Financial Restructuring: A Tool for Success to Preserve Healthcare Jobs and Quality of Care in Puerto Rico

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By: Nayuan Zouairabani-Trinidad, Christopher Mazza, Kelly Curtin

The Realities of Operating a Hospital in Puerto Rico

The hospital industry in Puerto Rico is no stranger to challenges. In the past, it has faced — and survived — the transition from the public/private model to the "Healthcare Reform" in the 1990's, the adoption of Medicare Advantage, different technological and systematic changes in day-to-day operations, the rise and fall of medical plans and insurance carriers, increases in costs and overhead (utilities, labor, medication, etc.), just to name a few. And, in recent years, it has powered through: population decline, physician emigration, chronic Medicaid funding disparities, the devastating impacts of Hurricanes Maria and Irma in 2017, the 2019-2020 earthquakes, COVID closures, inflation, unreliable electricity and water services, among others.

Many administrators, management, and board members have come to accept these conditions as "normal" — the unavoidable reality of operating a hospital in Puerto Rico. But there is nothing "normal" about this. With the recent enactment of the *One Big Beautiful Bill Act*, hospitals now face the threat of an estimated reduction of nearly $1 trillion in Medicaid funding over the next 10 years. It is projected that rural healthcare facilities will be the most impacted, so it is no surprise that Puerto Rico's facilities are poised to face financial pressures unlike any they've experienced before. This, coupled with delays in insurance carrier payments, rising inflation, high interest rates, and limited access to credit, has given rise to the narrative that "Puerto Rico's healthcare system is in crisis" — a sentiment that is being echoed with more frequency.

Many hospitals have gotten used to operating at razor-thin margins, which can lull management into a false sense of security. But this can turn quickly into a "perfect storm." With the instability of the current market, one bad event — at the wrong time — can lead a vulnerable hospital into a series of events in which righting the ship can feel impossible. Collecting on accounts takes longer. Liquidity issues deepen. Capital expenditures get deferred. Equipment ages. Payment to utilities and vendors grind to a halt. Expenses start to accumulate. Talented clinicians leave. And the cycle goes on and on.

It does not have to be this way. With the right planning, hospitals can avoid the doom forecasted by many pundits and emerge stronger, more resilient, and better poised for success. One alternative is a financial restructuring under Chapter 11 of the U.S. Bankruptcy Code. This option offers Puerto Rico's healthcare institutions a proven, legally protected path to renewal. It is not a sign of failure. It is a strategic decision — one that preserves jobs, protects patient care, and positions facilities for a sustainable future.

Reframing Bankruptcy: Restructuring as a Renewal

Too often, the word “bankruptcy” evokes images of shuttered doors, liquidation, and failure. That stigma is misplaced — particularly in the healthcare context. Chapter 11 reorganization is specifically designed to allow an organization to continue operating while it restructures its financial obligations. The goal is not dissolution; it is transformation.

For a hospital, this means that the day a Chapter 11 petition is filed, the facility remains open. Nurses continue caring for patients. Physicians continue performing surgeries. Administrative staff continue processing claims. The lights stay on, the doors remain open, and the community continues to receive the healthcare services it depends on.

What changes is the financial architecture behind those operations. Chapter 11 provides the legal framework and breathing room to address unsustainable debt, renegotiate burdensome contracts, and emerge with a balance sheet that supports — rather than undermines — the facility's clinical mission.

Consider what a healthy operation means for a hospital: the ability to invest in new medical equipment, recruit and retain talented physicians and nurses, renovate aging facilities, and expand services the community needs. These are the dividends of a successful restructuring — not merely survival, but the foundation for growth.

The Benefits of Chapter 11

Chapter 11 provides a suite of powerful tools that are particularly valuable for hospital institutions facing financial distress. Understanding these tools demystifies the process and reveals why restructuring is so effective.

1. **Immediate Breathing Room: The Automatic Stay**
   The moment a Chapter 11 petition is filed, the automatic stay under section 362 of the Bankruptcy Code takes effect. This powerful injunction halts all creditor collection actions, lawsuits, foreclosures, and repossession efforts. For a hospital besieged by unpaid vendor claims, malpractice judgments, or lender acceleration notices, the automatic stay provides immediate relief — a chance to stabilize operations without the constant threat of asset seizure or judgment enforcement.

2. **Continued Operations and Job Preservation**
   Unlike liquidation, Chapter 11 is designed to keep the debtor in possession and operating. Hospitals continue providing patient care throughout the reorganization process. Healthcare workers — physicians, nurses, technicians, administrative staff — continue in their positions. For communities in Puerto Rico, this continuity is not merely an economic benefit; it is a matter of life and health.

