SUMMARY

As CEO of California’s largest nursing home company, Shlomo Rechnitz has a duty to provide competent, compassionate care to thousands of frail seniors. But an investigation into his firm’s financial dealings reveals that he may be profiting at their expense by steering millions of dollars in taxpayer funds to a web of companies he created to service his nursing homes.

Rechnitz, a Los Angeles billionaire, owns Brius Healthcare, a firm that operates approximately 80 for-profit nursing homes in California and receives about 80 percent of its funding through Medicare and Medicaid, which is known as “Medi-Cal” in California. In 2015, Brius homes purchased $67 million in goods and services from more than 65 companies controlled by Rechnitz and his relatives.

These sorts of transactions are not uncommon among major nursing home chains, although Rechnitz appears to have engineered novel arrangements to siphon money from his facilities, leaving them with fewer funds to care for their residents. One firm he created charged his homes $3.5 million in 2015 to offer financial advice and have him review their monthly profit-and-loss statements, public records show. Other firms appear to exist solely as paper landlords that charge his nursing homes above-market rents.

In June of 2017, California legislators approved a state audit to examine the impact and appropriateness of Brius’ financial transactions with firms controlled by Rechnitz. The audit is scheduled to be completed in 2018.

This report describes the key findings of an investigation by the National Union of Healthcare Workers (NUHW) into Brius’ related-party transactions and its corporate structure. It also offers several recommendations to policymakers and the public aimed at improving the transparency of nursing home companies’ financial transactions.

I. INTRODUCTION

To compile this report, NUHW reviewed thousands of pages of Brius documents filed with the California Department of Public Health (CDPH), the California Office of Statewide Health Planning and Development (OSHPD) and the California Secretary of State including annual cost reports, lease agreements, incorporation records, licensure applications, citations and deficiencies. In addition, researchers reviewed court documents and purchased a database of state disclosure reports filed by California nursing homes in 2015, the most recent year for which data is available. The data revealed:

- In 2015, Brius nursing homes paid $67 million to 65 companies controlled by Brius CEO Shlomo Rechnitz and his family members, according to OSHPD records. About two-thirds of the payments were delivered to “insider” companies serving as landlords to the nursing homes.
- Brius homes also paid Rechnitz-controlled companies millions of dollars for financial consulting, medical supplies, “nutrition shakes,” loan repayments and other goods and services.
- Overall, Brius nursing homes paid rental prices that were 36.6 percent higher per nursing home bed than non-Brius for-profit nursing homes operating in the same county during 2015. Altogether, Rechnitz’ companies stood to
gain as much as $12 million from the inflated rents that otherwise could have been spent on patient care, according to NUHW estimates.

- In 2015, Brius nursing homes reported owing $23.2 million in debt to companies controlled by Rechnitz. However, state reporting rules do not require the homes to disclose whether interest rates and other lending costs were consistent with fair market rates.

Even after steering money to “insider” companies, Brius nursing homes nonetheless recorded profits nearly twice as high as the average for-profit California nursing home. In 2015, Brius facilities reported an average profit margin of 6.1 percent compared to 3.7 percent for California’s remaining for-profit nursing homes, according to OSHPD.³

In 2015, the taxpayer-funded Medicare and Medicaid programs paid Brius $507 million to care for elderly and disabled residents in the company’s approximately 80 California nursing homes.⁴ That accounted for 80 percent of the firm’s revenue.

The siphoning of scarce healthcare dollars through overpriced related-party transactions can leave nursing homes with fewer resources to care for their residents. According to a 2015 Sacramento Bee investigation, Brius nursing homes scored below statewide averages on 35 of 46 quality-of-care indicators such as staffing levels, complaints and deficiencies.⁵

Government oversight agencies have cited Brius nursing homes for hundreds of state and federal violations including failing to staff facilities with sufficient nursing personnel to care for residents.⁶ Understaffing can lead to pressure sores, resident falls and even deaths – violations for which Brius has been repeatedly fined by government investigators.⁷ According to the Bee’s investigation, Brius nursing homes “were tagged with nearly triple as many serious deficiencies per 1,000 beds as the statewide average in 2014.”⁸ That year, California Attorney General Kamala Harris called Brius CEO Shlomo Rechnitz a “serial violator” of California nursing home laws in an emergency motion that sought to block the company from acquiring more facilities.⁹ Brius facilities reported an average profit margin of 6.1 percent since Brius took over in 2012, according to state records.

