



FOR IMMEDIATE RELEASE

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**PAVILIONS FILES LAWSUIT TO RECOVER OVER \$5M IN
PACE NORTH START UP AND OPERATING EXPENSES**

TRAVERSE CITY – Grand Traverse County’s Health and Human Services board has filed suit to recover over \$5 million in start-up and operating costs incurred by the Pavilions in the creation of PACE North, a non-traditional alternative to nursing home care.

Announcement of the legal action was made by Cecil McNally, chairperson of the county’s Health and Human Services Board.

“PACE North is operated by Grand Traverse Pavilions (GTP)”, he explained. “The lawsuit is in response to actions taken by the PACE North Board to terminate the Management Agreement that has been in place between the Pavilions (the manager) and Pace North (the owner). “

PAVILIONS FORMED PACE

The process to create PACE North began in 2016 when the Pavilions applied to the Centers of Medicare and Medicaid Services (CMS) for permanent provider status to create and operate a PACE facility. In doing so the Pavilions committed to an unconditional guarantee, in the case of insolvency, to ensure the continuation of

benefits to PACE North participants for the duration of the period for which capitation payments have been made.

(Reference “An historical collaboration...” below.)

The efforts by the PACE board to terminate the management agreement with GTP have been unsuccessful, in part due to its failure to address repayment of its debt, according to Cecil McNally, chair of the county’s DHHS board.

“The Pavilions invested over \$5 million in direct and indirect costs during PACE’s first few years of operation,” explained McNally. “The terms of our management agreement called for GTP to subsidize PACE’s start-up costs. And once Pace North reached an agreed upon milestone of financial stability, they would then begin repaying GTP based on a percentage of their annual revenue.

“That has not happened.”

AN INVESTMENT, NOT A GIFT

He said the DHHS Board feels the management agreement, in place since 2018 between PACE and the Pavilions, has unquestionably been a key to PACE’s success. Now the PACE Board wants to terminate it. “In our opinion, this is to avoid compensating the Pavilions for its financial investments over the past six years and it’s ongoing obligations,” reasoned McNally.

“The PACE board now prefer to frame the Pavilions’ over \$5 million investment as a ‘gift.’ That certainly was not the intent of the original management agreement, one that has proven so beneficial to PACE.”

The lawsuit to recover the Pavilions’ financial investment is being filed in Grand Traverse County 13th Circuit Court by GTP’s legal counsel. (Warner, Norcross & Judd)

An historical collaboration...

Grand Traverse Pavilions and PACE North

An investment of significant capital, both financial and ongoing human resources, marks the historical and current relationship between Grand Traverse Pavilions and PACE North (PN).

Incubated in the fall of 2019, PN is the out-growth of an earlier and successful Rehab/Wellness Center program at GTP.

“This was really the inspiration for starting PN,” explains Mary Marois, long time community elder care activist, county DHHS Board member, and also a member of both GTP and PN boards. Mary provides a unique insight into the relationship between PACE North and the Pavilions as she was PACE North’s first Board of Director Chairperson. “It was reasoned that with the success of the Wellness Center, a logical next step would be starting a nationally recognized PACE (Program of All-inclusive Care for the Elderly) model as an alternative to traditional nursing home care.”

“This relationship is not the norm. It’s entrepreneurial and may be one of a few of its kind in the country.”

Since then, GTP has invested over \$5 million in operational start-up costs, building renovation, and ongoing professional staff services in PN.

The Pavilions was engaged in the following activities during the initial years of the PACE North startup:

- Exploring the idea of PN, generating community interest, political support and recruitment of board members;
- Recruiting all initial PN employees;
- Setting up the PN accounting and financial reporting systems’
- Providing the financial expertise to begin the PN program through Medicaid and CMS;
- Securing a lease for the PN facility from the County at a below market rental amount and entered into a zero-margin sublease arrangement with PN for its facility;
- Arranging for the County to issue bonds to provide the financing to rehabilitate the facility subleased to PN in exchange for the Pavilions promise to pay the principal and interest under the lease until PN has the ability to pay;
- Overseeing the rehabilitation and construction of the PN facility including the procurement and installation of all IT infrastructure;

- Arranging for financing with National Cooperative Bank which has expertise in lending to PN organizations;
- Agreeing to defer the amounts due under the sublease related to the bond payment amounts with a below market interest rate of 2%;
- Paying its staff to work on behalf of the Grand Traverse Pavilions Foundation, Inc. to fundraise approximately \$3M to support the start-up costs and losses that are inherent in beginning a PACE program;
- Foregoing the opportunity to have the Foundation (which exists solely to support the Pavilions) support its other causes;
- The Foundation (which exists solely to support the Pavilions) entered into a liquidity support agreement (which functions as a loan guarantee) with PACE North's lender, National Cooperative Bank which has resulted in withholding of Pavilions support by the Foundation board;
- Agreeing to defer and subordinate to NCB the non-reimbursable costs and fees under the management agreement without interest.

PRESENT OPERATING AGREEMENT, REIMBURSEMENT OF COSTS

Though the present PN and DHHS boards have agreed to cap the current management fee at \$90,000 for 2023, no further revisions are being recommended, Rose Coleman, GTP executive director and PN board member, points out. "This includes the fee structure of the present terms of agreement," explaining this is necessary to coincide with the term of the building lease while assuring reimbursement of both documented and imputed costs and providing adequate return on investment through collection of management fees over time.

She observes GTP has been very generous in its past and ongoing support of PN. "Reviewing our role in its start-up and ongoing operation, I think that's well documented."

"It's hoped that GTP will remain in a position to consider the current financial situation of PN annually to support its viability as a going concern to serve the need within our community."

ABOUT GRAND TRAVERSE PAVILIONS

[Grand Traverse Pavilions](#) is the region's first and only public nonprofit providing a full-spectrum of services unique to the care for aging adults.

Initiated by Grand Traverse County Department of Health and Human Services in response to the Social Welfare Act 280 of 1939 to care for the states most vulnerable citizens, the Pavilions maintains facilities to provide services for more than 200 on-site residents.

Grand Traverse Pavilions is a community of caring for the region's aging adults, with Independent, Assisted Living, Long-term Care, Rehabilitation and Wellness Center programs for the entire community.

Grand Traverse Pavilions is also the sponsor, manager and directly and through its Foundation, a guarantor of PACE North, the regions Program of All-Inclusive Care for the Elderly.

Grand Traverse Pavilions has received Nursing Care Center accreditation by the Joint Commission along with Post-Acute Care and Memory Care certifications. The Pavilions is part of Grand Traverse County and governed by the Grand Traverse County Department of Health and Human Services Board. Learn more about Grand Traverse Pavilions by visiting www.gtpavilions.org.