

Letter Report

**Applied Technology Centers**  
*Gateway Technical College*

*June 2006*



**Legislative Audit Bureau**

22 E. Mifflin St., Ste. 500, Madison, Wisconsin 53703-4225 ■ (608) 266-2818

Fax: (608) 267-0410 ■ Web site: [www.legis.state.wi.us/lab](http://www.legis.state.wi.us/lab)





**STATE OF WISCONSIN**  
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410  
Leg.Audit.Info@legis.state.wi.us

Janice Mueller  
State Auditor

June 16, 2006

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co- chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

As requested by the Joint Legislative Audit Committee, we have completed an evaluation of the two applied technology centers constructed by Gateway Technical College: the Center for Advanced Technology and Innovation (CATI), and the Center for Bioscience and the Integration of Computer and Telecommunications Technology (BioCATT). These centers were constructed at a cost of \$7.4 million. Construction funds were obtained from \$5.0 million in bonds issued by Gateway, along with both cash and in-kind donations from area businesses.

Technical college construction projects of more than \$1.0 million must typically be approved by referendum, but a statutory exception exists for technology centers. However, statutes require at least 30.0 percent of construction costs to be funded with private contributions. This statutory requirement was not met because the value of in-kind contributions has been less than initially projected, and private businesses provided \$414,000 less than anticipated in cash donations.

Gateway's governing board chose to contract with two private, nonprofit corporations to manage daily operations of the two centers and provide other services. Contract agreements involving staffing, building maintenance and use, and programming are complex and have been amended frequently. Since the centers opened, Gateway has spent \$2.3 million to support facility operations but has received operating revenues of only \$106,800. The difference—\$2.2 million—has been paid from Gateway funds. Gateway is also expected to incur \$1.1 million in bond repayment costs through fiscal year 2005-06. The level of support provided suggests that Gateway should closely monitor the centers' ongoing operations to ensure costs are controlled and revenues maximized.

We reviewed detailed financial documentation and found no instances in which funds from Gateway or either of the nonprofit organizations were improperly paid to an employee of any other organization. However, we question Gateway's decision to enter into a contract with the private organization managing the BioCATT facility for use of four fiber-optic lines. One objective of the agreement was to reduce Gateway's telecommunications costs. However, this contract has not been cost-effective in the short-term. Future financial benefits will largely depend on the ability of BioCATT, Inc., to sell use of additional fiber optic lines.

We appreciate the courtesy and cooperation extended to us by staff of Gateway Technical College, the Wisconsin Technical College System Board, and the nonprofit organizations associated with the applied technology centers.

Sincerely,

Janice Mueller  
State Auditor

JM/PS/bm



## **APPLIED TECHNOLOGY CENTERS**

### *Gateway Technical College*

Gateway Technical College is one of 16 technical colleges in the Wisconsin Technical College System (WTCS). Gateway's district includes all of Kenosha, Racine, and Walworth counties, and the college operates facilities in Kenosha, Racine, Pleasant Prairie, Elkhorn, Burlington, and Sturtevant. Like all technical colleges in Wisconsin, Gateway is managed through a shared governance structure that has been designed to provide consistent educational opportunities and occupational programs statewide. The WTCS Board has several responsibilities, including setting statewide uniform tuition and fee rates, administering state and federal aid, developing statewide policies and standards in areas such as districts' financial reporting, and approving qualifications for districts' educational personnel and courses of study. However, each of the 16 technical colleges is directly governed by its own nine-member board. Gateway board members serve three-year terms and are appointed by a committee of county board chairs from the three counties within Gateway's boundaries. Section 38.08, Wis. Stats., requires that the board include employer, employee, local school district, state or local elected official, and citizen representation. Appendix 1 provides a list of current Gateway board members.

In March 2006, Gateway employed 687.1 full-time equivalent (FTE) staff to serve the 5,045 FTE students who were enrolled during the 2005-06 school year. The college's primary offerings include 53 associate degree and 21 technical diploma programs. Associate degree programs require two years of full-time coursework. Technical diplomas are either one- or two-year programs that focus on specific occupational skills. The tuition rate for courses is set by the WTCS Board. It will increase from \$80.50 per credit for the 2005-06 school year to \$87.00 for the 2006-07 school year.

Under the leadership of its former president, Gateway completed construction of two buildings in 2003, at a total cost of \$7.4 million:

- the Center for Advanced Technology and Innovation (CATI) , which is located in the Village of Sturtevant in Racine County; and
- the Center for Bioscience and the Integration of Computer and Telecommunications Technology (BioCATT), which is located on Gateway's campus in the City of Kenosha.

According to Gateway officials, these applied technology centers are intended to help Gateway meet the needs of entrepreneurs and emerging industries, such as bioscience, as well as to provide training that will improve the wages, skills, and productivity of area employees. The centers' combined 69,529 square feet of space represent 9.7 percent of all Gateway facilities.

Most technical college building projects over \$1.0 million require voter approval, and all construction projects require WTCS Board approval. However, because the buildings were constructed as applied technology centers under authority established by ss. 38.04(10)(d)1. and 38.15(3)(c), Wis. Stats., Gateway was not required to obtain voter approval for construction. The day-to-day activities of each center have been managed by two independent nonprofit organizations with which Gateway has chosen to contract.

Several issues have been raised regarding the creation of the centers and Gateway's affiliation with the private organizations managing them. Some legislators, unions representing Gateway's employees, and others have questioned the appropriateness of the decision-making process that preceded facility construction, as well as the costs of construction and ongoing management and operations. In response to these concerns, as well as broader concerns that have been raised regarding the personnel policies and practices of all 16 WTCS districts, the Joint Legislative Audit Committee directed the Legislative Audit Bureau to conduct an audit. This report includes only our analysis of Gateway's applied technology centers. Our report on personnel policies and practices will be released later this year.

To assess the creation and operation of Gateway's applied technology centers, we analyzed:

- compliance with statutory and WTCS requirements;
- the centers' revenues and expenditures;
- the roles of the private, nonprofit organizations that provide management services for the centers;
- the extent to which the centers' current operations are consistent with initial plans; and
- ongoing management issues associated with the centers' operations.

In conducting our review, we interviewed staff of Gateway and WTCS. In addition, we spoke with officials of the private organizations managing the centers, union representatives, members of the Gateway board, and other interested parties. We also reviewed relevant documentation associated with facility construction, management, and operations, including financial statements and other financial documents maintained by Gateway and the private organizations managing the facilities, as well as 2005 and 2006 reports by WTCS office staff reviewing Gateway's compliance with system policies and procedures.

It should be noted that our review was conducted concurrently with a review performed by the Department of Justice (DOJ), which was prompted by a request from several legislators to investigate issues such as Gateway's legal authority as a public entity to create the private organizations associated with the applied technology centers; possible conflicts of interest in their creation, including the involvement of Gateway's former president, who retired in January 2006; and the fact that BioCATT, Inc.'s executive director is a former Gateway board member. DOJ is also reviewing possible violations of the open meetings and open records laws by the various governing boards. We did not address these issues in our review. Instead, we coordinated our efforts with DOJ to avoid unnecessary duplication of effort and focused our review on the cost, management, and operations of the two applied technology centers.

## Facility Approval and Construction

In addition to Gateway, four other technical colleges have established or are in the process of establishing applied technology centers. As shown in Table 1, Moraine Park Technical College's Applied Manufacturing Technology Center and Chippewa Valley Technical College's Applied Health Education Technology Center are currently operating. Construction for Waukesha County Technical College's Printing Applied Technology Center began in April 2006, and a groundbreaking ceremony for the Milwaukee Area Technical College's Energy Conservation and Advanced Manufacturing Center is scheduled for July 2006. Gateway is currently the only technical college that has chosen to use private, nonprofit organizations to manage its centers' operations.

Table 1

### Applied Technology Centers Statewide

Technical College District	Name of Applied Technology Center	Date Opened	Purpose	Square Footage	Construction Cost (millions)
Moraine Park	Applied Manufacturing Technology Center	August 2002	Manufacturing industry workforce training	42,700	\$5.4
Gateway	Center for Advanced Technology and Innovation (CATI)	August 2003	Workforce training and high technology business incubation	39,089	3.5
Gateway	Bioscience and the Integration of Computer and Telecommunications Technology (BioCATT)	January 2004	Workforce training in bioscience, telecommunications, and information technologies	30,440	3.9
Chippewa Valley	Applied Health Education Technology Center	July 2004	Health care training for students and workers	39,400	5.2
Waukesha County	Printing Applied Technology Center <sup>1</sup>	April 2007	Printing industry research and development and workforce training	23,600	4.7
Milwaukee Area	Energy Conservation and Advanced Manufacturing Center <sup>1</sup>	August 2007	Education and training in emerging energy and manufacturing technologies	32,500	9.0

<sup>1</sup> Projections based on current construction schedule.

