expiring on June 30, 2001. However, negotiations had not been completed when MATC's new president took office in July 2001. In November, the president directed his bargaining team to complete negotiations within one week for two-year agreements retroactive to July 2001 and effective through June 2003. Salary increases were finalized in November, and a joint labor-management committee was formed to negotiate and recommend future changes to health benefits.

MATC offered higher increases in wages than had initially been budgeted. The president recommended and the Board approved annual salary increases of 4.0 percent—rather than the 3.8 percent that was budgeted as a total increase for both wages and benefits—for all three unions. MATC officials and members of the Board believed costs associated with the agreements would require the district to use a portion of its reserve funds because actual wage and benefit cost increases were projected to total 6.1 percent in FY 2001-02 and 6.5 percent in FY 2002-03. As noted, when Moody's attached a negative outlook to MATC's debt rating in December 2001, it cited as factors the salary increases and MATC's anticipated use of a portion of its reserve funds to pay for them.

MATC instructors have received annual salary increases of at least 4.0 percent over the last six years.

Local 212 represents instructors and other instructional professionals. We compared recent full-time instructor increases with instructor salary increases at selected institutions because Local 212 is MATC's largest union; its members typically receive higher salaries than other unions' members; and other unions' agreements are often based on the terms negotiated by Local 212. In consultation with WTCS Board staff, we identified selected technical college districts often compared to MATC based on their size, location, relative complexity of operations, and tax base. As shown in Table 22, MATC has negotiated annual increases of at least 4.0 percent since FY 1997-98. Madison Area, Gateway, and Waukesha County technical college districts have consistently negotiated smaller annual increases.

Table 22

Instructor Salary Increases at Selected Wisconsin Technical Colleges

Fiscal Year	MATC	Madison Area	Gateway	Waukesha County
1997-98	4.00%	3.25%	3.25%	3.25%
1998-99	4.10	3.50	3.50	3.25
1999-2000	4.10	4.00	3.50	3.50
2000-01	4.10	3.25	3.50	4.00
2001-02	4.00	3.25	3.40	3.50
2002-03	4.00	3.50	3.40	3.25

Instructor salaries are typically higher than in selected Wisconsin districts. As shown in Table 23, MATC's minimum instructor salary is higher than all but one of the three selected Wisconsin technical college districts', and its maximum salary is the highest of the four.

Table 23

Base Salaries for Instructors at Selected Wisconsin Technical Colleges
(as of January 1, 2003)

	MATC	Madison Area	Gateway	Waukesha County
Minimum salary	\$40,442	\$39,373	\$40,719	\$32,698
Bachelor's degree + 5 years experience	52,388	48,766	47,591	43,613
Master's degree + 5 years experience	56,370	52,754	50,297	47,349
Maximum salary	78,271	73,337	69,761	69,548

The amounts in the salary plans assume a full-time teaching load, but the definition of full-time varies because it is negotiated in each district as part of the collective bargaining process. For MATC instructors, a full-time load is 6.4 hours per day based on a 175-day calendar, or 1,120 hours per year. MATC instructors can earn considerably more than the maximum by assuming additional

responsibilities, such as instructor overload hours that occur when teaching additional courses above a full-time load, teaching summer courses, or developing curricula.

In 2002, 12.0 percent of full-time instructors were paid more than \$100,000.

In calendar year 2002, 386 of 599 full-time MATC instructors, or 64.4 percent, were paid more than that year's maximum salary of approximately \$76,000. In addition, 72 of the 386, or 12.0 percent of all full-time instructors, were paid more than \$100,000.

Health Care Benefits

In FY 2001-02, MATC spent \$16.9 million for health and dental care benefits for its current and retired employees.

MATC pays the full cost of health insurance premiums, including dental benefits, for full-time employees. We reviewed MATC's management of health care benefits because they are a significant expenditure item and because some legislators and others have questioned whether MATC could have done more to effectively control these costs. In FY 2001-02, MATC spent a total of \$16.9 million for employee and retiree health and dental care benefits.

