Milwaukee Area Technical College's
Fiscal Condition:

GROWING DEMAND, SHRINKING RESOURCES

An independent third-party analysis

Public Policy Forum
moving the region forward

ABOUT THE PUBLIC POLICY FORUM

Milwaukee-based Public Policy Forum – which was established in 1913 as a local government watchdog – is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with an independent, comprehensive and objective analysis of the fiscal condition of the Milwaukee Area Technical College. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations regarding the college's future.

Report authors would like to thank MATC officials and fiscal staff (including both the recently retired and new Vice President of Finance), as well as members of the MATC District Board and officials from AFT Local 212, for their assistance in providing information on the college's finances.

Finally, we wish to thank the Northwestern Mutual Foundation for the grant funding that made this research possible.

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Study authors:

Douglass Day, Researcher
Vanessa Allen, Researcher
Rob Henken, President

Editing assistance:

Anneliese Dickman, Research Director
Jeff Schmidt, Researcher

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EXECUTIVE SUMMARY

Three months ago, a front page Milwaukee Journal Sentinel article provocatively asked: "Does Milwaukee have enough college graduates to thrive?" While not definitively answering the question, the article strongly suggested that "at a time when knowledge is the critical force driving economic prosperity, Milwaukee faces an increasing disadvantage" in competing with other metro areas given its comparatively low number of college degree-holders**.**

Some may quibble with the newspaper's overall assessment, but few would disagree that the Milwaukee Area Technical College (MATC) will play an increasingly vital role not only in improving Milwaukee's college degree attainment levels, but also in providing tens of thousands of its citizens with their only opportunity to receive the education and skills required to succeed in the 21st century economy.

Indeed, MATC often is the forgotten stepchild in discussions surrounding the region's economic future. Despite enrolling nearly 50,000 students each fall, and despite the high proportion of Milwaukeeans working at jobs requiring more than a high school diploma but less than a four-year college degree, MATC floats largely under the region's economic development radar screen.

From a local government finance perspective, MATC also receives scarce public attention. Yet, it will receive nearly $150 million this year from local property taxpayers – more than half the amount collected individually by the City of Milwaukee, Milwaukee County and the Milwaukee Public Schools, where highly publicized budget battles rage annually.

Given the increased importance of this major institution in the region's local economy and education infrastructure, and in light of the huge financial challenges facing other local taxpayer-funded entities, the Public Policy Forum has conducted a third-party assessment of MATC's fiscal condition. Using the same respected fiscal monitoring system employed last year for award-winning reports on Milwaukee County and the City of Milwaukee, we analyze fiscal trends, compare MATC to other state and national technical colleges, and examine the college's financial challenges and their consequences.

We find an institution that has enjoyed relative financial stability for many years, but that now faces stark challenges. From 2005 to 2009, when property values were rising, MATC had growing reserves, well-staffed programs and services, and the wherewithal to undertake ambitious new projects. With the recession, however, MATC's financial condition has changed markedly, and the college now is threatened by a sizable and growing fiscal imbalance and limited options to address it.

Key findings from our analysis of the fiscal condition of the Milwaukee Area Technical College:

- Because property tax revenues constitute about 60% of MATC's operating funds, the economic downturn creates even bigger revenue challenges for the college than it does for other local governments and school districts. MATC's annual budget has mirrored the ups and downs of the real estate market, with revenues climbing much faster than the rate of inflation from 2005 to 2009, and then falling in the next two years. Consequently, the college now has difficulties meeting expenditure needs at a time of increasing demand for its services.

- MATC's funding from the state declined by about $2 million from 2005 to 2009. Since MATC is less dependent upon state funds than other local governments, the college was able to weather the impact of declining state aid during that period with little problem. Now that it has lower overall revenue growth, the level of state aid is a more critical issue for the college's financial well-being.

- Student charges have constituted MATC's fastest growing financial resource, with tuition and fees rising from a budgeted $31 million in 2005 to a budgeted $47 million in 2011. Tuition rate increases of nearly 40% have fueled this revenue growth, raising questions about impacts on student access.

- Fringe benefit and salary increases were responsible for about three-quarters of all expenditure growth in the five years under review. Comparative data from 2005 to 2008 shows that MATC's health care expenditures rose by 35% during this period – more than twice as fast as those at Milwaukee County and the City of Milwaukee.

- The imbalance between ongoing revenues and expenditures will continue to grow unless addressed by substantive budgetary action. Our analysis estimates an annual structural gap that will reach $11 million to $62 million within the next five years.

Despite these growing challenges, our analysis finds significant potential capacity to respond. When compared with the 15 other members of the Wisconsin Technical College System (WTCS), MATC has the highest average faculty salary and one of the lowest student-to-faculty ratios. Meanwhile, when compared with 84 other large public two-year technical and community colleges nationally, MATC ranks *number one* in expenditures per full-time equivalent student with regard to total operating expenses, salary expenditures, and fringe benefit expenditures.

While cuts in faculty expenditures and personnel thus appear practicable, potential impacts on educational quality and graduation rates must be considered. Still, in light of its vast revenue challenges – over which it has little control – MATC leaders will need to debate whether the college can continue to afford current levels of compensation, benefits, and staffing. We suggest that as MATC leaders consider options to balance the budget, they revisit the college's mission, educational goals and role in the regional economy, and link budgetary decisions to a clear, measurable and transparent set of performance outcomes.

The analysis of MATC's fiscal condition and practices also offers opportunity for comparison with other local governments, particularly the City of Milwaukee and Milwaukee County. The report notes similar budget strategies used by the three entities in the face of spiraling health care and retirement costs, and flat or diminished state funding. A chief difference, however, has been their willingness to increase the property tax. Between 2005 and 2009, MATC's property tax levy increased 23%, as compared to the county's 14% and the city's 17%.

This finding has relevance to the current discussion about governance structure in Milwaukee County. In this instance, a locally appointed board, drawing heavily upon local revenue sources, has produced a large and well-funded technical college. Would an elected board have acted similarly and, if not, would quality have suffered? While this question cannot be answered by quantitative or qualitative research, the MATC experience offers valuable context with which to continue debating the appropriate structures for providing local government services in southeast Wisconsin.

INTRODUCTION

The Milwaukee Area Technical College (MATC) is one of the largest local taxpayer-funded entities in southeastern Wisconsin, ranking fourth in assets and budget behind Milwaukee County, the Milwaukee Public Schools, and the City of Milwaukee. The college's fiscal operations are complex and draw on multiple revenue sources, including nearly $150 million in property taxes annually.

This report provides an analysis of the fiscal condition of MATC. It constitutes the third in an ongoing series of fiscal assessments of local taxpayer-funded governments and institutions conducted by the Public Policy Forum. The first was an evaluation of the finances of Milwaukee County government published in March 2009, while the second was an evaluation of the City of Milwaukee government published in September 2009.

The report applies the financial evaluation system of the International City/County Management Association (ICMA) to MATC's finances. This analytical framework – which was created by ICMA in the early 1980s – is identical to that used by the Forum for its city and county financial analyses. Unlike many budgetary methodologies that rely solely upon a comparison of past trends and projected trajectories in revenues and expenditures, the ICMA system goes beyond budget balance to examine fiscal structure and characteristics.

The ICMA indicators assess underlying financial forces with regard to four types of solvency:

- Cash solvency, which refers to the ability to pay bills and meet payroll.
- Budgetary solvency, defined as the ability to generate enough revenues over a normal budgetary period to meet expenditures and not incur deficits.
- Long-run solvency, which examines the future costs of current fiscal decisions.
- Service-level solvency, or the "ability to provide services at the level and quality that are required for the welfare of the community and that its citizens desire."

The solvency indicators, as well as much of the supplementary material included in this report, are pertinent to fiscal analysis of any type of taxpayer-funded government or institution, no matter the nature of operations. The major financial issues confronting MATC, including examination of forces driving expenditure increases (such as salaries and health care costs), are analyzed, as are the long-range consequences of past budgetary decisions.

This report also explores the implications of MATC's heavy reliance upon a single revenue source, the property tax. Constituting about 60% of its operational resources, MATC's property tax levy has declined due to the recent downturn in property values, posing serious fiscal challenges to the college and raising questions regarding long-term financial and service solvency.

To complement the ICMA indicators, this report provides peer comparisons as a frame of reference. Data compiled by WTCS are an important data source, as MATC shares basic financial and governance structures with the state's other public two-year technical colleges. These data are particularly helpful in comparing the financing of MATC's operations with other WTCS colleges. Given that MATC also differs in fundamental ways from its Wisconsin peers, a separate section offers comparisons with similar large, two-year public institutions across the United States.

While MATC is an educational institution, it also can be considered a local unit of government, relying on the same taxpayer resources as cities, counties, and school districts. Consequently, in addition to comparing and contrasting MATC's financial situation with other technical colleges, this report probes how MATC's management of its finances might be compared to other Milwaukee-area local governments.

Overall, it is our hope that this report will serve as a resource for those wishing to learn more about the fiscal condition of one of our region's most important educational institutions – one that now is taking on even greater importance in light of the continued impacts of the economic downturn and new community-wide initiatives to increase the number of college graduates. In addition, this report is intended to provide broader context for ongoing discussions about the general manner in which local government functions should be funded and structured in southeast Wisconsin.

METHODOLOGY AND DATA

In order to provide a thorough and objective assessment of MATC's fiscal condition, this report relies on ICMA's Financial Trend Monitoring System, the purpose of which is to:

- *Examine local government financial condition – the forces that affect it and the obstacles to measuring it.*
- *Identify existing and emerging financial problems.*
- *Develop remedies for those problems.*

ICMA offers the kind of evaluation that rarely is possible during time-sensitive budget deliberations. The analysis strives for comprehensiveness and sophistication, seeking to take the temperature of a government's finances by examining underlying fiscal forces. The ICMA system helps a public body better understand the nature of its revenues and expenditures, as well as its long-term and current budget solvency. It also examines the government's cash position and how revenues and expenditures influence service levels.

The heart of the ICMA system is the selection of a group of indicators critical to local circumstances and the collection of information relevant to those indicators. The analysis tracks results for the selected indicators over a five-year period. ICMA does not provide a formula for interpreting the gathered information. Rather, the format organizes and presents data, and provides a context by which to reach considered opinion. As the ICMA handbook says:

> *Evaluating a jurisdiction's financial condition is a complex process…Not only are there large numbers of factors to evaluate, but many of them are also difficult to isolate and quantify. Relationships between the factors add to the complexity. Some are more important than others, but often this cannot be determined until all the factors have been assembled…No single indicator is conclusive.*

This report draws on a broad range of material, as the ICMA system intends, in order to assess MATC's fiscal health. Major data sources include:

- MATC's financial records and documents, such as its comprehensive annual financial report (CAFR) and the annual activity plan and budget.
- Other financial records graciously supplied by college fiscal staff.
- Fiscal and enrollment data, as well as more general information, displayed on MATC's website and the WCTS website.
- Reports produced by the Wisconsin Legislative Audit Bureau and Legislative Fiscal Bureau about MATC and WTCS finances during the past decade.
- A wide variety of secondary sources and organizational websites.

The data presented in the tables and graphs represent the most recent information for which comparative analysis is possible, meaning that 2009 data are most commonly used, though in a few cases 2007 and 2008 data are used instead. At times, tables use data from different years or different data sources in order to provide a variety of comparative analyses. Consequently,

numbers cited for certain MATC characteristics – such as student-to-faculty ratio and property tax support – may differ slightly from table to table.

To produce an "environmental" analysis, the report draws upon the U.S. Census' American Community Survey and other census data. Data for the University of Wisconsin System come from the system's website and the National Center for Educational Statistics (NCES). Information about MATC's two-year institutional peers was gathered from NCES' Integrated Post-Secondary Educational System (IPEDS), the most authoritative resource on U.S. college and university financial characteristics. These peers were self-identified by MATC in its annual submission to IPEDS.

MILWAUKEE AREA TECHNICAL COLLEGE: THE BASICS

MATC is the largest public two-year college in the state. Its post-secondary enrollment of 13,464 full-time equivalent students (FTEs) represents 19% of the state technical college system's total post-secondary enrollment, and exceeds the 9,135 FTEs at the University of Wisconsin system's 12 public two-year colleges.

These students may choose among 200 academic programs across four campuses. MATC's facilities total 2.9 million square feet, more than double that of the next largest WTCS college. The institution employs about 2,000 staff.

With a 2010 annual operations and grants budget of $250 million, MATC is the third largest public higher education institution in Wisconsin, trailing only the "doctoral" campuses of UW-Madison ($2.5 billion) and UW-Milwaukee ($478 million).

Mission

MATC is a "comprehensive" two-year public institution offering a wide range of educational programs and affirming a strong commitment to academic excellence.[1] While using "technical" in its title and having a strong vocational focus, its programmatic mission is akin to that of a community college. MATC offers the same types of programs as two-year public community colleges and possesses an operational and financial profile characteristic of these institutions.[2]

Technical and community colleges sometimes are viewed as an alternative to a four-year college or university and a way for a student to "try out" college. These institutions, however, are no mere post-secondary alternative. They serve a broader range of the population than four-year colleges and universities, and they emphasize student access and local community needs when establishing programs, services, and operations.

Programs

MATC offers both vocational and traditional college academic courses for the first two years of post-secondary education. About half of MATC's FTEs (6,643 in 2009) study for an applied associate degree. These programs are vocationally oriented, generally two years in length, and include occupational coursework. For example, MATC's applied associate degree for dietetic technicians requires students to complete 70 academic credits in 21 occupational courses in subjects such as food science, food service management, and medical nutrition therapy. This program also requires students to enroll in three general study courses, choosing from a list of options in English, mathematics, economics, history, psychology, or nutritional science.

A smaller percentage of vocational students are enrolled in the college's technical diploma and certificate programs (1,472 FTEs in 2009). Technical diplomas are earned in one or two semesters and impart specific vocational competencies. For instance, the college's technical

[1] The college's vision statement reads "MATC is a premier, comprehensive technical college that provides excellence in education to enrich, empower, and transform lives in our community."
[2] The Carnegie classification system for higher education groups MATC among two-year public colleges.

diploma for renal dialysis requires the completion of seven occupational courses in subjects such as the hemodialysis of laboratory procedures. It also includes two eight-week clinical practicums, as well as three general studies courses. Certificate programs often are shorter in duration and lack the general education component of technical diplomas.

MATC offers applied associate degrees, technical diplomas and certificates in its five academic divisions: health occupations; liberal arts and sciences; business; technology and applied science; and television and video production. The college lists 26 health occupational programs and 46 programs in technology and applied science, while business boasts more than 90 programs in such diverse fields as real estate, graphic design, information technology, cosmetology, baking, and banking and financial services.

The second largest – and fastest growing – degree program at MATC is the associate degree in arts or science (3,492 FTE's in 2009). This liberal arts program is for students who plan to transfer to a four-year private college or university to complete a baccalaureate degree. Of the 16 WTCS institutions, MATC is one of five that offers this general degree, and together with the Madison Area Technical College enrolls about 95% of the system's college transfer enrollment.

To facilitate the transfer process, MATC has "articulation agreements" with 46 private and public universities. These agreements specify the academic courses at MATC that students must successfully complete (and for which they will receive transfer credit) in specific degree programs. MATC has 10 articulation agreements, for example, with Alverno College in fields such as elementary education and nursing. More generally, MATC has broad transfer agreements with UW-Milwaukee and UW-Madison that facilitate student academic progress towards baccalaureate completion.

Many students also enroll at MATC in courses that do not offer college credit. Those include college preparation/basic skills, adult high school, general equivalency diploma (GED), and English as a Second Language/bilingual programs. MATC enrolled 25,000 non-postsecondary students this past year, many times the number enrolled by other WTCS institutions. Most such students in these programs take only a course or two. On an FTE basis, non-postsecondary students comprise about 14% of MATC's total enrollment.

Finally, MATC provides community service programming and short-term occupational skills and training on a contractual basis with local employers. The students served under these agreements are not included in the college's enrollment counts.

Student access

Community colleges, unlike four-year institutions, have open admissions policies. Entering students take a placement test that determines the level of education and program appropriate for them, as opposed to whether they are qualified to attend the institution. Two-year institutions also are intended to be low-cost in order to promote access and help disadvantaged students, in particular, succeed.

MATC designs its programs to be accessible. Coursework is offered at times and locations that are convenient to adults who often have job and family responsibilities that make it difficult to

enroll full-time. In addition, MATC class sizes are relatively small, which facilitate the ability of faculty to teach students from varying backgrounds.

The average age of an MATC student is 27, reflecting the college's attraction to working adults who seek to upgrade skills and improve job prospects. The student body includes those with baccalaureate and graduate degrees returning for additional technical education, as well as "reverse transfers" from public and private colleges and universities. MATC also has a large enrollment of women (51%) and minorities (48%). In fact, MATC has about one half of all African-American enrollment and one third of all Hispanic enrollment in WTCS institutions.

Finally, MATC promotes access by charging its students costs that are less than those charged by four-year public and private universities. Part-time enrollment, meanwhile, allows students to earn a living while attending school.

MATC BY THE NUMBERS - 2009

General information	
Year founded	1912
Campuses	4
Facilities	2.9 million sq. ft.
Faculty	980 FTE
Governing board members	9
Finances	
Total annual operations expenditures	$192 million
Total annual operations revenues	$200 million
Property tax levy (operating and debt service)	$146 million
Vocational tuition	$101/credit hr
College-transfer tuition	$136/credit hr
Programs and enrollment	
Total programs	approx. 200
Total enrollment	approx. 50,000
Full-time equivalent (FTE) enrollment	13,464 FTE
Female students	51%
Minority students	48%
Average age of MATC students	27
FTE Enrollment by program:	
College transfer/associate degree in arts or science	3,492 FTE
Applied associate degree	6,643 FTE
Vocational and non-post-secondary	3,327 FTE

Governance and local focus

In 1907, Wisconsin became the first state to enact a trade school law granting cities permission to create industrial schools for students 16 years or older. In 1911, Wisconsin again enacted ground-breaking legislation by establishing a system of state support for vocational education and by requiring employers with apprenticeship agreements to release 14- to 16-year-olds for part-time attendance at any local trade school in the area. The next year, the Milwaukee Vocational School was founded, which was the forerunner of MATC.

This close interaction of state and local authority is evidenced today by the principle of "shared governance." WTCS develops overall policies, plans and standards; approves courses of study and personnel qualifications; sets uniform tuition and fee rates; and administers state and federal aid. Local college districts, meanwhile, are responsible for levying property taxes, providing facilities and equipment, employing staff, and contracting for services. Local districts also develop personnel policies and procedures, most of which are negotiated with local labor unions.