As noted, technical college construction projects of more than \$1.0 million typically require district voters' approval through public referendum. However, 1999 Wisconsin Act 9 created a

referendum exemption under which proposals to bond for up to \$5 million to construct applied technology centers may be submitted directly to the WTCS Board without having to be approved by district voters. The original sunset date for this legislation was January 2002. 2001 Wisconsin Act 16 extended it to July 2003, and 2003 Wisconsin Act 62 extended it to July 2006.

Act 9 set forth the initial requirements for technical colleges to construct applied technology centers. The WTCS Board may not approve an applied technology center unless it will meet the following criteria, which are included in s. 38.04(10)(d)1, Wis. Stats.:

- a center will be likely to maintain or increase the number of jobs in the region that require a high-level skill and provide high wages;
- a center will be likely to increase the productivity of employees served;
- the technical college will receive cash or in-kind contributions from area businesses equivalent to at least 30.0 percent of the center's construction costs;
- the area businesses for which customized courses are provided at a center will pay for all direct costs and 20.0 percent of indirect costs; and
- the technical college must have consulted with representatives of local businesses and labor in developing a center.

In its proposals submitted to the WTCS Board in March 2002, Gateway indicated that its applied technology centers would address regional economic needs and focus primarily on training individuals already in the workforce. BioCATT would emphasize telecommunications, distance education, and biological and pharmaceutical production technologies. CATI would provide small-business incubator space to house new high-technology businesses for a maximum of three years. In addition, each facility was designed to offer customized employee training through contracts with area businesses, as well as to provide space for traditional program-based courses that students take to earn associate degrees and technical diplomas.

Construction costs of \$8.6 million were approved by the WTCS Board in March 2002. An analysis of Gateway's applied technology center construction budget was conducted by WTCS staff at that time and indicated Gateway planned to meet the 30.0 percent business contribution requirement through cash contributions of \$1.6 million and in-kind contributions of \$1.5 million. However, as shown in Table 2, construction costs were reduced to \$7.4 million because both cash and in-kind contributions fell short of budgeted amounts and because actual and anticipated contributions by businesses amounted to only 27.2 percent of construction costs.

Table 2

**CATI and BioCATT Facility Construction Financing**

Funding Source	Budgeted Amount Approved by WTCS Board (March 2002)	Actual (March 2006)	Percentage of Total
Gateway Bonding	\$5,000,000	\$5,000,000	67.5%
Cash Contributions	1,561,400	1,147,400	15.5
In-Kind Contributions	1,485,200	766,300	10.3
Additional Contributions Anticipated	575,800 <sup>1</sup>	102,700 <sup>2</sup>	1.4
Interest Income	0	120,400	1.6
Capital Fund Reserves	0	274,500	3.7
<b>Total</b>	<b>\$8,622,400</b>	<b>\$7,411,300</b>	100.0%

<sup>1</sup> WTCS staff analysis indicated an additional \$575,800 would be obtained through cash or in-kind contributions, but Gateway did not identify a specific funding source for this amount at the time of project approval.

<sup>2</sup> Reflects the amount of outstanding pledged cash donations.

As required by WTCS policy, the budgeted value of the in-kind contributions had been appropriately based on independent third-party appraisals using Internal Revenue Service guidelines. However, as shown in Table 3, the actual value of in-kind contributions was reduced to \$766,300, or 20.9 percent of the initial valuation, because the donated items were not used to the extent envisioned. For example, the valuation of engineering software donated by Electronic Data Systems Corporation assumed that Gateway would install computer-assisted design software worth \$11,265 per license on 200 computers, including those stationed in the applied technology centers and those of faculty and students. Staff of the WTCS Board reduced this valuation from \$2.3 million to \$901,200 because 80 installations appeared to be a more reasonable estimate. However, at the time of our review Gateway had the software installed on only 16 computers, which were in a CATI classroom. We estimate the actual value of this in-kind software contribution to be \$180,200.

Table 3

**Gateway's In-Kind Contributions**

Donor	Donation	Gateway Initial Valuation <sup>1</sup>	Actual Value <sup>2</sup>
Electronic Data Systems Corporation	Engineering software	\$2,253,000	\$180,200
DaimlerChrysler AG <sup>3</sup>	Tooling	740,000	1,700
Snap-On Incorporated	Computer assembling equipment	488,400	488,400
S.C. Johnson Company	Four robots	95,600	- <sup>4</sup>
Others	Miscellaneous goods and services	96,000	96,000
<b>Total</b>		<b>\$3,673,000</b>	<b>\$766,300</b>

<sup>1</sup> Calculated by independent appraisers based on projected use prior to construction of the CATI and BioCATT facilities.

<sup>2</sup> Legislative Audit Bureau estimates, which are based on actual use of the donated items in the CATI and BioCATT facilities at the time of our review.

<sup>3</sup> WTCS staff did not approve this donation as a part of the required 30.0 percent match because they determined that it was not relevant to the centers. We agree with their assessment but have included it to present a complete description of Gateway's initial estimate of in-kind contributions.

<sup>4</sup> Two robots were sold, along with the tooling from DaimlerChrysler AG, for a total of \$1,700.

Gateway officials note that the computer-assisted design software had been installed on as many as 40 computers in the past, but that the design software was removed to allow adequate space for other instructional software that was needed. In addition, officials anticipate using the software on more computers in the future.

Tooling donated by DaimlerChrysler AG had an initial appraised value of \$740,000, but it was sold in January 2003, along with two of four robots donated by S.C. Johnson Company, as part of an effort to generate additional cash for construction costs. A surplus company paid a total of \$1,700 for the material sold. The initial appraised value of all four robots had been \$95,600. The two remaining robots were not used in Gateway's applied technology centers but were instead transferred to its Lakeview campus in Pleasant Prairie.

Although Gateway received \$500,000 in federal grant funds to purchase scientific equipment for the BioCATT facility, these funds cannot be considered in the match calculation because they were provided by government rather than area businesses.

Two other technical colleges that have completed applied technology centers also relied on cash and in-kind donations for funding. Moraine Park reported meeting the majority of its match requirements through in-kind donations, while Chippewa Valley met its entire 30.0 percent match requirement with cash donations. WTCS requires all districts to establish the value of in-kind contributions through third-party appraisals, but it does not routinely ensure that each contribution is received and used in the manner approved by the WTCS Board.

**Recommendation**

*We recommend the Wisconsin Technical College System Board report to the Joint Legislative Audit Committee by January 1, 2008, with a detailed review of the cash and in-kind contributions received by Waukesha County Technical College and Milwaukee Area Technical College for their applied technology centers, to ensure that the colleges met the requirement that at least 30.0 percent of construction costs were funded by area businesses.*

### **Facility Management Structure and Costs**

In 2002, Gateway entered into a fixed-term operating contract with a private, nonprofit organization, CATI, Inc., which managed the CATI facility from August 2002 to May 2006. In 2003, Gateway established the same relationship with BioCATT, Inc., which continues to manage the BioCATT facility. Gateway officials chose to have private organizations manage the centers as a way to involve area stakeholders in ongoing efforts to stimulate the local economy.

#### **CATI, Inc.**

CATI, Inc., was incorporated in July 2001. Its bylaws require its volunteer board of directors to have 7 to 13 members and to include representatives from its founding institutions, including Gateway. Because of the corporation's nonprofit status, board members do not receive compensation. Both the current and former presidents of Gateway have served on the board. All members are listed in Appendix 2.

CATI, Inc., grew out of regional planning efforts to promote economic development in Racine and Kenosha counties. 1999 Wisconsin Act 9 provided \$1.0 million in general purpose revenue (GPR) for planning and establishing manufacturing technology training centers in those counties. Gateway served as the fiscal agent for the award. Planning efforts involved a consortium that also included representatives of Racine County, Kenosha County, the Racine County Economic Development Corporation, the Kenosha Area Business Alliance, the Kenosha Unified School District, the Burlington Area School District, the University of Wisconsin-Parkside, Carthage College, and others.

Act 9 directed \$400,000 to be spent in Kenosha County and the remaining \$600,000 to be spent in Racine County. The consortium used Kenosha County's share of the funding to purchase programmable robotics systems and other automated manufacturing equipment for the Lakeview

Advanced Technology center, which is used by the Kenosha Unified School District for high school classes and by Gateway for its classes and as an employee skills assessment center. The share to be spent in Racine County funded a portion of CATI, Inc.'s operating expenses from fiscal year (FY) 2000-01 to FY 2002-03.

Technically, CATI, Inc., has no employees because the two individuals who are involved in its operations are employees of other organizations. The executive director was an employee of the Racine County Economic Development Corporation until June 2005, when he became an employee of UW-Parkside. He currently serves both as the executive director of CATI, Inc., and as director of UW-Parkside's Small Business Development Center/CATI Specialty Center. CATI, Inc., currently contributes \$20,000 to the executive director's salary of \$83,500; UW-Parkside funds the remaining salary and state employee fringe benefit costs. The corporation's executive director was also an adjunct faculty member of the University of Wisconsin-Milwaukee in 2005, for which he was paid \$6,100.

It should be noted that before June 2005, CATI, Inc., fully reimbursed the Racine County Economic Development Corporation for the executive director's salary and fringe benefits. The Racine County Economic Development Corporation was also fully reimbursed for \$22,200 in salary and approximately \$5,500 in benefits related to its employee who staffed the CATI facility's reception desk until May 2006.

