
SENATE COMMITTEE ON HEALTH

Senator Akilah Weber Pierson, Chair

BILL NO: AB 1779
AUTHOR: Davies
VERSION: April 23, 2026
HEARING DATE: July 1, 2026
CONSULTANT: Reyes Diaz

SUBJECT: Alcoholism and drug abuse recovery and treatment programs: inducement of participants

SUMMARY: Expands patient brokering law to specify when providing housing and transportation services are permitted; apply the prohibition of transportation services to two additional service provider types; specify prohibited practices; and, require treatment providers to collect and publish specified information, retain it for a minimum of five years, and make it available to the state regulator upon request.

Existing law:

- 1) Requires, through the federal “Eliminating Kickbacks in Recovery Act (EKRA),” whoever, with respect to services covered by a health care benefit program, in or affecting interstate or foreign commerce, knowingly and willfully, either: (1) solicits or receives any remuneration (including any kickback, bribe, or rebate) directly or indirectly, overtly or covertly, in cash or in kind, in return for referring an individual to a recovery home, clinical treatment facility, or laboratory; or (2) pays or offers any remuneration (including any kickback, bribe, or rebate) directly or indirectly, overtly or covertly, in cash or in kind: (A) to induce a referral of an individual to a recovery home, clinical treatment facility, or laboratory; or (B) in exchange for an individual using the services of that recovery home, clinical treatment facility, or laboratory, to be fined not more than \$200,000, imprisoned not more than 10 years, or both, for each occurrence. [18 USC §220]
- 2) Grants sole authority in the state to the Department of Health Care Services (DHCS) to certify alcohol or other drug (AOD) programs and to license adult residential alcohol or other drug recovery or treatment facilities (RTFs). [HSC §11832 and §11834.01]
- 3) Requires DHCS to conduct onsite program compliance visits for AOD programs and RTFs at least once during the certification or licensure period. Permits DHCS to conduct announced or unannounced site visits to review for compliance. [HSC §11832.12 and §11834.01]
- 4) Requires all AOD programs and licensed RTFs to disclose if any of its agents, partners, directors, officers, or owners, including a sole proprietor and member, has either of the following:
 - a) Ownership or control of, or financial interest in, a recovery residence (RR); or,
 - b) Any contractual relationship with an entity that regularly provides professional services or substance use disorder (SUD) treatment or recovery services to clients of certified programs or licensed facilities, if the entity is not part of the AOD program or RTF. [HSC §11833.05(a)]
- 5) Prohibits the following persons, programs, or entities from giving or receiving remuneration or anything of value for the referral of an individual (known as “patient brokering”) who is seeking alcohol or other drug recovery or treatment services:

- a) An RTF;
 - b) An owner, partner, officer, or director, or shareholder who holds an interest of at least 10 percent in an RTF;
 - c) A person employed by, or working for, an RTF, including, but not limited to, registered and certified counselors and licensed professionals providing counseling services;
 - d) An AOD program;
 - e) An owner, partner, officer, or director, or shareholder who holds an interest of at least 10 percent in an AOD program; and,
 - f) A person employed by, or working for, an AOD program, including, but not limited to, registered and certified counselors and licensed professionals providing counseling services. [HSC §11831.6]
- 6) Requires a laboratory or AOD program that leases, manages, or owns housing units that are offered to individuals who concurrently utilize laboratory or outpatient services to maintain separate contracts for the housing. Requires an RTF to only offer an individual discounted housing following discharge from the facility if certain conditions are met, such as the RTF and the individual enter into a written contract for housing that is separate from the contract for treatment; if the individual also pursues outpatient treatment; or, the offer for housing is not dependent upon the individual's agreement to attend outpatient treatment at a program that is owned or operated by the RTF. [HSC §11831.65(a) and (b)]
- 7) Requires a RTF only to offer transportation services to an individual who is seeking recovery or treatment services if any ground transportation provided to the individual is for a distance of less than 125 miles; any air transportation provided to the individual includes a return ticket that may be used by the individual upon discharge; and, a return ticket not used by an individual upon discharge is made available to the individual upon request for a period of one year following the individual's discharge. [HSC §11831.65(c)]

This bill:

- 1) Expands patient brokering law to:
- a) Prohibit an entity from giving or receiving remuneration or anything of value for the inducement of an individual seeking recovery or treatment services;
 - b) Add laboratories and AOD programs to provisions limiting instances when entities can provide individuals transportation services; and,
 - c) Add instances when transportation services can be provided, including when the cost would be prohibitive for the individual without assistance; the assistance is not contingent upon the individual's agreement to enroll in, remain in, or attend any particular program owned or operated by the provider, and is limited to the actual cost of the transportation and does not include cash, a gift card, or other financial incentives; the laboratory, RTF, or AOD program obtains written acknowledgment that the assistance is not tied to insurance benefits or program participation; and, the laboratory, RTF, or AOD program documents the purpose and cost of the transportation.
- 2) Specifies prohibited practices involving patient brokering to include, but not be limited to, all of the following:
- a) Influencing or inducing an individual to enter a, remain in a, or transfer between treatment or recovery programs;
 - b) Securing referrals;
 - c) Recruiting individuals for treatment;
 - d) Increasing insurance-funded billing or patient volume; and,

- e) Engaging in patient brokering or similar practices.
- 3) Specifies that patient brokering does not apply to clinically appropriate, evidence-based therapeutic incentives, including contingency management offered to eligible Medi-Cal members as part of the Drug Medi-Cal Organized Delivery System; does not prohibit an entity from providing an individual with educational or informational materials about community, governmental, or nonprofit resources if no remuneration is offered in exchange for treatment enrollment or continued participation; and, does not apply to the provision of housing or transportation in situations where those services would benefit the individual in need of treatment and not be for the benefit of any other entity.
- 4) Requires a laboratory, RTF, or AOD program to aggregate information describing the purpose and cost of transportation to individuals seeking treatment services; publish, at least annually, the information on their respective websites; and, retain additional specific information for a minimum of five years, to be made available to DHCS upon request. Prohibits the information posted from including personally identifiable information.

FISCAL EFFECT: According to the Assembly Appropriations Committee, this bill results in likely minor and absorbable costs to DHCS to check for compliance during compliance visits of certified AOD programs and licensed RTFs every two years.

PRIOR VOTES:

Assembly Floor:	77 - 0
Assembly Appropriations Committee:	14 - 0
Assembly Health Committee:	16 - 0

COMMENTS:

- 1) *Author's statement.* According to the author, this bill is key to protecting vulnerable Californians seeking substance use disorder treatment from exploitation and unethical recruitment practices that put profits ahead of recovery. California has seen troubling cases of patient brokering and inducements, including plane tickets, gift cards, and subsidized housing used to attract or retain individuals in treatment programs based on insurance value rather than clinical need. These practices can disrupt continuity of care, separate patients from local support systems, and drive unnecessary billing. While existing law addresses some concerns, stronger and clearer guardrails are needed. This bill explicitly prohibits remuneration intended to influence enrollment, retention, transfers, or referrals, and increases transparency around housing and transportation assistance. The bill preserves legitimate support services while ensuring they are not tied to insurance benefits or program participation. At its core, this bill ensures that treatment decisions are driven by patients' wellbeing and clinical need and not financial incentives, protecting both consumers and healthcare dollars
- 2) *RTFs and AOD programs.* RTFs licensed by DHCS, based on what is commonly referred to as the "social model," provide recovery, treatment, or detoxification services. (The Department of Public Health licenses medical model RTFs, known as chemical dependency recovery hospitals.) The services provided by social model RTFs include group and individual counseling, educational sessions, and alcoholism or drug abuse recovery and treatment planning. Social model RTFs are allowed to provide clients first aid and emergency care, and since the passage of AB 848 (Mark Stone, Chapter 744, Statutes of 2015), RTFs can apply to DHCS for an additional license to provide incidental medical services by a

licensed physician or other health care practitioner. SB 823 (Hill, Chapter 781, Statutes of 2018) requires DHCS to adopt American Society of Addiction Medicine treatment criteria as the minimum standard of care for licensed RTFs. DHCS is also responsible for certification of a business entity with a physical location in the state that provides one or more of the following services to clients: treatment, recovery, or detoxification services, or medications for addiction treatment. DHCS also provides program certification for facilities that are licensed by the Department of Social Services that serve adolescents. As part of their licensing and certification functions, DHCS conducts reviews of RTFs and AOD programs every two years, or as necessary; checks for compliance with statute, regulations, and certification standards to ensure the health and safety of clients; investigates all complaints; and has the authority to suspend or revoke a license or certification for a violation of statutes, regulations, and certification standards. DHCS states that they have the sole authority to conduct site visits to their RTFs and AOD programs.