Coexisting with this separation of responsibilities is the presence of a strong district board that constitutes a local unit of government. MATC's board is comprised of nine appointed members who serve three-year terms.[3] In order to promote broad representation from diverse constituencies, state statutes require the board's membership to include employers, employees, elected officials, and a school district administrator.

Unlike liberal arts colleges and research universities, whose attention often is statewide, regional, or even national in scope, technical colleges attach great importance to meeting local educational needs and have considerable flexibility and independence. MATC's own emphasis on local control is seen in a policy statement first adopted in 1969 – and reissued in 2007 – asserting that "local control has demonstrated its competence in the past and the growth of MATC can be traced to the cooperative success of business, labor, and school leaders responding to community needs. The district board shall oppose all attempts to eliminate local control of MATC."

Because about three-quarters of MATC's graduates take jobs in the Milwaukee area, students' vocational choices play a strong role in program development. Program configuration and capacity are designed to suit the structure and direction of the regional economy, and graduates have skills suited to the local job market. Hundreds of working professionals participate in the college's occupational advisory councils, which advise on workforce practices and educational curricula. Similarly, the college's learning labs are state-of-the-art in their respective industries.

Finally, MATC is deeply involved in the local community. For example, to promote general education and economic development, the college runs a public television station and operates an incubator for new business start-ups. More recent initiatives include MATC's creation – in cooperation with Johnson Controls – of the largest solar farm in Wisconsin, a $6.9 million undertaking to train students and local professionals in a variety of renewable energy technologies; and its Oak Creek campus' Center for Energy Conservation and Advanced Manufacturing, a $9 million state-of-the art facility financed with substantial support from local manufacturers, corporations, and labor unions.

[3] A committee of members of K-12 school boards within the district boundaries makes the appointments.

MATC'S ENVIRONMENTAL INFLUENCES

In the short run, a local government's fiscal condition is determined by how well it manages its finances and lives within its means. In the long run, however, fiscal health becomes a more complex phenomenon, as the environment in which a government operates can have a determinative impact. The ICMA methodology dictates an environmental analysis, one of the central purposes of which is to assess whether "environmental factors provide enough resources to pay for the demands they make." Stated differently, the economy, wealth, and tax effort of a region must generate sufficient revenue to meet requested levels of service.

SUMMARY OF ENVIRONMENTAL INFLUENCES

The Milwaukee metro area ranks lower than most of its peers in regard to income and wealth. It ranks higher than most, meanwhile, on indices of social distress (such as poverty, unemployment, and failure to complete high school), which contribute to strong demand for local government services. As such, there is a large constituency and need for the type of educational programming offered by MATC. The Milwaukee region has a higher proportion of its population working at middle-level jobs (requiring more than a high school diploma but less than a baccalaureate degree), and a large portion of the population has not earned a post-secondary degree. In fact, Milwaukee County has a lower percentage of its residents with an associate degree than most major Midwest counties.

Increasing degree attainment has become a major economic development and political issue, and increasing community college degree completion has become a central part of this policy effort. Given the size and stature of MATC within the state, it may increasingly find itself subject to heightened demands to lead efforts to improve degree attainment.

Demand and need for MATC services

Entering into the recession, Milwaukee's economy was considered to be stronger than many other regions. This was due, in part, to diversification and service sector growth, expansion of small and specialized industries, and more aggressive exporting. In addition, the city's population had stabilized after years of decline. However, even prior to the recession, many of the city's residents were under considerable distress. High levels of poverty, crime, and unemployment created great demand for local government services.

Today, we find Milwaukee ranks next to last among the 11 largest Midwest urban counties in mean income per capita and second in poverty; ninth in median household income; second highest in percentage of the population with less than a high school diploma; and tied for seventh in unemployment over the previous year. Only Wayne County (home of Detroit) ranks consistently lower on these indices.

These findings indicate the need for a better educated workforce in Milwaukee is great. **Table 1** shows the proportion of the population most likely to benefit from community college programming. The table shows that Milwaukee ranks third among the 11 urban counties in terms of persons whose highest level of educational attainment is a high school diploma, and second in terms of those who might logically be served by a technical or community college – adults lacking either a high school or college degree.

Table 1: Adult service population of two-year colleges, major Midwest counties

COUNTY	HIGHEST DEGREE ATTAINED*			
	LESS THAN HIGH SCHOOL	HIGH SCHOOL DIPLOMA	SOME COLLEGE	TOTAL
Wayne, MI (Detroit)	17.4%	33.2%	23.0%	73.6%
Milwaukee, WI	**15.6%**	**31.0%**	**20.4%**	**67.0%**
Jackson, MO (Kansas City)	12.7%	30.4%	23.5%	66.6%
Marion, IN (Indianapolis)	15.7%	30.7%	19.7%	66.1%
Cuyahoga, OH (Cleveland)	14.1%	30.7%	20.6%	65.4%
Kent, MI (Grand Rapids)	12.5%	27.3%	22.5%	62.3%
Cook, IL (Chicago)	17.7%	25.6%	18.7%	62.0%
Hamilton, OH (Cincinnati)	13.5%	29.3%	18.4%	61.2%
Franklin, OH (Columbus)	11.5%	27.3%	19.8%	58.6%
Alleghany, PA (Pittsburgh)	8.7%	32.6%	16.6%	57.9%
Hennepin, MN (Minneapolis)	7.9%	20.7%	20.8%	49.4%

** Adults age 25 and higher*
Source: U.S. Census, American Community Survey, 3-Year Estimate, 2006-08

Understanding the size of this population is important, because Wisconsin has a greater proportion of "middle-level jobs" than the rest of the nation, and these types of jobs are predicted to undergo a higher-than-average rate of growth in the next decade.[4] "Middle-level jobs" require more than a high school education but less than a baccalaureate degree. They include skilled and technical occupations such as carpenters, nurses, and customer service representatives. Community and technical colleges offer training for these jobs, as do apprenticeship programs, community centers, and for-profit career schools with post-secondary programs.

Previous Forum research also has found that the metro Milwaukee ranks highly when compared with other regions on the number of middle-skilled jobs, concluding that "while the region's skilled jobs as a percentage of all occupations is comparable to other (metropolitan regions), Milwaukee's skilled and technical jobs per 1,000 people at 74.4 exceeds all the comparison leader and peer regions…the Milwaukee region continues to see an increase in skilled jobs, growing by 8.6% between 2005 and 2008. Only Portland experienced a larger jump."

Despite the demand and need for public two-year education to create the workforce to fill those jobs, Milwaukee County has lower levels of associate degree attainment than many other

[4] Center on Wisconsin Strategy, 2009.

regions. **Table 2** shows that 6.7% of Milwaukee's adult population has an associate degree and that the county ranks seventh among the 11 Midwest counties on this measure.[5]

Table 2: Persons with an associate degree,* major Midwest counties

COUNTY	DEGREE
Allegheny, PA (Pittsburgh)	8.6%
Kent, MI (Grand Rapids)	8.1%
Hennepin, MN (Minneapolis)	7.8%
Hamilton, OH (Cincinnati)	7.4%
Jackson, MO (Kansas City)	6.9%
Wayne, MI (Detroit)	6.9%
Cuyahoga, OH (Cleveland)	6.7%
Milwaukee, WI	**6.7%**
Marion, IN (Indianapolis)	6.4%
Cook, IL (Chicago)	6.2%
Franklin, OH (Columbus)	6.1%

** Adults age 25 and higher, highest degree obtained*
Source: U.S. Census, American Community Survey, 3-Year Estimate, 2006-08

Increasing degree attainment

There is growing consensus among urban and economic development leaders that a region's economic health is linked to its college degree attainment. Widespread use of technology in all types of jobs and industries has made post-high school education a prerequisite for those seeking decent-paying jobs. Moreover, substantive increases in educational attainment in nations with whom the United States competes highlight the growing interconnection between a population's education level and its prosperity. Unfortunately, the percentage of persons in the U.S. with a college diploma has stagnated after decades of pronounced growth.

Many of the national, state and local policy efforts to achieve higher levels of post-secondary educational attainment have been directed at community and technical colleges. For example:

- In July 2009, President Obama called for a "Graduation Initiative" to increase the number of community college graduates in the United States by five million and to ask every American to commit to at least one year of higher education.

- The Health Care and Education Reconciliation Act, passed by Congress in 2010, included an additional $2 billion for competitive grants for community colleges (although not the $10 billion the president requested).

[5] Milwaukee County falls to 10th position when degree attainment is broadened to include baccalaureate and graduate degree holders. Milwaukee County has 33% of its adult population with an associate degree or higher, ranking it lower than all counties except for Wayne County (27%) on this educational measure. Hennepin County in Minnesota has the highest percentage of its population (51%) with an associate degree or higher.

- In April 2010, six national associations with community college affiliations (such as the American Association of Community Colleges and the Association of Community College Trustees), working in close cooperation with the Bill and Melinda Gates Foundation, issued a joint "pledge" to increase community college completion rates and, thereby, raise national educational attainment.

- In July 2010, Governor Joe Manchin III of West Virginia announced that increasing degree attainment would be the focus of his year-long term as chair of the National Governors Association.

Increasing local degree attainment also is an issue that is gaining traction in Milwaukee. The UW System proposed an initiative to generate an additional 80,000 degrees across the state over the next 15 years, with an additional 14,000 at UW-Milwaukee alone. The Greater Milwaukee Committee, meanwhile, has undertaken a "talent dividend" project to expand the number of adults with four-year degrees in southeast Wisconsin. The Committee's strategies to spur degree production include facilitating transfers from two-year to four-year schools and encouraging adults with some college to finish their degree.

Finally, in June 2010, the Milwaukee Journal Sentinel produced a special report and penned a sharp editorial calling attention to the low level of college educational attainment of city residents and urging that efforts be taken to remedy this deficiency.

Collectively, these factors indicate that the role of Wisconsin's largest technical college is growing in importance. That suggests, in turn, that careful consideration is merited of MATC's financial capacity to meet the community's expanding needs and expectations.

BUDGETARY SOLVENCY: REVENUES

A key feature of any fiscal assessment is whether revenues are increasing at a rate sufficient to sustain existing levels of services and program operations. The ICMA handbook states that "under ideal conditions, revenues would grow at a rate equal to or greater than the combined effects of inflation and expenditure."

Since local governments and public education institutions rely upon multiple revenue sources, ICMA emphasizes that solvency may reflect decisions not just about whether or how much to increase taxes and fees, but also about the nature and relative proportion of revenue streams. Whether an institution relies mainly upon the property tax, tuition and fees, or external state support can make a significant difference in its fiscal circumstances.

The ICMA system, therefore, encourages close examination of a government's revenue *characteristics* and highlights the importance of revenue flexibility and dependability. In the ICMA organization's professional judgment, a local government's fiscal condition is strongest when it has diverse revenue sources that are not overly dependent upon external factors, when a significant portion of its revenues vary with the rate of inflation, and when its revenues are flexible and free from spending limitations.

SUMMARY OF REVENUE FINDINGS

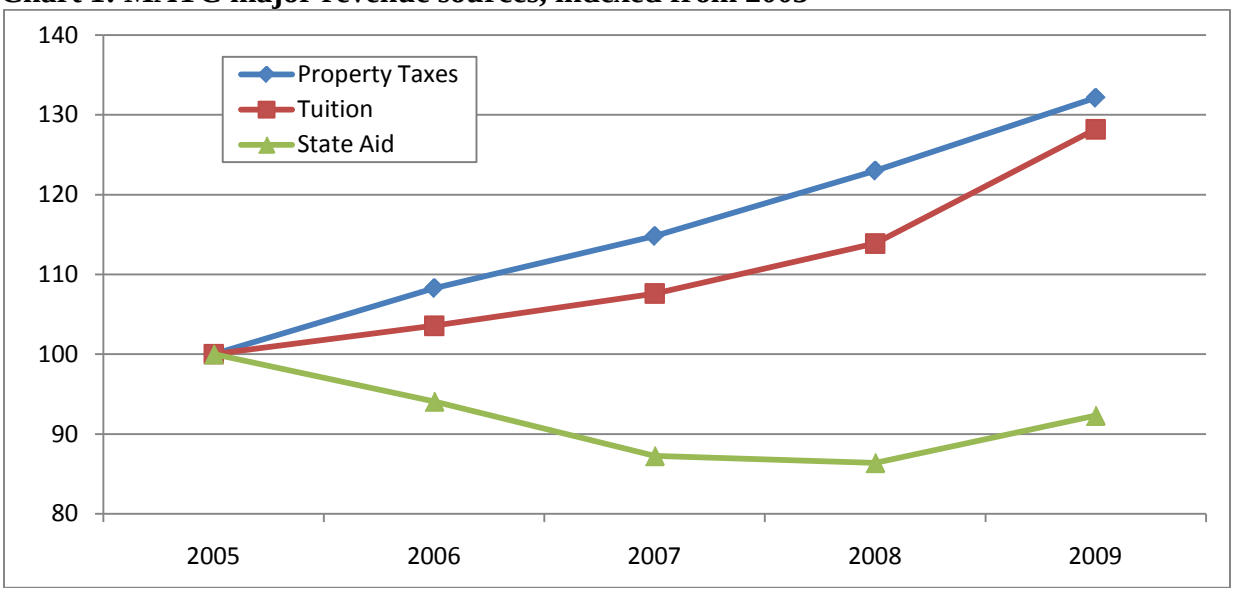
MATC's most distinctive revenue feature is the amount and percentage of funds that it receives from the property tax, which comprises about 60% of its revenue budget. During the past decade, MATC's fiscal health has been closely tied to district property values. From 2005 to 2009, when commercial and residential real estate values rose sharply, MATC's operational funds grew at a rate greater than inflation, and property tax revenue represented 83% of total revenue growth.

With the recession, however, property values and the college's associated property tax revenues have halted their upward trend, declining in both 2010 and 2011. The growth in other revenues has not been sufficient to offset this loss. Insufficient revenue growth – coupled with growing expenditure demands – has created significant budget challenges.

Tuition has become the college's second-largest fiscal resource, overtaking state funding. Growth has been driven by annual tuition increases, a recent spike in enrollment, and a changing student mix. Tuition increases, which are set by the WTCS board, have outpaced growth in student and family income and diminished affordability.

State aid declined by 8% from 2005 to 2009 and has decreased throughout the decade. During most of this period, growth in other revenues was sufficient to offset the decline in state aid (see **Chart 1**). In the 2010 and 2011 budgets, however, the consequences of diminishing state aid became more obvious and detrimental.

Chart 1: MATC major revenue sources, indexed from 2005



Source: MATC financial records

Major revenue sources

MATC has three major operating revenues: property taxes, state aid and tuition. As shown in **Table 3**, property taxes comprised over half of all operating revenues in 2009 at $120 million. Tuition was the next largest revenue source at nearly $35 million, representing 17% of all operating revenues. State funds were third at $28 million, which amounted to 14% of all operating revenues.

In contrast to many large municipal and county governments and four-year universities, MATC receives only a small proportion of its operating revenue from federal funds or from program revenue (often called charges for service by local governments and operational receipts by universities). Revenues related to capital funding and business-related activities, such as the bookstore, food service, and childcare, are not classified as operating revenue and, therefore, are excluded from the table.

Table 3: Major MATC operating revenues, 2009

REVENUE	2009	PERCENT OF TOTAL
Property Taxes	$120,181,852	60.1%
State	$27,964,995	14.0%
Tuition	$34,648,109	17.3%
Federal	$5,846,192	2.9%
Fees	$4,513,490	2.3%
Miscellaneous	$6,915,308	3.5%
TOTAL	**$200,069,946**	**100.0%**

Source: MATC financial records

Property tax revenue

The revenue structure of MATC and Wisconsin's other technical colleges originated in the 1960s in response to enrollment pressures from the baby boom. Wisconsin, like other states, met this escalating demand by establishing new institutions, building classrooms, and creating financial structures that supported enrollment expansion. Federal funding for facilities and student financial aid buttressed state efforts.

A key part of the state's higher education initiative was the creation of a comprehensive technical college *system*. In 1965, legislation was enacted that divided the state into regional districts so that all residents were served by a two-year technical college. A key component of the new system was the incorporation into districts of many suburban and rural areas heretofore not receiving services from – nor paying taxes to – technical colleges. The new law also required property taxes to be calculated on the basis of a district's equalized valuation, rather than on the basis of local tax evaluations, which usually were pegged at a lower rate. In addition, the taxing capacity of districts was enhanced by a provision that removed debt service from the mill rate ceiling.

During the 1960s and 1970s, the state also implemented an aid formula that was designed to be responsive to enrollment and cost growth, and that partly offset differences in property wealth across districts. The state also established a methodology for the calculation of tuition and fees, with a new state board assuming authority for setting uniform rates across the technical college system.

The budgetary consequences of the 1960s legislation for MATC, then called the Milwaukee Vocational and Adult School, were significant. In 1960, the college had $4.1 million in operational revenues, of which $3.8 million, or 93%, was derived from the property tax. By 1970, the college's operating budget had nearly quadrupled to $15.1 million. While increases in state, federal, and tuition funding caused the property tax share to decline to 57% of all funding, property tax revenue still grew more than any other funding source in actual dollars, increasing by $4.7 million during the decade.

With its new policies, the state had created a revenue structure under which all financial resources could expand. This approach differed from many other states that developed their community college systems with little reliance on the property tax.

While the state-created financial structure relies heavily on local property taxes, individual colleges retain control over raising and spending this resource. Consequently, considerable variations exist among Wisconsin's different technical college districts with regard to tax rates and revenue (**Table 4**). MATC – which has the largest enrollment of any WTCS institution – not surprisingly had the largest tax levy of any district in 2009 at $146 million. When measured by tax levy per capita, MATC ranked fourth highest.

When property tax reliance is evaluated as a percentage of overall revenue, MATC ranks slightly above average. In 2009, local revenue as a percentage of operating funds ranged from a high of 74% for Nicolet Technical College, to a low of 47% for Fox Valley Technical College. MATC's 60% ranked sixth among the 16 WTCS institutions and above the WTCS median of 55%.