As Rechnitz extracted hundreds of thousands of dollars from San Rafael Healthcare & Wellness Center through inflated rents, state investigators cited the facility for providing substandard care to the facility’s elderly and disabled residents. For instance, in June of 2017, government investigators fined the nursing home $15,000 for violating California’s minimum staffing requirements for nursing personnel.¹⁰ In addition to under-

II. RENT GOUGING

In 2015, 65 Brius nursing homes rented their facilities from firms controlled by Rechnitz, according to government records. This figure may underestimate the number of such transactions as some Brius facilities failed to report their transactions, an NUHW investigation found.

In 2014, Rechnitz purchased the San Rafael property from its longtime independent owner and then sublease it to Brius. According to copies of the lease agreements, the middleman firm, Eretz San Rafael Properties, paid $259,200 a year in rent to the owner, and then subleased the facility to the Brius nursing home for $388,800 – a 50 percent markup. Rechnitz’ firm is not responsible for performing any services in exchange for its 50 percent surcharge, according to the lease agreements. This business arrangement appears to grant Rechnitz’ middleman firm the $129,600 markup as pure profit.¹¹

The sublease agreement speaks volumes about Brius’ insider transactions. To execute the agreement, Rechnitz signed the sublease on behalf of both the nursing home and the middleman firm that charged the 50 percent rental surcharge. No one else signed the document.

In 2014, Rechnitz purchased the San Rafael property from its longtime owner. Operating as the direct landlord, Rechnitz continued to increase his nursing home’s rent sharply. As of 2016, the facility’s rent had nearly tripled to $421,177 since Brius took over in 2012, according to state records.¹²

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staffing violations, the facility lacks basic supplies. Over the past two years, the California Department of Public Health cited San Rafael Healthcare & Wellness Center for stocking its kitchen with expired food and requiring caregivers to use paper towels to dry residents because the facility lacked sufficient numbers of towels and washcloths. The federal government’s Center for Medicare & Medicaid Services has assigned the facility its lowest possible overall quality rating.14

Rechnitz has employed his leasing arrangements across California, although perhaps nowhere more blatantly than in Humboldt County, where he has implemented a middleman leasing arrangement at all of the county’s nursing homes.15 Rental costs at the 99-bed Eureka Rehabilitation & Wellness Center, for example, nearly tripled after Brius took over in 2011. Specifically, the facility reported its lease costs jumping from $333,530 in 2010 to $827,751 in 2012, according to state data.16 The facility, and others controlled by Rechnitz in the same county, now pay higher rental rates than many nursing homes in San Francisco and Los Angeles.

While Rechnitz deprived the Eureka facility of vital resources by imposing sky-high rents, its patient care record floundered. In February 2017, the California Department of Public Health fined the facility $160,000 for eight “Class A” citations, the second-highest level of violation available to state regulators. According to government investigators, the facility required nursing assistants to care for up to three times more patients than they could reasonably handle. This understaffing contributed to multiple falls by residents, resulting in injuries including a broken arm, a broken nose, a broken neck and a fractured pelvis.17 Residents also reported sitting in soiled clothes after waiting more than 30 minutes for staff to answer their calls to assist them to the bathroom.18 In March of 2017, the nursing home was sued separately by two families whose loved ones died due to allegedly substandard care, including one resident who died after developing a fist-sized pressure sore on his tailbone that penetrated to the bone and became infected.19