MATC offers employees and retirees a choice of three health insurance plans:

- a broad-based plan that is self-funded by MATC, under which subscribers can receive medical services from any qualified practitioner;
- a broad-based health maintenance organization (HMO) plan, under which medical services must be provided by practitioners within a defined but relatively large network; and
- a narrow HMO plan, under which medical services must be provided by practitioners within a narrowly defined network.

Health care costs are higher in Milwaukee than in other large midwestern cities.

Nationally, employers' health care costs have increased considerably in recent years, and they have increased at an even faster rate in Milwaukee. In 2002, average health care costs per employee were 17.1 percent higher in Milwaukee than the national average. Costs in Milwaukee were also higher than in other large midwestern cities, as shown in Table 24. In 2003, average costs per employee in Milwaukee are projected to increase to \$7,369.

Table 24

**Health Care Cost Comparisons
2002**

City	Average Cost per Employee	Percentage Difference from National Average
Chicago	\$5,235	-4.1%
Detroit	6,088	11.6
Milwaukee	6,389	17.1
Minneapolis/St. Paul	5,628	3.2
Nationwide average	5,456	-

Source: National employer survey conducted by Hewitt Associates.

According to its health care consultant, MATC's health care costs have been higher and have increased more rapidly than those of other Milwaukee employers because MATC's health plans have historically required little employee cost-sharing, such as co-payments. MATC officials were advised by the consultant as early as May 2000 that to slow rapid cost increases, increased cost-sharing would be necessary. Despite this, the 2001-03 collective bargaining agreements approved by the Board in November 2001 did not include health plan changes. However, as noted, MATC and its unions agreed to create a joint labor-management health care committee to continue negotiating health plan changes.

MATC achieved significant changes to its health care benefit plans effective January 2003.

MATC's president anticipated that the increased employee cost-sharing and other health plan changes agreed upon by the joint committee would allow MATC to eliminate a budgeted 16.0 percent increase in health care costs from FY 2001-02 to FY 2002-03, and salary increases included in the 2001-03 collective bargaining agreements were predicated on achieving this goal. The MATC administration negotiated significant plan changes that were approved by the Board in October 2002 and took effect in January 2003. These changes were an important achievement because according to MATC's health care consultant, the district's unions had never before agreed to significant cost-sharing measures. For example:

- the annual deductible for the self-funded plan increased from \$100 to \$200 for individuals, and from \$200 to \$400 for families;
- prescription drug co-payments of \$5 for generic drugs and \$10 for brand-name drugs were introduced for members of Local 212 enrolled in the self-funded plan, who had not previously been subject to a co-payment requirement; and
- co-payments ranging from \$10 to \$50, up to an annual limit, were introduced for hospital care, physician office visits, ambulance service, urgent care, and emergency room visits.

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

Nevertheless, MATC's health care costs continue to increase sharply. As shown in Table 25, MATC estimates that its health care costs will increase from \$16.9 million in FY 2001-02 to \$19.5 million in FY 2002-03, or by 15.7 percent, even after implementation of the plan changes in the middle of FY 2002-03.

Table 25

MATC Health Care Expenditures¹

Fiscal Year	Health Care Expenditures	Percentage Increase
1997-98	\$10,243,906	-
1998-99	10,837,870	5.8%
1999-2000	12,029,306	11.0
2000-01	14,677,175	22.0
2001-02	16,898,033	15.1
2002-03 ²	19,544,048	15.7

¹ Includes health and dental care costs for employees and retirees.

² Projected.

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

To obtain union approval for the changes, MATC signed two agreements stating that it would not seek additional changes until July 1, 2007, unless the unions agreed. While statutes do not permit collective bargaining agreements to exceed three years, they do not specifically prohibit entities from entering into consecutive agreements that total more than three years. However, MATC's health care consultant indicated that it is not possible to effectively project health care costs beyond three years, and the agreements to forego additional changes until 2007 could limit the district's flexibility to address future cost increases.

MATC has had difficulty addressing rising health care costs in the past. For example, in October 2001, Compcare, provider of the broad-based HMO plan, notified MATC that its rates would increase by 47.1 percent for the first six months of 2002. In January 2002, Compcare notified MATC that it would cancel the existing plan at the end of June 2002 and proposed an alternative plan that required prescription drug co-payments and a rate increase of 17.0 percent.