Table 4: Tax levy per capita – WTCS institutions, 2009

INSTITUTIONS	TAX LEVY*	LEVY PER CAPITA
Nicolet Area Technical College	$20.14	$230
Blackhawk Technical College	$20.63	$189
Waukesha County Technical College	$58.90	$149
Milwaukee Area Technical College	**$146.02**	**$140**
Northeast Wisconsin Technical College	$55.02	$132
Western Technical College	$31.82	$124
Fox Valley Technical College	$56.23	$123
Madison Area Technical College	$87.43	$123
Northcentral Technical College	$28.83	$122
Gateway Technical College	$53.91	$118
Southwest Wisconsin Technical College	$14.12	$111
Chippewa Valley Technical College	$33.47	$110
Moraine Park Technical College	$33.67	$109
Wisconsin Indianhead Technical College	$34.71	$109
Mid-State Technical College	$18.68	$108
Lakeshore Technical College	$20.97	$102

** In thousands*
Source: Wisconsin Legislative Fiscal Bureau

Technical colleges are not subject to the same limitations on property tax increases that apply to municipalities (currently 3% per year or the value of new construction), but rather must maintain their tax or mill rate for operations at or below $1.50 per $1,000 of equalized property value. As shown in **Table 5**, there were two technical college districts that reached the 1.5 mill rate maximum in 2009: Milwaukee and Fox Valley. Many districts' mill rates were far below this ceiling, with about half at less than 75% of the limit. Once at the tax ceiling, a college's property tax revenues can vary only with increases or decreases in property value. Below the ceiling, a college can increase the mill rate and, thereby, add to, or compensate for, any change in district property value that may occur.

The state does not set a mill rate limit for capital funding. However, districts cannot borrow beyond 2% of their equalized value. They also must seek approval in a public referendum for any new building project of more than $1 million (federal and private funds are not counted in the total) and for any remodeling and/or improvement project that requires the issuance of $1 million or more in debt. Milwaukee's debt service mill rate was 0.34 in 2009, placing the college fourth in total mill rate at 1.84 among WTCS institutions. Western Technical College had the highest rate at 1.93 and Wisconsin Indianhead Technical College the lowest at 0.99.

Table 5: Operational mill rates – WTCS institutions, 2009

COLLEGES	MILL RATE
At 1.5 State Mill Rate Limit	
Milwaukee Area Technical College	**$1.50**
Fox Valley Technical College	$1.50
Within 90% of 1.5 State Mill Rate Limit	
Western Technical College	$1.49
Northcentral Technical College	$1.47
Southwest WI Technical College	$1.40
Within 75 % of State 1.5 Mill Rate Limit	
Blackhawk Technical College	$1.32
Chippewa Valley Technical College	$1.23
Mid-State Technical College	$1.21
Lakeshore Technical College	$1.18
Below 75% of 1.5 State Mill Rate Limit	
Moraine Park Technical College	$1.10
Madison Area Technical College	$1.09
Gateway Technical College	$1.08
Northeast Technical College	$1.05
Waukesha Area Technical College	$0.94
Nicolet Area Technical College	$0.92
WI Indianhead Technical College	$0.84

Source: Wisconsin Legislative Fiscal Bureau

Table 6 yields additional insight into the degree to which Milwaukee residents support public two-year post-secondary education. The table shows the local and state dollars budgeted to MATC and to University of Wisconsin colleges and universities located in or near southeastern Wisconsin. These figures indicate that when state and local funds are combined, MATC receives more tax funds than other nearby public higher education institutions (MATC ranks second below UW-Madison in the state). MATC also leads when state and local funding is calculated on a student FTE basis. In 2010, MATC received $9,958 in state and local taxes per student FTE, while UW-Milwaukee received $5,322 per FTE and UW-Colleges $3,302.

Table 6: Local and state tax funding – MATC and regional UW colleges and universities, 2008

INSTITUTIONS	BUDGETED TAX RESOURCES		
	LOCAL REVENUES	STATE REVENUES	TOTAL STATE AND LOCAL
MATC	**$112,950,443**	**$26,884,900**	**$139,835,343**
UW-Milwaukee	$0	$132,549,274	$132,549,274
UW-Whitewater	$0	$32,427,773	$32,427,773
UW-Colleges	$0	$32,035,354	$32,035,354
UW-Parkside	$0	$26,874,089	$26,874,089

Source: MATC 2008 Activity Plan and Budget and University of Wisconsin System: 2008-09 Budget Redbook
Note: UW Colleges includes all 12 year two-year institutions plus UW Colleges online

MATC's reliance upon local revenue puts it in a unique position not only in comparison with the state's public universities, but also with regard to local governments in southeast Wisconsin. In fact, as **Table 7** indicates, MATC is more dependent upon the property tax than other local units of government. This table compares MATC's total property tax levy (including the levy for debt service) in 2008 with the general operations levy of other major local units of government in metro Milwaukee. The table shows that property taxes constituted 59% of MATC's 2008 operational revenues, while they only represented 21-27% of the general operational revenues of Milwaukee County, Milwaukee Public Schools, and the City of Milwaukee.

Table 7: Reliance upon the property tax
Major local governments in Metro Milwaukee, 2008

LOCAL GOVERNMENT	TOTAL PROPERTY TAX REVENUES*	LEVY FOR GENERAL OPERATIONS	
		LEVY	% OF TOTAL
Milwaukee County	$251,495	$251,495	23.2%
Milwaukee Public Schools	$251,077	$234,101	21.3%
City of Milwaukee	$227,637	$141,573	26.5%
MATC	**$139,064**	**$111,873**	**58.6%**
Milwaukee Metropolitan Sewerage District	$80,729	$0	0.0%

** In thousands*
Source: MATC financial records & CAFR

There has been some scattered protest from outlying parts of the MATC district about the level of the college's property taxes and property tax increases. In 2008, the Germantown School District petitioned WTCS to secede from the Milwaukee district and be reassigned to the Moraine Park district, a request the state board denied. The mayor of Greenfield, located in Milwaukee County, also advocated at the time that the city consider joining the Waukesha Technical College district. The city of Greenfield, however, did not formally petition the WTCS board to request such a move.

The difference in district mill rates clearly was a factor in the redistricting discussion. MATC's mill rate of $1.50 compares with Moraine Park's $1.10 and Waukesha's $0.94. In recent years, the Wisconsin Assembly also has debated legislation to require board members of technical colleges to be elected rather than appointed by select committees, as is current practice. Sponsors of the legislation – which was not adopted – have argued that only elected boards should have taxing authority.

Despite these expressions of tax protest, MATC's tax rate has not become a major local issue. This may be attributable to the fact that MATC taxes constitute only a small portion of a district resident's property tax bill, and that property taxes assessed by other local units of government, such as Milwaukee County and the City of Milwaukee, have received the lion's share of attention. The average owner of a house valued at $150,000 in Milwaukee County, for example, paid $3,538 in property taxes in 2009 to schools, county and municipal governments, and other taxing units, such as the Milwaukee Metropolitan Sewerage District. That same homeowner paid $275 to MATC.

In sum, MATC's reliance upon the local property tax is its most distinctive revenue characteristic. This dependency has funneled revenues to the college when district property tax values have risen, but has placed MATC finances at risk when property values have declined or increased only nominally, as has recently occurred. The ICMA system advises that a mixture of revenues offers a more stable financial base in the long run than dependence upon only a single or a few revenues, as local tax revenue, state tax revenue, and other income sources all respond differently to changes in economic conditions.

Tuition revenue

Under legislation adopted in 1975, technical college tuition is calculated separately for vocational students and college-transfer students. College-transfer tuition must exceed 31% of its associated instructional costs, while the tuition of vocational post-secondary students must exceed 14% of instructional costs (this calculation is made on a statewide basis). Over the years, tuition rates at the state's technical colleges have risen beyond these percentages, climbing in 2009 to 37% for college-transfer and 18% for vocational students. In 2010, MATC's college-transfer students pay $136 per credit hour for tuition and fees, which amounts to $4,083 for a full-time student. Students in post-secondary vocational programs pay $101 per credit hour, or $3,042 for a full-time student.

State statutes also determine other elements of tuition policy. Out-of-state students are required to pay the full cost of their education (full-time students paid $10,967 for college transfer and $17,828 for vocational programs in 2009). Basic education students, such as those enrolled in ESL programs, are statutorily exempt from tuition charges but must pay a program fee. The WTCS board annually establishes individual program fees and there also is an additional fee for on-line courses. Individual colleges have limited authority to establish their own fees, which cover activities such as parking and books.

The WTCS board considers several factors in establishing tuition rates. In setting tuition for the 2010-11 year, the board created a special four-member working group. The board vice president reported that as part of its deliberative process, the group reviewed "historical information regarding tuition for the WTCS, UW System, and two-year institutions both nationally and within the Midwest region; property taxes; state aid; effect of tuition increases on students; student financial assistance; and district cost and FTE projections."[6] News reports point out that a key consideration for the WTCS board is to maintain WTCS tuition at about the same level as the tuition charged at UW two-year colleges. This practice allows students deciding between a UW college and a WTCS college to base the decision on academic offerings, rather than cost.

Tuition revenue at MATC and other community colleges is heavily influenced by enrollment, and changes in the number of tuition-paying students can strongly affect the overall level of budgetary resources.[7] Community and technical college enrollment, as a rule, is inversely

[6] WTCS Board Minutes, March 23-24, 2010, p. 2.

[7] In theory, tuition revenue also should reflect changes in the number of statutorily established tuition remissions granted to certain categories of students such as veterans, spouses and dependents of deceased veterans and state emergency personnel who died in service, and those over the age of 62. In practice, however, remission costs are either partially reimbursed by the state or they are shifted to the instructional cost pool and added to the bill of tuition-paying students.

proportional to economic growth. When times are good, enrollments may drop or stay stagnant. On the other hand, when times are bad, those who are out of work take courses to upgrade their skills and improve job prospects.

Interestingly, college-transfer enrollment has not followed this general trend, but rather has shown steady growth for more than two decades. In 2010, MATC had 3,782 college-transfer FTEs (27% of total FTEs), compared with 2,434 FTEs (21%) in 2000. Financially, the changing FTE mix works in MATC's favor. In 2009, each college transfer FTE yielded $1,041 more in tuition than a vocational or non-postsecondary FTE, while the FTE cost of a college transfer student was $6,861 less than that of a vocational student.

As noted previously, community college tuition in the U.S. historically has been kept low in order to encourage student access. Financial aid also lowers costs for many technical college students. **Table 8** presents tuition and financial data from the National Center for Educational Statistics that compares MATC tuition and aid with UW institutions in the region and UW-Madison.[8]

Table 8: Tuition and financial aid–-MATC and select UW institutions

	MATC	UW-COLLEGES	UW-MADISON	UW-MILWAUKEE	UW-PARKSIDE	UW-WHITEWATER
Tuition and Fees*	$4,083	$4,597	$8,310	$7,702	$6,276	$6,495
Financial Aid**						
% Receiving aid	53%	60%	69%	68%	71%	73%
% Receiving grants	35%	32%	62%	26%	42%	29%
Average grant	$3,574	$4,578	$3,375	$5,451	$5,657	$4,339
% Receiving federal grants	31%	26%	11%	22%	34%	19%
Average federal grant	$3,004	$3,308	$4,938	$3,881	$3,806	$3,773
% Receiving state/local grants	31%	26%	15%	21%	32%	19%
Average state/local grant	$960	$2,077	$2,463	$2,260	$2,456	$2,112
% Receiving institutional grants	1%	7%	60%	5%	9%	12%
Average institutional grant	n/a	$1,045	$1,198	$2,568	$2,847	$1,221
% Receiving loans	35%	41%	34%	58%	55%	59%
Average loan	$3,779	$3,450	$5,510	$5,443	$4,550	$4,654

**College transfer or resident, in-state undergraduate rates, 2009-10*
***Full-time, first-time degree seeking students, 2007-08*
Source: National Center for Educational Statistics, College Navigator

Two other points about the comparison between MATC and UW student costs deserve emphasis. First, MATC's lower tuition costs are offset to varying degrees by the greater availability of financial aid at UW institutions. At most UW colleges and universities, a higher percentage of students receive financial aid, and the average grant is higher than at MATC. Eligibility for aid is determined by federally established need criteria. The criteria consider variations in institutional charges, as well as individual student and family circumstances. In other words, a

[8] NCES collects financial aid data primarily for full-time, first-time degree-seeking students, and not part-time students. It should be noted that MATC has a much higher enrollment of part-time students than the other colleges cited in the table.

student might receive assistance at one school but not be eligible for aid at a less costly school because the aid formula finds he or she has the fiscal resources to meet the costs of the lower-priced institution.

Second, MATC uses little of its own institutional funds for financial aid purposes (at least for full-time students), even though many students incur substantial debt to attend. Given the area's demographics, the latter point is of particular concern for MATC, since research has shown that African-American and Hispanic students are less likely than traditional students to pursue a post-secondary education if they must take out a loan to do so.

State revenue

The State of Wisconsin provides aid to technical colleges for general operations and for 16 different categorical programs such as basic education, health care, and emerging occupations. In 2009, MATC received $28 million in state funds to support operations, of which $25 million (91%) was in the form of general state aid. MATC received a slightly larger share of its state funding in general aid than did the average WTCS institution (87%).

The state distributes general aid through a formula that considers qualifying institutional enrollments and certain costs deemed "aidable," such as the costs of associate degree/vocational/adult education programs and college-transfer programs. Operations funded from program revenue, federal and state contracts, student aid, and programs that provide community services or are under contract with high schools and businesses are not eligible for aid. The formula is an equalization formula, which adjusts for variations in property wealth in order to equalize the revenue available to spend on instruction.

Table 9: General state aid per student FTE – WTCS institutions, 2009

INSTITUTION	STATE AID	AID PER FTE
Western Technical College	$8,472,900	$2,240
Southwest WI Technical College	$3,610,800	$2,234
North Central Technical College	$6,968,400	$2,201
Milwaukee Area Technical College	**$25,379,200**	**$1,885**
Fox Valley Technical College	$11,639,200	$1,795
Blackhawk Technical College	$4,174,000	$1,770
Chippewa Technical College	$7,695,600	$1,746
Northeast WI Technical College	$11,271,000	$1,688
Mid-State Technical College	$3,687,500	$1,612
Lakeshore Technical College	$3,588,200	$1,600
Moraine Park Technical College	$4,524,500	$1,399
Madison Area Technical College	$12,691,900	$1,321
Gateway Technical College	$6,690,400	$1,290
Waukesha Area Technical College	$4,487,300	$1,056
WI Indianhead Technical College	$2,930,700	$999
Nicolet Area Technical College	$602,500	$551

Source: WTCS Fact Book

In 2008, state general aid supported, on average, 15.5% of WTCS districts' aidable costs. MATC's percentage was slightly higher than average at 16%. Because of equalization, districts vary greatly in how much of their cost is offset by general state aid (although the variations are not as great as under Wisconsin's K-12 school aid formula). Nicolet (4%) and Waukesha (8%) had the lowest percentage of their costs funded by state aid, while Western (24%) and Chippewa and Southwest (23%) had the highest share.

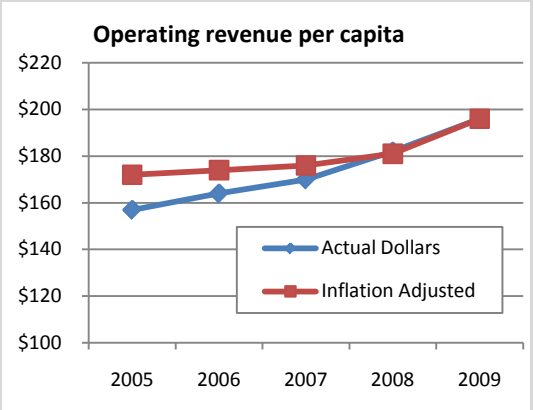
Because of the differences in overall level of costs and equalized property valuation, general state aid per student varies considerably by district. **Table 9** shows that state aid per student ranged from a high of $2,240 per student FTE at Western Technical College to a low of $551 per student FTE at Nicolet Technical College. MATC received $1,885 per student FTE, placing it fourth among WTCS districts.

ICMA Fiscal Indicator 1 – Operating Revenues Per Capita

Why it is Important – Steady levels of revenue generally are associated with stable operations and level of service.

ICMA Warning Sign – Increases in net operating revenues per capita in constant dollars raise issues of program and service sustainability.

MATC Finding – MATC experienced a 24% increase in operating revenues per capita, or 14% when adjusted for inflation. The ability of the college to sustain the increase in operations supported by this revenue growth is questionable, as is its ability to sustain such revenue growth in the future. This is an area that **requires monitoring**.



Source: MATC financial records & CAFRs

Revenue trends

The ICMA evaluation system applies multi-year analysis to determine whether institutional finances are stable, improving, or deteriorating. Overall revenue trends are an important indicator of an institution's capacity to continue existing levels of service. Individual revenue trends, meanwhile, can provide insight into whether changes in a particular revenue source are affecting an institution's operations. While decreases or increases in a given resource may be more than offset by changes in another, substantial changes even in a single revenue stream can place severe pressure on institutional budgets, fiscal structure, and long-term solvency.

To analyze MATC's revenue picture, three ICMA indicators are used in this report: total operating revenues per capita in constant dollars; local tax revenue in constant dollars; and intergovernmental revenue as a percentage of operating revenue. The analysis also examines changes in tuition revenue and tuition rates.

Trends in MATC's total operational revenue are shown in **ICMA Indicator 1** and **Table 10**. Revenues related to debt service, financing, business enterprises, and student grants are excluded from this analysis since they are not, by definition, operational. These figures indicate a substantial rise in overall operational revenue over the five years. Total actual revenue increased by $35.2 million (21%), and per capita revenue climbed by 14% when adjusted for inflation.

ICMA Indicators 2 and **3**, as well as **Table 10**, show that individual revenues departed, at times dramatically, from the overall trend in revenue growth. Property taxes (32%) and tuition (28%) increased faster than overall revenue (21%), while state revenue declined by 7.7%. The $29 million increase in property taxes represented 83% of MATC's total revenue increase. In contrast, MATC's debt service levy (as distinct from its operating levy) dropped from $27 million to $26 million. When property tax revenues both for operational and capital purposes are combined, the college's overall property tax revenue showed an increase of $28 million, or 23%.