Rechnitz has also employed his rent inflation arrangement in Southern California, where Brius in 2014 took over more than a dozen nursing homes previously run by Country Villa Health Services. When Rechnitz took control, he immediately inserted middleman property firms that marked up the rents at nearly all of the homes, including East Terrace Rehabilitation and Wellness Center. At this 99-bed facility in Los Angeles, Rechnitz used a middleman firm, East Terrace-Let, LLC, to lease the facility from the property owner for $513,708 a year, lease records show. Rechnitz then subleased the facility to the nursing home for $653,400, allowing the middleman to earn a mark-up of $139,692 during just the first year of the arrangement. As in the two previous examples, Rechnitz signed the sublease agreement on behalf of both parties to the agreement, the middleman and the subtenant.20

In order to evaluate whether Brius nursing homes paid inflated rents to other Rechnitz-controlled firms, NUHW compared their rental rates with those paid by non-Brius for-profit nursing homes operating in the same county. This analysis, utilizing government data covering more than 600 California facilities, found that Brius nursing homes paid rental rates that were 36.6 percent higher, on average, than those of the non-Brius nursing homes in the same county during 2015, the most recent year for which data is available.21 That rental mark-up is equivalent to about $12 million per year that Rechnitz appears to be diverting from Brius homes through inflated rents, according to NUHW’s estimates.

III. CEO AND FINANCIAL CONSULTANT

In 2015, 76 Brius nursing homes paid a combined $3.5 million to Boardwalk West Financial Services, LLC, a Los Angeles-based company owned by Rechnitz.22 In a 2013 deposition, Rechnitz testified he was the firm’s only employee and that his job was to spend 20 hours a week providing financial advice and consulting services to Brius nursing homes, which included reviewing each nursing home’s “profit & loss” statements once a month.23 CEOs typically review their companies’ financial statements as a routine part of their job. In this case, however, Rechnitz appears to have outsourced this core business function to himself, for which he is collecting millions of dollars a year in consulting fees from Brius nursing homes. Considering that many Brius’ homes pay inflated rent to companies Rechnitz controls, it is reasonable to question what benefit his financial counseling provides to Brius’ nursing homes.

NUHW has not obtained copies of any contracts between Boardwalk West Financial Services and Brius nursing homes, which would indicate whether Rechnitz signed these agreements on behalf of both parties as he did in the property rental agreements discussed above.

IV. INTERNAL BANKING SYSTEM

Rechnitz also appears to own and operate an internal banking system that extends millions of dollars of loans and credit to Brius nursing homes, according to government records. In 2015, 61 Brius nursing homes reported owing $283.3 million in net debt to “insider” companies controlled by Rechnitz.24 These companies include YTR Capital, LLC and SR Capital, LLC, the latter of which operates a luxury private jet used by Rechnitz and his family, according to records from the Federal Aviation Administration.25

| Monterey Healthcare & Wellness Center’s Payments to Related-Party Businesses in 2015 |
|---------------------------------|-------------------------------|-------------------|-------------------|
| ACCOUNT TITLE                   | RELATED PARTY                | SERVICE OR SUPPLY  | TRANSACTION AMOUNT |
| Administration                 | Boardwalk Financial Svcs. LLC | Administrative    | $42,000           |
| Skilled Nursing Care           | Twin Med. LLC                | Routine Supplies  | $81,516           |
| Leases and Rentals             | Eretz Monterey Properties LLC| Building Lease    | $714,436          |
| Interest-Other                 | SR Capital/ YTR Capital      | Interest          | $530,382          |
| **TOTAL:** $1,368,334          |                               |                   |                   |

Government records examined by NUHW do not specify the terms of the loans extended by Rechnitz’ firms to his nursing homes. Consequently, NUHW has not determined whether they are consistent with market rates.

The records, however, do indicate that loan repayments can take a heavy toll on individual Brius nursing homes. For example, Brius’ Monterey Healthcare & Wellness Center in Rosemead, Calif. reported paying $530,382 in “interest” payments to SR Capital and YTR Capital during its 2015 reporting period. At the end of 2015, the 96-bed nursing home reported owing $5.6 million to the two firms.