- 3) *Informational hearing on patient brokering and subsequent legislation.* On January 31, 2018, this Committee held an informational hearing to examine the SUD treatment system with a focus on treatment and services provided in licensed RTFs; insurance coverage; patient referrals; and the state's regulation and oversight of the system, including the inability to impose restrictions on unregulated sober living homes. The hearing provided an overview of issues that had been affecting the state, particularly in Orange County, regarding unscrupulous facility operators, and gave an opportunity for state regulators to highlight efforts they have undertaken to combat the exploitation of the SUD system, including the California Department of Insurance's enforcement of unscrupulous sober living home operators that had been unlawfully providing services. The goal of the hearing was to examine the issues and to seek strategies and policies that would prevent unscrupulous individuals from exploiting the various industries that are supposed to help treat those with SUDs; to recognize federal and state protections for those with disabilities, including their housing rights and options for supportive housing at sober living homes; and to ensure that policies are not enacted, either at the local or state level, that will limit the number of recovery or treatment options for those who need them.

The Legislature passed, and Governor Brown signed, a package of bills that aimed to address the emerging issues in the SUD treatment and recovery realm. SB 1228 (Lara, Chapter 792, Statutes of 2018) prohibits facilities that are licensed or certified by DHCS, and anyone associated with them, from gaining financially for referring a person to treatment, also known as "patient brokering." SB 992 (Hernandez, Chapter 784, Statutes of 2018) and AB 3162 (Friedman, Chapter 775, Statutes of 2018) made several changes to licensing statute for RTFs, particularly requiring RTFs and other facilities under DHCS's purview to disclose certain business relationships, including with sober living homes, and requiring all RTF licensed services to be provided within the structures notated on an RTF's license.

- 4) *EKRA.* Enacted in October 2018, EKRA is a federal criminal law prohibiting the exchange of remuneration for patient referrals to recovery homes, clinical treatment facilities, and laboratories. While similar to the federal Anti-Kickback Statute, EKRA is broader in scope because it is an "all-payor" statute, applying to services reimbursed by private commercial insurance, as well as government programs like Medicare and Medicaid (Medi-Cal in California). Its broad definition of "laboratory" means it affects all clinical labs, and its restrictive safe harbors, particularly regarding commission-based employee pay, have altered health care marketing and sales arrangements. Violations are punishable by hefty criminal

penalties, including fines of up to \$200,000 and imprisonment for up to ten years per occurrence.

The U.S. Department of Justice (DOJ) enforces EKRA brokers/recruiters in Southern California under EKRA, as part of the “Sober Homes Initiative.” Most recently, in June 2025, the CEO of several substance use disorder treatment facilities and sober homes was indicted for allegedly paying marketing entities for patient referrals using volume-based payments. In May 2025, the owner of multiple Southern California addiction treatment facilities and an accounts payable supervisor were indicted. They are accused of paying brokers for referrals based on monthly quotas, disguising these per-patient fees as hourly marketing rates. In April 2024, the U.S. Attorney’s Office, Central District of California, announced the arraignment of a sober living homeowner for allegedly paying nearly \$175,000 in kickbacks to body brokers for referring people to its facilities. The owner was charged with 12 counts of illegal remunerations for referrals to clinical treatment facilities that treated individuals that received health care benefits through health insurers. The owner allegedly paid thousands of dollars per patient in illegal kickbacks to individuals who referred patients to his facilities. The body brokers in this case each controlled their own business entities and allegedly were paid kickbacks by depositing checks or wiring money to bank accounts that the brokers controlled. The kickbacks were intended as compensation for the brokers referring patients and to induce the brokers to continue to refer patients to the owner’s facilities. The alleged sham contracts between the parties were designed to conceal the nature of the illicit payments, including by purportedly prohibiting payments from the sober living homes based on “volume or value” of the body brokers’ patient referrals. The parties allegedly met or would communicate via encrypted messaging services to calculate and negotiate the kickback amounts owed to the brokers for patient referrals. The kickback amounts allegedly were based on the insurance revenues that the facilities’ owner expected to receive for the respective patients, factoring in each patient’s insurance provider and the duration of the patient’s treatment at one of the sober living homes. The owner refused to pay the kickbacks unless patients received at least 21 days’ treatment at one of the facilities. In March 2025, the owner was sentenced to 41 months in prison.