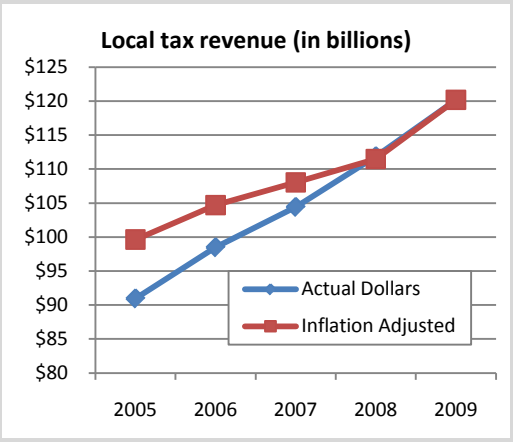
The increase in property tax and tuition revenues from 2005 to 2009, as well as the decline in state revenues, are part of a decade-long trend in MATC finances. From 2000 to 2009, property tax revenues rose substantially – from $89 million to $146 million (65%). Meanwhile, tuition grew from $23 to $42 million (81%), and state funding declined from $36 million to $33 million (-1%) when all revenue sources are considered. This multi-year revenue pattern abruptly ended in 2010, however, with the impact of the economic downturn.

ICMA Fiscal Indicator 2 – Local Tax Revenue

Why it is Important – Local tax revenue can take many forms but refers exclusively to property tax revenue for MATC and most community colleges. These funds are fundamentally important to public two-year colleges in the resources they provide and in the budget control and flexibility they afford.

ICMA Warning Sign – A trend of increasing property tax revenues in constant dollars raises questions of program and service sustainability.

MATC Finding – Property taxes constitute 60% of MATC's operational funds and are of fundamental importance to its budget solvency. From 2005 to 2009, increases in the property tax sustained overall revenue growth. However, recent decreases in property tax value have brought into question the ability of property taxes not only to sustain past rates of budgetary growth, but also to sustain existing levels of operations, posing a **significant threat** to the college's fiscal health.



Source: MATC financial records & CAFRs

Table 10: MATC operating revenues, 2005 to 2009 (in thousands)

REVENUES	2005	2006	2007	2008	2009	5-YR DIFFERENCE	5-YR % CHANGE
Property Taxes	$90,943,048	$98,473,455	$104,411,370	$111,873,125	$120,181,852	$29,238,804	32.2%
Tuition	$27,028,587	$27,991,586	$29,085,709	$30,778,698	$34,648,109	$7,619,522	28.2%
State Aid	$30,301,227	$28,503,849	$26,434,022	$26,171,119	$27,964,995	($2,336,232)	-7.7%
Fees	$4,064,383	$4,064,518	$4,432,263	$4,553,407	$4,513,490	$449,107	11.0%
Federal Grants	$6,154,952	$5,429,160	$5,580,214	$5,873,497	$5,846,192	($308,760)	-5.0%
Miscellaneous	$6,417,337	$7,070,025	$8,257,922	$11,764,572	$6,915,308	$497,971	7.8%
TOTAL	**$164,909,534**	**$171,532,593**	**$178,201,500**	**$191,014,418**	**$200,069,946**	**$35,160,412**	**21.3%**

Source: MATC financial records

Indeed, MATC's property tax revenue growth was driven largely by a 31% increase in equalized valuation between 2005 and 2009. As a result of this increase, MATC was able to lower its mill rate in three of the five years, yet still increase property tax revenue substantially. Under the influence of recession, equalized value grew only marginally from 2008 to 2009, and the Milwaukee district board again set the mill rate at the statutory maximum of 1.5 in 2009.

MATC's 32% increase in property taxes exceeded the 23% increase in other WTCS districts from 2005 to 2009. It is important to note, however, that the other colleges benefited from a 4% increase in state funding, while MATC saw its state funding decline by 8%. In the end, the 21% growth in total operating revenues that MATC experienced from 2005 to 2009 differed little from the 20% growth at the other technical colleges.

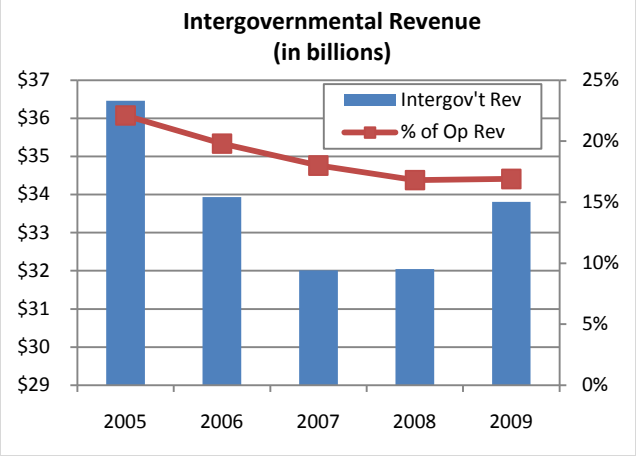
A closer look at MATC's intergovernmental revenues shows a steady decline as a percentage of MATC's total operating funds. Both federal and state revenue have dropped steadily, with state funds falling from 18% of college operational revenue in 2005 to 14% in 2009. During the past decade, state support for technical colleges overall resembled more the flat level of state funding for county and municipal governments than the funding provided for school aids in the K-12 system, which grew by 36%.

ICMA Fiscal Indicator 3 — Intergovernmental Revenue as a Percentage of Operating Revenue

Why it is Important – As part of the state's technical college system, Milwaukee receives general state aid, state categorical aid and, to a lesser degree, federal operational funds. In Wisconsin and other states, intergovernmental revenues constitute one of the major revenue sources for ongoing operations.

ICMA Warning Sign – A decreasing percentage of intergovernmental revenue as a proportion of operating revenues.

MATC Finding – Intergovernmental revenue diminished in actual dollars and as a percentage of operating revenue during the past five years, posing a **threat** to the college's fiscal health that **requires monitoring**. MATC has been able to weather this decline by increasing other major revenues. However, with the recent drop in property values impacting property tax capacity, the ability of the college to continue to compensate in this manner is now in question.



Source: MATC financial records & CAFRs

In addition to its increased reliance on the property tax, MATC has used increased tuition revenue to help meet its expenditure needs. Tuition rose substantially from 2005 to 2009, passing state revenues as the college's second-largest revenue source. Little of that growth was attributable to changes in total enrollment, which grew only from 13,382 student FTEs in 2005 to 13,464 in 2009. Rather, the increase in tuition revenue was linked to annual increases in tuition rates and, to a lesser degree, an increase in higher tuition-paying college transfer students.

Table 11 compares past changes in annual tuition with changes in inflation and family income from 2004 to 2008. The table shows that each year, the increase in tuition costs at MATC and other WTCS institutions exceeded the rate of inflation. In addition, tuition increased almost twice as fast as family income in Milwaukee County and the state.

Table 11: MATC tuition compared with inflation and median family income, 2005 to 2009

YEAR	COLLEGE TRANSFER*	POST-SECONDARY VOCATIONAL**	INFLATION RATE	MEDIAN FAMILY INCOME	
				MILWAUKEE CNTY	STATE OF WI
2005	6.2%	8.6%	3.4%	-6.2%	5.1%
2006	5.9%	5.9%	3.2%	7.3%	3.4%
2007	8.1%	8.1%	2.8%	2.8%	3.6%
2008	5.8%	5.8%	3.8%	10.6%	4.5%
2009	5.4%	5.4%	-0.4%	n/a	n/a
Change***	28.6%	31.5%	14.0%	14.5%	17.6%

**Tuition is calculated by fiscal year and inflation on an annual basis*
***Tuition for vocational programs*
****For comparability, the change pertains to 2004 through 2008*
Source: MATC CAFR; U.S. Census, American Community Survey, Bureau of Labor Statistics

The 2010 and 2011 budgets

MATC's 2010 and 2011 budgets demonstrated that the recession has fundamentally changed the college's revenue picture, and that the impacts could remain for a considerable period of time. The heart of the problem is the fall-off in property values in the MATC district. In Milwaukee, real estate values have not fallen as precipitously as other regions of the country, but the median home value in the MATC district has dropped from $150,000 in 2006 to $127,400 in 2010. MATC's revenues, highly dependent upon property tax income, have followed the slide in equalized valuation. With mill rates at the statutory maximum, the college has no means to counteract the revenue loss brought about by the decline in equalized value.

MATC has taken a number of steps to deal with this critical fiscal challenge. In the end, however, both in the 2010 budget and the 2011 budget, the principal strategy has been to buy time through one-time budget-balancing measures.[9] Because of such actions, few major operational and programmatic changes have been necessary, and college activities have proceeded much as before. Nevertheless, property values have not rebounded and a structural imbalance between revenues and expenditures has grown.

As discussed previously, from 2005 to 2009, the rise in local property value allowed MATC's property tax revenue to increase by more than $7 million annually, a rate greater than inflation. In 2010, however, for the first time in more than 25 years, equalized valuation in the district declined. The loss in property wealth reduced property tax revenue by $3.8 million, as shown in

[9] MATC's fiscal year is July 1 to June 30. MATC's board approves the budget in June based on assumptions about key revenue items. The budget is then revisited in the fall when final information is known about equalized property values, state aids, and other revenues for the coming year, though substantive changes typically do not occur. An initial 2011 budget was adopted by the MATC board in June 2010, but that budget *may* need to be substantively changed this fall because of lower-than-anticipated property values. A final 2011 budget will be approved in October.

Table 12. Total revenues, which had been climbing at an average rate of about $8 million annually from 2005 to 2009, exhibited a dramatic reversal and decreased by $1.5 million in 2010. In the face of these revenue losses, the college adopted a series of budget-balancing expenditure reductions in 2010, which are discussed in the next section of this report.

Table 12: MATC's changes in major revenues
Operating budget, 2009 to 2011 (in thousands)

SOURCE	2009	2010 (PROJECTED)	2011 (BUDGETED)	DIFFERENCE	% CHANGE
Property Tax	$120,250	$116,510	$116,260	($3,990)	-3.3%
State	$26,995	$28,082	$28,211	$1,216	4.5%
Tuition & Fees	$39,866	$44,852	$46,577	$6,711	16.8%
Institutional	$8,348	$5,204	$6,984	($1,364)	-16.3%
Federal	$6,257	$5,617	$6,486	$232	3.7%
TOTAL	**$201,716**	**$200,265**	**$204,517**	**$2,801**	**1.4%**

Source: MATC Activity Plan and Budget, 2009 to 2011
Note: These figures were taken from MATC's budget and differ in format and slightly in 2009 totals from figures cited earlier in the report which come from the college's accounting records.

In 2011, the college originally anticipated that the revenue picture would brighten somewhat due to increases in tuition, fees, and other revenue sources. Equalized valuation in the district was expected to fall slightly, but MATC's property tax revenues for operating purposes were budgeted to remain at about a steady state. New equalized valuation figures released by the Wisconsin Department of Revenue in August 2010, however, indicate that MATC now needs to lower its budgeted property tax revenue by as much as $2 to $4 million. Combined with exceptional increases in expenditures, this development clouds the college's fiscal outlook. The long-term implications of these factors are discussed in later sections of this report.

BUDGETARY SOLVENCY: EXPENDITURES

An institution's fiscal stability is determined largely by whether its revenue-generating capacity meets its expenditure demands. The ICMA fiscal indicators discussed in this section are useful in analyzing the pace of expenditure growth. When analyzed in conjunction with the revenue trends laid out in the previous section, this information provides a basis for determining the institution's long-term fiscal trajectory. For example, trends that indicate continual spending beyond the amount of available revenue raise questions about long-term fiscal stability.

ICMA's method of analysis drills down from overall trends, giving a sharper focus on those items that drive expenditure growth. It is important to understand the dynamics of each major cost driver in order to determine whether or not it is a long-term fiscal threat. Expenditures that are one-time in nature and require temporary appropriations, for example, may be less threatening than those that compound in future years and continually need increased support.

SUMMARY OF EXPENDITURE FINDINGS

From 2005 to 2009, MATC's operating expenditures grew by 19%, a rate that was in line with revenue growth. Expenditures in the college's various functions maintained their proportional representation within the overall operating budget, with instruction costs maintaining the greatest proportion at 67%.

As is the case with most governments and public institutions, MATC's major cost drivers are personnel-related. Salary expenditures grew by 12.1% and accounted for 41% of the total $30.6 million expenditure increase during the 2005-2009 timeframe. Fringe benefits increased by 31.6% and accounted for 42% of the total expenditure increase. This category has grown in relationship to salaries, now amounting to 46% of salaries. Health care costs are the largest fringe benefit expenditure, and their growth has exceeded growth rates seen in Milwaukee County and the City of Milwaukee.

Comparisons with other Wisconsin technical colleges and national peers reveal that MATC spends more than others generally, and that its expenditures on salaries and health care premiums are particularly high. Given this finding, and MATC's escalating revenue challenges, it appears likely the college will need to contemplate cost controls in those areas.

Operating expenditures

MATC's overall operating expenditures (total operating expenditures minus debt service and capital outlay) increased $30.6 million from 2005 to 2009, or 19%. **Table 13** shows the major expenditure categories that comprise MATC's operating budget.

When measured on a per capita basis, expenditures increased at a slightly higher rate (22%) due to a decline in population, as seen in **ICMA Indicator 4**. Though this level of expenditure growth is above the rate of inflation, revenues were sufficient to sustain it. However, as discussed in the previous section, a decline in property values has significantly impacted revenue growth recently and is likely to continue to do so in the near future, requiring MATC to reduce its rate of expenditure growth.

Approximately 76% of the expenditure growth experienced by MATC from 2005 to 2009 was linked to increases in salary and health care expenditures. This resulted in part from a 6% increase in instructional staff, but more contributory were increases in salary levels and health care costs.

Compared to other Wisconsin technical colleges, MATC's expenditure levels are second highest when measured by expenditures per student FTE (as seen in **Table 14)**.

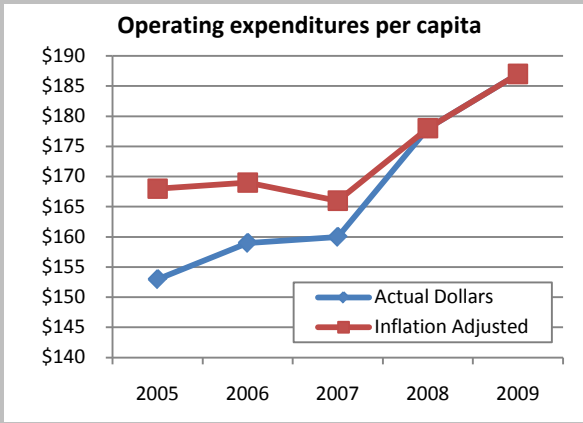
ICMA Fiscal Indicator 4 – Net Expenditures Per Capita

Why it is Important – In a state of fiscal health, a government's or institution's per capita expenditures in constant dollars should hold nearly level or increase slightly and should not exceed per capita operating revenues. A scenario in which expenditures increase too rapidly may cast doubt on long-term funding sustainability.

ICMA Warning Sign – Imbalance between expenditures and net operating revenues or a large increase in expenditures in constant dollars.

MATC Findings – MATC has seen a 22% increase in net operating expenditures per capita from 2005 to 2009, or 11.4% after adjusting for inflation. Revenue growth of 24% sustained this level of expenditure growth. In its 2010 and 2011 budgets, however, MATC has been forced to rethink its level of expenditures. The district has implemented several cost-cutting measures and turned to reserve funds in order to deal with declining property tax revenue and stagnant state aid.

Given the potential for future imbalance, MATC's expenditure growth **requires monitoring** to ensure that expenditures reflect current and future economic realities.



Source: MATC financial records & CAFRs; US Census

Table 13: MATC expenditures by function, 2005 through 2009

FUNCTION	2005	2009	% change
Instruction	$109,209,264	$127,776,186	17.0%
Instructional Resources	$3,866,396	$5,130,132	32.7%
Student Services	$19,558,945	$22,176,687	13.4%
General Institutional	$14,441,992	$19,217,166	33.1%
Physical Plant	$13,977,074	$17,363,879	24.2%
TOTAL	**$161,053,671**	**$191,664,050**	**19.0%**

Source: MATC financial records

Table 14: WTCS operating expenditures per student FTE, 2008

DISTRICT	TOTAL OPERATING EXPESES PER STUDENT FTE
Nicolet Area Technical College	28,914
Milwaukee Area Technical College	**24,476**
Northcentral Technical College	23,508
Southwest Wisconsin Technical College	22,665
Waukesha County Technical College	22,638
Lakeshore Technical College	22,282
Gateway Technical College	21,221
Fox Valley Technical College	20,818
Wisconsin Indianhead Technical College	20,511
Blackhawk Technical College	19,856
Moraine Park Technical College	18,476
Western Technical College	17,972
Northeast Wisconsin Technical College	17,949
Madison Area Technical College	16,866
Chippewa Valley Technical College	15,501
Mid-State Technical College	15,242
MEDIAN OF ALL OTHER WTCS INSTITUTIONS	**$20,511**

Source: IPEDS

Faculty staffing levels

The size and growth of an institution's workforce is a major factor influencing its finances. MATC's budgeted staffing level grew 2% from 2005 to 2009, increasing from 2,003 FTE positions in 2005 to 2,046 FTEs in 2009. As reflected in **ICMA Indicator 5**, this growth and a slight decline in population increased the number of positions per capita by approximately 5%. MATC has reversed course in 2010 and 2011, however, using staff reductions as one means of addressing budget constraints.

MATC employed 979 instructors in 2009, comprising about half of its workforce. Though enrollment at MATC grew by less than 1% from 2005 to 2009, the number of instructors increased by 6%. MATC makes considerable use of part-time faculty, which have comprised 36-38% of total faculty FTEs in recent years. This pool of instructors allows the district greater flexibility to respond to fluctuations in student enrollment. This is also a lower-cost option, as part-time faculty typically are hired at lower pay rates and receive lower benefits unless teaching a course load of 0.5 FTE or greater.[10]

[10] In 2009-10, 56 part-time faculty at MATC received health care benefits. MATC paid 50% of the premium cost, while the employees paid the remainder.

Increased student enrollment spurred by the recent economic downturn may pose a threat to MATC's historically small class sizes. In 2010, student enrollment on an FTE basis grew to 14,649, an 8.8% increase over 2009. Budget constraints in 2010 and 2011 did not allow for the hiring of additional faculty to meet this demand. Instead, instructors have been pulled from non-teaching assignments to focus on providing classroom instruction.

For additional insight into this issue, we compared MATC's student-to-faculty ratios with those of other WTCS institutions and national peers. According to data reported by WTCS, MATC's student-to-faculty ratio was approximately 12.7 in 2009. As seen in **Table 15**, student-to-faculty ratios within WTCS ranged from 10.8 students for every faculty member at Nicolet to 17 students at Mid-State, with the median at 13.5.

