MSSNY Financial Report to the 2023 HOD

Summary: Overall, we ended 2022 with a balanced budget. And we are addressing a challenging 2023 Budget for MSSNY. We managed to be near break-even for 2022, and are cautiously optimistic we can do the same for 2023, through non-dues revenue generation and careful expense management. However, there is risk that certain sources of revenue for 2023 may not be fully realized. We will need to closely monitor income and be prepared to reduce expenses as needed. The 2023 proposed Budget compares with a similar expected break-even 2022 budget, although not exceeding expectations as with the $300,000 surplus in 2021.

- **Income**. A major hole in our 2023 budget results from the end of the one-time federal PPP grant of over $700,000. In addition, we expect to lose $30,000 (on top of the $150,000 reduction from last year) in our administrative services agreement (ASA) with the Empire Foundation.[1] To make up for that lost income we are looking at a variety of sources. Our primary source of non-dues revenue is our application for an Employee Retention Credit (ERC) that we have a reasonable expectation – though not a certainty – will raise just over $500,000. In addition, we are looking to increase revenue from membership dues (≈$100,000), HOD sponsorships (≈$50,000), ads and program sales (≈$25,000), administrative services to MESF ($27,000) and grant income (≈$150,000 – though with significant offsetting expenses). Further, we are using approximately $238,000 in deferred income related to CPH grants from MLMIC and PRI to help offset the loss of the PPP funds.

- **Expenses**. Our expenses for 2023 are expected to increase as well. We were able to reduce spending on a number of important items, including office rent (≈$200,000), postage machines (≈$18,000), copiers (≈$14,000), phones (≈$11,000), IT support (≈$12,000), office supplies (≈$2,000). We have also reduced some staff expenses through retirements and reallocation of responsibilities. However, those savings have been offset by expenses in a number of areas, including (1) continued resumption of in-person meetings for the HOD, AMA, BOT, Council and Lobby Day (≈$450,000), (2) a 4% inflation pay adjustment for certain staff ($110,000), (3) membership development initiatives (≈$115,000); (4) a much needed IT consultant to help with overall integration of our disjointed systems (≈$50,000), (5) continued amortized one-time expenses including needed upgrades to our member database and website, and moving the Albany office (≈$40,000), (6) extension of our iMIS member database contract to complete the upgrade to Impexium (≈$20,000); and (7) a new program per Dr. Mehta to offer leadership training and certificates from the American Association of Physician Leaders ($10,000).

[1] We expect some or all of the reduced Empire Foundation revenue from our ASA to be replaced by grant funds to the MESF. This funding is appreciated, but may not be (fully) attributable to offset MSSNY expenses or support MSSNY staff.

MSSNY has discussed alternate ways to increase revenue and reduce expenses. A few ideas include:

Revenue:

- ***Dues***. Project an even larger increase in dues revenue.

- ***Physician Payment and Practice Recovery Percentage***. Implement a program whereby Heather Lopez's shop receives a percentage of recoveries from successful advocacy against insurers. Recovery amounts speculative.

- ***HOD Sponsors***. We could increase even further the projections for funds raised through HOD sponsorships. This will take a concerted and committed effort by leadership, who have the potential contacts to raise the funds.

- ***Other***. We have discussed other options for business opportunities to generate funds, including starting a medical journal. Open to other ideas.

Expenses

- ***HOD***. There are a couple of areas of HOD expenses that could be reduced. For example, we could ask guests of delegates to pay for their share of the Dinner Dance. We could limit travel and hotel expenses the way we do for AMA delegates.

- ***AMA***. We could further reduce funding for AMA delegates, and maintain reduced expenses at the AMA events (e.g., no MSSNY suite, no Dutch Treat dinner).

- ***Westbury Rent***. The Westbury office is too big and too expensive. Unfortunately, we have approximately 3.5 years on our current lease. We have already talked to brokers about subletting the Westbury office space. Apparently, the commercial market remains soft. But we could redouble our efforts.

- ***IT Consultant***. Although staff believes we need a consultant to tie together our various IT systems, we could forego this expense.

