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Democracy Dies in Darkness

Profit and pain: How California's largest nursing home chain amassed millions as scrutiny mounted

As advocacy groups call for transparency, documents help trace the flow of public money to a complex network of related companies

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The largest for-profit nursing home operator in California took control of his first home in 2006 in a Los Angeles suburb that calls itself "the city of opportunity." Over the next decade, he built a sprawling network of facilities from San Diego to the state's northern coast.

The chain known as Brius Healthcare received more than $800 million from Medicare and Medicaid in 2018 to care for thousands of elderly residents in about 80 nursing homes. Instead of relying upon outside vendors, Brius pursued a business practice long used by a majority of for-profit nursing homes nationwide: paying related companies for goods, services and rent.

More than 70 percent of the country's nursing home providers use operating funds to pay themselves through so-called related parties — companies they or their family members partially or wholly own. In 2018, Brius nursing homes paid related parties $13 million for supplies, $10 million for administrative services and financial consulting, and $16 million for workers' compensation insurance, state records show. The homes also sent a total of $64 million in rent to dozens of related land companies.

The practice is legal and widely supported by the industry, which argues that related parties help control costs and limit financial liability. Watchdog groups counter that nursing home owners can reap excessive profits from public funds by overpaying their own companies. Related parties generally do not have to disclose profits, leaving regulators with little way to assess the financial gains of owners.

In recent weeks, consumer advocacy groups appealed to the Biden transition team, advancing a proposal that would require owners to submit tax returns and consolidated financial reports for all related parties, management, land companies, holding companies and parent companies. The proposal calls for the federal government to stop troubled owners from operating homes and to ensure that profits and administrative costs are reasonable since roughly 85 percent of nursing home revenue comes from Medicare and Medicaid.

Watchdog groups are also pressing for legislation in California, where few providers have drawn as much scrutiny Brius Healthcare. The operation, primarily owned by Shlomo Rechnitz, has for years found itself in the public eye, questioned by state regulators, prosecutors and plaintiffs' attorneys about its business practices and quality of care. Staffing levels and health and safety ratings at dozens of the homes in recent years have fallen below the state average, federal data shows, and lawsuits alleging poor patient care have drawn headlines.

Rechnitz, 49, said the chain's financial and patient-care practices are sound and the homes have been unfairly maligned by some state officials, journalists and others. But scrutiny has mounted in recent months as the federal government delivered about $54 million to Brius homes in coronavirus relief aid, meant as a lifeline for providers struggling to protect residents amid an unprecedented health crisis that has killed more than 92,000 nursing home residents nationwide.

"I know Mr. Rechnitz's approach to funding his nursing homes," geriatrician Michael Wasserman, the former CEO of the company that provides administrative services to most Brius facilities, told The Washington Post. "Typically those decisions would be made looking at the bottom line rather than what was the right thing to do for the residents."

Steven Stroll, Rechnitz's personal accountant and owner of the administrative services company, Rockport Healthcare Services, said in an email that Wasserman was unfocused and spent hundreds of thousands of company dollars without permission.

Wasserman said that wasn't the case. He quit in 2018 after 14 months, saying he had little control over the quality of care in the nursing homes. As the coronavirus spread in March, he contacted the California Department of Public Health with a stark warning: "I ran a billion-dollar nursing home chain that presently is scaring the daylights out of me."

To gain insight into the business practices and finances of the Brius operation, The Post gathered hundreds of pages of nursing home cost reports, tax returns, court documents, and state and federal records and interviewed 24 former and current employees, patient advocates, union representatives and others.

All told, Brius homes pay about 40 percent more per bed on average to related parties than other for-profit nursing homes in California, a Washington Post analysis of state data shows. In 2018, the most recent year data is available for comparison, Brius homes paid more than $100 million to dozens of related parties for everything from medical supplies to rent.

Through its reporting, The Post obtained tax returns from 2013 for five companies connected to Brius. One was a related party that provides financial consulting to Brius homes. The four others were holding companies, which do not produce goods or services but instead draw income from companies in which they invest or own. The documents, which provide a deeper look at the income of Brius owners, were produced in a state case involving Rockport Healthcare Services.

