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Creditors and surviving owner of Retreat Behavioral Health spar over the future of the shuttered rehab business



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Aug 25, 2024

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LNP file photo of the exterior of the main building at The Retreat in Ephrata on Friday, July 14, 2017.

DAN MARSCHKA | Staff Photographer

Welcome back! Thank you, for being a subscriber and supporting local journalism.

Lancaster County Judge Jeffrey Conrad leaned over his bench and pointed at the video monitor on which an 80-year-old real estate investor was testifying from his home office in Brooklyn.

Conrad had heard enough of David Silberstein's expressions of concern about the patients and employees hurt by the collapse of Retreat Behavioral Health, a business that Silberstein had helped build over 14 years but insisted he had no day-to-day role in managing.

In Silberstein's telling, Retreat's sudden collapse in June – resulting in the shuttering of clinics in Lancaster County, Florida and Connecticut – was triggered by the suicides of his friend and Retreat founder Peter Schorr and the company's chief administrative officer, Scott Korogodsky.

"Do not sling nonsense at me," Conrad barked at Silberstein. "Are you really going to tell me that's when everything went wrong?"

Conrad's stern rebuke came during an all-day hearing in overlapping cases brought by creditors looking to carve up Retreat's assets to cover the company's debts. Assigned to preside over the matter months ago,

Conrad had already heard testimony and read filings that detailed how the substance abuse and mental health rehabilitation company's financial struggles date back half a decade or more.

And the judge had read an appointed receiver's report showing that over the last three-and-a-half years, while Retreat faltered, Silberstein and the companies he controlled collected \$13.2 million in management and other fees from the company.


Silberstein's attorney Jason Asbell said Silberstein was not available and referred LNP|LancasterOnline to court documents.


Founded in Lancaster County in 2011, Retreat employed about 300 people at its sprawling 14 acre, 175-bed treatment facility in Ephrata and its separate outpatient center, a renovated former restaurant in Akron. Retreat's abrupt closure wreaked havoc in countless lives. Not only did Retreat's collapse leave hundreds unemployed and owed weeks of pay, it sent scores of patients out into the street, Judge Conrad noted. What happens to Retreat's property and its former employees will have a broad impact in the county.

Creditors and the judge say Silberstein has had multiple opportunities to sell the company's operations even before the company's collapse. The creditors, two private equity funds that bought Retreat's defaulted loans from the original banks that made them, want the company's assets to be sold by a court-appointed receiver so they can get nearly \$30 million owed.

And they don't believe Silberstein, the sole living owner of the complex web of holding companies that operated Retreat's clinics in three states, should be permitted to manage the company, implying they doubt he would make good on the debts.

 Receiver questions payment to some Retreat employees tied to late CEO

 Retreat Behavioral Health receiver says \$400,000 transferred despite freeze on bank accounts

 Retreat Behavioral Health left businesses with thousands of dollars in unpaid invoices, local owners say





This aerial view shows Retreat at Lancaster County, 1170 S. State St. in Ephrata Borough, on Thursday, June 27, 2024.

BLAINE SHAHAN | Staff Photographer

Overvalued

While Silberstein has argued that he should be left to get the businesses sold or restarted, testimony and court documents showed his arguments were, at best, a fantasy. He claimed that the state licenses that Retreat's clinics operated under could be transferred to a new owner, adding value that in turn could be used to pay off debt or be invested in restarting the company.

But it's unlikely the licenses could be transferred. According to Pennsylvania Department of Human Services, the inpatient and outpatient licenses for Retreat's clinics in Akron and Ephrata were both closed effective June 26. A license as a residential treatment facility for adults, like the one for Ephrata, cannot be transferred to a new owner.

"If the facility or agency is to be operated under a new legal entity, the new legal entity shall complete and submit a new application for a certificate of compliance at least 30 days in advance of the change," wrote Brandon Cwalina, DHS press secretary.

A new owner also would need approvals from accreditation agencies, according to James Young, the receiver appointed in June to oversee Retreat's Pennsylvania operations. Obtaining accreditation is essential to qualify for payments from insurers.

Silberstein, in arguing that he should take charge of Retreat's assets, has pointed to the total amount of money still owed to the company by insurers and individual patients. That money, totaling \$24 million for Retreat's Florida and Pennsylvania operations, is yet another asset that could be used to leverage new loans or be collected to fund the reopening of the clinics, he said at a July hearing.

But Silberstein was providing a rosier-than-reality picture of the company's value, as documented as early as 2019 in a field audit by one of Retreat's lenders.

What most concerned the bankers five years ago was Retreat's backlog of unpaid invoices. The audit, prepared by Santander Bank, found 28,000 outstanding invoices sent to patients and noted that 65% of those invoices were more than 150 days old as of May 2019.

The Healthcare Financial Management Association recommends that accounts receivable should be paid in between 30 and 40 days. Ideally, the association says, accounts receivable over 90 days should be less than 10% of all outstanding invoices, while self-pay accounts (i.e. billing of individual patients and not insurance companies) outstanding over 90 days should be less than 30%.