At that point, MATC's health care consultant advised the district to accept the additional rate increase and to focus on negotiating the proposed plan changes with its unions. However, MATC officials and the joint labor-management health care committee instead pursued an immediate change in health plan providers as a means of controlling short-term costs. Appendix 3 provides a time line of health care contracting events from October 2001 through November 2002.

MATC sought an emergency procurement of health insurance in April 2002.

On April 23, 2002, the MATC Board authorized the administration to proceed with an emergency procurement of self-funded health insurance coverage through Genesis HealthCare for the period July through December 2002. Under Wisconsin Administrative Code and WTCS Board policy, emergency procurements may proceed only in limited circumstances. MATC's district policy defines emergencies as production shutdowns resulting from equipment failure, facilities maintenance emergencies involving employee safety or comfort, and other situations deemed potentially dangerous or life-threatening.

The court found that an emergency did not exist and that the Board had acted without complete information.

On April 26, 2002, Compcare requested an injunction, contending that an emergency did not exist and that MATC was required to conduct a competitive bidding process for a change in providers. In a May 2002 decision, the Milwaukee County Circuit Court found that an emergency did not exist and that the Board had acted with incomplete information. The court based its decision on the fact that before the Board's meeting, Compcare had submitted two proposals to extend the broad HMO plan without changes to benefit levels, but the proposals had not been shared with all members of the Board.

Our document review was consistent with the court's finding. For example, before the Board's April 2002 meeting, MATC's president acknowledged a proposal from Compcare in writing and sent copies of his letter to the Board's chair and one other member of the Board. However, several members of the Board reported that they had not seen the proposals. MATC unsuccessfully appealed the ruling and a contract was ultimately not let to Genesis. MATC instead requested bids for health insurance coverage for the period July through December 2002. Compcare was the lowest bidder and received the contract.

MATC's decision to pursue an emergency procurement for health care services had several negative consequences. For example:

- Based on a June 2002 actuarial analysis and other documents we reviewed, MATC could have paid as much as \$622,000 more for health care during the last six months of 2002 if it had awarded the contract to Genesis rather than accepted Compcare's April 2002 proposal.
- The Board was left with insufficient time to adequately review and approve health plan changes and a new health care contract in October and November 2002, because MATC officials' attention to the emergency procurement effort slowed progress of the joint labor-management health care committee's negotiation of health plan changes.
- MATC spent a total of \$25,000 on legal fees related to the emergency procurement issue.
- MATC was exposed to additional financial risk when its officials guaranteed one union that MATC would pay its members for any additional expenses resulting from the change in plan providers under the emergency procurement.

MATC officials anticipate that use of a single fund will allow them to better track and report health care costs.

It has been difficult for the Board to monitor health care costs and the MATC administration's progress toward achieving its goal of eliminating growth in health care costs between FY 2001-02 and FY 2002-03. For example, in May 2002, members of the Board received information on projected savings for FY 2002-03 that assumed the president's goal of eliminating growth in health care costs would be met, but this information reflected only the health care expenditures to be paid from MATC's general fund. In contrast, information provided to the Board in October and November 2002

included total MATC health care expenditures from all funds and was presented in a different format. In addition, changes in the district's accounting methods and computer systems have made it difficult for the Board to follow trends in actual health care costs. In the future, MATC officials anticipate that the use of a single fund created in FY 2001-02 will allow them to better track and report health care costs.

■ ■ ■ ■

District Board Governance ■

In providing oversight and governance for the district, the MATC Board of Directors must act in accordance with state statutes and district policies. However, we found several instances in which the Board did not do so. These violations are not consistent with the principles of good governance and may, in some instances, have exposed MATC to financial risk.

Election of Board Officers

Section 38.08(3), Wis. Stats., requires technical college district boards to elect officers each year on the second Monday of July. MATC's policy mirrors the language provided in statutes; however, in 2001 the Board did not elect its officers on the day specified in statutes and its own policies. The delay provided an opportunity for outside parties to exert influence on the election.