V. ONE ADDRESS, MULTIPLE BUSINESSES

Shlomo Rechnitz and his relatives own and operate numerous other businesses that sell goods and services to Brius nursing homes. Many of these firms are headquartered at the same Los Angeles address. Most are structured as privately held limited liability corporations, which are required to disclose only limited information to the public regarding their finances, structure and operations. Therefore, it is difficult to determine if they are charging fair market prices for goods and services sold to Brius homes.

One of these businesses is RDS Design, a Los Angeles design and construction company owned by Rechnitz’ son in law, Pesach Aaron Chayn. In 2015, Brius nursing homes paid $2.2 million to RDS Design. During the same year, Brius nursing homes paid $9.9 million to TwinMed, a medical supply company founded by Rechnitz and his twin brother, Steve Rechnitz.

VI. CONCLUSION

Although journalists and regulators have tracked the expansion of Shlomo Rechnitz’ nursing home empire, little attention has focused on Rechnitz’ creation of a parallel set of supply companies: an opaque network of dozens of interlocking businesses that in 2015 alone received a staggering $67 million in payments from Brius nursing homes.

Nursing homes, including those run by Rechnitz, are primarily operated with taxpayer funds through the Medicaid and Medicare programs. Californians who put their loved ones in nursing homes expect the operators to provide quality care, not to devise transactions that divert public funds from patient care.

With a state audit of Brius soon to get underway, NUHW offers the following recommendations to improve the transparency of nursing home companies’ financial operations:

1. Improve state data collection forms. In some instances, for example, Brius facilities appear to have performed more insider transactions than can be listed on the limited number of lines available in state reporting forms. Consequently, it is possible that the public may not know the full scope of these transactions.

2. Require state regulators to determine whether nursing homes are paying fair market prices for services and goods provided by related companies and/or compel nursing home CEOs to personally sign annual disclosure reports pledging that such goods and services were purchased from related parties at fair market rates.

3. Require nursing homes to disclose the interest rates and other terms of loans and credit provided by related companies.

4. Require nursing homes to file annually with state regulators their contracts to purchase goods and services from related parties.

5. Require nursing homes to submit to state regulators an annual financial statement from each related party that supplies them more than $50,000 per year in goods and services. In 2014, the State of Connecticut enacted such a requirement.
NOTES


2. OSHPD. “Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Reports” for Brius nursing homes. See Section 3.1 “Related Persons and Organizations and Other Information.” OSHPD’s “Accounting and Reporting Manual for California Long-Term Care Facilities” (Second Edition) defines “related parties” as those characterized by common ownership or control. The manual states: “Common ownership arises when an individual, individuals, or an organization, holds significant ownership or equity in both the facility and the organization serving the facility. The term ‘control’ means that an individual or an organization has power to influence or direct the actions or policies of both a facility and a related organization to a significant extent. Disclosure of material related party transactions is required.” (See Item II32 in “Accounting Principles and Concepts.”)

3. OSHPD. “2015 LTC Facility Annual Financial Pivot Profile.” The term “average profit margin” refers to “Total Profit Margin.” Reports are available online at OSHPD’s website at https://www.oshpd.ca.gov/HID/LTC-Financial.asp#Profile

4. Despite being California’s largest nursing home company, Brius does not publish a list of its nursing homes. NUHW developed a list of the company’s California nursing homes by reviewing multiple sources: (1) “Change of Ownership” (CHOW) files obtained from the California Department of Public Health (CDPH); (2) “Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Reports” obtained from OSHPD; (3) “Nursing Home Compare” website published by the Centers for Medicare and Medicaid Services (CMS); (4) California licensure records contained in facility files managed by CDPH’s Licensing & Certification Division; and (5) a publicly available list of Brius nursing homes assembled by the Sacramento Bee as part of its three-part investigative series on California nursing homes published on 11/8/2014, 11/9/2014, and 11/10/2014. Through this effort, NUHW determined that during 2015 Brius and/or Shlomo Rechnitz owned, operated or managed 80 skilled nursing facilities in California.


