On Tuesday, Sovereign Health properties were raided by dozens of FBI agents as part of a criminal probe into alleged financial and other irregularities, according to company and federal officials. Sovereign Health characterized the raids as "retaliation from a bunch of jack-booted thugs" for its lawsuits against state officials challenging how regulators do business, and said the company remains committed to providing the highest quality care.

By TERI SFORZA | tsforza@scng.com | Orange County Register
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To fully appreciate the money flowing into addiction treatment, consider the size of the bill Tara Richards ran up during a five-month attempt to achieve sobriety at a rehab center in San Clemente — $416,050.

Richards, of Maple Valley, Washington, came to Sovereign Health for help in July of 2014, according to court documents. She had private insurance – Regence Blue Shield – and signed forms agreeing to residential mental health treatment costing $3,410 per day. That care – plus 15 urine tests at $1,200 a pop – brought Richards’ bill to $123,000 for her first month of treatment.

Similar stays at well-appointed treatment centers can run from $30,000 to $65,000 per month. Richards stayed at Sovereign Health until November in varying levels of care, the cheapest of which was $1,980 per day, according to billing statements filed in a lawsuit Sovereign Health brought against her over reimbursement.

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Two things are undisputed: Such care can be extremely expensive, and more people than ever need it.

Addiction treatment was a $21 billion business in 2003, and is expected to double to $42 billion by 2020 – a growth rate some three times faster than inflation, according to federal health and census data.

With a raging opioid epidemic — overdose deaths have quadrupled since 1999 — and mandated addiction treatment coverage under Obamacare, Wall Street knows there’s money to be made.

At the JP Morgan Healthcare Conference earlier this year — the largest in the nation — the frenzied courtship between treatment providers and would-be investors resembled speed-dating.

“It’s hot,” said Eric Coburn, managing director for healthcare mergers and acquisitions practice at Duff & Phelps, a financial analysis and investment banking firm with offices all over the world. “There’s a big need out there. It’s a growth sector for Medicaid and commercial private pay. You’d think, with all the talk about changing the Affordable Care Act, investors would be very, very nervous – but they’re not.”

Investors are attracted because the business is so fragmented and ripe for modernization; in the world of health care, size matters, Coburn said. Addiction treatment has been dominated for decades by small mom-and-pop enterprises, which leaves tremendous room for consolidation and efficiencies. Unifying small centers into larger networks spreads administration costs over larger revenue bases, while more sophisticated operations can allow for investment in technology and data-mining that may better manage health and financial outcomes. And the stigma attached to substance abuse treatment is finally receding.

“There’s wider recognition that addiction is an illness,” Coburn said. “People are less embarrassed about asking for help compared to years ago. You could argue it’s almost chic.”
Consolidating addiction treatment companies are reaping the benefits of “vertical integration” — what happens when web sites, call centers, rehab facilities, drug-testing labs and sober-living homes are all gathered under one corporate roof, capturing all that spending for the same corporate family.

**Market in hyper-drive**

But the huge financial opportunity presented by addiction treatment has a dark side.

A *MarketAlert* brief for investors, by The Braff Group, which provides financial analysis of the treatment industry, described financial risk in the recovery businesses this way:

“It’s not all kittens and rainbows. As we have seen countless times in other frenzied health care sectors, when the money flows in, so do the ne’er-do-wells, which can bring the sector the kind of attention it doesn’t want. Markets in hyper-drive are extremely fragile. And sometimes all it takes to bring a high-flying sector crashing to the ground are a few, high-profile cases of chicanery that paints the entire industry with a broad brush of suspicion (and in a sector sorely lacking definitive data to quantify the good work you do, the industry is particularly vulnerable).

“Do we think a collapse is imminent? Not at all. But are market forces coalescing to surface the precursors to a shake out? Sadly, yes.”

The Southern California News Group recently investigated the addiction industry and found it peppered with financial abuses that bleed untold millions from public and private pockets, can upend neighborhoods and often fails to set addicts on a path to sobriety. Lax government regulation and widely-divergent treatment approaches have meant poor care for many. The revolving door between detox centers, treatment facilities, sober living homes and back again generates huge money for operators who know how to game the system. And even obvious fixes can be hard to make.