When the Board convened on the second Monday in July 2001 to elect its officers, it deadlocked in a 4-4 tie between two candidates for president because a ninth member was absent. Four attempts to break the tie were unsuccessful, and the Board was advised by both its legal counsel and WTCS Board officials that it was preferable to complete the election that night using a tie-breaking method such as a coin toss. The legal counsel also advised that a second alternative was to complete the election promptly at a subsequent date. The Board chose to reconvene one week later with all members present. During the week, outside parties attempted to influence the election.

We note that in February 2002, the Board updated district policy concerning the election of officers to include procedures for breaking tie votes.

Provision of Information to the Board

To make informed governance decisions, the MATC Board must rely on data and information provided in a timely manner by the administration. District policy requires that MATC officials provide relevant materials to members of the Board via mail, courier, or fax at least 24 hours before meetings.

We noted several instances in which members of the Board were not given adequate or complete information.

There may be occasional unavoidable circumstances that prevent materials from being distributed before meetings. However, we found a number of instances in which information critical to the Board's decision-making was not provided in a timely manner. In addition, there were several instances in which the administration did not provide the Board with sufficient information to make informed decisions. For example:

- As noted, members of the Board were not provided with adequate information about the administrative restructuring that occurred in late 2001 and throughout 2002. Some members requested organization charts and listings of open positions, which were not provided. In addition, the Board was not given complete information about the fiscal effects of new administrative positions added in response to strategic plan initiatives.
- In April 2002, the full Board was not made aware of two proposals from CompCare to continue the district's health insurance plans. Knowledge of these additional proposals could have influenced the Board's decision to procure health insurance on an emergency basis.
- In October 2002, the Board approved significant employee and retiree health plan changes although members had not received information explaining how the cost savings associated with the plan changes compared to the administration's goal of zero growth in health care costs between FY 2001-02 and FY 2002-03.

- In September 2002, the Board voted to extend the Wisconsin Hispanic Chamber of Commerce's lease in MEC-South, based in part on its belief that the lease had already expired and action was necessary. In fact, the lease does not expire until June 2003, and center leases typically become month-to-month tenancies after they expire.
- In November 2002, the Board approved new contracts for health care insurance; however, it was not clear whether the joint labor-management health care committee had agreed on which vendor should receive the contract or whether the potential disruption in provider networks would violate MATC's agreements with its unions. In addition, cost estimates for competing bids were not available before the Board's meeting.

Some members of the Board have asserted that the sensitive nature of some documents justifies excluding them from the policy requiring materials be provided 24 hours before a meeting. However, members of the Board represent public and private agencies that often deal with confidential information such as personnel records and contract proposals, making it likely that these individuals can be relied upon to maintain the confidential nature of material distributed before meetings. Moreover, a careful review of documents is necessary for members of the Board to fully understand the details of important items on which they must vote.

Recommendation

We recommend the MATC District Board of Directors revise its policies to ensure that all members receive complete and accurate information in a timely manner and that it develop standards for MATC's administration regarding information that should be provided to the Board.

Contracts for New Employees

MATC's failure to include probationary periods for some new employees violated district policy and exposed it to some financial risk.

MATC policy requires that all newly hired nonrepresented employees complete a six-month probationary period during which they serve at the pleasure of the president. However, we found four contracts for nonrepresented employees hired in FY 2001-02 did not include language specifying a probationary period, and contract language for one of the four, a newly hired vice president, specifically waived the probationary period. In addition, that contract covered a multi-year period. By not including a

probationary period, MATC exposed itself to financial risk because it could have been required to pay the employee's salary for the length of the contract even if the employee did not meet performance expectations.

Recommendation

We recommend the MATC District Board of Directors comply with district policy regarding probationary periods for all new employees.

Use of Closed Sessions

The MATC Board may have improperly convened in closed sessions.