3. **Ability to Renegotiate Burdensome Contracts and Leases**
   Section 365 of the Bankruptcy Code gives a debtor the power to assume or reject executory contracts and unexpired leases. For healthcare facilities burdened by above-market service agreements, unfavorable equipment leases, or legacy vendor contracts entered into under duress, this is a transformative tool. The facility can shed obligations that no longer serve its operational needs while preserving those relationships that remain beneficial.

4. **Access to New Financing**
   Chapter 11 enables facilities to obtain debtor-in-possession (DIP) financing — new credit specifically designed to fund operations during the restructuring period. DIP financing ensures that a hospital can meet payroll, purchase supplies, and maintain patient care standards while it works toward a plan of reorganization. This is often financing that would be unavailable outside the Chapter 11 framework.

5. **Addressing Legacy Liabilities**
   Healthcare facilities often carry legacy liabilities that accumulated over years of underfunding: outstanding vendor debts, deferred pension obligations, unresolved malpractice claims, and regulatory penalties. Chapter 11 provides a

structured, court-supervised process to address these liabilities comprehensively, rather than through piecemeal negotiations that often favor the most aggressive creditors at the expense of operational stability.

6. **Provides a Fresh Start**
   Upon confirmation of a plan of reorganization, a healthcare facility emerges from Chapter 11 with a restructured balance sheet. Unsustainable debt has been reduced or eliminated. Burdensome contracts have been addressed. The facility is positioned to reinvest in its infrastructure, attract new capital, and pursue partnerships and growth opportunities that were previously impossible under the weight of legacy obligations.

Life After Emergence: What a Healthy Future Looks Like

Healthcare leaders who have spent years managing in crisis mode may find it difficult to imagine what operations look like with a healthy balance sheet and a stronger operation. The contrast is significant:

- **Capital investment:** Facilities can modernize equipment, renovate aging infrastructure, and adopt new technologies that improve patient outcomes and operational efficiency.
- **Talent recruitment and retention:** Competitive compensation packages and improved working conditions help stem the emigration of physicians and nurses to the U.S. mainland.
- **Service expansion:** Facilities can add specialty services, expand capacity, and address unmet healthcare needs in their communities.
- **New partnerships and investment:** A clean slate makes a facility an attractive partner for health systems, private equity investors, and strategic allies seeking to enter or expand in the Puerto Rico market.
- **Organizational stability:** Leadership can focus on clinical excellence and community health rather than managing creditor disputes, cash-flow crises, and the constant threat of litigation.

This is not aspirational language. These are the concrete, demonstrated outcomes of successful healthcare restructurings across the United States and Puerto Rico. For example, in the Chapter 11 cases of Grupo HIMA San Pablo[1] and San Jorge Children's Hospital,[2] the automatic stay halted creditor actions, operations continued uninterrupted, and the system gained the breathing room necessary to (in those specific cases) pursue a comprehensive sale of the hospital operations to new purchasers — purchasers who continue operating the hospitals and providing healthcare services to date. In both instances, the hospitals remained open, patients continued receiving care, and workers remained in their jobs, all while providing the clinical services their communities depended upon.

A Call to Action

The stakes of inaction are high. When a hospital closes, the community it served does not simply find another provider. In Puerto Rico, where geographical, infrastructure, and demographic limitations constrain healthcare access, the loss of a facility can mean the difference between life and death. Chapter 11 restructuring can be a vehicle to prevent this — it preserves the institution as a going concern, it keeps its staff employed, and its community served.

The most successful Chapter 11 cases begin proactively — before a facility reaches a point of genuine emergency. Early engagement with restructuring professionals allows a healthcare institution to plan its reorganization strategically, preserve maximum value for all stakeholders, and minimize disruption to operations and patient care.

Puerto Rico's healthcare facilities have endured extraordinary challenges and have shown resilience through all of it. Chapter 11 reorganization is not a concession of defeat — it is an exercise of that same resilience, channeled through a legal framework designed to preserve and renew the institutions that communities depend upon.

The tools exist. The precedent exists. The opportunity is real. To pursue restructuring is ultimately a decision to fight for the institution's future rather than presiding over its slow decline. It is a decision that prioritizes change and possibility over what has always been accepted as “normal.” If your facility has been operating in “crisis” mode for months or years, it is time to ask whether the status quo is truly sustainable. In many instances, restructuring offers a better path. For healthcare leaders ready to move to sustainable operations, financial restructuring can be the bridge to a brighter and better future.

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[1] Porzio, Bromberg & Newman represented the official committee of unsecured creditors in the Grupo HIMA case while Nayuan Zouairabani represented the administrative and collateral agent for the secured lenders in that case.

[2] Nayuan Zouairabani represented the landlord of the parking facilities in the San Jorge Children's Hospital case.