In a health-care sector that has long been cut off from mainstream medicine, the landscape has turned volatile since the rush of investment over the last few years, many long-time providers said.

“I’m not pointing the finger at any particular company, but the fact is, it's a lot worse than it ever has been,” said Mark Mishak, president and CEO at the Hazelden Betty Ford Foundation, one of the oldest, most established – and nonprofit – treatment chains in the nation.
“The black-hat marketing techniques, an incredible amount of fraudulent billing, payment for patient referrals, self-referrals, fraudulent work in drug testing – it's all there and it's terrible,” Mishek said. “If you ever did that in the real world of health care, you'd go to jail. It's fraud.”

Greg Horvath is a documentary filmmaker from Huntington Beach who says he once worked as a “sober companion” to trust fund kids, athletes and a few celebrities. What he learned as an industry insider infuriated him, and his stinging film, “The Bu$iness of Recovery,” has been screening at festivals nationwide.

“There are nonprofit treatment centers that cost $53,000 a month, while good senior care can cost $4,000 a month. What’s the other $49,000 paying for?” asked Horvath. “It’s not like you’re using an MRI or an X-ray machine. It’s a bed, food and usually minimally-educated therapists. I’m really confused. Where’s the money going? No one has been able to show me.”

Personalized treatment is expensive, providers say, and many for-profits are as angry about the rush of ne'er-do-wells into the industry as everyone else and want them weeded out, too.

They lay the blame for the current state of affairs on state regulators who haven't figured out how to effectively manage the industry or attack the disease of addiction, and with insurance companies that haven't put any effort into figuring out what works and what doesn't, and then covering treatment that produces results.

“We are funding research studies, we have on-going prevention and education outreach, we have a very sophisticated operation,” said Michael Cartwright, CEO of American Addiction Centers, one of the larger for-profit providers. “What we do is what detox and residential treatment should look like.

“We care about this industry and this disease,” Cartwright said. “We're really are out there doing some really good things. We want to solve the problem of addiction.”
Wall Street addicted

Substance abuse treatment has, historically, been severed from the larger health care system, experts said. It was seen as a behavioral issue, not a medical issue, and often wasn't covered by health insurance.

In this veritable no-man's-land, the field became dominated by small nonprofit providers — the aforementioned “mom-and-pop” operations — which largely ascribed to the 12-step, social-support model of Alcoholics Anonymous.

The overwhelming majority of the nation's non-governmental treatment facilities — about 70 percent — were nonprofits in 2005, according to SAMHSA data. By 2015, nonprofits shrank to about 60 percent of providers. And in California, the trend is even more pronounced; nonprofits now run less than half the licensed treatment centers in the Golden State, about 48 percent, according to the state's most recent licensing data.

The trend away from nonprofits fuels a push toward more medical approaches to treatment, as well as a menu of therapy options that go beyond the traditional 12-step support system, operators say.

It also fuels staggering growth in the revenues of publicly-traded, for-profit treatment providers.

Consider Acadia Healthcare. In 2012, the Tennessee-based chain of recovery centers reported net revenues of $413.8 million. By 2016, that had ballooned by a factor of almost seven — to $2.85 billion.

The company’s growth will continue as management takes advantage of “a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count in the U.S. and U.K.,” the company said in Security and Exchange Commission filings.

“While the growing awareness of mental health and substance abuse conditions is expected to accelerate demand for services, recent healthcare reform in the U.S. is expected to increase access to industry services as more people obtain insurance coverage,” Acadia’s filing said.

Acadia CEO Joey A. Jacobs had total compensation of $9.36 million in 2016, up from $6.2 million in 2014, according to SEC filings.

AAC Holdings – Cartwright’s American Addiction Centers – has seen net revenues skyrocket nearly tenfold in just five years, from $28.3 million in 2011 to $279.8 million in 2016, according to SEC filings. It projects revenues of $300 million this year.

AAC is buying up smaller centers and gaining control of businesses handling everything from advertising and patient referrals to laboratory work. It owns listing and referral websites Rehabs.com and Recovery.org, as well as Recovery Brands, which “provides online marketing solutions to other treatment providers such as enhanced facility profiles, audience targeting, lead generation and tools for digital reputation management.”