- ***Membership Development***. Our Membership Division developed the ideas for membership development including funds for:

Marketing			
Collateral		$	20,000
Digital Ads (5x $250)		$	1,250
Video - Gather Voices $950/mo x 6 months		$	5,700
Communities		$	75,000
Digital Badging (with Credly or Accredible)		$	10,000
Travel		$	1,000
CarePrecise NY			
Healthcare Listing	https://www.careprecise.com/state/new_york_healthcare_providers.htm	$	400
Subtotal		$	113,350

Notes:

Income

- **Dues**. Of course, we have major plans to reverse the slide in membership numbers as well as dues. We worked 2022 largely devoted to laying the groundwork for that reversal. Details of our membership proposal are outlined in the "Membership Plan" from Valerie with input from Drs. Podwell and Jakubowicz, as well as in our "Goals and Measures" to Council. The plan includes our new member database, reducing barriers to joining (such as standardizing dues structure), refining our value proposition and a targeted sales and marketing campaign aimed at recruiting, engaging and retaining members. We are targeting a slight increase in dues for 2023, reversing a decades-long slide in dues reductions.

- **Employee Retention Credit (ERC)**. The ERC is a federal program as part of COVID funding that pays employers for retaining employment when certain conditions are met. We are using an outside consultant who will recover a percent of our award under this program. The consultant believes we have a reasonable opportunity to obtain over $500,000 through the ERC program. Our application is underway. It is not a certainty. And we should have alternative plans in place in case the funding does not materialize. (Some ideas discussed above).

- **Investment Earnings**. The $300,000 reflects a conservative estimate of our interest and dividend earnings on both our General Fund and Building Fund used for operating expenses ($16M x 1.875%). Significantly, this does not include or reflect any realized or unrealized gains to the Building Fund for which realized gains of interest and dividends are expected to be in excess of $300,000.
  - Note that in prior years (before 2020), both realized and unrealized gains were included in the budget, although not used to fund operating expenses.

- **Empire Foundation Services.** At this time, the Empire Foundation has indicated that support for our Administrative Services Agreement (ASA) will be reduced by $30,000 (from $100,000 to $70,000) inasmuch as the Foundation asserts it no longer needs the services of MSSNY's administrative assistant. Note that last year the Foundation reduced the ASA from $250,000 to $100,000 to reflects the fact that the Foundation did not hire the MSSNY EVP as Foundation Director, and that it no longer uses Brian for IT assistance. The Foundation may make grants to MESF to make up for the reduced ASA funds. Of course, this will not directly replace the lost income to MSSNY under the ASA. But the grant funding to MESF is of course welcome and appreciated.

- **Grant Income**. This is an area of potential significant growth in income. We have recently hired a grant writer through MESF. We are anticipating numerous new grant opportunities. We did not include additional grant funds in the 2022 Budget, as receipt of new grants are still uncertain. Our goal is to raise at least and additional $150,000, in part to offset certain anticipated expenses such as our strategic planning and diversity/equity work.

- **HOD Sponsorships**. We hope to raise $150,000 in sponsorships, as well as through a raffle and ad book, to help offset the cost of the in-person event. This would be an increase above the over $120,000 raised last year.

Expenses

- **Salary and Benefits**. The 2023 budgeted increase largely reflects a 4% cost of living adjustment (COLA) for many of the staff to account for inflation. Current CPI has increased roughly 8% in the past year. We continue to lose staff to the State and other associations.

- **Rent**. Significant savings for Albany and LI rent (approximately 20%) resulting from a full year of lower Albany rent and the space "give back" on the LI office. Total savings for 2023 will be approximately $200,000 over the amount spent prior to the Albany and Westbury reductions.
  - Future year savings will be even more. The Albany rent will be reduced from approximately $285,000 to around $115,000. And we hope to downsize dramatically by subletting Westbury in 2023 or 2024, depending on market conditions. Our Westbury five-year lease (which is a financial lodestone) runs for another 3.5 years.

- **Office Equipment and Supplies.** Budget decrease reflects the efforts made to reduce unnecessary expenses by renegotiating some contracts (e.g., postage machine, phone) and eliminating unused or underused equipment and supplies (e.g., copiers). As noted above, some key savings include: postage machines (≈$18,000), copiers (≈$14,000), phones (≈$11,000), IT support (≈$12,000), office supplies (≈$2,000).

- **Software Packages.** While lower than last year, there is a greater expense than expected due to the additional time needed to implement our Impexium database, necessitating us to extent our contract with iMIS and the service provider Get Efficient. The total costs (≈$102,000) include the Impexium license fee (≈$68,400), iMIS license fee for six months (≈$20,000) and Get Efficient service fee (≈$12,500).