Table 15: WTCS student-to-faculty ratios

DISTRICT	STUDENT-FACULTY RATIO
Nicolet Area Technical College	10.8
Gateway Technical College	11.4
Southwest WI Technical College	12.1
Milwaukee Area Technical College	**12.7**
Moraine Park Technical College	12.9
Western Technical College	13.0
Madison Area Technical College	13.2
Fox Valley Technical College	13.4
Northcentral Technical College	13.5
WI Indianhead Technical College	13.8
Waukesha Area Technical College	14.7
Lakeshore Technical College	15.6
Northeast WI Technical College	16.2
Chippewa Valley Technical College	16.3
Blackhawk Technical College	16.6
Mid-State Technical College	17.0
MEDIAN OF ALL OTHER WTCS DISTRICTS	**13.5**

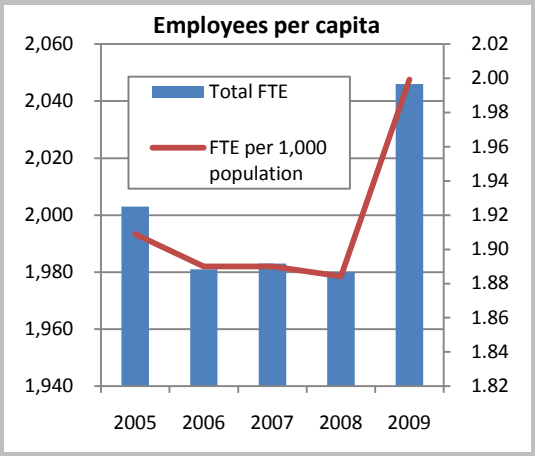
Source: WTCS Fact Book
Note: Student-to-faculty ratios reflect the full-time equivalent standard used in each district.

ICMA Fiscal Indicator 5 – Employees Per Capita

Why it is Important – Employees per capita has implications for budget solvency because of the significant impact of personnel costs on local government and institutional budgets. An increase in employees per capita may have long-term growth implications and may indicate that the institution is expanding operations, becoming more labor-intensive, or that productivity is declining.

ICMA Warning Sign – Increasing number of employees per capita.

MATC Finding – The total number of budgeted full-time-equivalent (FTE) employees has increased by 2%, or 43 positions. While this growth is moderate, it **requires monitoring** in light of the college's revenue challenges. In order to reduce expenditures, MATC already has reduced staff in its 2010 and 2011 budgets by freezing certain positions and not filling vacancies.



SOURCE: MATC CAFRs; US Census

A comparison of MATC's student-to-faculty ratios with national peers is included in a later section of this report. This comparison – with institutions across the country that are similar to MATC in size and scope – also shows that MATC ranks high in terms of maintaining a small student-to-faculty ratio. Collectively, these findings may suggest an opportunity for MATC to consider an in-depth evaluation of faculty levels as a response to its growing fiscal constraints.

Salary levels

MATC's salary expenditures increased 12.1% from 2005 to 2009, or 2.1% when adjusted for inflation. The $12.6 million increase in salaries and wages accounted for 41% of the college's total $30.6 million increase in expenditures during the period. The rate at which MATC's salaries have grown is slightly below the median growth rate of other WTCS institutions.

Previous analyses performed by other entities have focused attention on MATC's salary expenditures, including the pay received by individual MATC instructors. For example, in 2007, the Wisconsin Legislative Audit Bureau (LAB) released an audit report entitled *An Evaluation: Personnel Policies and Practices, Wisconsin Technical College System*, which reviewed and compared several personnel policies and practices employed by the various WTCS colleges. This report generally found that MATC ranked among the leaders in staff salaries, particularly among instructional personnel.

We conducted further analysis of MATC salary and wage expenditures given the impact of this expenditure line item on the college's fiscal sustainability. In particular, our analysis focuses on *faculty* costs given the significance of that employee class and the fact that comparative data is readily available.[11] **Table 16** shows total faculty expenditures in 2009 as well as the breakdown between full-time and part-time staff. MATC's faculty salaries make up 62% of its total salary expenditures.

Table 16: MATC average salary expenditures per faculty FTE, 2009

	TOTAL FACULTY	FULL-TIME FACULTY	PART-TIME FACULTY
Salaries	$72,838,734	$54,112,041	$18,726,693
Faculty FTE	980	583	397

Source: MATC financial records

Total faculty costs are driven not only by annual salary and wages, but also by the way in which faculty duties are organized at a college. It is important to recognize that because faculty staffing typically is managed at the institution level, comparing salary expenditures and average salaries for instructors at various institutions may not be as simple as it sounds.

With that limitation in mind, we compared MATC faculty salaries with other Wisconsin colleges. **Table 17** compares MATC's 2008 average faculty salary to that of other WTCS institutions as reported by IPEDS. **Table 18** does the same for UW colleges and universities.

[11] We were able to identify one IPEDS table comparing the proportion of MATC's "executive/administrative and managerial" FTEs to that of its national peer group. MATC ranked 37th out of 85 in that analysis at 5.4%. In addition, the 2007 LAB report (referenced above) found that average earnings for MATC administrators were fourth-highest among the WTCS colleges.

This information shows that MATC's average faculty salary was $19,400 higher than the median of all other WTCS institutions, and $28,500 higher than the median of UW colleges/universities.

Table 17: WTCS full-time faculty average salaries, 2008[12]

DISTRICT	AVERAGE SALARY EQUATED TO 9-MONTH CONTRACT
Milwaukee Area Technical College	**$86,687**
Madison Area Technical College	86,476
Gateway Technical College	80,532
Waukesha County Technical College	77,586
Northeast Wisconsin Technical College	71,085
Lakeshore Technical College	70,896
Nicolet Area Technical College	70,037
Blackhawk Technical College	67,449
Fox Valley Technical College	67,285
Moraine Park Technical College	65,412
Northcentral Technical College	64,848
Mid-State Technical College	63,855
Wisconsin Indianhead Technical College	63,599
Chippewa Valley Technical College	62,979
Southwest Wisconsin Technical College	60,605
Western Technical College	58,563
MEDIAN OF ALL OTHER WTCS INSTITUTIONS	**67,285**

Source: IPEDS

Table 18: Average full-time faculty salaries for MATC compared to UW colleges and universities, 2008

INSTITUTION	AVERAGE SALARY EQUATED TO 9-MONTH CONTRACT
UW-Madison	$90,149
MATC	**86,687**
UW-Milwaukee	68,575
UW-River Falls	61,193
UW-La Crosse	59,920
UW-Oshkosh	59,353
UW-Whitewater	58,947
UW-Eau Claire	58,740
UW-Stevens Point	57,629
UW-Parkside	57,300
UW-Stout	57,206
UW-Platteville	56,803
UW-Green Bay	56,753
UW-Superior	56,639
UW Colleges	50,939
MEDIAN OF ALL UW INSTITUTIONS	**58,185**

Source: IPEDS

[12] According to IPEDS, the salary figures contained in Tables 17 and 18 "should include base salary only, but should exclude things such as additional stipends…overload and overtime."

These tables also indicate that average salaries in the UW system tend to fall below those of WTCS colleges. In fact, while MATC ranks considerably higher than the median, three other WTCS institutions have an average faculty salary that is somewhat comparable to that of MATC. Here, Wisconsin appears to be rather unique, as four-year institutions typically are thought to pay higher faculty salaries than two-year colleges.

As noted above, any analysis of the comparatively high nature of MATC's faculty salaries must take into account the college's personnel-related policies and practices, including salary schedules and workload. Most salary schedules are collectively bargained with employee unions and typically differentiate pay rates of new faculty based on education and years of experience, as opposed to academic field or a faculty hierarchy (i.e. many other colleges establish separate salary levels for professor, associate professor, assistant professor, instructor, lecturer, etc.). MATC does have some ability to go beyond the pay scale to attract a prospective faculty member in a competitive field, but this is not common practice. Consequently, the college's ability to attract faculty in high-demand occupations depends on the general attractiveness of its pay scale.

Once hired, if certification and other requisites are maintained, faculty members are guaranteed to advance a step within the pay range at the start of every subsequent school year. Annual increases to salary levels within each step also are negotiated and generally applied across the board. Salary adjustments are not predicated on individual performance or changes in market pay for a particular field or position.

It is common for faculty in high enrollment programs to work more than required by contractual obligations. For example, many MATC instructors receive additional compensation by teaching summer classes or additional "overload" courses during the school year. Full-time faculty have the opportunity to take on overload with a stipulation that such work cannot cause the faculty member's workload to exceed 1.49 FTE. To the extent that full-time faculty do not opt to take on overload or it is not appropriate for them to do so for a particular class, part-time faculty are utilized. The faculty union contract stipulates that the full-time to part-time ratio for instructional workload cannot exceed 65/35.

It is worth noting that while many other WTCS institutions pay straight time or time-and-a-half for overload work, MATC pays 60%, an amount that is equivalent to the salary rate of part-time faculty members. As noted in the 2007 LAB report, Nicolet is the only other WTCS district to pay less than regular pay rates for overload. The pay for summer courses at MATC is 85% of the instructor's regular salary.

Some have argued that including overload and summer pay in the analysis of MATC's average salaries misrepresents the levels at which faculty are paid for a regular teaching load, and also fails to acknowledge that MATC faculty work extra hours for the benefit of the institution, which otherwise might have to hire additional full-time staff. In 2010, MATC spent $55.8 million on full-time faculty salaries, of which approximately 10%, or $5.5 million, went toward overload pay. Using these figures, we calculate that the average full-time faculty salary for that year was $86,731, while the average overload payment was $9,462.

Regardless of the extent to which overload pay contributes to total salary levels for MATC faculty, it is clear that comparatively speaking, MATC pays higher total salaries to its instructors than other Wisconsin public two-year and four-year colleges (with the exception of UW-Madison). In response to previous studies that have noted or criticized this fact, individuals affiliated with MATC have cited several rationales. Those include the need to lure faculty (particularly in technical fields) from the private market, as well as the contention that MATC faculty generally are more highly credentialed than other institutions[13] and engage a higher percentage of their time teaching, as opposed to performing academic research.

The market-based argument is difficult to analyze given the lack of available data with which to compare MATC faculty salary schedules with private sector salaries in comparable fields. Even if these data were available, however, it is important to note that in practice, MATC is not using a market-based approach to set its salary schedules.

Salary schedules, for example, do not differ based on academic discipline. Whether teaching history or nursing, faculty are paid equivalently as long as they have similar academic credentials and experience. Some might argue that this principle of discipline-equity has had the effect of raising all faculty salaries, as salary schedules originally were established to ensure successful recruitment of highly paid professionals in the most hard-to-hire disciplines. In essence, by failing to offer differentiated pay by discipline as seen in several other two-year institutions,[14] MATC may pay more to certain instructors than those professionals otherwise would obtain in the private market.

Another variable worth considering is MATC's access to local tax revenue. A 2008 study performed by MGT of America, Inc., for the Washington State Board for Community and Technical colleges, used regression analysis to understand the significant drivers of two-year college faculty salaries. The study found that "local funding capacity/authority proved to be the strongest determinant among the factors investigated." The authors also found a strong correlation between the percentage of appropriations derived from local funding and average faculty salaries. Given that MATC generally has a greater dependency on the property tax than other two-year colleges nationally (as described in the previous section), this may provide further explanation for its relatively high average salaries.

Finally, workload is another factor when analyzing the comparative nature of MATC faculty salaries. At MATC, it is expected that full-time faculty members teach five classes per semester, a courseload that some argue far exceeds that of many four-year universities, where faculty also must meet research expectations. MATC instructors also take on advising responsibilities that often are the responsibility of student service professionals at universities, and they do not make use of teaching assistants.

[13] According to data provided by MATC, in 2009, approximately 90% of full-time faculty possessed bachelor's degrees, 67% possessed master's degrees, and 10% possessed Ph.D. degrees.

[14] According to the 2007-08 *Community College Faculty Salary Survey* conducted by the College and University Professional Association for Human Resources (CUPA-HR), 65.6% of institutions pay more for certain hard-to-hire disciplines. Differential pay was used most frequently in the areas of nursing, allied health, computer information systems, and engineering.

With regard to other two-year institutions, comparative analysis shows that the average MATC faculty member has a contractually lower workload than the average faculty member at other WTCS colleges. The 2007 LAB audit, for example, found that in 2004-05, a full-time faculty workload ranged from 32 to 40 hours at the WTCS districts. MATC had and continues to have the shortest workweek at 32 hours.

Table 19 provides the average annual workload per faculty FTE by WTCS district in 2009. MATC faculty fall in the bottom five in terms of average hours worked per faculty FTE, at 1,280 hours. The WTCS median is 1,329 hours.

Table 19: Average work load hours for WTCS faculty by district, 2009

DISTRICT	WORK LOAD HOURS PER DISTRICT FTE
Wisconsin Indianhead Technical College	1,419
Chippewa Valley Technical College	1,368
Moraine Park Technical College	1,347
Northcentral Technical College	1,339
Lakeshore Technical College	1,336
Mid-State Technical College	1,334
Madison Area Technical College	1,330
Blackhawk Technical College	1,329
Waukesha County Technical College	1,328
Southwest Wisconsin Technical College	1,325
Fox Valley Technical College	1,323
Gateway Technical College	1,318
Milwaukee Area Technical College	**1,280**
Northeast Wisconsin Technical College	1,276
Nicolet Area Technical College	1,270
Western Technical College	1,240
MEDIAN OF ALL OTHER WTCS INSTITUTIONS	**1,329**

Source: WTCS staff accounting system, staff list by position class and district, fiscal year 2008-09
Note: Average workload hours per faculty FTE reflect the full-time equivalent standard used in each district.

As discussed throughout this report, MATC is a unique institution with critical demands given its urban setting and its fundamental role in offering education and training opportunities to a diverse metropolitan population. Undoubtedly, there are benefits to students and student learning that may flow from MATC's level of faculty staffing and pay. However, in light of its growing revenue challenges, MATC may need to determine whether it has the financial wherewithal to sustain its compensation and staffing practices and, if not, what kind of changes should be made.

Fringe benefits

Fringe benefit increases accounted for $12.9 million (42%) of MATC's total $30.6 million expenditure increase from 2005 to 2009. The combination of health care and pension benefits represented 81.1% of total fringe benefit spending in 2009, with health care alone comprising 58.9% of the total. **ICMA Indicator 6** shows that fringe benefit expenditures have grown not only in real terms, but also have become larger in proportion to salaries and wages, which is a key ICMA warning sign.

Health care

As seen in **Table 20**, the percentage of fringe benefit expenditures dedicated to health care costs has grown over the period, from 51.5% to 58.9%. **Table 21**, meanwhile, shows that while total health care expenditures at MATC are much smaller than those experienced at Milwaukee County and the City of Milwaukee, they have increased recently at a much faster clip.

Table 20: MATC health care costs as a percentage of overall fringe benefits

	HEALTH CARE COSTS	TOTAL FRINGE COSTS	HEALTH CARE AS A % OF OVERALL FRINGE COSTS
2005	$21,073,380	$40,917,570	51.5%
2006	$22,151,419	$42,819,417	51.7%
2007	$24,073,140	$44,799,456	53.7%
2008	$28,412,622	$50,859,583	55.9%
2009	$31,725,777	$53,833,218	58.9%

Source: MATC financial records

Table 21: Comparison of Milwaukee-area health care expenditure growth (in thousands)

LOCAL ENTITY	2005	2008	CHANGE
MATC	$21,073	$28,413	34.8%
City of Milwaukee	$94,097	$108,141	14.9%
Milwaukee County	$124,906	$137,951	10.4%

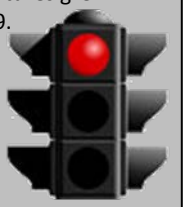
Source: Financial records of MATC, City of Milwaukee, and Milwaukee County

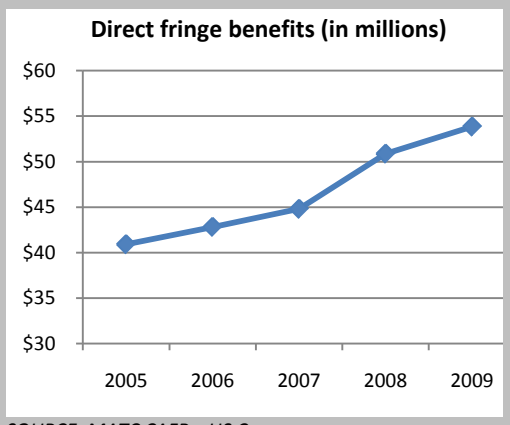
ICMA Fiscal Indicator 6 – Direct Fringe Benefits

Why it is Important – Direct fringe benefits typically include employee health, pension and life insurance benefits and represent one of the largest and fastest-growing items of expenditure in the public sector. In recent years, many local taxpayer-funded entities have seen increases in health care and pension costs far surpassing the rate of inflation. This expenditure increase has had a debilitating effect upon budgets and fiscal condition.

ICMA Warning Sign – Increasing fringe benefits as a percentage of salaries and wages and operating expenditures.

MATC finding – From 2005 to 2009, fringe benefit expenditures grew by $12.9 million (31.6%) and constituted 28.1% of overall operating expenditures in 2009. As a percentage of salary and wages, fringe benefits expenditures grew from 39.2% in 2005 to 46% in 2009. With an even higher growth rate expected in 2011, fringe benefit expenditures represent a **significant threat** to MATC's fiscal condition.





SOURCE: MATC CAFRs; US Census

MATC provides health care benefits for eligible active employees and retirees. The college has two primary health insurance plans – a broad-based Health Maintenance Organization (HMO) plan and a self-funded Preferred Provider Option (PPO).[15]

The LAB reported in 2003 – prior to those plans becoming effective – that MATC lacked a proactive strategy to contain health care costs, which had grown faster than those of other Milwaukee-area employers because of an absence of significant employee cost-sharing. Substantial cost-sharing measures were adopted subsequent to that report, but in return for the cooperation of its unions, MATC agreed to refrain from any further changes until July 2007. This agreement prevented MATC from further mitigating costs during a period in which national and regional health care costs escalated.

Additional cost-sharing measures were negotiated in 2008, including increased employee premium contributions; increased copayments for office visits, inpatient hospital admission, emergency room visits and brand name prescription drugs; and increased PPO deductibles and out-of-pocket maximums. In addition, a new requirement specified that individuals younger than 65 years of age who retired after July 1, 2008, would contribute the same amount toward the health care premium as active employees (previously, MATC paid the entire premium for such individuals). MATC also implemented a wellness program that is estimated to have saved roughly $265,000 during 2009 and the early months of 2010. Yet, even with these laudable cost-control measures, health care costs continued to represent a growing portion of MATC's overall expenditures, posing a threat to fiscal stability.