Boardwalk West Financial Services received $2.6 million in revenue in 2013, according to the return, which indicated that Rechnitz owned 99 percent of the company and his wife, Tamar, owned 1 percent. The company paid the couple a cash distribution that year of nearly $1.3 million. Rechnitz said the company helps his nursing homes with bank loans, profit and loss statements, and other financial matters.

Tax returns show the four holding companies — Brius LLC, Brius Management, Citrus Wellness Center LLC and Sol Healthcare LLC — took in a total of $38 million from Brius homes in 2013. Of that, nearly $28 million was paid in distributions to Rechnitz and his wife, the returns show.

Profits of other companies connected to Brius in 2013 and in subsequent years are not publicly known. The nursing homes reported a total net operating income of about $150 million from 2015 to 2019, but there is no way to determine from public documents how much Rechnitz or others received from the nursing home income or from related parties.

In California, nursing homes must disclose to regulators the names of related parties and how much they were paid; the parties themselves have not had to report profits or loss. The lack of transparency in California and across the country comes as the industry continues to vie for additional government funding, saying the cost of patient care during the coronavirus crisis has soared.

"The money simply falls through a trap door without oversight from regulators and consumer watchdogs," said Mike Dark, a lawyer with the nonprofit California Advocates for Nursing Home Reform.

In 2018, California state auditor Elaine Howle, who reviewed the Brius operation and two other large chains, said most related-party transactions were properly disclosed and the expenses did not increase costs for the state's Medicaid program, known as Medi-Cal. Howle, however, recommended the state require annual profit and loss statements for related parties.

Rechnitz said the payments to related parties over the years were reasonable, fair and standard in the industry and that he "fully supports transparency." Boardwalk West, he said, has never increased its fees. Brius lawyer Mark Johnson added that related parties can "create efficiencies and savings" for Medicare and the state's Medi-Cal program.

Distributions from the holding companies have varied, Johnson said, and Rechnitz has used some of his share to acquire new facilities, invest in operations and donate to charity. Johnson noted he was speaking on behalf of both Rechnitz and his wife.

Rechnitz said he has donated at least half of his income in the past decade to charity. He also said he bases his decisions at the nursing homes on "the needs of the resident, not how much the facility is paid" and has worked hard to recruit qualified staff.

"If a [director of nursing] needs more nursing, they get more nursing, and none of them have ever been chastised or penalized or criticized for having too much nursing," Rechnitz said.

In a statement that Johnson provided to The Post, Rockport Administrative Services' chief business development officer said the company recruits nurses with offers of bonuses and housing assistance. Johnson added that Brius homes meet or exceed state staffing requirements. He also said the homes offer innovative programs, including one that encourages residents to cook and deliver meals to the homeless.

"Everybody loves to hate nursing homes," Rechnitz said. "There are good things that happen."

Two years ago, state lawmaker Jim Wood authored legislation requiring nursing homes to disclose the profits of related parties after Brius, citing financial difficulties, said it would close three northern California facilities. The new law went into effect this year.

California nursing homes, which are largely run by for-profit companies, paid more than $1 billion to related parties in 2018, state records show.

“We hear all the time from these facilities, ‘Well, we’re not profitable, therefore we can’t pay our workers more,’” Wood said. “But I can’t help but think that when you add all of this together, somebody is making a lot.”

Watchdog groups led by the California Advocates for Nursing Home Reform are proposing a second measure, requiring owners to provide annual consolidated financial reports prepared by certified public accounting firms that encompass corporate structures and all related and unrelated parties, including management, property and holding companies.

The state does not "even ask for certified audits. It’s sort of pathetic,” said Charlene Harrington, a sociology and nursing professor at the University of California at San Francisco who has studied the industry for decades and worked on the proposal. “They’re just doing what they’ve done for the last 20 years and not realizing the industry has changed dramatically. The corporations run circles around government.”

Among the most pressing questions, advocates say, is what happened to the coronavirus stimulus money — more than $5 billion to nursing homes nationwide.