- **IT Consultant**. Since Brian passed two years ago, it has become increasingly clear that our IT systems are not in synch and we have wasted time and opportunity because we do not have someone with tech expertise looking at the big picture. We anticipate approximately $50,000 to be used to hire a consultant to help us integrate and coordinate our often siloed IT systems.

- **Meetings: AMA Delegation**. This expense largely reflects the costs of in-person attendance at the AMA conferences in Chicago and DC (≈ $100,000 and $75,000 respectively).

- **Meetings**: Council and BOT. This includes the costs for two in-person Council and BOT meeting, which run around $17,500 each.

- **HOD**. Of course, the cost of the in-person HOD will be significant. Current estimates are approximately $200,000, plus added costs for Laurie Mayer consulting (≈ $24,600) and Lois Miller to help Michael (≈ $12,000). As noted above, fundraising of $150,000 will help offset the costs if successful.

- **AAPL Leadership Training**. Dr. Mehta is proposing a new program that wouldo offer leadership training and certificates from the American Association of Physician Leaders ($≈ 10,000)

MSSNY Investment Oversight

MSSNY's Board of Trustees has taken primary responsibility for investment oversight. The Board has contracted Vanguard to manage MSSNY's long-term investments. Vanguard uses advisors that specialize in managing non-profit investments. Vanguard is a well-known manager that is noted for its low-cost index funds that track the stock and bond markets. The Board has an Investment Committee that regularly reviews MSSNY's investments and reports to the full Board, including MSSNY officers, at every regular meeting. The most recent monthly, quarterly and annual reports from our investment advisors are routinely included in Board meeting materials, and the advisors themselves present to the full Board at least annually. The Board typically had an annual discussion whether to change the asset allocation and whether we are satisfied with the performance of the fund managers. An example of the most recent Board agenda and materials is attached, which shows a report of the Investment Committee as well as the most recent reports from our Vanguard advisors.

MSSNY Investment Performance

MSSNY long-term investments have earned approximately 6% annual returns since 2016 (from around $9.5 million to $12.9 million), despite (1) the recent market downturns, and (2) keeping a significant portion ($2.5 million) in cash from 2019-2021 as MSSNY was considering buying a building in Albany. Had the money been invested in bond funds, it would have earned something closer to 1% annual returns – from around $9.5 million to $10.2 million, or roughly $2.7 million less for MSSNY.

By way of background, MSSNY's long-term investments are in the "Building Fund". This fund reflects proceeds from the sale of MSSNY's former headquarters building in Lake Success, NY. That building was sold in 2008 for approximately $8.7 million. The funds were invested with US Trust and grew to approximately $11 million by 2012. At that time, the funds were invested with Vanguard and in 2016 – when the balance was approximately $14 million – MSSNY withdrew $4.5 million to pay off pension liabilities for MSSNY staff. The remaining roughly $9.5 million in the Building Fund subsequently grew to around $12.9 million today.

That Building fund has been invested in a mix of broadly diversified stocks and bonds. As noted, the average annual rate of return has been approximately 6%, even considering the significant downturn in both the stock and bond markets in the past year(s) and even though roughly $2.5 million was kept in cash from 2019-21 for the possible purchase of an Albany building. MSSNY's investment policy has earned much more than if we had adopted a more conservative approach. By comparison, funds invested in a bank or money market would have earned less than 1% annual return. (Note: overall returns for both scenarios include the $4.5 million payout for MSSNY pension liabilities). If we had invested all our funds in a bond fund, we similarly would not have earned as much as the total bond market index grew just over 1% in the past 10 years.

Of course, along with the long-term success of MSSNY's current investment strategy came some downturns in the markets, occasionally substantial. For example, the total stock market index lost approximately 20.9% in 2022, and the total bond market index lost approximately 6% in 2022. That is in line with the returns reported by Vanguard for MSSNY's Building Fund portfolio which lost approximately 15.8% in 2022. The Board and advisors discussed these losses at the November 2022 Board meeting. The advisors recommended that MSSNY stay the course, noting the historically positive return rates and that now would be a bad time to lock in those 2022 losses. In as much as MSSNY is a long-term investor with these funds, the Board deliberately decided to maintain the current diversified, long-term investment strategy.

Note that moneys currently in MSSNY's "General Fund" are used to draw operating funds when needed for cash flow purposes. In 2022, our Controller withdrew approximately $1.25 million in operating expenses from January through September. The fund is being replenished as funds have come in, such as new dues income which typically arrives in the late fall.

A copy of MSSNY's most recent income and expense statement is attached to this Financial Report.