

**Massachusetts Technology Collaborative Finance and Audit Committee
June 5, 2019**

MINUTES

Present: Committee Members: Leland Cheung and Ann Margulies, Board Member: Damon Cox. Mass Tech Collaborative Staff: Carolyn Kirk, Jennifer Saubermann, Lisa Erlandson and Mary Creamer.

Start Time: 3:30 p.m.

Location: Mass Tech Collaborative Boston Office

Agenda Topic	Discussion	Action Taken/Required
Approval of Minutes	The Minutes of the February 26, 2019 were presented for approval.	The minutes for the February 26, 2019 meeting of the Committee were approved by the Committee.
FY2020 Budget	<p>The FY20 budget materials were reviewed with the Committee.</p> <p>Lisa Erlandson explained that our FY20 budget process followed our standard process which includes finance staff working with the programs. Some new guidelines were established by Carolyn Kirk, including the following: there are two scenarios; use of fund balances will be strategic and based upon the draft fund balance policy guidelines; budgets will be based upon detailed program assumptions and will not include placeholders. The budget presented today was developed in accordance with these guidelines.</p> <p>The FY20 budget was developed with two state funding scenarios. Scenario One is based upon the current Administration appropriation funding levels and would allow minimal financial assistance awards and also requires a draw on fund balance. Scenario Two is primarily based upon the Senate appropriation funding levels and would allow financial assistance awards, as well as not require a draw on fund balance. The presentation today is mainly focused on Scenario One.</p> <p>In an effort to more effectively depict the funding considerations for MassTech and its</p>	The motion to endorse and recommend approval of the budget was unanimously approved.

programs, Ms. Kirk worked with the finance team to deconstruct the expense structure of the organization and breakdown how the appropriation funding is used. A preview of the materials in development for the Executive Committee were reviewed. Ms. Kirk's 1st slide presents the Expense Budget just including direct personnel and general operating expenses per division, not grants/financial assistance expenses. The analysis on the 2nd slide shows the "expense offsets" and effectively where funding gaps exist. A few key points were noted:

- At a \$500K Appropriation level, the Innovation Institute would be operating at a deficit.
- MeHI has Ch. 224 funds that it draws down on, so is always break-even. MeHI also has revenue generating contracts which minimize this use of fund balance.
- Bond Funds cover almost all of MBI's expenses, with the exception of legal fees which are covered by the surplus in Central Office & Program Support (primarily revenue from the Kopin lease).
- M2I2 has been short-funded in previous years, but that will not be allowed this year.
- At a \$500K Appropriation level, the Cyber Center is operating at a significant deficit. At a recent meeting with HED, we notified them that this is not sustainable.
- The Central Office & Program Support surplus will be used to subsidize programs as needed and the remainder, if any, would add to fund balance.

Considerations were evaluated to close the funding gap. The most viable options at the Scenario 1 funding levels would be to cut expenses and to tap fund balance, but only within the guidelines of the proposed fund balance policy.

A breakdown of the Financial Assistance Awards and Grants that MassTech would be able to make in FY20 was provided. It was noted that with the exception of MeHI and programs funded off state bond funds, there is no opportunity to provide financial assistance beyond line item programs prioritized by the legislature. Ms. Kirk explained that HED is hosting meetings to determine where the state should invest economic development funds and she has been to several of these sessions. Anne Margulies asked if we anticipate receiving more funding than Scenario 1 is projecting. Carolyn explained that Scenario 2 is higher based on the current Senate amounts but final funding depends upon the legislative funding approvals and the final Governor approved budget amounts. Carolyn has indicated that going forward we won't accept any new programs without a committed funding source.

In addition Ms. Kirk presented an updated org chart format. Leland Cheung remarked that it is helpful to understand the use of fund balances as provided and the new org chart format. Ms. Margulies said that it would be helpful to also show the impacts of our budget dollars and when Division Directors present their budget they should be urged to think about and present the impact as it relates to MassTech's mission. Ms. Kirk agreed and said that it may take several budget cycles to get there, but that is the goal.

The budget presentation moved onto the traditional budget presentation format. Ms. Erlandson went on to explain the MassTech Program Funding slide. MeHI has a 3-5 year runway with existing fund balance, but we need to consider what the next funding mechanism will be. Ms. Kirk said that she is working with Laurance to develop a plan to get Ch. 224 Funds reauthorized. State Agency contracts have increased year over year. It's not likely that we'll receive any Network Operator revenue from Axia this year. The last two lines in the table show use of existing fund balances: the first line is planned uses from the MeHI and Innovation Institute Specialty Funds and the second line shows use of funds where we're subsidizing programs which includes litigation related costs. Mr. Cheung remarked that it would be helpful to break out litigation costs in this table to show the use of fund balance to cover those costs separately than use of fund balance to subsidize programs based upon the appropriation level. The litigation costs should also be broken out in the P&L as well to better explain anomalies.

The Expenditure by Category slide was discussed and Mr. Erlandson pointed out that MassTech's corporate staff and operating costs have been reduced over time and therefore the amount allocated to the programs has been reduced. Ms. Erlandson highlighted that 4 new hires are projected across the programs. Ms. Kirk explained that if a new hire is funded by a grant program and the funding goes away, the staff goes away as well and this will be highlighted in the job requisition. Mr. Cox asked about the 21 staff in MeHI. Ms. Kirk responded that Laurance will discuss the staffing levels of his division at the Executive Committee meeting.

Ms. Erlandson highlighted that professional fees are decreasing, mainly due to the litigations ending. MassTech would, however, need to absorb \$1.2 million in Network Operation costs this year, but the state has agreed to cover these expenses with Bond Funding.

Slide 6 and 7 presents fund balance trends and a preview of our new Fund Balance Policy for discussion purposes. We are not seeking approval of the policy today. Ms. Erlandson explained that the policy aligns with the “going concern” principle that we should always have funds to operate for at least 15 months. We are working to structure our budgets to “break-even” and minimize use of fund balance.

Ms. Kirk indicated that if the committee was comfortable with budget from a financial perspective, we would then ask the Executive Committee to focus on the narratives.

Ms. Margulies remarked that this format increased her understanding of the budget. Mr. Cheung said that his biggest concern was to understand fund balance because we’ve needed to use it in recent years and this presentation did that.

Ms. Margulies asked about the MBI Network and Fiber and where does that sit on MassTech’s books? Ms. Erlandson explained that it is an asset on our books that will depreciate over 20 years. We have a \$2 million capital refresh fund that has been established to keep the network going which is our responsibility. Reports from KCST indicate that there is no need to invest significantly in the near future. Mr. Cheung asked what happens if a tree falls down on a line? Ms. Erlandson said that KCST has been very responsive and assumes responsibility. Mr. Cheung then asked whether we should consider selling the Network. Ms. Kirk explained that it needs to be open access which makes it less appealing to buyers but it is an option MassTech plans to consider in the future.

Mr. Cheung recommended the budget for approval by the Committee.