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# Think Strategically

## Addressing Healthcare: The Most Fundamental of Human Rights and Tackling Puerto Rico's Healthcare Systemic Risk When the New Governor is Elected

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### Healthcare is the most fundamental of human rights.

We started to discuss the top six issues critical to electing the new President from a national perspective. We aim to discuss all six issues before the elections, and they include the following:

1. Immigration: published August 19, 2024
2. Economy and Inflation, published August 26, 2024
3. Healthcare
4. Climate Change and Environment
5. Crime and Public Safety
6. Education

These six issues will decide the future of the United States. Let's begin our discussion.

In this third installment, we are tackling the healthcare issue, and rather than focusing on a national level; we will address it from our local Puerto Rico perspective along with the perceived healthcare systemic risk issues the island faces. We aim to discuss the formidable healthcare challenges 3.111 million U.S. citizens from Puerto Rico are facing.

### Puerto Rico's Healthcare Systemic Risk

Imagine for a moment that after visiting your healthcare organization for 30 or more years, it vanishes overnight. Would You Miss it? Would the Community You Live in Miss it? The answer for almost anyone is a firm yes, especially for hospital-based health systems that provide essential medical care, from those participating in the Vital Government Insurance Programs to Medicare Advantage holders to patients in the higher income brackets in urban and rural Puerto Rico and the United States.

Within the healthcare ecosystem, hospitals and primary care centers serve marginalized populations in complex tertiary centers, often training new generations of physicians, nurses, and other essential health professionals.

Such health systems stabilize and sustain populations, becoming anchors crucial to Puerto Rico's Healthcare ecosystem in general, the well-being of its surrounding communities, and the interests of local businesses whose employees depend on their care.

Yet, enormous financial and operational forces jeopardize the survival of these institutions. To sustain Puerto Rico's health care in the long term, businesses, governments, and these health systems themselves must work with transparency to deal with the challenges, whether financial, demographic, loss of

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physicians, loss of workers, access to capital, or a combination of all five. The time has come to join forces to innovate deftly, find solutions to implement long-lasting changes and revitalize Puerto Rico's Healthcare Ecosystem from its current state of stagnation, decay, and some ruin.

The golden rule is that numbers never lie. They usually tell the story for us. With all the media and dozens of experts saying there is a health crisis in Puerto Rico, we have decided to analyze all the problems, including hospital bankruptcy, physician losses, and critical economic and financial issues affecting the health sector. From March 15, 2020, when the pandemic began, to December 31, 2021, the published estimated losses to the Puerto Rico Healthcare ecosystem amounted to **\$1,085,185,711 billion**. The professional associations and our analysis estimated that the total bank and/or bonded debt of the Hospitals was just shy of \$1.5 billion. At the same time, some industry participants proposed solutions that would have created a national lending program through the Government of Puerto Rico. Ultimately, this solution was never created, and some \$300 million was granted through the Cares Act, providing relief. However, a \$785 million hole in the finances of this healthcare ecosystem is hard to fill.

Six hospitals filed for bankruptcy following the pandemic, and another was sold. However, other institutions face critical hardships in performing their operations properly.

Since 2017, following the impact of Hurricane Maria, we have been advising our constituents that one of the biggest threats Puerto Rico faces is a Healthcare Ecosystem Systemic Risk that includes Healthcare Facilities, Providers, and Doctors.

Meanwhile, the U.S., including Puerto Rico, ranks first in per capita health spending. However, we are dead last in the health system performance of 11 major developed countries. Of the total healthcare expenditure, 38 percent goes towards Healthcare Ecosystems, which has been this way for the last 50 years.

Another considerable challenge facing the Puerto Rico Healthcare Ecosystem and even those in the U.S. is that they are forced to either reduce costs at the expense of creating potentially devastating impacts on the communities served or take less aggressive cost-cutting measures and risk severe financial hardships. The pandemic made this situation even direr.

This scenario to this indubitable Hobsons Choice has developed through profound public policy and market moves that transfer financial risk into local healthcare systems.

The Puerto Rico Healthcare Ecosystem system components are often the largest employer in their communities. With limited financing available in Puerto Rico, it has become similar to the systemic risk bank crisis of 2008, but without the benefit of having a program such as the Troubled Asset Relief Program, known as TARP. If you think that TARP has nothing to do with Puerto Rico's banking system, please be reminded that Popular, Inc. received \$935 million in TARP funds, which they fully repaid; FirstBank Corp Puerto Rico received \$296 million from the TARP, which they fully repaid, and Oriental Bank Puerto Rico received \$69 million from TARP, which they fully repaid. Puerto Rico Banks received \$1.300 billion in TARP funds to stabilize their operations during a critical juncture; this is nearly the same amount the healthcare ecosystem needs.

The most important lesson the financial crisis of 2008 taught us is that changing rules, poorly understood interdependencies, and a lack of proactive management of market forces would have dire consequences for the Puerto Rican and U.S. economies.

One has to wonder why it did not make sense for the Government of Puerto Rico to create a program that would provide a lending or investment facility that would have provided a comprehensive safety net that could have prevented several hospital bankruptcies and could have avoided the healthcare systemic risk that we are now facing.