Brius homes received an average of $665,000 each in coronavirus aid, Johnson said. Since March, several dozen of the facilities have been cited by state inspectors for lapses in federal infection-control standards, from a lack of protective gear to failing to isolate infected residents, records show. The proportion of Brius homes cited for infection-control violations was slightly higher than that of other homes in the state, federal data shows.

At the Brius Windsor Redding Care Center in northern California, a nursing aide told a state inspector that she and a colleague, who had tested positive for the coronavirus, tended to patients in August without wearing face masks, according to an 18-page inspection report. The nursing aide said she soon fell ill with chills, aches and respiratory symptoms, but was asked to work anyway. She tested positive in early September after working at the home for three straight days, according to the inspection.

A second nursing assistant who had a cough and had lost her sense of taste also reported being told to come to work; she later tested positive, the inspection found. The home’s infection preventionist told the inspector that his recommendation to keep sick staff at home was “met with some resistance from administration.”

The home’s staffing coordinator also told the inspector that staff members had to deplete all of their sick and vacation time before tapping the coronavirus sick leave offered by the company. The coordinator was unaware the state had mandated paid leave, according to the inspection, which called the home’s sick leave policy “punitive.”

The state levied a $152,000 fine against the facility, which since August has reported 90 coronavirus cases among residents and staff, according to the state. Twenty-two residents have died.

Johnson said Brius is disputing the fine. He said Brius homes began providing 80 additional hours of coronavirus sick pay to staff members before it became a requirement and that ailing caregivers at Windsor Redding were never asked to come to work or use sick or vacation time before drawing the state-required sick pay. The home, which after the inspection terminated and replaced its infection preventionist, screened staff for temperatures and symptoms and followed guidance on the use of protective gear, he said.

Rechnitz added that Brius built outdoor visitation centers at some nursing homes during the pandemic, at a cost of $30,000 each, and early on opted to pay staff members 20 minutes of overtime so they could disinfect facilities at the end of each shift.

“We are unaware of any other company taking this step,” Rechnitz said.

A different kind of nursing home

Rechnitz entered the industry in the late 1990s, operating a company with his twin brother that distributed medical supplies to nursing homes and hospitals. Around 2006, Rechnitz went out on his own, acquiring a nursing home in the California city of Gardena and adding more homes in the following years.

Rechnitz said he wanted to run a different kind of nursing home. Early on, he said, he decided to partner with strong local operators and offer regional administrators equity in the facilities. He was in good standing with the state, which in 2011 placed Brius on a list of potential temporary managers that would be called in to oversee improvements at particularly troubled homes.

“I changed the way people were operating nursing homes,” Rechnitz told The Post.

Soon, however, troubling reports surfaced from inside some Brius homes, prompting high-profile stories by the Sacramento Bee and other California media outlets.

In 2011, then-California Attorney General Kamala Harris filed felony charges against the then Verdugo Valley Skilled Nursing & Wellness Centre near Los Angeles after a resident with prior suicide attempts pulled the pin out of a handheld fire extinguisher, fired it down his throat and died. The state dropped the charges after the home signed an agreement that included three years of independent monitoring.

Johnson said the company could not comment on the case because of patient privacy laws.

The attorney general’s office stepped in again in 2014 when Rechnitz sought to purchase 19 more nursing homes in bankruptcy court. The state filed an emergency motion to block the sale, calling Rechnitz a “serial violator of rules within the skilled nursing industry.”

The state cited “multiple enforcement actions” against Brius homes and noted that one facility north of Sacramento faced termination from the federal Medicare program because of significant violations of federal health and safety standards. The home was ultimately terminated and barred for two years from re-enrolling.

Rechnitz, the state also argued, had “continuously failed or refused” to submit financial documents to auditors reviewing the Brius operation. A judge dismissed the state’s motion, and Brius was able to add the homes to its growing network.

Rechnitz told The Post the state’s criticism in the case damaged his reputation and his business and emboldened lawyers to pursue negligence and wrongful death lawsuits. In 2018, he asked the court to strike portions of the state’s motion, calling it "harsh rhetoric” that impugned his record and character.

The attorney general’s office countered in a court filing that Rechnitz and his company were the subject of numerous enforcement actions at the time and that “Rechnitz’s premise that all of his misfortunes are directly attributable to the emergency motion, even if relevant, is without merit.”