Its bylaws indicate that CATI, Inc., was created to provide entrepreneurial skill development to youth and adults and to promote economic development in Racine County, with a specific focus on facilitating the transfer of technology to new businesses. To implement technology transfer, the corporation received 26 donated patents from private businesses that chose not to develop commercial products from them. Independent valuations completed for the donors' income tax purposes estimate the patents' value at \$36.0 million. CATI, Inc., provides entrepreneurs with both access to its patents and ongoing support services. In exchange, it receives ownership shares in new businesses that are established. To date, 1 of the 26 donated patents has been transferred to a private company in exchange for a 5.0 percent equity stake in that company. In addition, CATI, Inc., has entered into agreements with five companies to provide consulting services, and it has leased one patent to a company in return for royalty fees of up to \$2,500 per year.

In August 2002, the Gateway board approved a memorandum of understanding under which CATI, Inc., became Gateway's agent in day-to-day operations of the CATI facility, including:

- coordinating facility maintenance;
- scheduling rooms available for hourly rental; and
- recruiting tenants for the small business incubator space.

As part of the agreement, Gateway agreed to staff the facility with an individual who is responsible for coordinating integrated learning programs for both students and small business incubator tenants and to provide facility occupants with paid utilities and telecommunication services. All

lease revenues and fees for hourly room usage were to be paid to and retained by Gateway. In addition, Gateway and CATI, Inc., agreed to share equally in any equity and license fees the corporation received through its contracts with incubator tenants.

Under the original agreement, CATI, Inc., was compensated for services it provided on a reimbursement basis. Gateway provided full reimbursement for facility maintenance costs, such as trash removal and snow plowing, plus an additional 5.0 percent to help cover the corporation's administrative expenses. In addition, the Racine County Economic Development Corporation, which currently leases 1,821 square feet of the CATI facility at a monthly rate equivalent to \$1,900, subleases 148 square feet of office space to the corporation for \$500 per month. The Racine County Economic Development Corporation's full 25-year lease payment was made in FY 2003 as a cash contribution to fund construction of the CATI facility.

In February 2005, the agreement between the Gateway board and CATI, Inc., was revised by both parties to eliminate the reimbursement-based fees and to require that Gateway assume responsibility for all facility maintenance contracts. The revision called for Gateway to pay the CATI corporation a flat annual management fee of \$40,000. However, the governing board of each party took action to cancel the management agreement in February 2006. An agenda item for the Gateway board's meeting indicates the college would assume all management responsibilities for the CATI facility as of May 1, 2006, at a savings of \$40,000. The CATI corporation remains a tenant in the CATI facility through its sublease with the Racine County Economic Development Corporation, but the CATI, Inc., facility manager who staffed the facility's reception desk was replaced by a Gateway employee on May 1, 2006.

As shown in Table 4, CATI, Inc., reported a net profit, which in the case of a nonprofit organization represents revenues in excess of expenditures, in both 2002 and 2003, but net losses in 2004 and 2005. Since 2002, 82.4 percent of its total funds have been derived from public sources, including fees paid by Gateway and state and federal grants. The largest source of income, totaling 57.4 percent of total revenues since 2002, has been state economic development grants awarded through the Department of Commerce. Of the \$668,400 received from this source, \$662,300 was awarded through the state budget process and \$6,100 was awarded through a competitive grant process.

In addition to the \$600,000 in funding made available under 1999 Act 9, CATI, Inc., may request up to \$100,000 in GPR annually through funding included in the 2001-03, 2003-05, and 2005-2007 Biennial Budget Acts. In February 2006, CATI, Inc., requested \$200,000 of this grant funding for FY 2005-06 and FY 2006-07 from the Department of Commerce. Section 20.143(1)(c), Wis. Stats., requires that these funds support the continued development of a manufacturing and advanced technology training center in Racine. However, CATI, Inc., anticipates using the funds to expand operations to Milwaukee and Waukesha counties. The Department of Commerce has indicated the proposed expansion is eligible for funding because it will support the continued development of CATI, Inc. However, some may question whether the use of funds to serve businesses and entrepreneurs outside of Racine County is consistent with legislative intent.

Table 4

**CATI, Inc.**  
**Revenue and Expenses<sup>1</sup>**

	2002	2003	2004	2005	Total
<b>Revenue</b>					
State Economic Development Grants	\$281,100	\$236,200	\$135,300	\$ 15,800	\$ 668,400
Property Management Fees <sup>2</sup>	-	40,200	112,600	68,700	221,500
Private Grant Funds	-	121,800	-	12,300	134,100
Federal Grant Funds	-	-	17,300	51,900	69,200
Other	21,500	6,000	14,000	800	42,300
License Fees	-	100	1,400	27,400	28,900
<b>Total</b>	<b>\$302,600</b>	<b>\$404,300</b>	<b>\$280,600</b>	<b>\$176,900</b>	<b>\$1,164,400</b>
<b>Expenses</b>					
Salaries and Benefits <sup>3</sup>	178,500	164,000	153,400	82,400	578,300
Property Management	-	38,300	108,400	37,800	184,500
Marketing and Development	35,600	28,000	19,100	44,300	127,000
Other	35,200	18,700	35,900	37,000	126,800
Legal Fees	12,900	15,700	18,600	21,300	68,500
Professional Services	31,700	6,000	4,600	2,300	44,600
Travel/Training/Meetings	8,200	7,300	7,400	8,000	30,900
<b>Total</b>	<b>\$302,100</b>	<b>\$278,000</b>	<b>\$347,400</b>	<b>\$233,100</b>	<b>\$1,160,600</b>
Profit/(Loss)	\$ 500	\$126,300	(\$ 66,800)	(\$ 56,200)	\$ 3,800

<sup>1</sup> 2001 was not a full year of operations, so no data are presented for that year.

<sup>2</sup> Reflects fees paid by Gateway, which include reimbursement of contracted expenses and additional amounts to cover administrative costs.

<sup>3</sup> The Racine County Economic Development Corporation was reimbursed for the full salary and fringe benefit costs of the executive director and program assistant. Reimbursement for the executive director ended in May 2005, when he became an employee of UW-Parkside.

☑ **Recommendation**

We recommend the Department of Commerce report to the Joint Legislative Audit Committee and the Joint Finance Committee by September 1, 2006, on the amount and use of grant funds provided to CATI, Inc., to expand its operations to Milwaukee County and Waukesha County.

**BioCATT, Inc.**

BioCATT, Inc., was incorporated by Gateway officials in March 2003. The articles of incorporation indicate it was created to supplement the work of organizations in southeastern Wisconsin and northeastern Illinois, including Gateway Technical College, in developing telecommunications, information technology, and bioscience business opportunities and expanding high-skill and high-wage occupations.

The corporation's bylaws require its volunteer governing board to consist of 7 to 13 individuals who serve staggered, three-year terms and are selected from educational institutions, business organizations, governmental offices, and other public institutions in southeastern Wisconsin and northeastern Illinois. Gateway is not required to be represented, but both its former and its current presidents have served. Appendix 3 provides a current list of board members.

To comply with Internal Revenue Service requirements, BioCATT, Inc., established BioCATT Enterprises, Inc., a wholly owned, for-profit subsidiary to be used in accounting for any activities in which BioCATT, Inc., may not engage as a nonprofit corporation. The subsidiary was established in September 2004 but has been inactive to date.

BioCATT, Inc., currently has two employees: an executive director and an administrative assistant. The executive director's current salary is \$90,000, and the administrative assistant's current salary is \$26,300. Both salaries are paid directly by BioCATT, Inc., and neither includes fringe benefits.

Under a ten-year memorandum of understanding that was approved by the Gateway board in September 2003 and modified in 2004 and 2005, BioCATT, Inc., is responsible for day-to-day operations of the BioCATT facility, including scheduling rooms, setting hours of operation, and coordinating appropriate programming within the context of the facility's mission. Gateway is responsible for all facility maintenance and utility costs, and for providing telecommunications services for facility occupants. Gateway staff also coordinate program courses and business and industry training in the facility.

BioCATT, Inc., receives an annual management fee of \$91,200 and is provided office space and use of other rooms in the BioCATT facility at no charge. During 2005, BioCATT, Inc., received all rental fees for rooms in the facility and reimbursed Gateway 10.0 to 25.0 percent, based on a sliding scale. Under the 2005 modifications to the memorandum of understanding, Gateway now collects and retains all of the BioCATT facility's room rental fees. Gateway is also to receive 70.0 percent of any net profit generated by BioCATT, Inc. These funds are to be used to reduce

the debt Gateway incurred to build the BioCATT facility and as reimbursement for the costs of educational programming provided in it.

Gateway is entitled to \$26,700, based on profits generated in 2004, the first of two full years of operation for BioCATT, Inc. Through December 2005, Gateway had received \$4,500. The remaining amount due is being received in monthly installments through October 2006. Preliminary financial information indicates BioCATT, Inc., did not generate a profit in 2005, so no additional amounts will be owed for that year.

