By Dale Kirry

Stabilizing Operations in Health Care Cases While Bridging the Restructuring Gap to New Owners

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Health care entities undergoing bankruptcy face the dual pressures of financial insolvency and the imperative to maintain uninterrupted clinical operations.[1] Unlike other industries, the failure to stabilize care delivery can result in immediate harm to patients, regulatory intervention and asset-devaluation. Although a lot of these risks can be mitigated, the execution while stabilizing the labor bridge with Steward Healthcare, Prospect Medical Holdings and many skilled-nursing and long-term care restructurings has missed the mark or could have been avoided.[2] The anecdotal color added in this article shows the ripple effects of what can happen when unintended consequences or poor execution occur.

Health care bankruptcies present the unique challenge of preserving continuity of patient care while navigating financial restructuring and ownership transition. Real decreases in reimbursement are occurring despite greater consumption of care. In addition, inflationary costs are negatively impacting operating margins for health care organizations across the globe. With the decreases in reimbursement coupled with inflationary costs, restructuring advisors need clear strategic imperatives — specifically, a strategy that focuses on the role of clinical stabilization in health care restructurings, emphasizing its impact on enterprise value, regulatory compliance and successful emergence. The strategy must also integrate relevant provisions of the Bankruptcy Code to guide practitioners in aligning operational priorities with legal frameworks.

The Operational Risk Landscape: Risk Is Equivalent to Dollars

When a health care provider files for bankruptcy, the ripple effects are swift and severe: Patients face uncertainty about ongoing treatments, staff morale and retention decline, vendors and payers reassess their commitments, and regulatory scrutiny intensifies. These risks are compounded by the fact that health care services are often mission-critical and heavily regulated. Stabilizing clinical operations is not merely a tactical response, it is a strategic necessity. There is a viable, strategic framework for stabilization.

1. *Operational Continuity:* Deploy interim clinical leadership to reinforce governance. Each department at the health care facility needs an advocate so that census levels can remain or gain to preserve revenues. Conduct rapid assessments of workflows, staffing and supply chains. Vendor management or bureaucratic systems will have been put in place for cost control, but this slows down the actual process for staffing, which cannot be slowed during this critical juncture. In addition, establish crisis communication protocols to reassure stakeholders, as the cadence of each department and worker needs to be accounted for at least weekly during this process, or staffing levels will deteriorate.

2. *Financial Triage:* Prioritize funding for essential services such as emergency care and pharmacy (*e.g.*, if there is a physician bringing in a lot of patients/procedures, prioritize funding specifically for that department). Negotiate short-term vendor contracts to maintain supply continuity; getting different or new vendor contracts in place is essential so as to not limit receiving services or equipment. There is time after restructuring to reduce vendors. Lastly, implement cost controls without compromising patient safety, because overtime is the biggest cost control on labor that is not accounted for, and it is the quickest way to cause burnout and increase your labor costs. Contract labor is less expensive than overtime.

3. *Regulatory Compliance:* Be sure to maintain accreditation and reporting standards; engage proactively with the Centers for Medicare & Medicaid Services, state health departments and licensing boards; and participate in document-stabilization efforts to support audits and legal proceedings.

4. *Workforce Stabilization:* Offer retention incentives for critical staff. Leadership teams are often incentivized to help get to the conclusion of a change of ownership, but some front-line employees are the ones who end up bearing the heavy lift of patient care. Identifying and rewarding several

1 Edwards, Angelina, "Steward Health Care's Bankruptcy: A Cautionary Tale of Corporate Greed in Our Health Care System," *Community Catalyst*, Sept 11, 2024, https://communitycatalyst.org/posts/steward-health-care-bankruptcy-a-cautionary-tale-of-corporate-greed-in-our-health-care-system/.

2 Srinivasan, Sujata, "As Prospect Medical Holdings Files for Bankruptcy, CT Leaders Respond with Concern," Connecticut Public Radio, Jan 12, 2025, www.ctpublic.org/news/2025-01-12/as-prospect-medical-holdings-files-for-bankruptcy-ct-lawmakers-respond-with-concern.

key front-line clinicians goes a long way toward keeping the rest of the staff in place. It is also important to communicate transparently about restructuring timelines, as there are rumors, social media posts and family pressures that could impact what front-line clinicians are feeling about staying at work or looking for a new place of employment. Be sure to provide mental health support to mitigate burnout, and say and show your "thank yous" on a regular or even increased basis. There are many ways to do it, and it goes the furthest during this process to mitigate burnout.

5. *Clinical Quality Assurance:* Reinforce infection-control and patient-safety protocols. The effect of not having these protocols followed closely becomes very time-consuming and costly. Also monitor performance metrics through quality dashboards, and deploy clinical risk managers to identify and mitigate emerging threats. This can be done by unit supervisors meeting daily with operational leads on what they are seeing and hearing from their front-line clinicians.

Bankruptcy Code Integration

Restructuring professionals must align clinical stabilization efforts with key provisions of the Bankruptcy Code. For example, chapter 11 (reorganization) enables health care entities to continue operations while restructuring. Clinical stabilization should be embedded in the debtor's reorganization strategy. Here are some notable Code sections:

- 11 U.S.C. § 362 (the automatic stay): This protects debtors from a creditor's actions but does not exempt them from regulatory enforcement. Stabilization must ensure ongoing compliance.
- 11 U.S.C. § 333 (the patient care ombudsman): Courts may appoint an ombudsman to monitor patient care. Advisors should coordinate with this role to ensure transparency and quality assurance.
- 11 U.S.C. § 363 (asset sales): Stabilized operations enhance buyer confidence and valuation. Advisors should prepare clinical performance data to support due diligence.

Bridging the Gap to New Ownership

Stabilization is the bridge between insolvency and renewal. As new ownership emerges, a stabilized clinical environment becomes a launchpad for transformation, as it (1) supports due diligence with accurate operational data, (2) aligns clinical priorities with the buyer's strategic vision, and (3) preserves institutional knowledge and patient trust.

Clinical stabilization is a strategic lever in health care bankruptcies. For restructuring professionals, integrating operational integrity with Bankruptcy Code provisions ensures that patient care is protected, enterprise value is preserved, and the transition to new ownership is successful. New ownership receiving clinical staffing at elevated levels, supported with additional contract labor or vendors, is not a terrible thing. They can make ongoing efforts and reductions while the health care facility is still in place to maximize care and census levels. abi