6. CDPH. “Notice of Denial of Application” to Shlomo Rechnitz for Anaheim Point Healthcare & Wellness Centre, LP. 8 Jul. 2016. P. 20. This 22-page document includes the following statement: “Finally, CDPH’s review revealed 13 administrative penalties for failure to comply with the legislatively mandated minimum staffing requirements of 3.2 Nursing Hours Per Patient Day (NHPPD) in facilities owned, managed, or operated, either directly or indirectly, by the applicant [Shlomo Rechnitz] for the past three years.” Subsequently, in February 2017, CDPH cited Brius’ Eureka Rehabilitation & Wellness Center for eight “Class A” citations for multiple violations, including its “fail[ure] to ensure adequate nursing staff to provide quality care, which caused harm to their residents as evidenced by...” Additionally, in June of 2017, CDPH imposed a $15,000 fine and an administrative penalty on Brius’ San Rafael Healthcare & Wellness Center in San Rafael, Calif. for violating California’s minimum staffing requirements for nursing personnel. See Note 7 for more details.

7. (1) CDPH. “Nursing Hours Per Patient Day Administrative Penalty Notice” delivered to San Rafael Healthcare & Wellness Centre, LP. Penalty Number 110013245. 8 Jun. 2017. The agency imposed a $15,000 fine and an administrative penalty on Brius’ San Rafael facility for violating California’s minimum staffing requirements for nursing personnel; (2) CDPH. “Citation Number 11-2707-0012902-F” for Eureka Rehabilitation & Wellness Center. 28 Feb. 2017. CDPH cited Brius’ Eureka Rehabilitation and Wellness Center for eight “Class A” citations, each of which carries a $20,000 penalty. CDPH cited the facility for “fail[ure] to ensure adequate nursing staff to provide quality care, which caused harm to their residents as evidenced by...” (p. 2 and p. 3) The 32-page citation goes on to describe more than 25 falls by seven residents, resulting in three residents suffering fractures (pelvis, nose, and neck), two residents being admitted to acute-care hospitals, and a laceration to the side of one resident’s head requiring eight staples. Investigators discovered that the facility assigned more than three times as many patients to Certified Nursing Assistants than they could reasonably handle.


11. (1) “Lease” between Joseph Augello Credit Exemption Trust et al (“Landlord”) and Eretz San Rafael Properties, LLC ("Tenant"). 7 Aug. 2012. Shlomo Rechnitz signed this agreement on behalf of Eretz San Rafael Properties, LLC; and (2) “Sublease Agreement” between Eretz San Rafael Properties, LLC ("Sublessor") and San Rafael Healthcare & Wellness Centre, LP ("Subtenant"). Effective Date of 1 Nov. 2012. NUHW obtained a copy of these agreements from CDPH’s Licensing & Certification Division.


13. CDPH. “Nursing Hours Per Patient Day Administrative Penalty Notice” delivered to San Rafael Healthcare & Wellness Centre, LP. Penalty Number 110013245. 8 Jun. 2017.

14. Nursing Home Compare Website. “Nursing Home
Each facility’s annual lease expense amount was taken from Column DX (“EXP_LEASE”) of the data file. Each facility’s bed size was taken from Column V (“BED_AVG”). NUHW computed the same figure (ie, “Annual Lease Expense per Average Bed”) for each non-Brius for-profit nursing home operating in counties in which Brius facilities also operated during 2015. NUHW then calculated average figures in each county for Brius and non-Brius facilities. NUHW included in its analysis only those nursing homes that reported data to OSHPD for 365 days during the reporting period. The OSHPD data is available at https://www.oshpd.ca.gov/HID/LTC-Utilization.html#Trends

15. (i) “Master Lease and Security Agreement between SHG Resources, LP, as Lessor, and Eureka-LET, LP as Lessee, Dated as of March 3, 2011.” 3 Mar. 2011. Shlomo Rechnitz signed this 86-page agreement on behalf of Eureka-LET, LP; (2) “Sublease Agreement” between Eureka-LET, LP (“Sublessor”) and Eureka Rehabilitation & Wellness Center, LP (“Subtenant”). 8 Mar. 2010. Shlomo Rechnitz signed the latter agreement on behalf of both Eureka-LET, LP and Eureka Rehabilitation & Wellness Center, LP. According to Exhibit H of the Master Lease, Shlomo Rechnitz is a 99.9% owner of Eureka-LET, LP (the “middleman”), while Shlomo Rechnitz and his wife Tamar Rechnitz are 99% and 1% owners, respectively, of Eureka-LET LP’s general partner, Eureka-LET GP, LLC. NUHW obtained a copy of these agreements from CDPH’s Licensing & Certification Division.


