COVID-19 Impact on MSMS Finances

The economic effects of COVID-19 have had a global impact. The United States and Michigan have experienced declining economic growth and unemployment levels not seen since the Great Depression. In addition to for-profit businesses, non-profit businesses have also been negatively impacted by the pandemic. Nonprofit organizations, like MSMS, have provided a steady presence while quietly shoring up and stabilizing our communities in the midst of this pandemic. Widespread closures and service interruptions have made the work of MSMS and other nonprofits even more challenging. Some organizations have closed their doors for extended periods, some have closed their doors permanently, while others, like MSMS, continue to operate remotely, balancing member service with social distancing. One constant across the nonprofit sector has been the cancelling of in-person events and the upheaval of development plans as organizations struggle to maintain operations, payrolls or both while revenue is decreasing. Financial instability in the wake of this crisis has threatened the funding that supports vital organizations including MSMS. All revenue streams, whether dues or non-dues, are under intense pressure. Faced with this unprecedented challenge, our ability to provide adaptive, creative, and thoughtful financial leadership will be more crucial than ever.

Financial leadership during times like these requires an unflinching look at our current fiscal state and a willingness to seek solutions across our whole organization. Financial and operational adjustments to programs, practices and processes will be key to develop both an immediate and long-term response to this pandemic. Holding true to our core mission will guide us towards thoughtful, compassionate, and effective decisions during these challenging times.

Over the past 10 years, the MSMS Board and staff have developed strategies around maintaining and growing the reserve funds with great success. The reserve funds have more than doubled during that time. Best practice for non-profits is to have 6 months of operating expenses in reserves. Current MSMS reserves of over $6 million represent about 12 months of operating expenses. Unlike many other businesses and nonprofits, with this high level of reserve funds, MSMS is well positioned to weather this economic storm.

The projections below are based on what we have and what we know. The goal is to provide a realistic view of our operations during these challenging times. Due to the COVID-19 impacts to revenue and the uncertain status of the economy, MSMS is projecting operating losses this year and over the next couple years. New revenue streams will take time to develop while navigating the uncertainties during this crisis. Although large operating losses are expected, MSMS is well positioned to fund these losses with its reserve funds while operational adjustments are initiated.

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<th>2020</th>
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<tr>
<td>MSMS Projected Operating Deficit</td>
<td>(298,200)</td>
<td>(953,000)</td>
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In times of crisis, it is important to have a realistic view of revenue to craft revised operational plans. The operational expense base needs to properly reflect the revenue expectations and core mission of the organization. The analysis of the expense base will be focused on a dual bottom line approach; impact to core mission and impact to the financials. The Board and staff have already begun work on expense mitigation strategies. Specifically, the Board is working towards selling the MSMS building in East Lansing and staff have started looking at adjusting/reducing practices, programs and processes to get back to the core mission of the organization.

The success of MSMS staff working remotely, the fact that physicians don’t join MSMS because of its building and the need to reduce costs to help balance the budget that has been negatively impacted by COVID-19, the MSMS board is exploring the sale of the MSMS building in East Lansing. Selling the building eliminates $800,000 in annual costs and allows the conversion of an illiquid asset (building) into a liquid asset (reserve fund investments) which serves to generate additional income on market returns. Depending on the actual sale price of the building, the cash proceeds invested could equate to around $200,000 in market returns each year. So selling the building doesn’t impact member services, saves $800,000 in annual costs and the proceeds could generate $200,000 in income annually. That’s an estimated $1,000,000 annual increase to the bottom line ($800,000 cost savings plus $200,000 estimated income). Although MSMS will still need some office space, it will be very small and much less costly as most staff will continue to work remotely.

The committee desired to formally support the Board’s efforts to sell the building to help balance the budget. The Ways and Means Committee made and approved the following motion:

**MOTION:** That the Ways and Means Committee support the sale of the MSMS building to help balance the budget; approved.

None of the steps here are easy – especially in a time of crisis. Given this rapidly evolving pandemic, it is tempting to put off decision making to see how the situation progresses. Some call this “magical thinking”, the hope that the situation will fix itself without any change. One lesson from the Great Recession, however, was that those organizations that assessed their situation earlier were able to make strategic decisions which resulted in less severe measures later.

Leadership will be looking at every part of the organization to maximize core mission impact and finances. MSMS has a strong and liquid balance sheet with 12 months of operating expenses in reserves to fund these losses until our expense mitigation strategies are fully implemented positioning MSMS for financial success post COVID-19.

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Members of the Ways and Means Committee include: *Dennis C. Szymanski, MD, Chair; *E. Chris Bush, MD; Michael D. Chafty, MD, JD; *Ronald B. Levin, MD; Robert C. Packer, MD; *Venkat K. Rao, MD; *Edward J. Rutkowski, MD; and *Barbara A. Threatt, MD.

Board Advisors were: *Anita R. Avery, MD; *Mark C. Komorowski, MD; *Richard C. Schultz, MD; and *John A. Waters, MD.

The Committee was staffed by: Lauchlin MacGregor, CPA, CFO

*Denotes members in attendance.