

**THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO**

**PROFESSIONAL HOSPITAL
GUAYNABO, INC.**

Plaintiff

v.

**The Puerto Rico Health Insurance
Administration (ASES)**

Defendant

Civil No. _____

42 U.S.C. § 1396
28 U.S.C. 1331, 1343
42 U.S.C. § 1983
Declaratory judgment
Permanent Injunction
Damages

COMPLAINT

NOW COMES, Plaintiff, Professional Hospital Guaynabo, Inc. ("PHG"), through the undersigned counsel, and respectfully STATES, ALLEGES and PRAYS:

I. INTRODUCTION:

1. The present cause of action contests the arbitrary, discriminatory, and unlawful reimbursement rates implemented by the Puerto Rico Health Insurance Administration ("ASES") under Puerto Rico's Medicaid program, "Plan Vital," which came into effect on January 1, 2026. These rates were formulated and approved through a fundamentally flawed and biased process, thereby violating the Medicaid Act and the due process and equal protection clauses guaranteed to the States under the Fourteenth Amendment to the United States Constitution.

2. PHG does not contest the statutory or regulatory authority of ASES to implement an All-Patient Refined Diagnosis-Related Groups (APR-DRG) payment system, acknowledging that such models, when implemented in accordance with accepted actuarial principles and federal law, can constitute a legitimate framework for hospital reimbursement under Medicaid.

3. Nevertheless, this controversy originates from the fundamentally flawed manner in which ASES has implemented and maintained the base rates utilized within the system. These

rates have been computed without reference to the Medicare cost reports and standardized methodologies assumed by the APR-DRG system, and without applying any statistically valid statewide or regional averages that would ensure equitable treatment of providers with similar circumstances. Without comparing the projected reimbursement per discharge under APR-DRG against the projected cost per discharge in the Medicare cost reports, ASES will not have insight on whether the total budget for hospital payments in Plan Vital are sufficient.

4. These deviations have caused actuarial distortions and discriminatory disparities, which fundamentally conflict with the Medicaid Act's requirement that payments be "consistent with efficiency, economy, and quality of care" (42 U.S.C. § 1396a(a)(30)(A)), as well as with the core principles underlying the APR-DRG model.

5. Therefore, PHG requests permanent injunctive relief to compel ASES to recalculate and implement the APR-DRG base rates in accordance with federal law, accepted actuarial standards, and the constitutional protections of due process and equal protection of the law.

II. JURISDICTION AND VENUE:

6. This action arises under the provisions of Title XIX of the Social Security Act, 42 U.S.C. § 1396 et. seq. ("Medicaid Act") and 42 U.S.C. § 1983. PHG seeks declaratory judgment and injunctive relief under 42 U.S.C. § 1983, given that the APR-DRG method developed by ASES was designed and approved via a process that was fundamentally flawed and biased, and it violates the Medicaid Act as well as its due process and equal protection rights guaranteed under the Fourteenth Amendment to the U.S. Constitution. The absence of injunctive relief will cause irreparable harm to PHG and violate provisions of the Medicaid Act. Beyond the significant financial loss estimated, the disputed rates will also damage PHG's operational capacity, reputation, and ability to serve its patients. Moreover, the public interest suffers if PHG is forced to cut services or shut down due to unlawful reimbursement rates set by ASES, leading Medicaid

beneficiaries in the area to lose access to essential healthcare—a harm that cannot be remedied with monetary compensation. Furthermore, the methodology implemented by ASES breaches the federal provisions intended to ensure payments are consistent with efficiency, economy, and the quality of care, and sufficient to enlist enough providers so that care and services are available under the plan.

7. This Honorable Court has jurisdiction over this case pursuant to 28 U.S.C. §§ 1331 and 1343(a)(3) and (4).

8. Venue is proper under 28 USC § 1391 (b)(1) and (b)(2), given that all defendants reside in Puerto Rico and the events giving rise to these actions occurred within the district.

III. PARTIES:

9. The plaintiff, PHG, is a close corporation organized under the laws of Puerto Rico, with its designated office located in Suite 7, Guaynabo Radiology and Medical Plaza, 9 Ave. Las Cumbres, Guaynabo, Puerto Rico. PHG's mailing address is P.O. Box 1609, Guaynabo, Puerto Rico 00970, and its telephone number is (787) 740-8787.