17. CDPH. “Citation Number 11-2707-0012902-F” for Eureka Rehabilitation & Wellness Center. 28 Feb. 2017. For example, see p. 2 and p. 31, which state: “The facility failed to ensure adequate nursing staff to provide quality care, which caused harm to their residents as evidenced by... Resident 2 had five falls during a one-month period... Resident 5 had six falls...”

18. CDPH. “Citation Number 11-2707-0012902-F” for Eureka Rehabilitation & Wellness Center. 28 Feb. 2017. See also the additional seven citations issued by CDPH on 28 Feb. 2017 against Eureka Rehabilitation & Wellness Center, each of which also carried a $20,000 fine: Citation Numbers 11-2707-0012903-F; 11-2707-0012904-F; 11-2707-0012905-F; 11-2707-0012991-F; 11-2707-0012997-F; 11-2707-0012998-F; and 11-2707-0012999-F.


20. (i) “Lease between 2415 S. Western Avenue, LLC (‘Landlord’) and East Terrace-LET, LLC (‘Tenant’).” Executed and effective 31 Oct. 2014. Shlomo Rechnitz signed this agreement on behalf of East Terrace-LET, LLC; (2) “Sublease Agreement” between East Terrace-LET, LLC (“Sublessor”) and East Terrace Rehabilitation & Wellness Centre, LP (“Subtenant”). 31 Oct. 2014. Shlomo Rechnitz signed this agreement on behalf of both East Terrace-LET, LLC and East Terrace Rehabilitation & Wellness Centre, LP.

21. OSHPD. “LTC Facilities Annual Financial Pivot Profile.” Report period ended in 1/1/15-12/31/15. To perform its analysis, NUHW computed an “Annual Lease Expense per Average Bed” for each Brius nursing home during the 2015 reporting period. Each facility’s annual lease expense amount was taken from Note 1 for more details on this data source.

22. OSHPD. Custom Data File containing 2015 “Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Reports” for California’s Skilled Nursing Facilities. November 2016. See


25. NUHW. “Misplaced Priorities at 40,000 Feet.” Feb. 2017. This report documents Shlomo Rechnitz’ purchase of a Gulfstream G-IV intercontinental jet for $8 million. Records obtained from the Federal Aviation Administration, including a “Loan and Security Agreement by and between Compass Bank and SR Administrative Services, LLC” dated 17 Sep. 2013, describe SR Capital, LLC’s role in operating the jet. The report and source documents are available at http://briuswatch.org/jet-paper/


27. OSHPD. “Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Reports” for Monterey Healthcare and Wellness Center. Reporting period covering 01/01/2015-12/31/2015. See Section 3.1(B).

28. Many of the firms that compose Brius as well as others that engage in related-party transactions indicate that they operate from the same “Principal Office” at 5900 Wilshire Blvd in Los Angeles, Calif., according to their “Statements of Information” (Form LLC-12 and Form LP-2) submitted to the California Secretary of State. Many also identify Shlomo Rechnitz as their manager. For example, all of the following firms report 5900 Wilshire Blvd as their Principal Office on their “Statements of Information”: SYTR Real Estate Holdings, LLC; Boardwalk West Financial Services, LLC; SR Capital, LLC; YTR Capital, LLC; Eureka-LET, LP; Eureka Rehabilitation & Wellness Center, LP; Eretz San Rafael Properties, LLC; San Rafael Healthcare & Wellness Center, LP; East Terrace-Let, LLC; and East Terrace Wellness GP, LLC.