"The amount of past due accounts receivable exceeded the bad debt reserve by \$2.5 million," the 2019 audit said. Retreat had a net loss of \$3 million by March 2019, the bank's auditors found.

"All of the facts lead us to be concerned about the quality of accounts receivable," the 2019 report said.

By 2024, there were 56,000 outstanding self-pay invoices, according to an August 13 receiver's report to the court. Young, the receiver managing Retreat's Pennsylvania assets, said that 80% of those accounts were over a year old. That report also noted that the company that ran Retreat, NR Pennsylvania Associates LLC, reported assets of \$53.2 million at the end of June, but that his own analysis showed total assets were actually one-seventh of that amount, or just \$7.6 million.

Young wrote that the large number of self-pay accounts and Retreat's policy of not turning them over for collection is an indication that patient responsibilities for copayment and deductibles "may have been systematically not pursued."

Young also reported potential health care fraud, overinflated valuation of assets and millions in unexplained payments to Silberstein. He told the Lancaster County court that he learned of investigations that could lead to damage claims against Retreat, including allegations of improper payment of bonuses tied to referrals of patients discharged to selected sober living facilities.





LNP file photo of the main entrance to The Retreat in Ephrata on Friday, July 14, 2017.

DAN MARSCHKA | Staff Photographer

Receiver for Retreat Pennsylvania identifies potential fraud, suggests assets overvalued

Denver business wins claim against Retreat Behavioral Health

A sense of urgency

Both Silberstein and the creditors, Arba Investors and Lapis Advisers, agree that something needs to happen soon or value continues to be lost every day Retreat's properties aren't used.

In a hearing last month in Florida, where Lapis is attempting to have Young appointed to manage Retreat's assets there, Silberstein testified that he was in negotiations with potential buyers of the whole operation, which he said was worth \$65 million

At Monday's hearing, Conrad questioned Silberstein's assertions about being able to sell the company to make the creditors whole. The judge pointed out that Silberstein was supposed to sell the properties as part of a settlement with Schorr two years ago – and had not done so by the time of Schorr's death in June. The September 2022 settlement contemplated a \$75 million sales leaseback transaction for three inpatient facilities and the Akron outpatient facility, according to a report from the receiver.

As recently as July 31, Silberstein declined to sign a letter of intent from a potential buyer for the Ephrata and Akron properties, according to testimony by Zachary Furman, a managing partner of Arba Investors. He

described two deals that fell through this year, including one with a private equity firm and a sale-leaseback arrangement. Those deals fell through before another creditor, Lapis Advisers, had Retreat's Fulton Bank accounts frozen in May.

Furman said when news of Retreat's closure became public he received unsolicited offers for the company.

"Right now there is a lot of interest," he said. "There's a market of qualified buyers reaching out to us."

Qualified buyers are those large enough to have the capital to restart the facilities. According to receiver James Young, re-starting an operation at Retreat, which has been closed for almost two months, could take as much as a year and \$36 million in capital.

Young, like Furman, has said he's been in touch with interested buyers with sufficient capital and experience obtaining certifications and contracts with insurers to support opening the facilities.

Meanwhile, tax liens grow. In excess of \$200,000 is owed to the borough and county for Akron and Ephrata.

Julie Murphy, attorney for Arba Investors, estimated if not sold and the properties head to Sheriff's Sale it would take nine to 12 months and could be sold to an apartment developer.

On Monday, Murphy asked Silberstein how quickly he thought he could sell the properties.

After a long pause, he said, "Very quickly. It depends on legal hurdles to be overcome."

Murphy asked if he meant Arba's attempts to collect its debts through the appointment of a receiver.

"Arba is one," Silberstein said. "It is up to Arba."

The lawyer, clearly tiring of Silberstein's refusal to acknowledge Retreat had been financially unstable and that his legal maneuvers were slowing the creditors' attempts to sell the business, replied:

"It is up to you."





Receiver appointed to market and sell Retreat Behavioral Health's Ephrata and Akron properties



Judge postpones ruling on receivership for Retreat Behavioral Health's Florida operation



Retreat of Lancaster workers will get unemployment, insurance info at meetings next week



Hearing set for receivership request for Retreat operations in Florida



Efforts underway to help about 300 unemployed Retreat at Lancaster workers



ATM network Investors sue Lancaster-based investment company [update]



Ephrata library bolsters tech classes, staff development through state grants



Judge appoints receiver to oversee Retreat's Florida operations



Lancaster County judge appoints permanent receiver for Retreat PA operations



Drug rehab center proposed for East Hempfield Township warehouse



Singer Equipment sues shuttered Retreat Behavioral Health for over \$68,000 in unpaid bills



Former Retreat patients stuck without medical records and unexpected bills



Full coverage of the closure of Retreat Behavioral Health in Ephrata [roundup]

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