CEO Michael Cartwright’s total compensation was $902,737 last year, down from $1.2 million the year before, according to proxy statements.

Universal Health Services has acute-care hospitals as well as addiction centers, but is a major for-profit player in the treatment field, according to SEC filings. Universal’s behavioral health business – which includes treatment for depression, anxiety, bipolar disorder as well as substance use and other conditions – had $3.3 billion in net revenue in 2011, according to SEC filings. Last year, that rose to $4.76 billion. Alan B. Miller, Universal’s CEO and chair of the board, had total income of $19.9 million in 2016, up from $18.4 million in 2014.

The for-profits issue warnings about the future: Growth has been fueled by hundreds of millions of dollars in new acquisitions made possible by big borrowing, and the substantial debt could cause problems if the economy stumbles. There's a great deal of uncertainty around Obamacare's survival. Insurance companies are pressuring addiction treatment providers come in-network, which costs insurers less and may decrease revenue growth for providers. There have been lawsuits and investigations which could impact the business – or not. The market itself has been volatile.

But 2016 was a year of significant growth, and there's great optimism for the future, the for-profits said.

“The combination of organic and acquisition growth enabled us to increase our admissions by over 50%, while leveraging a significant decrease in our advertising and marketing costs,” said a statement by CEO Cartwright when AAC announced its financial results in February.
Others grow, too

It's not just for-profits that are seeing revenues mushroom.

Hazelden in Minnesota and the Betty Ford Center in California were the field's dominant nonprofits for decades. But with an eye toward Obamacare — and its expectations for more economical out-patient treatment, as opposed to the more-expensive in-patient treatment both had specialized in — the two merged in 2014 to form the Hazelden Betty Ford Foundation.

The new nonprofit filed tax returns with the Internal Revenue Service in 2013, reporting revenue of $154 million. That leaped 45 percent in just two years, to $223.55 million in 2015. CEO Mishek had total compensation of $820,315, up from $673,446.

Hazelden Betty Ford now has 15 sites across the nation, offering both residential and outpatient services based on the 12-step, abstinence-based treatment model. It houses the nation's largest addiction and recovery publishing house, a fully-accredited graduate school of addiction studies, addiction research center, prevention training program, education arm for medical professionals and children's program.

“We're really working hard to grow our out-patient services and filling out our continuum of services,” said Mishek. “The best estimates are that 85 to 90 percent of people who get help do it on out-patient basis. We want to reach them. We want to help more people.”

And it's not just the giants. Smaller nonprofits have been growing as well.

Consider Yellowstone Women's First House, a long-established nonprofit that runs four centers in Costa Mesa and is tangling in court with city government over rehab rules. Revenues more than doubled between 2010 and 2014, from $863,809 to $1.9 million, according to Yellowstone's IRS filings.

Yellowstone CEO Anna Thames had compensation of $101,296 in 2014, up from $74,178. Yellowstone also leased several properties that belonged to Thames, paying rent of $218,965 in 2014; and the nonprofit also leased a building owned by her son, paying rent of $4,672 a month, according to tax filings.

What do you get for $3,410 a day?

Public records make it reasonably easy to track the growth of publicly-traded and nonprofit players in the industry, but much of the action is happening out of the public eye, at privately-held companies like Sovereign Health.

Such companies don't share much financial information, but details can emerge via lawsuits.

In a suit filed in 2015, Sovereign Health accused two former employees of using its “administrative and marketing assets” and then referring prospective clients to its competitor, Solid Landings.

“Sovereign is unsure as to the number of prospective clients that it has lost, but believes that the number is at least 10 clients, resulting in lost profits of $350,000,” the suit said. That suggests each patient comes with a $35,000-or-so profit on his head.

Sovereign Health is where in-patient treatment cost $3,410 a day, and where Tara Richards ran up that $416,050 bill, and where law enforcement officials mounted a raid on June 13.

What does $3,410 a day buy? Life-changing treatment, Sovereign Health said.

The company hires experts with Ph.D.s and M.D.s, has 24/7 house managers, licensed therapists and a senior management team that oversees all programs, spokesman Haroon Ahmad said by email.