Section 19.81, Wis. Stats., states that Wisconsin's policy is to provide the public with the fullest and most complete information regarding the affairs of government as is compatible with the conduct of governmental business, and there is a presumption that statutes relating to open meetings shall be liberally construed to that effect. While statutory language pertaining to public entities' use of closed sessions is somewhat ambiguous, a 2001 Wisconsin Department of Justice open meetings handbook provides clear guidance. Based on our review of meeting minutes and our attendance at meetings, it appears the Board may have improperly convened in closed session on several occasions.

First, from June 2001 through September 2002, the Board convened five times in closed session to discuss a possible extension of the Wisconsin Hispanic Chamber of Commerce's lease. The Board cited s. 19.85(1)(e), Wis. Stats., which allows closed sessions for the purposes of deliberating or negotiating the purchase of public properties, investing public funds, or conducting other specified business when competitive or bargaining reasons require a closed session. Because the Board's discussions concerned the discounted renting of space to an existing tenant, it likely should have conferred in open session based on the Department of Justice open meetings guide. The guide states the statute is intended to be restrictive and not used merely to avoid inconvenience, delay, embarrassment, frustration, or speculation regarding the probability of success.

Second, in August 2002 the Board convened in closed session to discuss a proposed across-the-board pay raise for nonrepresented district employees. The Board cited s. 19.85(1)(c), Wis. Stats., which allows the discussion of individual employee compensation issues in closed session, but not the compensation of an entire class of employees. The Department of Justice guide indicates that statutes

refer to a public employee, rather than to positions of employment in general, and that the purpose of the exemption is to protect individual employees from having their actions and abilities discussed in public.

Third, at the same August 2002 meeting, the Board discussed plans to lease property to another public organization in closed session. The Board cited s. 19.85(1)(e), Wis. Stats., which allows closed sessions regarding the purchase of public properties when competitive or bargaining reasons require a closed session. During its October 2002 meeting, the Board cited the same statute to justify closed meeting review of a resolution to authorize the lease. The applicability of this statute appears questionable because only two parties were involved in the negotiation, and the terms of the proposed lease were not altered or negotiated before open meeting approval of the lease by the Board at the same October 2002 meeting.

Finally, a committee of the Board discussed items in closed session that were discussed in open session by the full Board. During its November 2002 meeting, the Board's finance, personnel, and operations committee met in closed session, citing s. 19.85(1)(g), Wis. Stats., which permits closed sessions for consultation with legal counsel regarding ongoing litigation or matters that may prompt litigation. The committee discussed a proposed revision of MATC's procurement policies to include language related to asbestos removal services. Use of this statutory subsection was questionable because there was no clear indication the revision was subject to existing litigation or would result in future litigation against the district. The full Board discussed the same revision in open session during its December 2002 meeting.

Recommendation

We recommend the MATC District Board of Directors seek guidance from the Wisconsin Department of Justice regarding its use of closed sessions.

■ ■ ■ ■

Map of Wisconsin Technical College Districts



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Appendix 2

General State Aid for Technical College Districts
(FY 1997-98 through FY 2001-02)

District	1997-98	1998-99	1999-00	2000-01	2001-02	Percentage Change
MATC	\$ 29,220,200	\$ 30,123,100	\$ 28,814,400	\$ 28,565,300	\$ 26,872,500	-8.0%
Madison Area	13,553,900	13,240,300	13,834,500	14,072,000	13,070,700	-3.6
Western Wisconsin	9,522,500	9,761,300	10,689,100	11,448,300	11,644,100	22.3
Fox Valley	9,419,300	10,637,900	11,113,800	10,944,200	11,312,200	20.1
Northeast Wisconsin	5,817,900	6,170,700	6,617,900	7,047,900	7,460,300	28.2
Gateway	6,026,700	5,801,600	5,827,700	6,282,500	7,183,000	19.2
Chippewa Valley	6,595,300	6,481,000	6,415,500	6,659,000	6,856,200	4.0
Northcentral	5,189,500	5,130,100	5,127,200	5,423,600	5,313,200	2.4
Waukesha County	4,801,400	4,492,400	4,821,300	4,681,600	5,188,200	8.1
Moraine Park	4,143,500	4,182,700	4,285,200	4,699,500	4,945,100	19.3
Mid-State	3,742,400	3,615,700	3,973,900	4,025,500	4,003,800	7.0
Lakeshore	3,306,300	3,660,400	3,757,900	3,833,800	3,965,100	19.9
Wisconsin Indianhead	4,186,200	3,926,500	4,044,200	3,858,200	3,745,800	-10.5
Blackhawk	2,851,200	3,032,600	3,127,900	3,145,900	3,251,200	14.0
Southwest Wisconsin	2,545,500	2,374,300	2,489,200	2,863,200	2,801,500	10.1
Nicolet Area	930,400	899,400	1,005,300	864,500	802,100	-13.8
Total	\$111,852,200	\$113,530,000	\$115,945,000	\$118,415,000	\$118,415,000	5.9