Table 5 shows BioCATT, Inc.'s revenue and expenses for 2004 and 2005. The 2005 information is based on a draft of the corporation's financial statements. The management fee paid by Gateway accounted for 41.5 percent of all revenues in 2004 and 2005, and consulting services accounted for 37.9 percent. The majority of consulting services were provided to Kenosha County, which paid a total of \$75,000 over a three-year period from 2003 to 2005 to establish and promote technology-related occupational training and \$46,500 to conduct a detailed study of the county's first responder communications systems. Funding for the first responder study was provided to Kenosha County by the Office of Justice Assistance, which received funding from the United States Department of Homeland Security.

Table 5

**BioCATT, Inc.**  
**Revenue and Expenses<sup>1</sup>**

	2004	2005 <sup>3</sup>	Total
<b>Revenue</b>			
Management Fees <sup>2</sup>	\$ 98,800	\$ 91,200	\$190,000
Consulting Services	57,200	116,100	173,300
Seminar Fees	14,900	38,300	53,200
Room Rental	0	36,000	36,000
Donated Space	0	4,800	4,800
Other	0	200	200
<b>Total</b>	<b>\$170,900</b>	<b>\$286,600</b>	<b>\$457,500</b>
<b>Expenses</b>			
Salaries	\$ 66,900	\$125,800	\$192,700
Contracted Services	7,700	117,700	125,400
Broadband Activities <sup>4</sup>	32,500	19,200	51,700
Marketing	20,000	10,700	30,700
Profit Payments to Gateway	26,700	0	26,700
Office Expenses	9,600	12,300	21,900
Legal Fees	0	9,100	9,100
Travel/Meetings	3,100	6,000	9,100
Loan Interest/Fees	2,000	6,200	8,200
Rent	0	4,800	4,800
Other	600	0	600
<b>Total</b>	<b>\$169,100</b>	<b>\$311,800</b>	<b>\$480,900</b>
Profit/(Loss)	\$ 1,800	(\$ 25,200)	(\$ 23,400)

<sup>1</sup> 2003 was not a full year of operations, so no data are presented for that year.

<sup>2</sup> Represents amounts Gateway paid BioCATT, Inc., for managing the BioCATT facility.

<sup>3</sup> Based on draft financial statements.

<sup>4</sup> Includes payments made for consulting services to plan the 21-mile broadband network.

## Broadband Network Activities

In December 2004, BioCATT, Inc., entered into a 20-year exclusive use agreement with a private contractor for 200 fiber-optic lines in a 21-mile broadband network within Kenosha county. BioCATT, Inc., pre-paid the full amount of rent for these lines using three sources: private bank loans totaling \$350,000; a 20-year lease of four fiber-optic lines to Kenosha County for which BioCATT, Inc., received a lump sum payment of \$381,200 from the county; and a loan from the private fiber-optic line contractor for \$260,000.

In March 2005, Gateway spent \$194,200 to purchase equipment capable of operating the 21-mile broadband network, and an additional \$75,000 to connect three Gateway buildings to it. In a September 2005 review, WTCS officials noted that procedures for making these purchases did not comply with WTCS procurement policies related to advertising and sole-source purchases. As a result of this and other compliance issues identified as part of its review, WTCS reduced the amount of state aid awarded to Gateway for FY 2005-06 by an estimated \$45,100.

After the WTCS review, in December 2005, the Gateway board finalized a 20-year agreement with BioCATT, Inc., for the use of four fiber-optic lines in the 21-mile network that connects the BioCATT building, the Aviation campus located in Kenosha, and the Lakeview campus located in Pleasant Prairie. In exchange, Gateway provided BioCATT, Inc., with access to \$194,200 in Gateway's equipment needed to operate the lines.

Gateway staff identified three main reasons for the agreement:

- use of the fiber-optic lines would enable Gateway to reduce telecommunications costs by eliminating monthly costs to use data and telephone lines owned by current vendors;
- Gateway could generate additional revenue until January 1, 2011, under an agreement with BioCATT, Inc., that gives Gateway 10.0 percent of any revenue received that can be attributed to use of the fiber-optic equipment located in the BioCATT facility; and
- the four fiber-optic lines may serve as an educational resource for students in Gateway's Advanced Technical Certificate in Telecommunication Engineering Technologies program, which is expected to begin in 2007.

Gateway's plans for educational use of the lines are still tentative, and meeting minutes of the Gateway board do not suggest educational use was a primary factor in Gateway's decision to enter into the agreement. Instead, the minutes indicate that Gateway staff emphasized the importance of the availability of broadband and high-speed networking in encouraging economic development in the region.

Gateway projects that, through April 2006, its cost to install the equipment and connections necessary to use the fiber-optic lines will total \$293,200. However, as shown in Table 6, we estimate that Gateway's potential short-term savings from the elimination of current telecommunications charges will total only \$9,600 annually.

Table 6

**Gateway's Costs and Potential Savings Associated  
with the Broadband Network**

<b>Projected Costs through April 2006</b>	
Fiber-Optic Operating Equipment	\$194,200
Lateral Connection to Main Broadband Line	75,000
Voice Over Internet Equipment	24,000
<b>Total</b>	<b>\$293,200</b>
<b>Potential Annual Savings<sup>1</sup></b>	
Annual Savings for Aviation Campus	\$5,700
Annual Savings for Lakeview Campus	3,900
<b>Total</b>	<b>\$ 9,600</b>

<sup>1</sup> Based on elimination of monthly costs to use private vendors' data and voice transmission lines as of May 2006.

Additional long-term savings appear unlikely because there are no current plans to expand use of the broadband network to other Gateway facilities. It should be noted, however, that Gateway may benefit from new uses of the broadband technology in the future, such as using two-way visual and audio communication for distance education courses it may provide.

Under the terms of the current five-year revenue-sharing agreement, Gateway would fully recover its equipment costs if it received \$249,200 from BioCATT, Inc., which would have to generate approximately \$2.5 million in fiber-optic revenues by January 2011, when the current agreement expires. If BioCATT, Inc., is unable to generate this level of revenue and Gateway does not benefit from additional future uses, the broadband network agreement will primarily benefit BioCATT, Inc., which has obtained the use of \$194,200 in equipment needed to operate its 21-mile broadband network.

**Recommendation**

*We recommend Gateway Technical College report to its board by January 1, 2007, on the amount of revenue it anticipates receiving annually under its December 2005 broadband agreement with BioCATT, Inc.*

## Gateway's Costs

As shown in Table 7, Gateway's costs for the two applied technology centers total \$2.3 million through FY 2005-06. In contrast, revenue has totaled only \$106,800. Administrative costs that are primarily for personnel total \$1.6 million and represent 69.8 percent of total expenditures. Like other technical colleges, Gateway's operations are heavily reliant upon local property taxes and state aid. Tuition and fees represent only about 10.0 percent of its total revenues.

In addition to the operating expenditures shown, Gateway is also projected to incur bond repayment costs of \$1.1 million through FY 2005-06, which represent principal and interest paid on the \$5.0 million it bonded for its share of facility construction costs.

We note that Gateway spent a total of \$182,600 on outside legal services that include creating and modifying agreements with CATI, Inc., and BioCATT, Inc.; responding to public records requests; and providing advice to staff and board members regarding compliance with statutes governing the applied technology centers.

Management fees represent another 17.6 percent of administrative expenditures. It should be noted that Gateway's FY 2003-04 payment of \$53,200 to BioCATT, Inc., represents seven months of management fees, but BioCATT, Inc., had no staff until May 2004, when the executive director was hired. Because the executive director worked in only two months of FY 2003-04, we question Gateway's decision to pay BioCATT, Inc., management fees totaling \$38,000 for the five-month period from December 2003 through April 2004.

**Recommendation**

*We recommend Gateway Technical College negotiate with BioCATT, Inc., for reimbursement of \$38,000 in management fees that Gateway paid to the corporation before its staff were hired.*

As shown in Table 7, Gateway has supported the applied technology centers with \$2.2 million of its own funds. Because this funding is not available for other Gateway programs, it is important for the Gateway board to ensure the other programming is not adversely affected and these taxpayer costs are controlled.