Participation in MATC's health care plans for 2009 included 1,351 active employees and 739 retirees. Active employee participants are split relatively evenly between the HMO and PPO plans, with 54% enrolled in the less costly HMO plan in 2009. Conversely, 74% of participating retirees enrolled in the PPO option in that year.

Table 22 shows the current annual health care premiums for MATC, including employee and employer contributions. For the sake of comparison, health care premiums for other major local governments and state government also are provided. This information indicates relative comparability among the various governments in terms of total cost and cost sharing, with a few exceptions. In general, MATC is on the high side in terms of HMO and PPO premiums, and the low side in terms of employee contributions.

It is clear that MATC, like other local governments and institutions in southeast Wisconsin, has struggled to support rapidly rising health care costs. Efforts to accommodate the college's revenue challenges clearly will require progress similar to – or surpassing – that made in 2003 and 2008 to reduce the burden of health care costs.

[15] MATC also offers a high-deductible variation of its PPO option with no employee premium contribution, but that option has few subscribers.

Table 22: Health care premiums incurred by major Wisconsin governments

		EMPLOYEE CONTRIBUTION		EMPLOYER CONTRIBUTION		TOTAL PREMIUM	
		MONTHLY	ANNUAL	MONTHLY	ANNUAL	MONTHLY	ANNUAL
MATC	**HMO**						
	Single	$32.50	$390	$764	$9,162	$796	$9,552
	Family	$65	$780	$2,036	$24,426	$2,101	$25,206
	PPO						
	Single	$27.50	$330	$824	$9,892	$852	$10,222
	Family	$55	$660	$2,257	$27,081	$2,312	$27,741
Milwaukee County	**HMO***						
	Single	$35	$420	$530	$6,362	$565	$6,782
	Family	$70	$840	$1,512	$18,147	$1,582	$18,987
	PPO*						
	Single	$75	$900	$990	$11,879	$1,065	$12,779
	Family	$150	$1,800	$1,616	$19,393	$1,766	$21,193
City of Milwaukee	**HMO**						
	Single	$20	$240	$648	$7,780	$668	$8,020
	Family	$40	$480	$1,785	$21,420	$1,825	$21,900
	PPO						
	Single	$75	$900	$778	$9,333	$853	$10,233
	Family	$150	$1,800	$1,772	$21,261	$1,922	$23,061
MPS	**HMO**						
	Single	$0	$0	$522	$6,264	$522	$6,264
	Family	$0	$0	$1,370	$16,440	$1,370	$16,440
	PPO						
	Single	$0	$0	$897	$10,766	$897	$10,766
	Family	$0	$0	$1,985	$23,820	$1,985	$23,820
State of WI	**HMO****						
	Single	$34	$408	$666	$7,991	$700	$8,399
	Family	$85	$1,020	$1,661	$19,931	$1,746	$20,951
	PPO						
	Single	$179	$2,148	$895	$10,740	$1,074	$12,888
	Family	$448	$5,376	$2,234	$26,803	$2,682	$32,179

** These premiums currently apply to most represented employees in Milwaukee County. The 2010 budget imposes higher premiums, but that change must be negotiated and has not yet been implemented for most county employees.*
***The state offers multiple options for its Tier I HMO plan. The figures in this table use an average of the costs of those plans available in Milwaukee County.*

Retirement benefits

MATC also is similar to other local taxpayer-funded entities in terms of the negative fiscal impact produced by growing obligations to existing and future retirees. Health care costs for retirees, for example, have grown as a proportion of MATC's overall health care expenditures. While the percentage of health care costs dedicated to retirees held steady at approximately 15% throughout the first half of the previous decade, they now have grown to 28%, or $9.7 million.

Table 23 compares MATC's retirement benefits and eligibility requirements to those of state government, Milwaukee County, and the City of Milwaukee. With regard to health care, MATC pays half the cost of a Medicare supplement once a retiree has reached the age of 65. Those who retire as early as 55 with 15 years of service are eligible for health care benefits at the same monthly employee contribution rate as active employees. Of the WTCS colleges, Waukesha County Technical College used to be the only other district that provided substantial retiree health care benefits, but it ended that benefit in 2006.

Table 23: Comparison of retirement benefits – MATC, State of Wisconsin, Milwaukee County, and City of Milwaukee

CHARACTERISTICS	MILWAUKEE AREA TECH COLLEGE	STATE OF WISCONSIN	MILWAUKEE COUNTY	CITY OF MILWAUKEE
Type of retirement benefit	Defined benefit based on employee's average earnings in highest three years, years of service, formula multipliers and age at retirement. Money purchase paid if benefit based on contributions and investment earnings exceed formula benefit	Defined benefit based on employee's average earnings in highest three years, years of service, formula multipliers and age at retirement. Money purchase paid if benefit based on contributions and investment earnings exceed formula benefit	Defined benefit based on employee's average earnings in final three consecutive years, years of service, and a formula factor	Defined benefit based on employee's average earnings in three highest paid years, years of service, and formula factor
Normal retirement age	65 or 57 with 30 years of service	65 or 57 with 30 years of service	60 years of age (or when service + age = 75 if hired before 1/1/94)*	60 years of age or 55 with 30 years of service
Minimum retirement age	55 (with 10 yrs of credible service); MATC, unlike other public entities, permits early retirement without reduced pension benefits	55 but with a reduced benefit	55 (with 15 yrs of service) but with a reduced benefit	55 (with 15 years of service) but with a reduced benefit
Employee retirement contribution	Employer contributes employee share	Employer contributes employee share	Non-contributory	Employer contributes employee share except employees hired after 1/1/2000 pay 1.6% for first 8 years of service and employees hired after 1/1/2010 pay full employee share
Vesting Period	Immediate in most cases	Immediate in most cases	5 years	4 years
Benefit formula multiplier	1.765% for pre-2000 hires 1.6% for post-2000 hires	1.765% for pre-2000 service 1.6% for post-1999 service	2%*	2%
Benefit limitation	70% of final average earnings	70% of final average earnings	80% of final average earnings	70% of average salary
DROP benefit	None	None	Option of lump-sum payment for a portion of pension payout, with reduced monthly payment thereafter, if hired before 2/1/07	None
Yearly post-retirement increases	Depends on investment earnings (no guarantee)	Depends on investment earnings (no guarantee)	2%	1.5% after 12 months and after the 2nd, 3rd, & 4th years, and 2% thereafter
Paid health insurance premiums**	If age 55 with 15 years of service, retiree contributes $27.50-$32.50/month for single coverage and $55-$65/month for family coverage until the age of 65 at which retiree pays 50% of monthly premium.	No	If hired before 1/1/94 + w/15 yrs of service	Pre-Medicare retirees (at 55 yrs. w/30 yrs. of service or 60 yrs. w/15 yrs. of service) have no charge for HMO & pay $30-$60/month for the Basic plan (a type of PPO)

** In December 2009, the county adopted a change for non-represented workers (except elected officials) that extends the normal retirement age from 60 to 64 for new employees and reduces the multiplier from 2% to 1.6% for new employees and future years of service for existing employees. Those changes have not yet been negotiated for represented employees.*

*** County employees hired after 1993 and state and MATC employees have different options to apply the value of unused sick leave at time of retirement toward health insurance premiums.*

In regard to pension benefits, most eligible MATC employees participate in the Wisconsin Retirement System (WRS).[16] WRS eligibility requires that an employee work more than 600 hours annually (440 for faculty). Most employees are immediately vested, and those who retire at or after age 65 are entitled to receive retirement benefits. An employee at age 55 with 10 years of service can retire early, with MATC offsetting the early retirement penalty imposed by WRS.

MATC pension expenditures totaled $12 million in 2009, an increase of 19.9% over 2005. The district pays both the employee and employer-required pension contributions, which totaled 10.4% of eligible wages. This is the same contribution percentage experienced by other WTCS institutions. The long-term fiscal implications of post-employment benefits are discussed in detail in a later section of this report.

The 2010 and 2011 budgets

As discussed in the previous section, MATC's 2010 and 2011 budgets have posed significant challenges given the district's decline in property values. The college adopted a series of budget-balancing expenditure reductions in 2010, the largest of which involved salaries and authorized positions. With the agreement of its five labor unions, MATC generated savings of $4.8 million by postponing negotiated payments for 2010 salary increases until 2011. Also, the college froze full-time and part-time positions, generating savings of $2.5 million, and reduced expenditures for faculty non-academic-related professional assignments by $1.5 million. Physical plant operations decreased by about $1 million and supplies by $1.2 million. The college also lowered the advertising budget by $400,000 and contracted services by $450,000.

MATC's budget difficulties have worsened in 2011, driven by exceptional increases in expenditures. The major spending pressure comes from the need to fund two years of salary increases. In the 2011 budget, the delayed 2010 raises – combined with contractually obligated salary increases for 2011 – created a new expenditure obligation of $11.6 million. In addition, health care costs are budgeted to increase nearly $7 million (21%), while MATC's contribution to the WRS will increase $650,000 (5%), after an 11% increase in 2010, reflecting the impact of stock market turmoil on WRS assets.

To offset these rising costs, MATC has repeated some of the budget-balancing mechanisms used in 2010. For example, the college again is freezing some part-time and full-time positions (generating savings of $2.4 million), cutting $1.4 million from its supply budget, and reducing contract services by $200,000. Because such measures are not sufficient to achieve a balanced budget, however, the college also is drawing upon $7.6 million in general fund reserves.

While the use of general fund reserves helps address the college's financial problems for 2011, it presents complications for the future. The ending balance in the general fund is budgeted at a healthy $26.4 million, but reserve funds do not represent a continuing resource. Consequently, if current trends continue, MATC will need to come up with another means of addressing its ongoing cost pressures.

[16] A small number of employees, with service dates prior to April 1969, belong to the Employees' Retirement System of the City of Milwaukee.

MATC AND ITS NATIONAL PEERS

Previous sections of this report have used comparisons between MATC and other WTCS institutions to provide context regarding MATC's revenue and expenditure trends and challenges. This section considers how MATC measures up when compared with its national peers. While WTCS institutions share certain common features, they also differ from MATC, which is of a unique size and complexity. Moreover, MATC is located in the heart of a large city and the programs and services it offers, as well as the students it teaches, reflect that setting. MATC officials themselves contend the college should be compared to its national peers, and not simply institutions with whom it shares geographic proximity.

SUMMARY

MATC's financial structure differs in fundamental ways from other large two-year public technical and community colleges across the United States. The core difference is that MATC receives much greater revenue from local taxation than do its peers. In addition, it receives more in tuition revenues. These two income sources more than compensate for the fact that MATC receives slightly less than the average community college in state aid, as MATC maintains an extremely high level of expenditures when compared to its national peers.

A key question is the extent to which students benefit from the higher level of investment made in MATC. Unfortunately, there is little substantive performance data with which to answer that question. Available data do show that student-to-faculty ratios at MATC are very low, a measure commonly associated with high quality instruction and student learning. Also, more MATC students complete their education than at MATC's national peers, and MATC students do reasonably well in job placement and student transfer when compared to state peers. In both of these examples, however, MATC's performance does not significantly exceed the median, and it is difficult to determine whether its student outcomes are commensurate with its higher levels of expenditures.

Revenues and expenditures

The data in this section come from IPEDS, which is routinely consulted by those in higher education for research and management purposes. IPEDS includes trend data for more than 6,700 post-secondary institutions detailing institutional characteristics, such as enrollment, staff, and programs; and financial characteristics, such as core revenues, major revenue sources, tuition charges, salaries, and functional expenditures. Colleges and universities submit data to IPEDS annually using a common format and definitions that permit cross-institutional financial analysis. Some of the data produced in this section differs from previous data that follow MATC reporting formats. The information presented is the most recent available, generally from 2007 and 2008.

The peer group examined was selected and submitted to IPEDS by MATC, as is required of each participating institution. The peer group consists of 85 different institutions (including MATC) throughout the U.S. It includes some of the largest community colleges, such as Miami-Dade College and the City College of San Francisco; colleges from large state systems, such as California and Texas; and urban colleges in the Midwest, such as Cuyahoga Community College, the Community College of Allegheny County, and Richard J. Daley and Harry S. Truman colleges in Chicago. Given the diversity of programs and management practices among institutions in the peer group, this analysis focuses on basic elements of institutional finance, such as major revenues and expenditures, and overall levels of costs.

The single most striking finding concerns the high level of local tax support received by MATC. As shown in **Table 24**, among the group of 85, MATC ranked first in local appropriations per student FTE. MATC received $13,329 per FTE in local appropriations – constituting 59% of its revenue budget – while the median institution received $1,689 and relied upon local tax revenues for 17% of its revenue budget. Seventeen of MATC's peers received no local appropriations.

In contrast, MATC receives somewhat less in state aid than its peers. In 2008, state appropriations ranged from zero to $6,916 per FTE among the peer group. The median institution received $3,322, or $928 more than the $2,394 appropriated to MATC. State funding also represents a significantly smaller proportion of MATC's total revenue budget at 11%, compared with the peer group median of 34%.

Table 24: MATC and its national peers, major revenue sources, 2008

INSTITUTIONS	LOCAL TAX SUPPORT PER FTE	PEER RANK	STATE AID PER FTE	PEER RANK	TUITION & FEES PER FTE	PEER RANK
MATC	**$13,329**	**1 of 85**	**$2,394**	**63 of 85**	**$2,443**	**19 of 85**
84 peers						
Highest	$6,784		$6,916		$4,423	
Lowest	$0		$0		$279	
Median	$1,689		$3,322		$1,690	

Source: IPEDS

MATC also ranked high in tuition and fees per FTE, placing 19th among its peers and more than $750 above the peer median of $1,690. At its current tuition rate, MATC is a high-cost two-year college. The relatively high tuition and fee charges benefit the college financially, but they also may have a chilling effect upon college enrollment and degree attainment. Given Milwaukee's lower-than-median income and high poverty rates, MATC's costs are undoubtedly problematic for many residents.

Compounding the impact of higher tuition and fee charges is the effect of student financial aid. Financial aid data from IPEDS, seen in **Table 25**, indicate that first-time, full-time students at MATC are somewhat less likely to receive aid than are their counterparts at peer institutions.

Table 25: MATC and its national peers, financial aid, 2006-2007

AID CATEGORY	% MATC STUDENTS RECEIVING AID*	PEER GROUP RANK**
Any Aid	55%	48
Federal Grant Aid	33%	53
State/Local Grant Aid	33%	45
Federal Loan Aid	35%	8

** First-time, full-time students*
*** Peer group includes MATC and 84 other two-year colleges*
Source: IPEDS

In addition, MATC offers fewer institutional grants (not shown in the table). In 2007, six full-time, first-time students received institutional grants – that is, grants funded by the college itself and not by a state or federal aid program. MATC's average institutional grant was $829. In contrast, the median peer institution granted 50 such awards at an average amount of $986. Twenty-five of the peer group colleges gave out more than 100 institutional grants in 2007.

Many more students at MATC than at peer institutions also take out loans to finance their education, as **Table 25** shows. A total of 35% of full-time students at MATC had a student loan, placing the college eighth among the peer group. In contrast, at half the peer institutions, less than six percent of students financed their education through borrowing.

Considering all of these factors, it is clear that MATC has more resources than most of its national peers or other community and technical colleges.[17] When compared to other WTCS colleges, however, MATC's revenues, while often above average, are not dramatically different from others. That suggests most Wisconsin colleges also have greater fiscal capacity and cost than national peers, and that it is the state's governance and financial structure for technical colleges, established in the 1960s, that is determinative for MATC finance.

According to the IPEDS data, the main beneficiary of MATC's relatively rich revenue structure is its instructional budget. While MATC has slightly fewer students than the median peer, it has the sixth largest budget among the group. The college ranked highest in instructional expenditures per FTE at $13,139 in 2008, compared with the peer group median of $3,540.

MATC's staff salaries and staffing ratios provide some explanation for its higher costs. As shown in **Table 26**, MATC had the sixth highest average salary among the peer group at $86,687. In comparison, the institutional median for MATC's peers was $63,008. Another cost indicator showed MATC ranking first in student FTEs per instructional staff at a ratio of 11 to 1, in contrast with a median peer ratio of 23 to 1.

[17] Separate analysis undertaken for this study confirmed that MATC revenues, when calculated in the aggregate or on an FTE basis, were much higher than median revenues for all public community and technical colleges.

Table 26: MATC and its national peers, expenditure indicators, 2008

INSTITUTIONS	INSTRUCTIONAL STAFF		AVERAGE SALARY F/T FACULTY*		STUDENT TO INSTRUCTIONAL STAFF RATIO	
	NUMBER	PEER RANK	DOLLAR	PEER RANK	RATIO	PEER RANK
MATC	**950**	**5 of 85**	**$86,687**	**6 of 85**	**11 to 1**	**1 of 85**
84 Peers						
Highest	1,800		$89,588		11 to 1	
Lowest	127		$44,002		44 to 1	
Median	482		$63,008		23 to 1	

** Computed to nine-month contract*
Source: IPEDS

Another way to compare MATC's expenditure levels to those of its national peers is to evaluate their expenditures per student FTE. Here, MATC stands out as *number one* in its peer group in terms of total expenditures, salary expenditures and fringe benefit expenditures, as shown in **Table 27**.

Table 27: MATC and its national peers, expenditures per student FTE, 2008

	TOTAL OPERATING EXPENSES PER STUDENT FTE		SALARY EXPENDITURES PER STUDENT FTE		FRINGE BENEFIT EXPENDITURES PER STUDENT FTE	
	DOLLAR	PEER RANK	DOLLAR	PEER RANK	DOLLAR	PEER RANK
MATC	**24,476**	**1 of 85**	**11,703**	**1 of 85**	**7,101**	**1 of 85**
84 Peers						
Highest	18,077		9,632		3,165	
Lowest	4,564		2,544		602	
Median	9,154		4,715		1,236	

Source: IPEDS

Collectively, the data contained in **Tables 26** and **27** depict MATC as having disproportionately high faculty compensation levels and a disproportionately low student-to-faculty ratio, which suggests that higher salaries do not correlate with higher faculty workloads.

Institutional effectiveness

A logical question to ask when considering MATC's robust instructional budget is whether students and district taxpayers are benefitting from the substantial investments they make in public two-year education. Unfortunately, it is difficult to provide a precise answer to this question given the availability of existing data.

