

**An Evaluation:**

Milwaukee Area  
Technical College District

**March 2003**

# Report Highlights ■

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

*Instructor salaries are higher than at selected institutions.*

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

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

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

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

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

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

## Key Facts and Findings

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

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

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

December 2002.

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

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

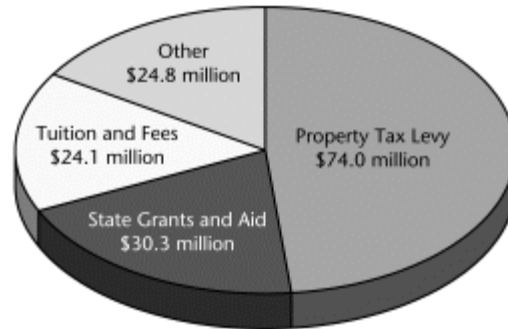
*Enterprise activities required nearly \$1.4 million in property tax levy support in FY 2001-02.*

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

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

In FY 2001-02, local property taxes provided nearly half of MATC's operating revenues, as shown in Figure 1. State grants and aid were another 19.8 percent, and tuition and fees were 15.7 percent.

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



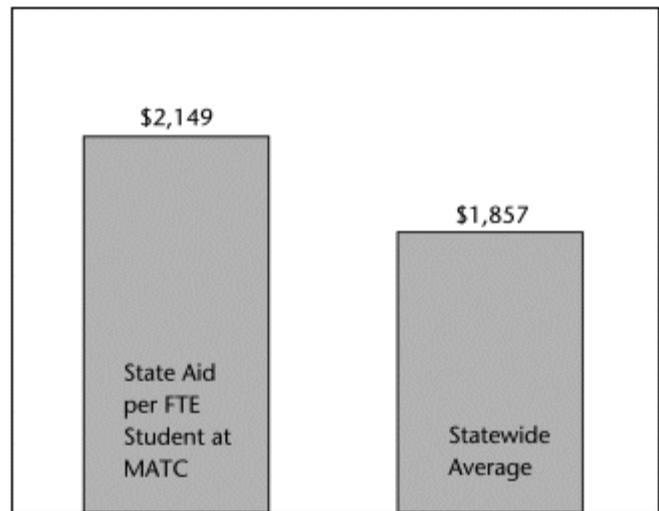
Other revenue sources were enterprise activities such as the bookstore, food service operations, and child care centers; specialized training contracts with local businesses, government agencies, school districts, and nonprofit organizations; and federal grants and aid.

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

For example, it cannot raise additional operating revenue by increasing property tax rates because it has been at the statutory mill rate limit of \$1.50 per \$1,000 of assessed property value since FY 1990-91. Therefore, MATC must rely on growth in property values to gain additional operating revenue from property taxes.

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

Figure 2  
**General State Aid per FTE Student**  
(FY 2001-02)



## Financial Management

The negative outlook attached to MATC's debt rating was removed in December 2002. However, management decisions and policies in several areas may reduce MATC's ability to improve its financial status in the future.

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

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

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

MATC continues to contract for legal, public relations, and lobbying services although it has hired senior administrators at above-market

salaries with responsibilities in these areas. Other contracts for professional services may have been avoidable considering the availability of MATC staff. We include a recommendation for MATC to review the continued use of consultants and ensure these costs are justified in light of existing staff resources.

## **Employee Wages**

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

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

## **Employee Benefits**

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

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

## **District Board Governance**

In several instances, MATC's administration has not provided the MATC Board with complete or accurate information. For example, the Board was not informed of all health care proposals made by

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

## Recommendations

Our recommendations address the need for MATC to:

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

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