A judge has not yet ruled on the matter.

Problems continued to surface in some Brius homes. In 2014, state inspectors found the Wish-I-Ah nursing home in Fresno County, among other things, failed to maintain its sewage treatment system, forcing workers without protective gear to remove and dispose of raw sewage. The state suspended the home's license, and the federal Centers for Medicare and Medicaid Services placed the facility on a termination track for the Medicare program. The home closed two months later.

Johnson said Rechnitz invested millions of dollars in the aging facility after he took over in 2009 and that the home had passed a comprehensive state inspection in 2014 only a few months before the state decided it should close.

Inspectors that year also cited the South Pasadena Convalescent Hospital after finding that a 57-year-old resident with a history of mental illness left the building and used gasoline to light herself on fire in a nearby alleyway. She died several hours later. The resident's relatives sued the home, Rechnitz and other Brius-related parties and settled for an undisclosed sum, with the defendants admitting no fault or liability. In response to the state, the facility said it would train staff and have a nurse evaluate residents who were allowed out of the building. The home was terminated from the Medicare program in 2015 and banned from re-enrolling for two years.

Johnson declined to comment on the incident, citing patient privacy laws. The home is now under new management.

By 2016, state regulators made one of their most aggressive moves since Rechnitz first started buying homes: denying operating licenses for five facilities the Brius network had acquired.

In a letter to Rechnitz, regulators cited more than 370 higher-level state and federal health and safety violations at Brius homes from 2013 to 2016. In one case, the state noted, an inspector found a resident of the former Clairemont Healthcare and Wellness Centre in San Diego had been discharged to her mobile home even though she was unable to walk, feed herself or use the bathroom. With no phone, food, or medication for diabetes and pain management, she lay in her bed for hours, her catheter still in place, before the police arrived, the state said.

In response to the inspection, the home, among other things, said it would train staff about the appropriate way to release patients and nurses would assess patients released after hours. Johnson, citing patient privacy laws, declined to comment on the incident.

"A deficiency from over seven years ago certainly does not speak to the performance of a facility in 2020," he said.

Though the state denied the five licensure applications, Brius is still operating the homes through an interim management agreement with the former operator, who is still licensed. Johnson said the state is aware of the arrangement and the practice is standard in the industry.

California watchdog groups say the state should have stopped Brius from operating the homes. One is Windsor Redding, cited by state inspectors for placing residents and staff in immediate jeopardy during the pandemic.

The California Department of Public Health said operating homes under management agreements is permitted by law while licensing applications are pending. Officials declined to comment on the state's ongoing relationship with Brius.

"We have taken, and will continue to take, every action within our legal authority to safeguard residents, investigate licensure violations and ensure violations are immediately remedied for all providers," Ali Bay, spokesperson for the California Department of Public Health, said in an email.

Rechnitz has said that some of the state's inspection findings over the years came shortly after he purchased distressed facilities and before he had time to turn them around. He has also said the chain has been unfairly targeted by some inspectors, whose reports have spurred costly civil lawsuits against Brius homes. Media accounts about his operation, Rechnitz told The Post, have at times prompted anti-Semitic remarks and threats of violence.

Plaintiffs' lawyers say problems in the homes are too serious to ignore.

North of Los Angeles, Tedra Williams's 85-year-old father, Willie, a dementia patient who spent a year at the Oxnard Manor Healthcare Center, died in September 2019. Doctors who treated him after he was transferred to a nearby hospital said the Korean War veteran had a water deficit of 12 liters, which translates into roughly six days without fluids, according to a complaint filed by Williams in Ventura County Superior Court.

She reported the death to the state, which, in a February letter to Williams, said it did not substantiate the complaint but found other unrelated violations at the facility. Williams said the home was short on staff. Hospital medical records provided to The Post describe Willie Williams as having an "extreme degree of dehydration," with multiple medical conditions "now worsened secondary to dehydration."

Tedra Williams said she made a promise to her father in the moments before his death. "I will make sure that this doesn't happen to anybody else."

Johnson, citing patient privacy laws, declined to comment.