With 3.111 million U.S. Citizens from Puerto Rico depending on healthcare services, we must be sure we learn our lesson and solve our Healthcare system once and for all.

## The U.S. Congress's discrimination in Puerto Rico's Healthcare funding

The Medicare FFS program data that Congress considered a standard for the ACA MA payment formula does not work in Puerto Rico. The resulting anomaly is that Puerto Rico's average Medicare Advantage is as follows:

- 43% of payments below the U.S. average: Puerto Rico's Medicare Advantage benchmark is now 43% below the U.S. average.
- 38% of payments below the lowest State (H.I.) standard.
- 26% of payments below the U.S. Virgin Islands (just 9 miles from Puerto Rico).
- In Puerto Rico, this program has faced reductions of more than 20% since 2011 compared to U.S. rates, while the U.S. average has increased by 4% over the same period.

This disparity with U.S. rates is one cause of the healthcare ecosystem's financial challenges and the accelerated migration to the U.S. of all types of healthcare ecosystem professionals.

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Each U.S. citizen receives \$13,000 per capita annually in healthcare funding, yet Puerto Ricans only receive \$4,000 per capita annually, representing a shortfall of \$9,000 per capita per year in less healthcare funding. So, every year, Puerto Rico should have received \$29 billion per year in healthcare funding using the same allocation that the 50 states receive.

Thus, Congress's allocation of \$3.52 billion annually is just 12% of the total due to Puerto Rico. Congress blatantly distributes stateside 69% more funding in discrimination against all U.S. Citizens from Puerto Rico.

You want to talk about Land of the Free and Home of the Brave; let's also talk about 50 years of discrimination against the Puerto Rican population.

Just imagine What the healthcare sector would look like today with such an infusion of capital. How many lives could we have saved? How many transplants? How many cancer treatments are needed, or how much healthier would our lives be?

Puerto Rico's hospitals alone are shortchanged by \$9.86 billion annually, with doctors and all healthcare providers shortchanged by \$7.77 billion in less funding.

### What Can the Incoming Puerto Rico Governor Do?

The incoming Governor of Puerto Rico has the opportunity to implement a financial support framework targeted explicitly at anchor health systems operating in every city. While there are multiple potential solutions, we propose two key initiatives to help stabilize and strengthen Puerto Rico's healthcare ecosystem:

1. **National Emergency Wellness Hospital Lending Program (NEW-HOPE):** The NEW-HOPE program would be a comprehensive initiative allowing the Government to invest in, lend to, grant, or guarantee financing for hospitals operating in Puerto Rico. With an initial funding of **\$1.5 billion** from reconstruction funds or any other available funding, NEW-HOPE would support hospital operations, expand available financing sources, preserve services, enhance capacity, and increase resilience in Puerto Rico's healthcare sector. In coordination with the U.S. Treasury, this program would complement the Federal Reserve Bank's lending capacity for this critical sector. NEW-HOPE would be empowered to invest in capital stock, extend loans, and guarantee long-term financing for accredited hospitals and medical facilities in Puerto Rico. This program would serve as a lifeline to ensure that these institutions can continue to operate, grow, and meet the healthcare needs of Puerto Rico's residents.

- 2. Healthcare Investment Program (HIP)** would allow hospitals to issue equity warrants or senior debt securities to the Puerto Rico Government using the Puerto Rico Fiscal Agency and Financial Advisory Authority, creating a special-purpose vehicle to manage these investments. In the case of warrants, HIP would receive only non-voting shares or agree not to exercise voting rights, thereby protecting the institutions' autonomy. This measure allows the Government to benefit from potential profits as these hospitals recover and regain their financial strength. HIP would initially leverage \$300 to 5\$00 million from the NEW-HOPE capital, generating significant purchasing power to invest in the healthcare sector. Over time, this program could be expanded to enhance further the Government's stake in the recovery of Puerto Rico's hospitals.

By establishing the National Emergency Wellness Hospital Lending Program and the Healthcare Investment Program, the Puerto Rico Government can provide critical support to its hospitals, ensuring they survive and thrive in the face of unprecedented challenges. During difficult times, American citizens have relied on the safety nets provided by Congress; now, Puerto Rico's healthcare sector faces a similar crisis, and these programs could be the lifeline it needs.

### **The Final Word: Getting Rid of Healthcare Inequality**

Similarly, as Congress stated when TARP was approved, the Troubled Asset Relief Program (TARP) aimed to rescue banks, stabilize markets, boost the U.S. auto industry, and support foreclosure prevention. TARP funds were used to buy equity in failing businesses and financial institutions.

As discussed earlier, TARP was born from Wall Street's greed. In contrast, the NEW-HOPE program is designed to help hospitals survive the worst Healthcare crisis in a century. Without NEW HOPE, the hospital and healthcare sector face an uncertain future.

The incoming Governor of Puerto Rico has a pivotal role in addressing healthcare inequality and ensuring success while creating all the necessary tools to allow the Puerto Rico Healthcare ecosystem to recover and thrive. Every effort must be made to ensure that all citizens have access to the Healthcare they need and deserve in world-class facilities.

As Martin Luther King Jr. once said, **"Of all the forms of inequality, injustice in health is the most shocking and inhuman because it often results in death"**.



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