Appendix 3

Health Care Contracting Time Line

- October 2001** Compcare notified MATC that it would increase premium rates for its broad HMO plan by 47.1 percent effective January 1, 2002, in apparent violation of a contractual rate increase limit of 7.5 percent. MATC and Compcare instead agreed on a 32.0 percent increase for January through June 2002.
- November 2001** MATC's Board approved collective bargaining agreements that did not include health plan changes. MATC and its unions signed an agreement to form a joint labor-management health care committee to recommend health plan changes.
- January 2002** Compcare notified MATC of its intention to cancel the broad HMO plan effective July 1, 2002, and to instead offer a similar alternative plan. MATC's health care consultant recommended that MATC accept the alternative and pursue plan changes.
- February 2002** MATC's joint labor-management health care committee met for the first time.
- April 2002** Compcare offered to extend the broad HMO plan with a rate increase but without plan changes. MATC's Board voted 8-1 to approve an emergency procurement of health care services that would have changed plan providers. Compcare sought a court injunction to prevent the emergency procurement.
- May 2002** The Milwaukee County Circuit Court found that an emergency did not exist and ruled in favor of Compcare. MATC officials began preparing for a competitive bidding process.
- June 2002** MATC solicited bids and awarded a six-month contract to Compcare for July through December 2002. The award was contested unsuccessfully by Genesis.
- October 2002** MATC's Board approved significant health plan changes recommended by the joint labor-management health care committee and agreed to forego additional changes until July 2007.
- November 2002** MATC awarded contracts for its self-funded plan, the broad HMO plan, and the narrow HMO plan to Humana, effective January 1, 2003.

Milwaukee Area Technical College

Dermell E. Cole
President

March 3, 2003

Ms. Janice Mueller
State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, Wi 53703

MILWAUKEE CAMPUS
700 West State Street
Milwaukee, Wisconsin 53233-1443
414-297-6600

NORTH CAMPUS
5555 West Highland Road
Mequon, Wisconsin 53092-1199
262-238-2200

SOUTH CAMPUS
6665 South Howell Avenue
Oak Creek, Wisconsin 53154-1196
414-571-4500

WEST CAMPUS
1200 South 71st Street
West Allis, Wisconsin 53214-3110
414-456-5500

Dear Ms. Mueller:

Thank you for the opportunity to review and comment on the Legislative Audit Bureau's (LAB's) audit of Milwaukee Area Technical College (MATC). My thanks also go to the LAB for a balanced approach that acknowledges MATC's financial and operational accomplishments while offering constructive recommendations for improvement. The members of your team conducted themselves professionally and developed recommendations that will improve operational effectiveness and help guide our future efforts to better serve our district and state.

As acknowledged in the report, MATC has made significant progress improving its financial position. For example, MATC managed to erase a projected deficit of \$3.5 million for the past fiscal year and end with a small surplus. This was not an easy task when considering enrollment growth of 5 percent and declining state aid. In addition, Moody's Investors Service improved its rating of MATC to Aa2 with a stable outlook - a rating that compares favorably to those of other large public institutions in the area, including Milwaukee County and the City of Milwaukee.

At the same time, MATC continued to serve nearly 60,000 students through associate degree, technical diploma and certificate programs. This is extremely important when one considers that:

- Each \$1 invested in MATC returns \$9 to the taxpayers.
- 98 percent of graduates work in Wisconsin.
- 95 percent of graduates were satisfied with their MATC education.
- 89 percent of graduates were employed within six months of graduation.
- 85 percent of graduates work in the MATC district.