It provides specialized behavioral health treatment services to people who have mental illness, substance abuse and “co-occurring disorders” in a small, personalized setting. Medication can cost thousands. There's detox, when the body rids itself of drugs or alcohol; group and/or individual therapy sessions to recognize and address the underlying causes of their addiction; and the development of a personalized aftercare plan, he said. In-patient facilities tend to cost more than out-patient treatment programs because they provide meals, lodging and activities as well; and facilities with many amenities in places like San Clemente can cost more than others.

“We customize the program to each patient, which makes it more of an intimate rehab,” Ahmad said.
Tonmoy Sharma, Sovereign Health's CEO, is convinced that Tuesday's raid had nothing to do with the company's billing or financial practices — “We are an open book,” he said — but is really retribution over Sovereign Health's lawsuits against insurer HealthNet and state regulators.

Sovereign Health sued HealthNet last year for failing to pay $55 million for medical services rendered. HealthNet claims that Sovereign Health's billings were fraudulent.

The overwhelming majority of officials at the raid were not from the FBI but from state regulatory agencies, Sharma said, and they grabbed legal papers and work product that they couldn't otherwise get during the course of litigation.

“It stinks so badly,” Sharma said. “When there are raids, there are charges. There were no charges here. If you want financial information, why are you rifling through information in the legal office? Why do you lock lawyers in a room and rummage through privileged information and work product? We're doing good clinical work here. If you disagree with our billing, then let us have a conversation. It can be handled in court as a civil matter. That is how civilized societies work. You don't barge in and rough up our people. It does a huge amount of damage.”

Details of Richards' bill are in court records because Richards received $374,885 from her insurance company to pay Sovereign Health, but never forwarded the money, Sovereign Health's suit states. Richards subsequently filed for bankruptcy and did not return calls for say if she did or didn't gain sobriety.

“Patients in recovery should not be receiving a check that should be sent to the treatment center because there's a chance of the patient relapsing, quitting rehab, spending the money for personal use and more,” Ahmad said. “If the check is sent directly to the treatment center, the patient can continue to stay on the path to recovery.”

Insurers don't want to do that. Allowing direct insurance payments to out-of-network providers – that is, to recovery centers that don't contract directly with the insurance company and don't necessarily agree in advance on reimbursement rates and standards of care – would remove one of the few tools insurers have to encourage providers to come in-network, insurance officials said. Being in-network, as opposed to out-of-network, lowers costs, tightens oversight and provides more consumer protection, they argue.

As federal, state and local officials continue to sniff around Southern California's Rehab Riviera, those in the industry are bracing for more raids like the one at Sovereign Health. And the industry itself may be in the thick of the shake-out that The Braff Group predicted.

On June 1, Solid Landings filed for bankruptcy protection for itself and its affiliates, listing assets of $63,071 and liabilities of nearly $10.9 million.

Solid Landings is the company that agreed to close dozens of sober living homes and counseling centers in Costa Mesa – and the one that Sovereign Health said got patient referrals that rightfully belonged to Sovereign.

Larissa Mooney is a board-certified psychiatrist and director of the UCLA Addiction Medicine Clinic. She teaches the principles of evidence-based treatments to psychiatrists-in-training. She doesn't claim much expertise at the business side of treatment, but offers a general rule-of-thumb to those seeking services.

“The cost of the program is not a guarantee of the quality of the program,” Mooney said. “I wouldn't use cost as a proxy for quality.”

How some Southern California drug rehab centers exploit addiction

Tags: Business, Rehab Riviera, Top Stories OCR
Hilarious Andrea Savage and cast show us how awkwardly funny life can be.

**Teri Sforza**

Sforza birthed the OC Watchdog column aiming to keep a critical (but good-humored) eye on governments and nonprofits, large and small. It won first place for public service reporting from the California Newspaper Publishers Association in 2010. Sforza contributed to the OCR's Pulitzer Prize-winning investigation of fertility fraud at UC Irvine, covered what was then the largest municipal bankruptcy in America's history, and is the author of "The Strangest Song," the first book to tell the story of a genetic condition called Williams syndrome and the extraordinary musicality of many of the people who have it. She earned her M.F.A. from UCLA's School of Theater, Film and Television, and enjoys making documentaries, including the OCR's first: "The Boy Monk," a story that was also told as a series in print. Watchdogs need help: Point us to documents that can help tell stories that need to be told, and we'll do the rest.

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