**Recommendation**

*We recommend the Gateway board annually analyze specific ways it can reduce operating expenditures and increase revenues associated with its applied technology centers.*

Table 7

**Gateway Technical College  
Operating Revenue and Expenditures for Applied Technology Centers<sup>1</sup>**

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06 <sup>2</sup>	Total
<b>Revenue</b>					
Incubator Leases	-	\$ 700	\$ 13,100	\$ 30,900	\$ 44,700
Room Rental	-	4,500	9,300	25,200	39,000
BioCATT, Inc. (Percentage of Profit)	-	-	-	18,000	18,000
Business and Industry Courses (Net Revenue) <sup>3</sup>	-	-	400	4,700	5,100
<b>Total Revenue</b>	<b>-</b>	<b>\$ 5,200</b>	<b>\$ 22,800</b>	<b>\$ 78,800</b>	<b>\$ 106,800</b>
<b>Expenditures</b>					
Administrative Costs					
Salaries and Benefits <sup>4</sup>	\$ 5,500	\$ 217,600	\$ 323,900	\$ 270,700	\$ 817,700
Supplies and Services	400	116,100	162,300	56,400	335,200
Management Fee Paid to BioCATT, Inc.	-	53,200	91,200	91,200	235,600
Management Fee Paid to CATI, Inc.	-	2,200	13,900	33,300	49,400
Legal Fees	12,100	29,600	88,700	52,200	182,600
Subtotal	18,000	418,700	680,000	503,800	1,620,500
Maintenance Costs					
Contracted Services	-	53,900	170,800	135,700	360,400
Utilities	-	58,300	112,000	94,000	264,300
Reimbursements to CATI, Inc.	-	25,300	36,400	15,200	76,900
Subtotal	-	137,500	319,200	244,900	701,600
<b>Total Expenditures</b>	<b>\$18,000</b>	<b>\$ 556,200</b>	<b>\$999,200</b>	<b>\$ 748,700</b>	<b>\$2,322,100</b>
<b>Difference</b>	<b>(\$18,000)</b>	<b>(\$ 551,000)</b>	<b>(\$976,400)</b>	<b>(\$ 669,900)</b>	<b>(\$2,215,300)</b>

<sup>1</sup> Excludes revenue and expenditures associated with Gateway educational courses at each facility.

<sup>2</sup> Projected using data through December 31, 2005.

<sup>3</sup> Amount reflects receipts in excess of contract costs for customized business and industry training held at the centers.

<sup>4</sup> Includes Gateway administrative staff, an educational coordinator at CATI, and portions of several instructors' salaries that were related to administrative, non-instructional activities.

We reviewed detailed financial documentation from Gateway, CATI, Inc., and BioCATT, Inc., and found no instances in which funds from one organization were improperly paid to an employee of any other organization, as some have alleged. We identified only six instances of payments outside of the terms of the various agreements or memoranda of understanding. Those payments totaled \$148,600. In one instance, Gateway reimbursed CATI, Inc., \$109,900 for costs incurred to complete interior build-out of the incubator space in the CATI facility. In a second instance, Gateway was paid \$4,400 for the cost of four customized business training courses that BioCATT, Inc., marketed to its area business clients. In a third instance, Gateway incurred \$25,000 in staff and supply expenditures to develop computer, telecommunications, and biotechnology training for a Kenosha County service contract for which BioCATT, Inc., later reimbursed Gateway. The remaining three instances represent \$9,300 that Gateway paid to BioCATT, Inc., including:

- \$6,100 for approximately 25 Gateway staff to receive Microsoft Office training at the BioCATT facility;
- \$2,000 for room rental in the BioCATT facility so that Gateway could charge the expenditure to its auto instructor training program; and
- \$1,200 for temporary secretarial services while one member of Gateway's administrative staff was on extended leave.

### **Facility Usage**

As shown in Table 8, each of the applied technology centers is over 30,000 square feet and includes classrooms, offices, conference rooms, and auditoriums. Approximately one-third of the space in each building is dedicated to traditional classroom space. Appendix 4 shows each facility's floor plan, including the location of classrooms, conference rooms, offices, and unoccupied space.

The centers were designed not only to serve Gateway students and provide office space for Gateway staff and the organizations that manage the centers, but also to provide customized training to area businesses, offer long-term leased space to developing businesses, and rent rooms on an hourly basis to various businesses and organizations. However, we found that through March 2006:

- approximately one-half of CATI's small-business incubator space remained vacant;
- requests by area businesses for customized training in the facilities have been minimal;
- the facilities have been used largely for traditional Gateway educational programs; and
- available classroom, auditorium, and meeting spaces were rarely rented for a fee.

Table 8

**Space Allocation in Applied Technology Centers**

Type of Space	CATI (Square Feet)	Percentage of Total	BioCATT (Square Feet)	Percentage of Total
Classrooms and Labs	7,967	20.4%	9,469	31.1%
Offices <sup>1</sup>	2,921	7.5	1,791	5.9
Auditoriums	3,258	8.3	1,632	5.4
Conference Rooms	457	1.2	974	3.2
Commons/Exposition Space	2,824	7.2	1,674	5.5
Vending Area/Cafeteria <sup>2</sup>	150	0.4	1,372	4.5
Business Incubator	8,055	20.6	-	0.0
Radio Station	-	0.0	1,211	4.0
Other <sup>3</sup>	13,457	34.4	12,317	40.4
<b>Total</b>	<b>39,089</b>	<b>100.0%</b>	<b>30,440</b>	<b>100.0%</b>

<sup>1</sup> Includes Gateway administrative offices in each facility, office space leased to the Racine County Economic Development Corporation in the CATI facility, and BioCATT, Inc., offices in the BioCATT facility.

<sup>2</sup> The CATI facility has two vending machines and a microwave area, while the BioCATT facility has a full-service cafeteria provided under contract with a nonprofit job training organization.

<sup>3</sup> Includes hallways, restrooms, and other space necessary for building operations.

**Incubator Space**

CATI, Inc., accepts applications for incubator space on an ongoing basis. To apply to be an incubator tenant, a firm must:

- be developing, marketing, and intending to sell a new product or service based on “innovative technology”;
- be incorporated; and
- have cash or assets sufficient to cover at least six months of operation.

Once an application is received, an advisory board reviews the materials. Advisory board members include the Dean of the UW-Parkside School of Business and Technology; a professor of Entrepreneurship at Carthage College; CATI, Inc.'s executive director; and two experienced business professionals. If approval is recommended, the advisory board refers the business to Gateway officials, who negotiate a lease. Incubator space is available for up to three years so that new businesses can complete the design of their products or services and finalize their production and marketing plans.

Although small-business incubation was a key component of Gateway's proposal to build the CATI facility, the first incubator space was not occupied until nearly one year after the facility opened in August 2003. As of March 2006, 51.7 percent of incubator space was occupied by four tenants:

- Wi-Fi Spots, Inc., which offers wireless internet service to businesses;
- R S Infocon, Inc., a consulting firm that specializes in customized computer systems;
- IPL, Ltd., which designed a database system for academic institutions to manage teacher compliance with education and training legislation; and
- Vantus Technologies Corporation, which performs engineering services, including a new method for manufacturing surgical implants.

Based on the availability and typical use of incubator space, it appears that at least four additional incubator tenants could be housed at the CATI facility. Gateway has projected that if all incubators were occupied, annual rents would be approximately \$60,000. Because only one-half of the incubator space is currently occupied, we estimate annual rent for FY 2005-06 will be \$30,900.

The agreement between Gateway and CATI, Inc., stipulated that the parties are to share equally in equity and licensing fees derived from successes of incubator tenants. Because no tenants have graduated from the incubators and the cancellation of the memorandum was effective May 1, 2006, Gateway will receive no financial benefits from these provisions.

### **Customized Training for Business and Industry**

Little customized training has been held in the facilities. From the time the centers opened through March 2006, eight organizations have contracted to receive a cumulative 81 hours of customized training for 99 people. In contrast, in its initial proposals for the centers, Gateway envisioned providing customized training to 1,000 individuals annually at each of the centers. The majority of Gateway's customized training continues to be delivered at each employer's place of business, rather than at Gateway facilities. During FY 2005-06, Gateway plans to establish 220 contracts serving 140 employers. Of that total only 14, or 6.4 percent, are projected to be held at either the CATI or the BioCATT facility.

Section 38.04(10)(d)1.c., Wis. Stats., requires that contract fees for customized training offered in the centers cover all direct costs and 20.0 percent of indirect costs. Until directed to do so by the WTCS Board staff in September 2005, Gateway had not specifically included indirect costs in its contracts for customized training. WTCS office staff calculated that Gateway had undercharged organizations a total of \$990. However, this issue appears to have been corrected. We reviewed three training contracts executed after September 2005 and found that indirect costs had appropriately been included in the fee charged by Gateway, and each contract resulted in a net profit averaging \$904.

### **Use of Facilities for Educational Programming**

A significant amount of room usage at the CATI and BioCATT facilities is attributable to Gateway's degree and adult continuing education programs. Estimates included in the final project proposal submitted to the WTCS Board projected that CATI would serve 825 students per year and BioCATT would serve 662 students per year as part of Gateway's standard curriculum. Each of these goals will be exceeded by the end of the current school year. While some courses provided through the two centers are also available at other Gateway locations, Gateway has developed new courses that are specific to the centers and their laboratories and classrooms.

Courses developed to be housed at CATI include entrepreneurial courses that can be taken either for associate degree credit or as adult continuing education classes and were developed in cooperation with CATI, Inc. These courses include Start Your Own Business, Business Owners and Legal Aspects, Financing New Ventures, Marketing Strategies, and Creating Marketing Promotions and Advertising. They link class material to activities taking place in the CATI facility, such as business incubator activities. From fall 2004 through spring 2006, course enrollment totaled 162. In addition, the Advanced Technical Certificate in Engineering Design Concepts program was created specifically for delivery at CATI. The curriculum was originally offered at the CATI facility in fall 2003 and spring 2004, during which time course enrollment totaled 22. No students enrolled in subsequent semesters, although Gateway hopes to enroll students for the fall 2006 semester. Gateway staff also anticipate moving several engineering classes to the CATI facility beginning in fall 2006.