Committee staff research indicates that as the DOJ has yet to issue implementing regulations for EKRA, many in the industry have been confused and sought further guidance on what is or is not a kickback. In some cases, conflicting decisions have been issued by various courts, making the reliance on case law to interpret EKRA unreliable. To exacerbate these issues, many experts in the field do not anticipate that the DOJ will issue guidance any time soon.

- 5) *Troubling practices in the addiction field to date.* Various media reports over the years have documented how unscrupulous individuals have found ways to exploit the SUD treatment system. Committee staff, at the time of the 2018 informational hearing on patient brokering, had received reports of emerging trends and requested DHCS to confirm that some of the issues expressed were in fact occurring in licensed RTFs, including:
- a) Denying individuals admission to RTFs who had valid prescriptions from health care professionals for medications to aid in their recovery;
 - b) RTF operators, holding various licenses, that were found to endanger the health and safety of residents at one RTF continued to operate the other RTFs while DHCS worked to suspend or revoke all of the licenses; and,
 - c) RTF licensees who had a license suspended or revoked often reapplied for and subsequently were issued licensure after only two years.

While the package of SUD bills from 2018 were intended to address these troubling trends, a lot of the bad actors who claim to be part of the SUD industry, to this day, often operate multiple residences under the guise they do not require licensure because they do not provide any treatment services, even though often times it is found they have been unlawfully providing services, as illustrated by the DOJ cases. Media reports, as well as anecdotes from advocates, claim that these are the operators (the unregulated ones) who shuffle clients among their various businesses as a means to skirt licensing laws and are involved in patient brokering.

- 6) *Related legislation.* SB 490 (Umberg) would require DHCS to conduct a site visit, or allow a county to conduct a site visit, of an RTF and AOD program, if an affiliated RR is providing services it is not licensed to provide. SB 490 would also require every RTF and AOD program to report annually to DHCS any money transfers between them and an RR. *SB 490 is pending referral in the Assembly.*

AB 2614 (Dixon) would prohibit any person from offering, paying, soliciting, or receiving a commission, benefit, bonus, or other form of remuneration or from engaging in a split-fee arrangement to induce a referral to an RTF or in return for acceptance of an individual into an RTF. *AB 2614 was not heard in the Assembly Health Committee.*

- 7) *Previous legislation.* SB 35 (Umberg of 2025) was identical to SB 490. *SB 35 was held in the Assembly Appropriations Committee suspense file.*

AB 2574 (Valencia, Chapter 410, Statutes of 2024) revises the requirement in existing law for certain entities to disclose that they own or control, or have a financial interest in, a recovery residence, and any contractual relationship with an entity that regularly provides services to addiction treatment or recovery clients to also include a general partner, director, or officer of the licensee.

AB 2081 (Davies, Chapter 376, Statutes of 2024) requires entities licensed or certified by the DHCS to include on their websites and intake paperwork a disclosure stating an individual may check DHCS's website to confirm any actions taken against the entity.

SB 823 (Hill, Chapter 781, Statutes of 2018) requires DHCS to adopt American Society of Addiction Medicine treatment criteria as the minimum standard of care for RTFs.

SB 992 (Hernandez, Chapter 784, Statute of 2018), among other things, implements the requirement that DHCS-licensed or certified programs disclose relationships with RRs.

SB 1228 (Lara, Chapter 792, Statutes of 2018) prohibits certain persons, programs, or entities, and persons employed by, or working for, that program, from giving or receiving remuneration or anything of value for the referral of a person who is seeking SUD recovery and treatment services.

AB 3162 (Friedman, Chapter 775, Statutes of 2018) makes various changes regarding licensed RTFs including: making initial licenses provisional for one year; requiring services offered by the RTF to be specified on the license and provided within the licensed RTF; and, increasing civil penalties for the violation of licensing law.

AB 848 (Mark Stone, Chapter 744, Statutes of 2015), implements law that permits RTFs to apply for an additional license to provide incidental medical services by a licensed physician or other health care practitioner to the residents of an RTF.

