

REPORT OF WAYS AND MEANS COMMITTEE  
Dennis C. Szymanski, MD, Chair

September 30, 2020

(This Standing Committee also serves as the Reference Committee on Ways and Means)

1 COVID-19 Impact on MSMS Finances

2  
3 The economic effects of COVID-19 have had a global impact. The United States and Michigan  
4 have experienced declining economic growth and unemployment levels not seen since the Great  
5 Depression. In addition to for-profit businesses, non-profit businesses have also been negatively  
6 impacted by the pandemic. Nonprofit organizations, like MSMS, have provided a steady presence  
7 while quietly shoring up and stabilizing our communities in the midst of this pandemic.

8 Widespread closures and service interruptions have made the work of MSMS and other nonprofits  
9 even more challenging. Some organizations have closed their doors for extended periods, some  
10 have closed their doors permanently, while others, like MSMS, continue to operate remotely,  
11 balancing member service with social distancing. One constant across the nonprofit sector has  
12 been the cancelling of in-person events and the upheaval of development plans as organizations  
13 struggle to maintain operations, payrolls or both while revenue is decreasing. Financial instability  
14 in the wake of this crisis has threatened the funding that supports vital organizations including  
15 MSMS. All revenue streams, whether dues or non-dues, are under intense pressure. Faced with  
16 this unprecedented challenge, our ability to provide adaptive, creative, and thoughtful financial  
17 leadership will be more crucial than ever.

18  
19 Financial leadership during times like these requires an unflinching look at our current fiscal state  
20 and a willingness to seek solutions across our whole organization. Financial and operational  
21 adjustments to programs, practices and processes will be key to develop both an immediate and  
22 long-term response to this pandemic. Holding true to our core mission will guide us towards  
23 thoughtful, compassionate, and effective decisions during these challenging times.

24  
25 Over the past 10 years, the MSMS Board and staff have developed strategies around maintaining  
26 and growing the reserve funds with great success. The reserve funds have more than doubled  
27 during that time. Best practice for non-profits is to have 6 months of operating expenses in  
28 reserves. Current MSMS reserves of over \$6 million represent about 12 months of operating  
29 expenses. Unlike many other businesses and nonprofits, with this high level of reserve funds,  
30 MSMS is well positioned to weather this economic storm.

31  
32 The projections below are based on what we have and what we know. The goal is to provide a  
33 realistic view of our operations during these challenging times. Due to the COVID-19 impacts to  
34 revenue and the uncertain status of the economy, MSMS is projecting operating losses this year  
35 and over the next couple years. New revenue streams will take time to develop while navigating  
36 the uncertainties during this crisis. Although large operating losses are expected, MSMS is well  
37 positioned to fund these losses with its reserve funds while operational adjustments are initiated.

(continued)

	2020	2021	2022
MSMS Projected Operating Deficit	(298,200)	(953,000)	(836,000)

38 In times of crisis, it is important to have a realistic view of revenue to craft revised operational  
 39 plans. The operational expense base needs to properly reflect the revenue expectations and core  
 40 mission of the organization. The analysis of the expense base will be focused on a dual bottom  
 41 line approach; impact to core mission and impact to the financials. The Board and staff have  
 42 already begun work on expense mitigation strategies. Specifically, the Board is working towards  
 43 selling the MSMS building in East Lansing and staff have started looking at adjusting/reducing  
 44 practices, programs and processes to get back to the core mission of the organization.

45  
 46 The success of MSMS staff working remotely, the fact that physicians don't join MSMS because of  
 47 its building and the need to reduce costs to help balance the budget that has been negatively  
 48 impacted by COVID-19, the MSMS board is exploring the sale of the MSMS building in East  
 49 Lansing. Selling the building eliminates \$800,000 in annual costs and allows the conversion of an  
 50 illiquid asset (building) into a liquid asset (reserve fund investments) which serves to generate  
 51 additional income on market returns. Depending on the actual sale price of the building, the cash  
 52 proceeds invested could equate to around \$200,000 in market returns each year. So selling the  
 53 building doesn't impact member services, saves \$800,000 in annual costs and the proceeds could  
 54 generate \$200,000 in income annually. That's an estimated \$1,000,000 annual increase to the  
 55 bottom line (\$800,000 cost savings plus \$200,000 estimated income). Although MSMS will still  
 56 need some office space, it will be very small and much less costly as most staff will continue to  
 57 work remotely.

58  
 59 The committee desired to formally support the Board's efforts to sell the building to help balance  
 60 the budget. The Ways and Means Committee made and approved the following motion:

61  
 62 MOTION: That the Ways and Means Committee support the sale of the MSMS building to help  
 63 balance the budget; approved.

64  
 65 None of the steps here are easy – especially in a time of crisis. Given this rapidly evolving  
 66 pandemic, it is tempting to put off decision making to see how the situation progresses. Some  
 67 call this “magical thinking”, the hope that the situation will fix itself without any change. One  
 68 lesson from the Great Recession, however, was that those organizations that assessed their  
 69 situation earlier were able to make strategic decisions which resulted in less severe measures  
 70 later.

71  
 72 Leadership will be looking at every part of the organization to maximize core mission impact and  
 73 finances. MSMS has a strong and liquid balance sheet with 12 months of operating expenses in  
 74 reserves to fund these losses until our expense mitigation strategies are fully implemented  
 75 positioning MSMS for financial success post COVID-19.

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Ways and Means Committee – 09/30/2020 - 3

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

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

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

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85 \*Denotes members in attendance.