Millions paid to affiliates

While questions about patient care drew scrutiny, Brius nursing homes paid hundreds of millions of dollars to a complex network of related companies owned by Rechnitz and his business partners. In 2018, records show, Brius reported paying more than 70 related companies for supplies, administrative services, financial advising and other services. The largest payment to affiliates was for rent: $64 million in 2018.

All but 18 Brius homes pay rent to related companies, which either own the properties outright or lease the buildings from unrelated owners and then sublease them to the nursing homes, state records and interviews show.

Overall, Brius rent payments for buildings and equipment were 20 percent higher per bed than comparable for-profit homes in California, The Post found.

In the Eureka area in northern California, a company managed by Rechnitz in 2011 leased five nursing homes, agreeing to pay the property owner a total of $3 million in rent per year, state records show. Rechnitz's company then subleased the buildings to the nursing homes for $3.5 million — hundreds of thousands of dollars more than his company was paying the property owner, records show.

Rechnitz signed each sublease agreement twice, records show, once on behalf of the company that leased the facilities and once on behalf of the nursing home. The arrangement was first noted by the National Union of Healthcare Workers, which in 2017 published a report on Brius.

"These are taxpayer dollars that are flowing in," said Fred Seavey, research director at the union, which represents nursing aides and other workers at two Brius homes in northern California. "They're intended to care for these elderly and frail residents and you have these schemes that are siphoning them away."

Johnson said that Brius rental costs, which have no impact on Medi-Cal reimbursement rates, are lower than some other nursing home chains and include an additional "buffer" that serves as a cash reserve in case building improvements are needed. He also said Brius entered into lease agreements in the past 15 years and likely pays higher rental costs than homes with older leases.

Johnson said Rechnitz took over the Eureka properties from an owner facing a large civil judgment and the lease structure required millions of dollars to be set aside for a security deposit and capital expenses. Brius was also advised to set aside money for potential liability issues, he said.

It's impossible to determine profits or losses for any of the related companies or holding companies from the public record. Tax returns from 2013, however, offer a glimpse into the larger Brius operation.

Brius LLC, a holding company owned by Rechnitz and his wife, received $3.7 million in income in 2013 from Brius nursing homes. Rechnitz and his wife drew a distribution from the company of $2.3 million.

A second holding company, Brius Management, reported nearly $15.2 million in income in 2013. Rechnitz's wife, the sole owner, received a distribution of nearly $12 million. The company reported no liabilities and nearly $23 million in assets, including $721,000 in cash, $5.7 million in payments due from the nursing homes and $16.4 million in investments in the homes.

Shlomo Rechnitz, through his general partnerships, also received a total of $13 million in cash distributions from Citrus Wellness Center LLC and Sol Healthcare LLC, according to tax returns for the holding companies.

"These entities were obviously cash-generating machines," said Gordon Yale, a forensic accountant in Denver who reviewed the tax returns for The Post.

The financial gains of Brius owners have long concerned the National Union of Healthcare Workers, which points out that many nursing aides in an expensive metropolitan area in northern California are paid less than $19 an hour. Other workers, including housekeepers and laundry workers, earn less. Caregivers have found that basic supplies at times have been hard to come by, said union president Sal Rosselli.

"It's worse than third-world countries," he said. "Can you imagine giving someone a bath and using paper towels to dry them off?"

'We can start to fix it'

As CEO of Rockport Healthcare Services beginning in 2017, Wasserman said he focused on patient care and not the finances of Brius homes. Rockport for years has provided administrative services to most of the facilities. Wasserman said Rechnitz offered him the job and initially seemed trustworthy and intent on improving the operation.

Wasserman said he planned to hire high-quality medical directors and create a robust training program in critical issues, such as medication management and infection control. He quickly realized he was more of a figurehead, he said, than someone who had significant control over the chain. He said he counseled one nursing home administrator who had been blocked from hiring more nurses and another told to fill beds with new patients despite supply and staffing shortages.