- 8) *Support.* The California Consortium of Addiction Programs and Professionals (CCAPP), as sponsor, and other supporters argue that this bill strengthens existing law by requiring any laboratory, RTF, or AOD program that provides air transportation to supply a true round-trip ticket, obtain written acknowledgment that transportation is not tied to insurance benefits or program participation, and document the purpose and cost of the travel. CCAPP states that many practices by some in the industry exploit individuals at vulnerable moments and distort clinical decision-making. By clearly banning them, this bill reinforces ethical standards and supports a fair, patient-centered treatment system. Supporters further argue that while California has taken steps to curb patient brokering, gaps in enforcement and transparency have allowed these practices to persist. This bill is a step in the right direction, making targeted changes that specifically help protect patients from being recruited, shuffled, or abandoned based on insurance value.
- 9) *Oppose unless amended.* The Addiction Treatment Advocacy Coalition (ATAC) argues that this bill does not address the rampant patient-brokering scams we are seeing because it proposes a “needs-based” exclusion for air transportation; creates a new category of activities deemed “patient brokering,” many of which are legitimate business practices; and, does nothing to advance the investigation and prosecution of current state law in this area. ATAC provides an example in which a prominent case currently being investigated by the U.S. DOJ involves a scheme that specifically targets people with “no means” in Wyoming. Brokers targeted people at homeless shelters, who, by definition, would meet any needs criteria applied to receive airfare inducements in this bill. Therefore, ATAC argues, providing a safe harbor for purchasing airfare for prospective clients is not only illegal by federal statute, it also encourages the very behavior the bill seeks to address. Since EKRA’s passage, several precedent-setting cases have clarified that airfare is an inducement and therefore illegal under federal law. ATAC further argues that at its core, an addiction treatment recovery program *should* influence an individual to enter treatment, stay in treatment, and, at times, transfer to another program for legitimate clinical reasons (step-down care). Almost all treatment programs conduct some form of marketing or outreach, which would violate the provisions in this bill, thus prohibiting lifesaving and clinically appropriate activities. Lastly, ATAC states the U.S. DOJ has been actively enforcing EKRA in California. Several high-profile cases in California demonstrate the enforcement of patient brokering, and none of these cases were brought forward by DHCS. ATAC proposes amendments to:
 - a) Strike from existing law the safe harbor for airfare;
 - b) Strike from existing law the safe harbor for housing until a series of meetings with industry and federal enforcement authorities can be held;
 - c) Strike the confusing provisions requiring the publishing of information regarding the purpose and cost of transportation until the pending agreement on carve-outs to protect legitimate program activities; and,
 - d) Strike any clarifications on providing airfare.
- 10) *Time for a reset?* Since the passage of the initial patient brokering bills, which simply stated any remuneration is unlawful, there have been other attempts at clarifying patient brokering law, some of which have been enacted, including providing airfare for individuals. As a result, the desire to specify any possible practice that could be deemed patient brokering seems to have now inadvertently created conflict and confusion between the state’s laws and

EKRA. The author may wish to amend the bill, taking ATAC's proposed amendments into consideration to strike even existing law, and simply incorporate by reference EKRA into sections of currently law that specify existing provisions are only enforceable to the extent that they are not in conflict with EKRA—instead of adding more clarification to provisions related to policy the federal DOJ hasn't even interpreted through implementing regulations.

SUPPORT AND OPPOSITION:

Support: California Consortium of Addiction Programs and Professionals (sponsor)

A New PATH

American River Wellness

Anaheim Lighthouse

Association of California Cities - Orange County

Beginnings Treatment Centers

Bold Recovery

California Behavioral Health Association

California Sober Living and Recovery Task Force

California State Association of Psychiatrists

CalNet

Central Valley Recovery Services, Inc.

Cedar House Life Change Center

Circa Behavioral Healthcare Solutions

City of Los Alamitos

City of Mission Viejo

City of Newport Beach

CLARE|MATRIX

Coalition of Advocates for Better Addiction Treatment

Community Social Model Advocates, Inc.

First Responder Wellness

League of California Cities

New Directions for Women

Nowell Family Foundation

OceanRock Health

Serenity Homes

SolutionPoint Behavioral Health

South Coast Counseling

The Nowell Family Foundation

The Ranch Recovery Centers

Oppose: Addiction Treatment Advocacy Coalition (unless amended)

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