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For our community, MATC represents a tremendously valuable investment. Nothing in the audit questions that position. However, MATC recognizes that improvement must continue. I agree that the audit bureau has provided constructive opportunities for greater efficiency and effectiveness. MATC will continue to take steps to fully implement all the recommendations in the report. Specifically:

LAB recommends that MATC comply with district policy requiring aggregate full cost recovery for training contracts.

- MATC has been working toward this expectation throughout the year and is exploring regional partnerships to create better cost efficiencies. At the same time, I will ask the MATC Board to revisit this policy and determine whether it is possible for MATC to meet its mission of economic development under such a stringent requirement. Given the current economic downturn, it is essential that the college have the flexibility needed to respond rapidly to Wisconsin's employers, employees and displaced workers.

LAB recommends that MATC develop and implement plans to eliminate property tax subsidies for enterprise activities.

- Efforts are already well under way to eliminate such subsidies. As the report indicates, MATC has made excellent progress this year and will extend its business planning horizon as recommended.

LAB recommends that MATC evaluate the costs and benefits of the Milwaukee Enterprise Centers.

- This is also a good recommendation and one that received significant attention recently by the MATC Board's policy committee. While the centers have never received operating tax levy support, MATC must anticipate and meet the continued need for revenue generation and cost containment strategies. MATC will also be more proactive in helping tenants "graduate" to commercial locations as new tenant demand warrants.

LAB recommends that MATC review the use of consultants, especially in light of expanded internal capacities.

- Review of the use of outside consultants will continue as an important aspect of our cost containment plans. Although consulting services have been reduced, some crucial services will remain in place. As already mentioned, however, the use of such consulting services will continue to undergo review as recommended.

I appreciate LAB's recognition that the college's internal capacities, relative to executive ability and experience, have been enhanced. Each of the vice presidents noted in the report filled existing vacant positions and accepted significant increases in responsibilities over their predecessors. This was done to meet the rapidly expanding workloads and complex challenges associated with one of the largest two-year colleges in the nation. We met these challenges without adding new executive positions.

LAB recommends that MATC clarify the roles and authority of the Board and president in personnel matters.

- MATC agrees that more work can be done to communicate existing agreements and policy expectations relative to this issue. A summary of roles and authority will be distributed to all board members and placed on an upcoming board agenda for discussion.

LAB recommends that MATC ensure that complete and accurate information is provided to the Board in a timely manner.

- For the Board to successfully exercise its decision making authority, complete, accurate and timely information is essential. The constantly changing forces affecting MATC operations demand that the MATC Board be in a position to respond rapidly. MATC's staff has provided the MATC Board with complete, accurate and timely information, to the best of our ability in this environment. We will continue to look for opportunities to improve the processes by which information is disseminated to the Board.

LAB recommends that MATC comply with district policy requiring probationary periods for all employees.

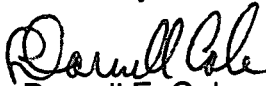
- Enforcement of Board policy is a district priority. Issuance of contracts without probationary periods was an administrative error. Steps have been taken to strengthen and improve compliance with established policies and procedures related to employment contracts.

LAB recommends that MATC seek guidance from the Wisconsin Department of Justice regarding its use of closed sessions.

- MATC will seek guidance as recommended. This is a timely recommendation given current questions surrounding closed session meetings throughout the state.

I would like to thank you again for the professionalism displayed by your staff and for the identification of recommendations that improve efficiency, effectiveness and governance. I also want to thank the countless number of MATC employees involved in the collection, analysis and provision of information.

Sincerely,


Darnell E. Cole
President

C: L. Baker, MATC District Board Chair



Legislative Audit Bureau

22 E. Mifflin Street, Suite 500 □ Madison, WI 53703
(608) 266-2818 □ Web site: www.legis.state.wi.us/lab

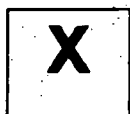


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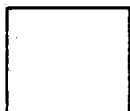


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