Based on concerns about the facility's excess capacity, Gateway officials implemented programming changes that increased educational usage from 7 courses in spring 2005 to 41 courses in fall 2005 and 56 courses in spring 2006. Table 9 shows the CATI facility's educational usage over time.

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Table 9

**Educational Use of the CATI Facility<sup>1</sup>**

	Number of Courses	Number of Students Enrolled	Number of FTE Students
Fall 2003	3	12	0.7
Spring 2004	4	10	0.8
Summer 2004	1	13	0.1
Fall 2004	8	39	0.9
Spring 2005	7	71	1.6
Fall 2005	41	539	42.3
Spring 2006	56	621	52.8
<b>Total</b>	<b>120</b>	<b>1,305</b>	<b>99.2</b>

<sup>1</sup> Includes program and adult continuing education courses. Based on courses scheduled and enrollment as of February 2006.

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As shown in Table 10, use of the BioCATT facility for courses in the fall and spring semesters has been consistently higher and has remained relatively stable, with an increase in spring 2006. Nearly three-fourths of all courses offered at the BioCATT facility have been associate degree or technical diploma courses, while the remaining one-fourth have been adult continuing education courses.

Table 10

**Educational Use of the BioCATT Facility<sup>1</sup>**

	Number of Courses	Number of Students Enrolled	Number of FTE Students
Fall 2003	-	-	-
Spring 2004	32	503	45.7
Summer 2004	13	123	10.0
Fall 2004	46	492	41.1
Spring 2005	42	405	42.6
Summer 2005	10	88	8.7
Fall 2005	43	392	38.3
Spring 2006 <sup>1</sup>	69	519	53.6
<b>Total</b>	<b>255</b>	<b>2,522</b>	<b>240.0</b>

<sup>1</sup> Includes program and adult continuing education courses. Based on courses scheduled and enrollment as of February 2006.

Three new programs are affiliated with the BioCATT facility:

- The IBM Advanced Career Education courses provide technical training in e-business application development. Students who complete all of the courses receive an e-business application developer certificate issued by International Business Machines Corporation.
- Gateway's Bioscience Technician program is designed to prepare students for employment in the biotechnological, chemical, clinical, and pharmaceutical industries. Those who complete the program earn an associate degree as either a laboratory technician or a manufacturing technician. It is in its second year, and 73 students are currently enrolled.
- Gateway's Advanced Technical Certificate in Telecommunication Engineering Technologies program was approved by WTCS in April 2005 and will be available to students in 2007.

In a January 2006 letter, WTCS office staff expressed concerns that courses included in the IBM Advanced Career Education program had been developed outside of the typical WTCS program approval process and that eight students who enrolled in spring 2004 were charged approximately \$838 per credit, which significantly exceeded the authorized charge of \$74 per credit for the 2003-04 school year. Had Gateway followed the process required for program approval, it would have been required to establish an advisory committee and to submit detailed plans for approval by WTCS. Gateway officials currently are applying for WTCS approval of the IBM Advanced Career Education courses as an associate degree program, and they indicate that all 2003-04 charges in excess of standard fees have been remitted or credited to students.

BioCATT, Inc., also began to offer Microsoft Office workshops in the BioCATT facility in September 2004. It scheduled the workshops, collected fees, and contracted with a third party for instruction at rates of \$40 per hour in 2004 and \$50 per hour in 2005. Through August 2005, its courses had 308 participants and generated \$53,200 in seminar fees. Course participants included approximately 25 Gateway staff, for whom Gateway paid fees totaling \$6,100.

Some Gateway staff and union officials asserted that these courses competed directly with Gateway to provide educational services and questioned both the appropriateness of a private entity offering such courses in a public facility and why instructors other than existing Gateway staff who were qualified to do so were teaching the Microsoft Office courses scheduled by BioCATT, Inc. Unlike Gateway's courses, the BioCATT, Inc., workshops were structured to be completed in one or two days, rather than over several weeks. However, in August 2005 the memorandum of understanding was amended to specify that BioCATT, Inc., would not deliver educational services, and Gateway staff began teaching the one-day Microsoft Office workshops.

Because Gateway considers its one-day Microsoft Office courses to be professional development workshops, it is allowed under s. 38.24(1s)(b), Wis. Stats., to charge more than the standard rate of \$80.50 per credit. For a six-hour Microsoft Office workshop offered in the BioCATT facility, Gateway's current fee is \$115. Through February 2006, 66 individuals completed a workshop, including 31 who were referred by BioCATT, Inc. As reimbursement for its marketing expenses, and as stipulated in the current memorandum of understanding, BioCATT, Inc., receives 10.0 percent of Gateway's instructional costs for such participants, or a total of \$412 for FY 2005-06.

## **Space Rentals**

As shown in Table 11, a significant portion of both facilities' space is available for hourly, short-term rental to area businesses, organizations, and the general public. Gateway envisioned offering rental space as a way to assist with the financial support of the facilities, as well as to meet the needs of local businesses and others. However, no specific goals for room use or rental revenue have been established.

Table 11

**Short-Term Rentable Space**

	CATI (Square Feet)	Percentage of Total	BioCATT (Square Feet)	Percentage of Total
Rentable Space	10,613	27.2%	12,428	40.8%
Nonrentable Space	28,476	72.8	18,012	59.2
<b>Total</b>	<b>39,089</b>	<b>100.0%</b>	<b>30,440</b>	<b>100.0%</b>

Available rental space at the CATI facility includes a large auditorium with a capacity of 86, a conference room, eight other rooms that serve as classrooms or computer laboratories, and a large exposition area. The exposition space has been used by groups needing open floor space. For example, it was used for a week-long robotics camp for area middle school students during summer 2004 and 2005. Local economic development organizations have also used the exposition space for administrative retreats. To date, no fees have been charged for use of the exposition space, although nothing precludes Gateway from charging for use of that space.

Available rental space at the BioCATT facility includes an auditorium with a capacity of 40; a commons area; two conference rooms; and classrooms, computer laboratories, and science laboratories. Presentation equipment for video conferencing and computer screen annotation is also available.

As shown in Table 12, since the CATI facility opened in August 2003, rooms that were available either as rental space or for instruction of Gateway students went unused during 64.6 percent of days they were available. In the BioCATT facility, rooms went unused during 38.7 percent of days they were available.

Table 12

**Percentage of Days Rentable Rooms Were Not Used<sup>1</sup>**

	FY 2003-04 <sup>2</sup>	FY 2004-05	July through December 2005	Total Since Inception
CATI	67.3%	68.7%	52.6%	64.6%
BioCATT	38.3	34.7	46.9	38.7

<sup>1</sup> Rooms were defined as unused if they were not used for an entire 24-hour period during the five-day period from Monday through Friday, excluding school holidays.

<sup>2</sup> Includes nine months of availability for CATI and six months of availability for BioCATT.

As shown in Table 13, rooms in the CATI facility that were available for hourly rental were rented during only 2.0 percent of the days they were available. For the BioCATT facility, rooms were rented during 3.7 percent of available days.

Table 13

**Percentage of Days Rooms Were Rented<sup>1</sup>**

	FY 2003-04 <sup>2</sup>	FY 2004-05	July through December 2005	Total Since Inception
CATI	3.0%	1.7%	1.3%	2.0%
BioCATT	0.4	5.7	3.0	3.7

<sup>1</sup> Credit was given for room rentals occurring on weekends and holidays, even though these days were not typically counted in our analysis.

<sup>2</sup> Includes nine months of availability for CATI and six months of availability for BioCATT.

The CATI and BioCATT facilities' auditoriums represent the largest rentable rooms in each facility. On average, the CATI auditorium was used less than three days each month from October 2003 to December 2005, and rented once per month. Similarly, the BioCATT auditorium was used an average of nine days each month and rented once per month from

January 2004 through December 2005. In addition, two specialized bioscience laboratories in the BioCATT facility that were envisioned in initial proposals as serving both Gateway students and businesses were rented only once since the BioCATT facility opened.

In 296 of the 464 instances we identified in which room rental fees were paid, or 63.8 percent, they were paid by educational organizations, including National Louis University, Marian College, and the University of Wisconsin-Whitewater. Business use accounted for 35.3 percent of the total, and use by nonprofit organizations and others made up the remaining 0.9 percent. Estimated room rental receipts paid to Gateway through FY 2005-06 are \$39,000: \$20,700 for CATI and \$18,300 for BioCATT.

Gateway has not established goals for room rental, and both facilities are increasingly being used for classroom space. However, increased classroom usage may negatively affect room rentals, which were anticipated as a source of revenue during initial facility planning.

**Recommendation**

We recommend Gateway Technical College develop room rental goals for both of its applied technology centers, including the amount of revenue it projects will be raised annually, and by October 1, 2006, submit them to its board for approval.