In recent years, policymakers, researchers, and think tanks, such as the Lumina Foundation, have criticized the lack of good qualitative data about student outcomes and have sought to build a "culture of evidence" focused on student achievement. Students at higher education institutions succeed or fail for many reasons, and the critique has been that available data is not fine enough to permit analysis of the major factors responsible for educational progress or to compare educational performance across institutions. Nevertheless, while the data is perhaps not as sophisticated or extensive as it could be, the available information shows that MATC is slightly above the median when compared with its peers in a number of categories.

IPEDS collects graduation data on full-time, first-time students at two-year institutions broken down by race and ethnicity. This system follows student progress and reports on students who graduate within three and, at times, four years of entry.[18] After all factors are considered, national studies have shown that about half of full-time community college students eventually receive a degree, although many take six years or longer to do so. The most recent IPEDS graduation data reports on the cohorts of full-time students who began their education in fall 2004 and 2005. As **Table 28** shows, MATC's graduation rates for these students are somewhat above both the median and average rates at peer institutions. Graduation rates for MATC's black and Hispanic students in these cohorts – an important indicator given the college's mission – generally are higher as well.

Table 28: MATC and its national peers, graduation rates, 2004 and 2005

INSTITUTIONS	TOTAL	WHITE	BLACK	HISPANIC
2004 Cohort				
MATC	**20%**	**22%**	**12%**	**13%**
84 peers				
Median	13%	14%	8%	13%
Average	16%	18%	11%	13%
2005 Cohort				
MATC	**17%**	**19%**	**9%**	**16%**
84 peers				
Median	15%	18%	8%	13%
Average	16%	19%	10%	13%

Source: IPEDS
Note: Graduation rate of full-time, first-time degree/certificate-seeking undergraduates within 150% of normal time to completion.

Another piece of relevant data pertains to student-to-faculty ratios. Educational research at many levels has shown an association between smaller classes and higher levels of student learning. There is no comparative study on this point for MATC, but it is noteworthy that the college's costs are higher for vocational students than for college transfer students, which suggests MATC allocates greater numbers of faculty to programs where hands-on learning and close faculty supervision are critical for student success.

Given the limited information provided by IPEDS on student outcomes and the importance of this issue to MATC, it may be helpful to consider state information on this topic. As shown in **Table 29**, in 2008, 75% of MATC graduates found a job related to their technical college training, compared with 77% of all WTCS graduates. The median annual salary of MATC graduates equaled $35,800, compared with the WTCS average of $32,000.

[18] It is important to note that the IPEDS information undercounts the number and percent of associate degree graduates since many students take more than four years to finish their degree. Also, some students do not wait to finish their two-year program but transfer to a four-year university where they complete a baccalaureate degree.

Table 29: MATC and WTCS average graduate outcomes, 2008

INSTITUTION	EMPLOYED	EMPLOYMENT RELATED TO EDUCATION	EMPLOYED IN WI	MEDIAN SALARY
MATC	87%	75%	81%	$35,794
WTCS Average	91%	77%	85%	$32,000

Source: 2008 WTCS Graduate Follow-Up Survey

MATC's record has been mixed with regard to academic outcomes and, especially, student transfer to UW universities.[19] In 2009, despite the fact that MATC is only one of two WTCS institutions with a large college transfer program, new transfers from MATC represented just 15% of all new WTCS transfers to the UW system (485 out of 3,122). MATC did have a higher percentage of re-entry transfer students (30% or 254 out of 844). New transfer students from MATC graduated at slightly lower rates from UW institutions than did all WTCS new transfer students. The most recent data, which follows the progress of the 2002 cohort, show a six-year graduation rate of 39% for former MATC students, compared with a six-year graduation rate of 44% for former WTCS students overall.

Conclusion

Both this section and the previous section illustrate MATC's high levels of expenditures when compared to its national and state peers, particularly in the area of faculty pay and benefits. Potential justifications for these expenditure levels have been cited, but a bottom line issue is a lack of performance data indicating that such expenditures are producing commensurate academic outcomes at MATC.

This lack of performance data is not just a local problem. On both the state and national levels, comparative data allowing for analysis of MATC's student outcomes with those of its peers is deficient. For example, to the extent that national performance data exists, it seldom goes beyond first-year, full-time students, who comprise only a fraction of MATC's student population.

What is a local problem, however, is the preponderance of available information demonstrating MATC's high costs, and the scarcity of information showing what taxpayers, students and employers are receiving in return. In light of fiscal realities that appear to make cost controls a necessity, it is critical for MATC administrators and supporters to step up their efforts to measure and disseminate performance outcomes, as well as for the WTCS to play a stronger role in collecting and publishing such information.

[19] The University of Wisconsin System, Informational Memorandum, Undergraduate Transfer Students, 2008-09

LONG-TERM BUDGETARY SOLVENCY

The ICMA system is an excellent tool for examining long-term solvency, an inherently complex topic. Central to ICMA's methodology is the question of whether a government is "currently paying the full cost of operating, or is postponing costs to a future period when revenues may not be available to pay these costs." To address this question, the ICMA format explores three areas that can have a major effect on future spending levels: retirement, long-term borrowing, and maintenance of capital assets. It also examines the cumulative impact of all fiscal pressures upon long-term solvency.

SUMMARY OF LONG-TERM SOLVENCY FINDINGS

Because MATC does not have some of the corrosive financial problems now undermining many local governments, at first glance its long-term outlook appears solid. MATC participates in the Wisconsin Retirement System (WRS), which is in much better financial shape than the retirement funds of many other state and local governments. The college borrows at modest levels and its debts are paid off rapidly. Its physical plant appears to be well-maintained and in good condition. Despite these positive indicators, however, the college's long-term prospects are clouded by the fact that annual expenditure needs now exceed revenue capacity and will continue to do so unless major corrections are made. Contributing to potential long-term structural imbalance are health care expenditures for retirees, a benefit and cost the college has not fully funded.

Health care costs and obligations

In 2010, fringe benefit expenditures were budgeted at $58.7 million, an 8.3% increase over 2009. A more troubling fact is that MATC expects greater growth in 2011 (11.7%), bringing total fringe benefit expenditures to $66.5 million. MATC officials and union representatives have noted ongoing discussions regarding changes in health care provider networks and other strategies to help mitigate costs. Success in this area will be critical to the college's long-term fiscal outlook.

Reducing annual health care cost increases also will be critical to controlling unfunded health care obligations toward retirees. MATC has an unfunded Other Post-Employment Benefit (OPEB) liability of approximately $281 million. While this unfunded liability is substantially lower in size than that faced by other major local governments, it is sizable nonetheless when considering the much smaller comparative size of MATC's budget and workforce.

Table 30 on the following page provides additional context by showing the unfunded liabilities of other WTCS institutions. In this case, the comparative size of MATC's unfunded liability must take into account its significantly larger retiree population, though the substantial benefit offered by MATC also contributes significantly to its much larger total.

Table 30: OPEB unfunded liabilities for WTCS institutions, 2009

DISTRICT	UNFUNDED LIABILITY
Milwaukee Area Technical College	**$281,433,721**
Blackhawk Technical College	8,920,800
Chippewa Valley Technical College	13,425,269
Fox Valley Technical College*	36,705,100
Gateway Technical College	15,547,825
Lakeshore Technical College*	5,300,876
Madison Area Technical College	9,352,864
Mid-State Technical College	8,032,488
Moraine Park Technical College	9,828,000
Nicolet Area Technical College	n/a
Northcentral Technical College*	6,857,563
Northeast Wisconsin Technical College	5,820,066
Southwest Wisconsin Technical College	n/a
Waukesha County Technical College	63,214,998
Western Technical College	7,920,007
Wisconsin Indianhead Technical College	n/a

** 2008*

Source: Financial reports and budgets, WTCS institutions, 2009

MATC pays its retiree health care costs largely on a pay-as-you-go basis (i.e. the amount appropriated pays for the costs accrued in a given year). In 2008, however, the district established an OPEB Trust designed to collect and hold annual contributions toward the unfunded liability. MATC administrators originally intended to contribute $2 million annually to the Trust, but the college has struggled to maintain that commitment.

In order to fully pre-fund its OPEB liability, MATC would need to spend about $29.4 annually on retiree health care. In 2009, the district spent only $11.4 million, of which $9.9 million covered the normal cost and $1.5 million was directed to the Trust. Nonetheless, MATC deserves credit for establishing the OPEB Trust (unlike most other local governments) and beginning to fund it. As of May 31, 2010, the Trust contained $6.9 million. The 2011 budget includes an additional payment of $1 million.

Long-term borrowing

MATC's long-term debt is stable and easily within its ability to finance. The college's general obligation bond issue in April 2010 received a high Aa1 rating from Moody's Investor Services. Moody's also affirmed the college's Aa1 rating with stable outlook on all outstanding general obligation debt. As is customary, the Moody's rating reflected its evaluation of the impact of both environmental factors and management practices on the college's financial condition. While noting that MATC's overlapping debt of 4% is "slightly above average" because of the borrowing of other governmental units serving the district (e.g. Milwaukee County and the City of Milwaukee), Moody's concluded that direct district obligations "are low relative to the sizable tax base and are easily managed, a view enhanced by the district's rapid amortization of principal, 100% in 10 years."

As shown in **ICMA Indicator 7**, while MATC's borrowing increased in the past year, the college's debt as a percentage of equalized valuation changed little throughout the period. Total and property tax-funded debt service payments for college operations declined slightly, as **Table 31** demonstrates. The college's 2009 debt service mill rate of 0.34 was slightly higher than the WTCS statewide average of 0.25.

ICMA Fiscal Indicator 7 – Long-term Debt

Why it is Important – Credit agencies routinely examine a local government's debt load in setting a bond rating. Increasing debt is one possible indication of a deteriorating fiscal condition. Conversely, low debt may indicate an underinvestment in capital facilities. Net direct debt is bonded debt for which a local government has pledged its good faith and credit and which is supported by tax revenues. Overlapping or overall net direct debt includes MATC debt plus all bonded debt issued by other governmental units in the city, such as MPS or Milwaukee County.

ICMA Warning Signs –

- Increasing direct debt or overlapping debt as a percentage of assessed valuation
- Overlapping direct debt exceeding 10% of assessed valuation

MATC Finding – In 2009, MATC's direct debt represented 0.12% of equalized valuation and registered no change since 2005, although per capita debt did rise. Overlapping direct debt issued by all governmental units represented 4.05% of equalized value, substantially below the warning threshold. These are **positive indicators** of fiscal health.

Equalized value and direct debt

YEAR	EQUALIZED VALUE*	DIRECT DEBT*	% EQUALIZED VALUE	DEBT PER CAPITA
2005	$61,171,200	$74,560	0.12%	$71
2006	$67,188,900	$78,405	0.12%	$75
2007	$74,941,000	$74,850	0.10%	$71
2008	$78,612,300	$74,815	0.10%	$75
2009	$79,558,400	$94,630	0.12%	$90

** In thousands*
Source: MATC CAFRs

Table 31: MATC debt service payments (in thousands)
General operations, 2005 to 2009

DEBT SERVICE	2005	2006	2007	2008	2009
Total Payments*	$26,815	$27,055	$27,678	$27,191	$25,892
% of General Fund	16.3%	15.8%	15.5%	14.2%	12.9%

** Includes principle and interest*
Source: MATC financial records

Maintenance of capital assets

MATC has a well-developed and large capital budget, as befits a college with 2.9 million square feet of property and whose land, building, and equipment was valued at $352 million in 2009 (irrespective of depreciation). Each year, MATC submits a three-year facilities plan to the WTCS board for review and approval. Developed out of the campus overall strategic plan, this three-year plan establishes capital priorities for acquisition, remodeling, improvements, and rentals.

ICMA Fiscal Indicator 8 – Capital Improvements and Repair and Maintenance

Why it is important? – Capital-related expenditures provide an indication of whether capital needs are being addressed.

ICMA Warning Sign – A three-year or more decline in capital maintenance and improvement expenditures.

MATC Finding – Capital outlays continue to be substantial without involving significant levels of long-term debt. Physical plant operating costs rose throughout the period. Building and equipment maintenance expenditures dropped somewhat in 2009, but were still above 2005 and 2006 levels. These are **positive indicators** of fiscal health.

Capital-Related Expenditures

YEAR	CAPITAL OUTLAY	PHYSICAL PLANT*	BUILDING & EQUIPMENT MAINTENANCE*
2005	$15,822,883	$13,977,074	$1,728,264
2006	$18,967,774	$15,269,063	$1,986,212
2007	$20,111,955	$15,896,877	$2,616,600
2008	$26,241,968	$17,158,799	$3,092,892
2009	$29,142,216	$17,363,879	$2,371,859

** Operating funds*
Source: MATC CAFRs

Maintaining capital assets in proper condition is an ongoing responsibility that requires continued vigilance. Failure to provide adequate financial support not only reduces the value and usefulness of the asset, but also can lead to higher long-term capital costs. Nevertheless, as ICMA has observed, many governments have not been willing to fully fund such costs and have discovered that underfunding capital assets is "a relatively painless way to temporarily reduce expenditures and ease financial strain." **ICMA Indicator 8** reviews MATC capital expenditures in three key areas. The trend data shows continuous and strong effort.

Other information confirms appropriate investment in maintaining the college's physical assets. In 2010, MATC spent $16 million on equipment, which addressed about 70% of all equipment requests and was about the same level of equipment funding budgeted in each of the past five years. Deferred maintenance funding, a constant headache for many post-secondary institutions and local governments, also seems adequate. In 2010, the college borrowed $12 million for construction and renovation projects, which addressed about 30% of all capital requests. The deferred projects are not considered urgent. Finally, capital funding at MATC has been sufficiently robust to allow the college to invest in "sustainable projects" intended to produce long-term energy cost savings. In 2010, such projects include a wind turbine, photovoltaic arrays, a high-efficiency chiller and energy efficient lighting.

Long-term budget prospects

As discussed in previous sections, MATC's budget might now be considered structurally out of balance. Simply put, annual increases in property tax revenues, which constitute 60% of all income, have fallen dramatically from previous years, while expenditures, especially for health care and salaries, have continued briskly upward at above the rate of inflation. In the 2011 budget, expenditures are projected to exceed revenues, necessitating a $7.6 million contribution from the college's reserves. While it is difficult to dispute use of reserves in such a difficult economic climate – and at a time when the college is facing dramatically increased enrollment – this approach is not sustainable over the long term.

For purposes of discussion, we developed three scenarios – shown in **Tables 32-34** – that focus on the major revenue and expenditure items that have driven budgetary change for at least the past decade.[20]

- The first scenario is based on optimistic (but not impossible) assumptions about how these major revenues and expenditures might develop favorably for the college. On the revenue side, it inflates MATC's own property tax projections by 2% annually while assuming tuition revenues will continue to rise at 8% a year, the state will increase its funding by 3% annually, and other revenues will grow annually at 5%. On the expenditure side, this scenario assumes employee concessions and/or staffing changes that would result in an annual payroll increase of 2% (about half that seen in the previous five years) and fringe benefit changes that would yield an 8% cost increase annually.

- The second scenario posits financial assumptions that would be very unfavorable. MATC's property tax projections are reduced by 2% annually, tuition revenues rise at only 3%, state funding is flat, and other funding grows at 3% per year. On the expenditure side, this scenario assumes increases for salaries, fringe and other expenditures similar to the annual averages seen over the last five years (4%, 10% and 9% respectively).

- The third scenario shows the mid-point of the high and low scenarios.

Applying these revenue and expenditure assumptions under each scenario produces a structural deficit ranging from $4.3 million to $16.6 million in 2012, and climbing to between $10.9 million and $62.2 million in 2016. In each of the scenarios, the structural deficit is shown to accumulate. For clarity purposes, the structural deficit is portrayed as representing the difference between revenues and expenditures. Budgeting practice, however, would normally include a revenue cushion and, thereby, add another $6-10 million to each of these deficit totals.

It is important to note that in practice, each year's budget deficit would be addressed in some fashion. The scenarios, however, show the cumulative fiscal impact of failing to address major revenue and expenditure forces over a five-year period.

[20] These scenarios were developed using baseline data from MATC's 2011 budget, which was adopted in June 2010. Because that budget does not take into account official equalized value calculations released in August, which were 2-4% lower than budgetary assumptions, it is likely that these scenarios understate the size of the structural deficit.

Table 32: MATC annual budget scenarios and structural deficit, 2012 to 2016 Scenario 1 (Favorable)

	2012	2013	2014	2015	2016
REVENUES					
Local	$118,742,380	$120,523,515	$122,933,985	$126,007,335	$129,787,555
Tuition & fees	$50,302,830	$54,327,056	$58,673,220	$63,367,078	$68,436,444
State	$29,056,987	$29,928,697	$30,826,558	$31,751,354	$32,703,895
Other	$14,143,484	$14,850,658	$15,593,191	$16,372,851	$17,191,494
Total	**$212,245,681**	**$219,629,926**	**$228,026,955**	**$237,498,618**	**$248,119,388**
EXPENDITURES					
Salaries	$123,490,249	$125,960,054	$128,479,256	$131,048,841	$133,669,817
Fringes	$67,455,238	$72,851,657	$78,679,790	$84,974,173	$91,772,107
Other	$25,633,711	$27,428,070	$29,348,035	$31,402,398	$33,600,566
Total	**$216,579,198**	**$226,239,781**	**$236,507,081**	**$247,425,412**	**$259,042,490**
STRUCTURAL DEFICIT	**($4,333,517)**	**($6,609,855)**	**($8,480,126)**	**($9,926,794)**	**($10,923,102)**

Table 33: MATC annual budget scenarios and structural deficit, 2012 to 2016 Scenario 2 (Unfavorable)

	2012	2013	2014	2015	2016
REVENUES					
Local	$114,085,816	$115,797,103	$118,113,045	$121,065,871	$124,697,847
Tuition & fees	$47,973,995	$49,413,215	$50,895,611	$52,422,479	$53,995,154
State	$28,210,667	$28,210,667	$28,210,667	$28,210,667	$28,210,667
Other	$13,874,085	$14,290,307	$14,719,016	$15,160,587	$15,615,404
Total	**$204,144,562**	**$207,711,292**	**$211,938,339**	**$216,859,604**	**$222,519,072**
EXPENDITURES					
Salaries	$125,911,627	$130,948,092	$136,186,016	$141,633,456	$147,298,795
Fringes	$68,704,409	$75,574,850	$83,132,335	$91,445,569	$100,590,126
Other	$26,112,846	$28,463,002	$31,024,672	$33,816,892	$36,860,413
Total	**$220,728,882**	**$234,985,944**	**$250,343,023**	**$266,895,917**	**$284,749,333**
STRUCTURAL DEFICIT	**($16,584,320)**	**($27,274,652)**	**($38,404,684)**	**($50,036,313)**	**($62,230,262)**

Table 34: MATC annual budget scenarios and structural deficit, 2012 to 2016 Scenario 3 (Mid-point)

	2012	2013	2014	2015	2016
REVENUES					
Local	$116,414,098	$118,160,309	$120,523,515	$123,536,603	$127,242,701
Tuition & fees	$49,138,412	$51,870,135	$54,784,416	$57,894,779	$61,215,799
State	$28,633,827	$29,069,682	$29,518,612	$29,981,011	$30,457,281
Other	$14,008,784	$14,570,483	$15,156,104	$15,766,719	$16,403,449
Total	**$208,195,122**	**$213,670,609**	**$219,982,647**	**$227,179,111**	**$235,319,230**
EXPENDITURES					
Salaries	$124,700,938	$128,441,966	$132,295,225	$136,264,082	$140,352,005
Fringes	$68,079,824	$74,207,008	$80,885,639	$88,165,346	$96,100,227
Other	$25,873,278	$27,943,140	$30,178,592	$32,592,879	$35,200,309
Total	**$218,654,040**	**$230,592,114**	**$243,359,456**	**$257,022,307**	**$271,652,541**
STRUCTURAL DEFICIT	**($10,458,918)**	**($16,921,505)**	**($23,376,809)**	**($29,843,196)**	**($36,333,311)**

To address these structural deficits, MATC will need to increase revenues, reduce expenditures, or implement some combination of both. As noted throughout this report, the college's major revenue sources essentially are out of its direct control and dependent upon changes in equalized valuation, state appropriation, and WTCS tuition decisions. Expenditures, in contrast, fall under the college's direct authority, but cost reduction cannot simply be mandated by college management. Because a high percentage of costs are personnel-related, and because fringe benefits increases are driving expenditures, it appears likely that effective cost reduction strategies will require the active participation and agreement of the college's labor unions.