Wasserman quit in November 2018, he said, worried that he wasn't able to make decisions necessary to improve patient care. Wasserman, now medical director of a nursing home on the campus of the Los Angeles Jewish Home for the Aged and immediate past president of the California Association of Long Term Care Medicine, in March sent several emails to the state. He listed the Brius homes he was most concerned about, including Country Villa South Convalescent Center in Los Angeles and the Four Seasons Healthcare & Wellness Center in North Hollywood, now with a combined covid-19 death toll of about 45 residents and one staff member.

"I can't change the government. I can't change the industry. But I can shine a light on what's wrong so hopefully we can start to fix it," he said.

Stroll, Rockport's owner, said Wasserman spent excessively and contributed no more than half of his time to Rockport business. He added that Wasserman, when he was CEO, believed the state had engaged in "persecution against our facilities."

"He only had positive comments about our customer facilities," Stroll said.

Wasserman said he spent months trying to improve Brius homes. "If he wants to attack me because I wanted to do leadership training with nursing administrator homes, directors of nursing and medical directors, that's a fight I will have every day of the week," Wasserman said.

As the pandemic lingered, state inspectors have cited about half the homes in the Brius chain for violations of infection-control protocols, federal records show. At the Montrose Springs Skilled Nursing & Wellness Center in Los Angeles County, inspectors in August found that the facility, among other things, failed to separate four residents who had tested positive for the coronavirus from those who were not infected.

The home, which received a high-level citation, said it trained staff on infection-control measures, including isolating patients with confirmed or suspected infections.

Johnson said Brius is properly spending coronavirus stimulus money on staff pay, protective gear and infection-control protocols and has engaged an outside firm to audit the expenses. He added that the chain as a whole, with 411 resident deaths from covid-19, managed the crisis through "the amazing efforts of Brius staff and rigorous protocols put in place at the early stages of this unprecedented pandemic."

In a March email that Rechnitz provided to The Post, he praised the caregivers in his homes.

"I'd like to thank my entire staff for being so courageous and continuing to put our patients first," Rechnitz wrote. "I don't need to tell you how selfless you are. I envy the passion and care you have for our most susceptible patients."

Rachel Baldauf and Binah Schatsky with Northwestern University's Medill Investigative Lab contributed to this report.

Methodology

To report this story, The Washington Post used 2018 state cost report data compiled by California's Office of Statewide Health Planning and Development. The financial data included operating revenue and expenses for more than 1,100 nursing homes.

Nursing home operators generally submit cost reports on an annual basis. When comparing rent and related-party expenses, The Post included 2018 cost reports submitted by for-profit nursing homes that were grouped as "comparable" within the state data.

The analysis covered a full year (365 days). Occasionally, cost reports overlap across two years. For example, some homes submitted 2018 cost reports that included data from part of 2017 and part of 2018. As a result, 2018 figures include some revenue and expenses from 2017. About half of Brius cost reports over a 365-day period fell in 2017 and 2018.

The Post used federal data from the Centers for Medicare and Medicaid Services to compare staffing and health and safety ratings for the Brius chain and other California homes.

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Coronavirus' impact on America's nursing homes

The Washington Post is examining the deadly effects of the coronavirus on nursing home residents and workers including how regulators have responded, the impact of industry lobbying, nursing home chains with serious outbreaks, the toll on workers and the isolation that many nursing home residents have struggled with since the pandemic began.

Below are selected stories detailing the pandemic's impact on U.S. nursing homes and facilities for the elderly.

51 Lives: A portrait of the pandemic's tragic toll on U.S. nursing homes.

When an investment firm snapped up nursing homes during the pandemic, care suffered, employees say

As pandemic raged and thousands died, federal regulators cleared most nursing homes of infection-control violations

Homes where a majority of residents are Black suffered higher death rates during the pandemic, Post analysis shows

Nursing home companies accused of misusing federal money received hundreds of millions in pandemic relief.

The inside story of Maryland's earliest – and one of its worst – nursing home outbreaks

The ‘covid cocktail’: Inside a Pa. nursing home that gave some veterans hydroxychloroquine without covid testing.

Major nursing home chain violated federal standards meant to stop spread of disease even after start of covid-19, records show

Too few masks, tests and workers: How covid-19 ravaged these nursing homes

We want to hear from you: Do you work at a nursing home, or have a loved one at a long-term care facility?