### **Future Considerations**

It can be expected that the first years of any large, new undertaking will involve some uncertainty. The two applied technology centers have experienced a great deal of scrutiny since their creation. While proponents argue that the facilities provide innovative services and are creating public-private partnerships that will generate additional revenue and enhance economic development in Racine, Kenosha, and Walworth counties, critics argue that their complex operating structures are confusing and that estimates of facility programming and use have not been met. In addition, the costs of Gateway's investment—\$2.2 million in financial support for ongoing expenses and \$1.1 million in bond repayment costs—have been high, particularly given that the facilities were not required to be approved by district voters.

The overlap between staff of Gateway and the private organizations has been a particular challenge, as has the complexity of their financial relationships. Some in the public are also confused because of the similarity between the names of the buildings and the names of the nonprofit organizations that manage them. Officials of CATI, Inc., indicate they have considered a change in name in order to clearly distinguish the private corporation from the largely publicly funded building owned by Gateway, but no decision has been reached by the corporation's governing board.

The identity of BioCATT, Inc., is even more inseparable from Gateway's BioCATT facility. For example, BioCATT, Inc., employees have Gateway e-mail addresses, and the corporation's letterhead does not clearly distinguish it as a private organization separate from Gateway. Having the same name as the facility may assist BioCATT, Inc., in its marketing efforts, but it causes

confusion about which organization is performing a given activity and creates the potential misperception that representatives of BioCATT, Inc., are public employees who officially represent or are acting on behalf of Gateway Technical College. Currently, it may be difficult for third parties, including students, to know whether they are dealing with staff employed by Gateway or BioCATT, Inc. This could be of particular concern if BioCATT, Inc., chooses to offer its own courses again, which Gateway officials noted is within the corporation's rights as long as they are not held on campus.

As noted, Gateway's memorandum of understanding with CATI, Inc., was cancelled as of May 1, 2006. However, the agreement with BioCATT, Inc., is effective through September 2013. When it was approved in September 2003, the Gateway board indicated that the agreement would be a way for Gateway to achieve its goals of promoting business and improving economic development, workforce development training, and technology transfer. However, the agreement does not include a specific list of tasks to be accomplished by BioCATT, Inc., and Gateway does not require documentation of the corporation's daily activities on behalf of the center.

Gateway employees, not BioCATT, Inc., are now responsible for daily operation of the BioCATT facility, including technical, custodial, and secretarial duties. A key BioCATT, Inc., task is to market and develop Gateway's offerings in the BioCATT facility. As of February 2006, the corporation has recruited two new business customers for Gateway's services. One of those businesses contracted with Gateway for a customized training course and now continues to send its employees to the Microsoft Office courses offered at the BioCATT facility, for which Gateway pays BioCATT, Inc., a separate marketing fee of 10.0 percent of Gateway's instructional costs for such participants. The other business is located out of state, and its employees take Gateway's IBM Advanced Career Education courses in Illinois.

Although BioCatt, Inc., continues to provide some services, such as assisting in marketing Gateway's educational services and promoting area business development, Gateway has assumed many of the administrative responsibilities for managing the BioCatt facility. Therefore, we question whether the entire \$91,200 Gateway pays annually to BioCATT, Inc., is justified. If this agreement were amended or cancelled, Gateway might be able to assume some activities currently performed by BioCATT, Inc.,—such as completing room rental agreements—without incurring additional staffing costs, as it did with respect to CATI facility operations beginning in May 2006. Another possibility would be for Gateway to use students to meet some administrative needs. For example, students of Gateway's Administrative Assistant Associate Degree program, which is offered at its Kenosha, Racine, and Elkhorn campuses, must complete five-week internships. Gateway might consider an arrangement whereby some of these students are offered the opportunity to fulfill this graduation requirement by working at the BioCATT facility front desk or undertaking other clerical work at the center.

**Recommendation**

*We recommend the Gateway Technical College board:*

- *determine how to effectively distinguish services provided by Gateway Technical College from those provided by CATI, Inc., and BioCATT, Inc.; and*
- *closely review its agreement with BioCATT, Inc., to determine the appropriate amount of compensation given the tasks assigned.*

\*\*\*\*



## Appendix 1

### Gateway Board Members<sup>1</sup>

Name	Affiliation	Type <sup>2</sup>
Dennis Schultz, Chair	Director, Kenosha County Human Services	At-Large
Ronald Jandura, Vice-Chair <sup>3</sup>	Superintendent, Burlington Area School District	School Administrator
Ram Bhatia	Chief Executive Officer, RmsSys, Inc.	Employer
Patricia Johnson	Long Term Service Supervisor, Kenosha Achievement Center, Inc.	Employee
Judy McFarlane	Grant Writer	Employee
Alice Morava	Vice President, Stuart W. Johnson and Company	At-Large
Pamela Zenner-Richards	Board Member, Racine County	Elected Official
Mark Sommer	President, Gormac Products, Inc.	Employer
Roger Zacharias	Business Representative, Chicago Regional Council of Carpenters, Wisconsin Region	At-Large

<sup>1</sup> As of March 2006.

<sup>2</sup> Gateway's board representation is statutorily required to include two employers, two employees, one local school district administrator, one state or local elected official, and three at-large members.

<sup>3</sup> Also a board member of CATI, Inc.



## Appendix 2

### Board Members of CATI, Inc.<sup>1</sup>

Name	Affiliation
Gordon Kacala, Chair	Executive Director, Racine County Economic Development Corporation
Bryan Albrecht <sup>2</sup>	President, Gateway Technical College
F. Gregory Campbell <sup>2</sup>	President, Carthage College
Roger Caron	President, Racine Area Manufacturers and Commerce
James DiMarco	S.C. Johnson Company (retired)
Diane Doers	Chief Executive Officer, Deltahawk Engines, L.L.C.
Thomas Hicks	Superintendent, Racine Unified School District
Mark Janiuk	Corporation Council, Racine County (designee of Racine County Executive)
Ronald Jandura <sup>3</sup>	Superintendent, Burlington Area School District
Debra Jossart	Director, Racine County Human Services
John Keating <sup>2</sup>	Chancellor, University of Wisconsin-Parkside
Thomas Leffler	Managing Director, Platinum Venture Group
Alice Oliver	Manager, Racine County Workforce Development Center

<sup>1</sup> As of March 2006.

<sup>2</sup> Also a board member of BioCATT, Inc.

<sup>3</sup> Also a Gateway board member.



### Appendix 3

#### Board Members of BioCATT, Inc.<sup>1</sup>

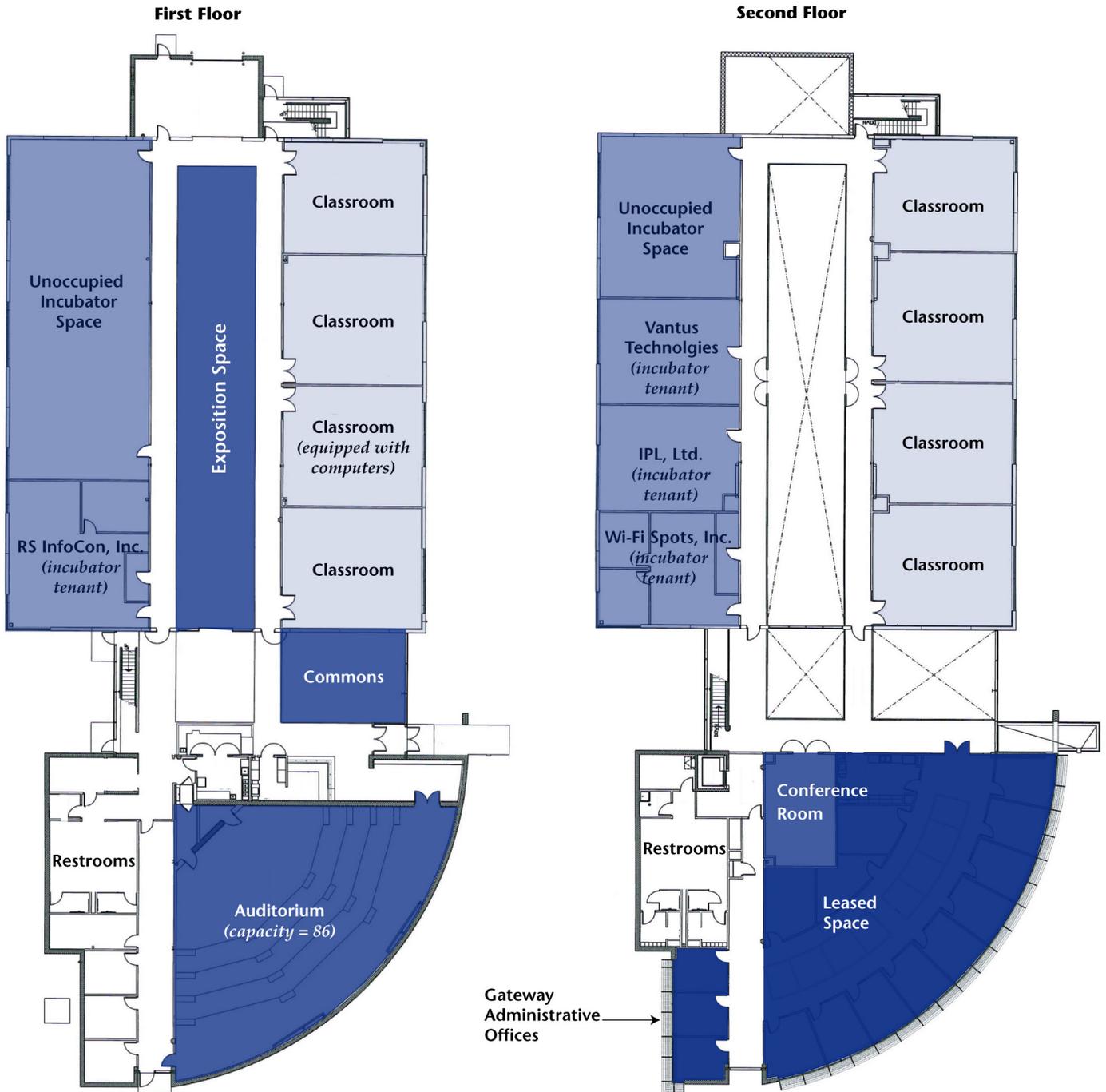
Name	Affiliation
Mark Naidicz, Chair	Director of Human Resources, S.C. Johnson Company
Allan Kehl, Vice Chair	County Executive, Kenosha County
Bryan Albrecht <sup>2</sup>	President, Gateway Technical College
Cameron Art	Central Region Services Executive, IBM
Diane Beno	Director of Quality Assurance, Abbott Laboratories
F. Gregory Campbell <sup>2</sup>	President, Carthage College
Keith Johnson	President, Martin Petersen Company, Inc.
John Keating <sup>2</sup>	Chancellor, University of Wisconsin-Parkside
Matt Loch	Vice President-Sales, TDS Metrocom
Mike Montemurro	Senior Vice President, Snap-On, Inc.
Kenneth Yorgensen	Senior Vice President, Rural Sourcing, Inc.