CASH SOLVENCY

Cash solvency refers to the ability of a government to pay its bills. Two ICMA measures for cash solvency pertain to liquidity and general fund balance. Liquidity examines the flow of money in and out of the treasury. If revenues are on hand to cover expenditures, a government has positive liquidity or cash flow. A positive fund balance, meanwhile, provides an indication of a government's ability to maintain cash solvency, as well as to meet unanticipated emergencies.

SUMMARY

MATC's liquidity ratio and cash balance are healthy. Cash reserves have been available to help with recent budget stresses, but cannot be relied upon as a long-term solution for a structural deficit.

In the years under review, the trends in liquidity and cash balance were positive for MATC, as shown in **ICMA Indicators 9** and **10**. Cash and short-term investments grew by about 50%, resulting in an improved liquidity ratio. Also, from 2005 to 2009, the ending general fund balance increased by $15 million, and it fluctuated as a percentage of operating revenues from 12% in 2005 to 17% in 2009.

As previously explained, for its 2011 budget, the college will draw upon general fund reserves to keep its budget in the black. The ending balance in the fund is budgeted at $26.4 million, or $7.5 million less than the $33.9 million for 2010. Reserves for 2011 are budgeted at 13.4% of general fund revenues, compared with 17.6% in 2010.

Despite the college's use of its general fund reserves, the general fund balance is within the range of its stated policy goal of 10 to 15% and, by itself, is not cause for alarm. In fact, MATC budgeted a lower ending balance of 12.7% in 2009. Nevertheless, drawing upon the general fund to this extent demonstrates the structural imbalance in revenues and expenditures that now exists in the college's budget and suggests the need for future monitoring. It will be difficult for MATC to keep the budget in the black in upcoming years, and any repeated use of general fund revenues for budget balancing should be a cause for concern.

Finally, for additional perspective, we consulted the annual financial reports of three large community colleges to determine the relationship at peer institutions between the ending balance and general fund revenues. We found that in 2008, the end-of-year general fund balance represented 17% of general fund revenues at Miami Dade College, 9% at the City College of San Francisco, and 6% at Portland Community College.

ICMA Fiscal Indicator 9 – Liquidity

Why it is Important – A key measure of short-term fiscal condition is liquidity. ICMA defines liquidity as the ratio of cash and short-term investments to current liabilities. Assessing liquidity is complicated by the flow of payments in and out an institution's coffers in the course of the year. For this reason, evaluation of liquidity should take place at the same point in time, as we do here.

ICMA Warning Sign –

- A decreasing amount of cash and short-term investment as a percentage of current liabilities.
- Three or more years of a ratio of greater than 1 to 1.

MATC Finding – MATC's liquidity ratio has improved as cash and short-term investments grew by $30 million from $61 million in 2005 to $91 million in 2009, while liabilities increased by only $5 million, from $56 million to $61 million. This improving ratio is a **positive indicator** of fiscal health.

Liquidity Ratio

YEAR	RATIO
2005	1 to 0.9
2006	1 to 0.8
2007	1 to 0.8
2008	1 to 0.7
2009	1 to 0.7

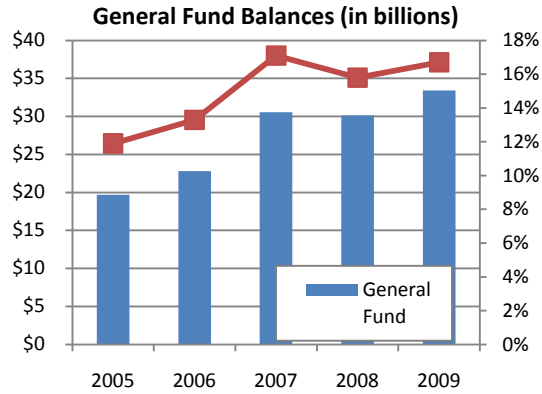
Source: MATC CAFRs

ICMA Fiscal Indicator 10 – Fund Balance

Why it is Important – Fund balances are a form of financial reserve that affect a government's ability to meet unanticipated costs and emergencies.

ICMA Warning Sign – Declining general fund balance as a percentage of net operating revenues.

MATC Finding – From 2005 to 2009, MATC's general fund balance rose from $20 million and 12% of operating revenues, to $33 million and 17% of operating revenues. However, the 2010-11 budget draws substantially from the general fund to finance expenditure increases. As a result, the general fund balance will fall from $33.9 million and 17% of operating revenues in 2010, to $26.4 million and 13% of operating revenues in 2011. Given this recent action and the college's fiscal condition, this indicator **requires monitoring**.



Source: MATC CAFRs

MATC AND LOCAL GOVERNMENT FINANCE

This is the third in a series of local government fiscal evaluations conducted by the Public Policy Forum, with the first two encompassing Milwaukee County and the City of Milwaukee. These three reports show public institutions that are quite different in mission and scope, but that have been required to respond to similar and exceptional financial circumstances. The force of the recession and the upward spiral of health care costs have severely affected each institution and impacted their ability to fund ongoing operations.

The financial strategies employed by these governments also share some commonalities. Perhaps not surprisingly, the two governments that had sufficient reserves – the City of Milwaukee in its Tax Stabilization Fund and MATC in its general fund – have used some of those resources for budget balancing. While these are short-term measures, they have not yet placed the institutions in financial jeopardy, and they have allowed the city and technical college to buy time in which to develop corrective strategies.

All three governments also have substantially increased revenues from individual fees and charges. Milwaukee County government's charges for services rose by 43% (compared with overall revenues that increased by 19%) during the 2003 to 2007 timeframe in which our analysis was conducted. The City of Milwaukee's charges for services rose by 42% (compared with an 11% growth in overall revenues) during the 2004 to 2008 timeframe. At MATC, tuition rose by 28% from 2005 to 2009 (compared with total revenues that increased by 21%).

The three governments also have been severely tested by the cost of past promises, though the level of capital borrowing and repayment practices of each is exemplary. However, low investment earnings and significant benefit enhancements have saddled Milwaukee County with a large unfunded liability in its pension fund ($400 million in 2009). Also, all three governments have not fully funded the cost of health care obligations to future retirees. In the case of MATC, OPEB liabilities are one of the institution's main long-term fiscal challenges.

The governments have differences, as well, in their dependence on state and federal funding. **ICMA Indicator 3**, which depicts "intergovernmental revenue as a percent of operating revenue," shows the City of Milwaukee at 44%, Milwaukee County at 36% and MATC at 17%. Most of these revenues come from state funds, and the lack of even inflationary funding increases for programs with escalating service demands has weighted down local governments for more than a decade. MATC has been disadvantaged by this trend, but not nearly to the same degree as the city or county, simply because it is less dependent upon this resource.

MATC also has benefited from the fact that it does not have its own retirement program, but participates in the state pension system. By being part of a large state retirement system that is well-funded, MATC has been spared the major budgetary swings in annual retirement payments that have afflicted many city and county governments, including Milwaukee's.

In regard to financial structure, MATC's is more flexible than the other local governments. A considerable portion of the county's revenues – and to a lesser extent the city's – are dedicated and restricted to a particular service or purpose by state statute or state policy. The fact that overall county revenues have gone up, therefore, has meant little to budgetary units that rely

upon resources that are stagnant or in decline. At MATC, in contrast, operating funds have few restrictions on their use, and the college is free to move monies around in a manner that meets institutional program needs and priorities, and that also can produce cost efficiencies.

A key difference between MATC and the city and county governments is their use of the property tax. Between 2005 and 2009, MATC's property tax levy increased 23%, as compared to the county's 14% and the city's 17%. Of course, statutory rules provide technical colleges with more leeway to increase their rates. Yet, both the city and county could have increased rates higher than they did, and it seems apparent that neither government would have considered the kind of increases enacted by MATC even if freed from state constraints.

This difference in behavior likely could be attributed to multiple factors, but MATC's governance structure undoubtedly provides at least part of the answer. MATC's board, as has been explained, is not elected, but appointed by a special committee composed of presidents and members of K-12 school boards. Some might argue this has produced a board membership that has a stronger commitment to MATC's educational mission and a greater willingness to raise property taxes to meet the college's financial needs, thus maintaining an institution that is in better shape – both financially and programmatically – than entities governed by elected officials. Others, however, might contend that it has produced a less accountable and less visible public entity that has not been required to perform with the same level of fiscal responsibility as entities governed by elected bodies.

Whether one favors this governance structure depends on personal philosophy about how policy and government decisions should be made. The answer also may depend on one's opinion of the value of MATC's mission and its effectiveness. Taxes have gone up higher than they might have with an elected board. Yet, MATC, according to the available evidence, has been able to take good care of its infrastructure, engage in worthwhile community partnerships, and meet student demand for its services with a diverse array of educational programs. Whether those results are worth the price, and whether it is appropriate for MATC to be better-supported, comparatively speaking, than Milwaukee's county and city governments, is a question that cannot be answered with empirical research.

Consideration of MATC's governance structure also provides insight into the question of the proper size and role of local government. Are large, comprehensive governments sustainable? Would smaller, more focused taxing authorities be more fiscally sound? Certainly, there is no other local government whose structure and experience would appear as instructive.

The MATC experience sheds light, in particular, on issues of taxation and governance that are central to setting up any new authority. Of course, differing opinions can exist about the MATC experience in this context. On the one hand, it can be argued that MATC's governance by a special purpose district with a non-elected board has led to higher taxes, limited public scrutiny, and over-subsidization. On the other, it can be said that the existing governance structure has facilitated the growth of a critical public institution that provides a service greatly needed by residents and essential to the regional economy. While this report does not come down on either side of that question, it does offer food for thought for those who wish to pursue the creation of additional independent authorities with powers of taxation in southeast Wisconsin.

CONCLUSION

This report has used the Fiscal Trend Monitoring System of the International City/County Management Association to evaluate the fiscal health of the Milwaukee Area Technical College. By examining key fiscal characteristics and assessing trends in various indicators, this methodology paints a clear and impartial picture of MATC's financial condition. Major findings in ICMA's four fiscal solvency categories are as follows:

- *Cash solvency*: MATC's liquidity and end-of-the-year general fund balance improved from 2005 to 2009. While the college applied $7.5 million in general fund reserves to balance the 2011 budget, the year-end balance of 13% of operating revenues is well within its policy guideline of 10-15%. Given the state of the regional economy and the fiscal challenges faced by the college, this use of reserves is not inappropriate, though it bears careful monitoring.

- *Service solvency*: There were no major service reductions during the years under review. In fact, MATC, like many other community colleges, experienced enrollment growth in 2009 and 2010 as rising unemployment increased the number of district residents taking post-secondary coursework. MATC service levels contrast strongly with other local governments, such as Milwaukee County and the City of Milwaukee, whose more difficult fiscal circumstances forced numerous program and service cutbacks.

- *Budget solvency*: This analysis finds MATC in a period of fiscal change, with five years of budgetary growth followed by two years of budgetary stress. The college balanced its 2010 and 2011 budgets, in part, through use of one-time revenues, and now faces a structural deficit created by the inability of ongoing revenues to meet ongoing expenditure needs.

- *Long-term solvency*: In many respects, MATC's long-term financial position is strong and stable. The college borrows at modest levels and rapidly pays off its debt. It participates in the Wisconsin Retirement System, which is in better financial shape than many other public retirement funds. It replaces and updates equipment and maintains its buildings. Nevertheless, the college faces two major long-term budget challenges: an unfunded liability of $281 million for retiree health care costs; and, most important, a structural imbalance between projected revenue capacity and expenditure needs.

Simply put, MATC has enjoyed relative financial stability – particularly when compared to other local taxpayer-funded entities – for many years, but now faces stark challenges. This circumstance is largely attributed to MATC's strong reliance on property tax revenues, which constitute about 60% of its operating funds. As a result of this dependence, MATC's annual budget this past decade has mirrored the ups and downs of the real estate market, with revenues climbing much faster than the rate of inflation from 2005 to 2009, and then falling in the next two years to the extent that the college now has difficulties meeting basic expenditure needs.

While the impact of property values is key to understanding MATC's financial challenges, this report also has documented the following important fiscal factors that merit close attention from college administrators and state and local policymakers:

- MATC's funding from the state declined by about $2 million from 2005 to 2009. Since MATC is less dependent upon state funds than other local governments, the college was able to weather the impact of declining state aid during that period with little problem. Now that it has lower overall revenue growth, the level of state aid is a more critical issue for the college's financial well-being.

- Student charges have constituted MATC's fastest growing financial resource, with tuition and fees rising from a budgeted $31 million in 2005 to a budgeted $47 million in 2011. Tuition rate increases of 37% for college transfer students and 39% for vocational students contributed substantially to this revenue growth. While tuition increases – set by the WTCS board in Madison – have benefited the college financially, their effect upon student access must be contemplated.

- Fringe benefit and salary increases were responsible for about three-quarters of all expenditure growth in the five years under review. Health care expenditures, which have been a major challenge for most public entities and private businesses in the region, have risen both as a proportion of fringe benefit costs and in relation to salary. Comparative data from 2005 to 2008 shows that MATC's health care expenditures rose by 35% during this period – more than twice as fast as those at Milwaukee County and the City of Milwaukee.

- The imbalance between ongoing revenues and expenditures will continue to grow unless addressed by substantive budgetary action. Our analysis estimates an annual structural gap that will reach $11 million to $62 million within the next five years.

Under the state's governance provisions, MATC is responsible for managing its own finances, and the college acts independently in matters such as setting salary and wage rates and hiring and organizing staff. Consequently, it could be argued that MATC has the statutory authority, as well as the fiscal responsibility, to tackle its major financial problems. Yet, despite this responsibility, the reality is that MATC must operate within a fiscal framework that affords it no direct control over its major revenue sources – the property tax, state revenue and establishment of tuition and fees.

Fortunately, MATC appears better positioned than most to meet its fiscal challenges. When compared with the 15 other WTCS institutions, MATC has the highest average faculty salary and one of the lowest student-to-faculty ratios. MATC also has one of the highest levels of expenditures per student FTE among the group. When compared with 84 other large public two-year technical and community colleges nationally, MATC's ranks *highest* in level of expenditures per student FTE in total operating expenses, salary expenditures, and fringe benefit expenditures.

While these findings certainly suggest opportunity for expenditure reductions, such discussion must be accompanied by analysis of potential impacts on learning and degree outcomes. This is particularly necessary in light of the growing importance of MATC as one of the only sources of educational opportunity for a substantial population of disadvantaged and displaced citizens, and the growing body of evidence that regions lacking high levels of higher education attainment suffer a competitive disadvantage.

Despite that imperative, the question remains whether MATC will be able to continue to afford the level of compensation, benefits, and staffing it currently provides. If not, what kind of fiscal changes should the college consider and what will be the impact upon students of such changes?

Given the state of MATC's finances, it is time for the college to study and discuss these issues. Such discussion must be accompanied by a strong commitment to performance measurement and dissemination, which should emanate from a clear vision of MATC's mission, educational goals and role in the regional economy.

For many years, for example, MATC has struggled with its presumed role as both a technical/vocational institution and a traditional community college. College leaders must determine *whether* there is a need to distinguish between those two identities, and whether performance outcomes should focus on the post-graduate fortunes of students, MATC's success in working with and satisfying the needs of major employers, college transfer rates, student access, academic outcomes, or all of the above. Either way, the difficult decisions needed to bring MATC's finances back into balance must be based on measurable and transparent long-term goals, and not short-term expediency.

Finally, our analysis of MATC's fiscal condition and practices offers opportunity for comparison with other local governments. Our previous analyses of the City of Milwaukee and Milwaukee County, for example, indicate the three public entities have adopted many similar budgetary strategies in the face of the exceptional challenges brought on by the current recession, the upward spiral of health care costs, and flat or declining state funding. A chief difference, however, has been their willingness to increase the property tax. Between 2005 and 2009, MATC's property tax levy increased 23%, as compared to the county's 14% and the city's 17%.

In the current discussion about governance structure and possible consolidation in Milwaukee County, the case of MATC is worth consideration. In this instance, a locally appointed board, drawing heavily upon local revenue sources, has produced a large and well-funded technical college. Would an elected board have acted similarly and, if not, would quality have suffered?

This question cannot be answered by quantitative or qualitative research, but instead hinges on one's subjective view of whether cost or program quality should be the determining point in evaluating government performance. Nonetheless, the MATC experience offers valuable context with which to continue debating the appropriate structures for providing local government services in southeast Wisconsin.