

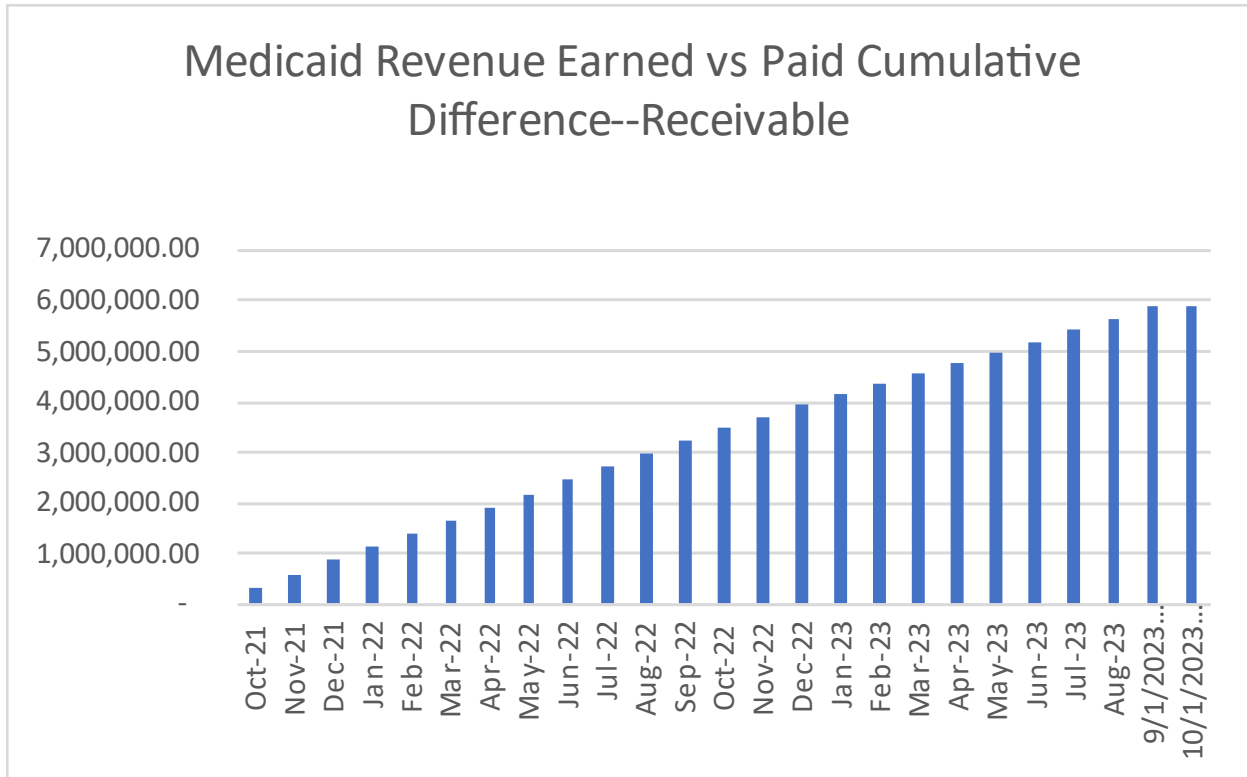
Friday, September 15, 2023

Dear Friends of the Pavilions,

Recent news coverage regarding significant reimbursement amounts owed your Grand Traverse Pavilions and the resulting amounts owed by the Pavilions to Grand Traverse County deserves an explanation.

First, the money owed the Pavilions is principally related to two circumstances:

- Employee retention credits of \$6.1M claimed in June 2022 are under audit by the IRS and the IRS is denying similar credits which will result in a time-consuming appeal or judicial process to compel payment. The Pavilions remains confident these amounts will be paid eventually but the timing is not possible to predict. The good news is that these credits will be paid with interest.
- Medicaid reimbursement. The state committed early in the pandemic to eventually reimburse nursing homes for their actual costs per Medicaid day for services provided for the period October 1, 2021 through September 30, 2023. In the meantime, they paid an amount based on historical costs per day. As the accompanying chart illustrates, this has turned into a total receivable of \$5.8M. The timing of what is likely to be a series of payments is uncertain. However, last week the state committed to a process change to allow this to begin in the near future. The state has now returned to paying our full reimbursement when claims are billed so that, beginning with October claims, there will no longer be a difference between what is earned and what is paid.



The money owed by the Pavilions to the County is a product of more cash being spent than what is collected.

The Pavilions deposits all of its collections with the Treasurer for credit to the Social Welfare Fund.

Grand Traverse County then pays the bills (including payroll) for the Pavilions from the Social Welfare Fund.

That Fund now has a negative balance due to the large receivables described above and due to more money being spent than has been earned.

CURRENT STRATEGIC PLANNING

As part of our strategic planning process, we are evaluating our operating performance in every area. A few challenges not unique to the Pavilions include:

- Much lower occupancy (census) than pre-pandemic (220 to as low as 129) while recovering slower than we and many experts predicted. This is the result of the pandemic and other choices for those needing nursing home care (PACE North in particular);
- Higher operating costs due to inflation; the low unemployment rate, a structure that was designed to serve more residents; and the difficulties of recruiting outstanding staff to work in a highly regulated environment that includes vaccines and masks to protect our residents;
- And additionally, rates that are lower than market rates.

Your County Board of Commissioners and Governor appointed Department of Health and Human Services Board, charged with governance of the Pavilions, working with County Commissioners and Pavilions' administration, is currently preparing a strategic and sustainable business plan that we are confident will result in financial stability now and in the future.

We are not alone in dealing with this situation.

Long-term care facilities in Michigan and the Midwest are operating with similar deficits. Medicaid underfunding is one of the primary causes, according to the American Health Care Association and National Center for Assisted Living.

For 64 years your Pavilions has offered multiple services at below or sometimes on a par with statewide averages. That no doubt will change as our new financial platform takes shape.

In the meantime, be assured we will communicate our progress with you.

Together we will strengthen this community exemplar, the symbol of a caring region serving all its citizens: Medicare, Medicaid, low income, insured and private pay.

Thank you for your vital and continuing support!

Rose Coleman
CEO/Administrator
Grand Traverse Pavilions
Grand Traverse County
Traverse City, MI