<sup>1</sup> As of March 2006.

<sup>2</sup> Also a CATI, Inc., board member.



# CATI Facility

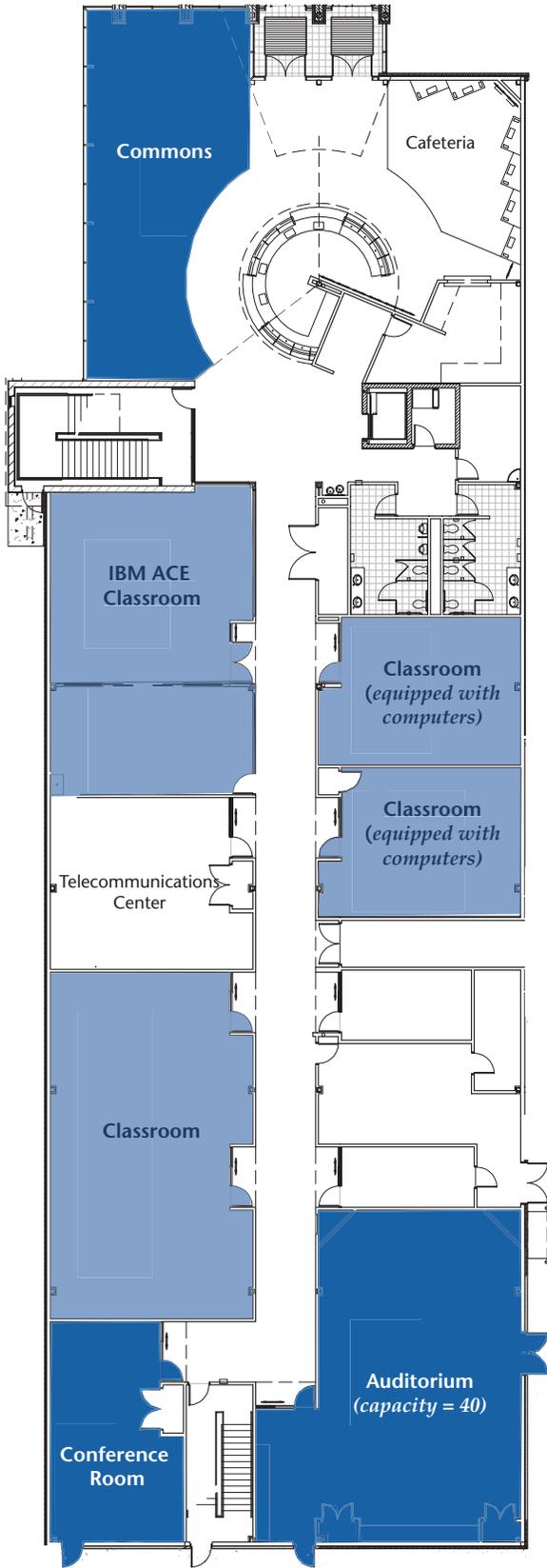


- Incubator Space  
(8,055 square feet)
- Auditorium, Exposition Space,  
Conference Room and  
Commons Area (6,539 square feet)
- Classrooms  
(7,967 square feet)
- Office Space  
(2,921 square feet)

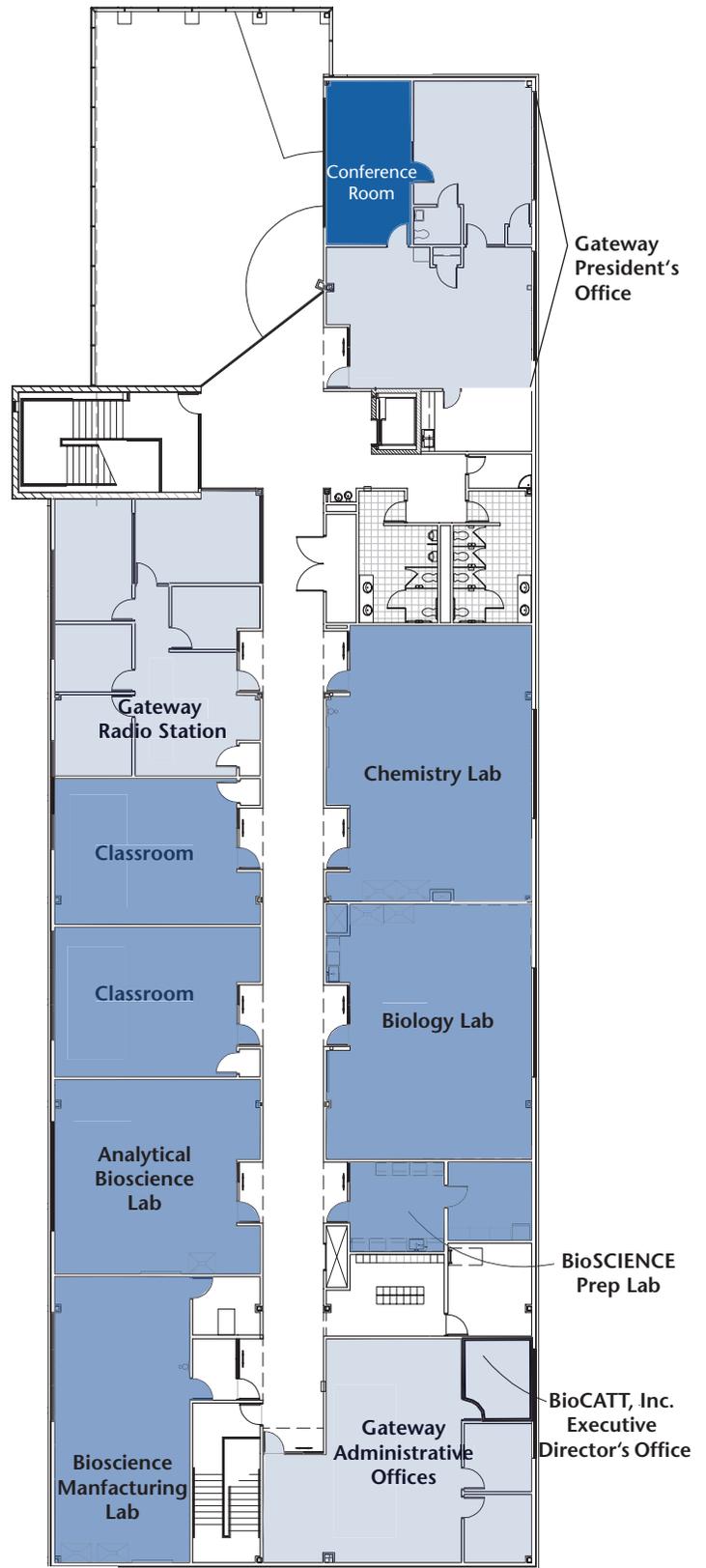


# BioCATT Facility

**First Floor**



**Second Floor**



 Classrooms  
(9,469 square feet)

 Auditorium, Conference Rooms,  
and Commons Area (4,280 square feet)

 Office Space  
(3,002 square feet)