10. The defendant, ASES, is a Puerto Rican public corporation created by Law No. 72 of September 7, 1993, as amended, with legal capacity to sue and be sued. ASES's physical address is 1549 Call Alda, San Juan, Puerto Rico 00926; its mailing address is P.O. Box 195661, San Juan, Puerto Rico 00919; and its telephone number is (787) 474-3300.

IV. RULE 7.1 OF THE FEDERAL RULES OF CIVIL PROCEDURE:

11. In compliance with Rule 7.1 of the Rules of Federal Civil Procedure, PHG states that there is no parent corporation or any publicly held corporation owning 10% or more of its stock.

V. FACTS:

12. Medicaid was established by Title XIX of the Social Security Act on July 30, 1965, 42 U.S.C. §§ 1396 et seq. The program was designed as a cooperative federal-state partnership to provide medical assistance to categorically disadvantaged populations.

13. Even though states are not required to participate in the Medicaid program, if they choose to do so, they must then comply with all the duties and requirements established by federal law.

14. Puerto Rico is considered a “state” for Medicaid purposes under 42 U.S.C. § 1301 (a)(1) and participates in the federal Medicaid program with the same obligations as states.

15. The Medicaid program established comprehensive coverage requirements, mandating that participating states provide at least the care and services listed in 42 U.S.C. § 1396d(a), including inpatient and outpatient hospital services as required by 42 U.S.C. § 1396a(a)(10).

16. ASES acts as Puerto Rico’s Medicaid administering agency.

17. ASES administers federal and local Medicaid funds and determines base rates, adjustments, and methodologies for provider reimbursement across Puerto Rico.

18. ASES has statutory and/or regulatory authority to adopt an APR-DRG system under the Medicaid Program.

19. PHG operates as a licensed general hospital located in Guaynabo, Puerto Rico, providing inpatient and outpatient services to Medicaid and dual-eligible beneficiaries.

20. PHG serves a predominantly low-income patient population that depends heavily on government-funded health insurance programs for access to essential medical care.

21. As of 2019, ASES commenced working with its actuaries to develop a Diagnosis-Related Group (DRG) payment system for the hospitals that serve the Plan Vital population. This

was mainly due to the Financial Oversight and Management Board of Puerto Rico's desire to implement reforms to improve the quality of health services on the Island while simultaneously reducing the costs of medical care. Originally, the DRG payment system was scheduled to begin on October 1, 2024. However, in May 2024, ASES delayed the implementation of the DRG payment system until October 1, 2025, due to concerns raised by various hospital providers regarding the development of base rates, among other issues.

22. On December 11, 2025, ASES finalized its DRG payment system and set revised hospital reimbursement rates for the Medicaid program, effective January 1, 2026. These rates were adopted by ASES pursuant to a purported APR-DRG methodology. Under this methodology, the base rates set by ASES for each hospital are shown in Exhibit I.

23. Under the referred APR-DRG methodology, the hospital-specific base rates are calculated using historical reimbursement to the hospitals by Managed Care Organizations (MCOs) to allegedly target a budget-neutral amount across providers.

24. The historical reimbursement considered by ASES during the development of its APR-DRG system covered discharges during the period from October 1, 2021, through September 30, 2023, with payments extending until September 30, 2024.

25. During the referred period, PHG was not a provider under the "Plan Vital", or at least it was in a limited capacity with only one insurer. As a result, the APR-DRG methodology implemented by ASES reduced PHG's reimbursement base rate compared to similarly situated hospitals offering comparable services to analogous patient populations, without any rational basis, legitimate actuarial justification, or correlation with actual costs, efficiency, or quality metrics. In other words, the APR-DRG methodology implemented by ASES exacerbated disparities in specific base rates among hospitals that offered analogous services to similar populations within the same region. Therefore, it directly causes providers, such as PHG, to suffer

reductions in their reimbursement payments, resulting in economic losses, because the specific base rate failed to reflect PHG's current operations and expenditures.

26. Moreover, ASES's method for determining hospital-specific base rates provided an unfair advantage to certain hospitals whose specific base rates were determined utilizing discounted payments. This is evidenced by ASES's response to question number 21 of ASES' Frequently Asked Questions ("FAQ") document which states:

21. How will discounted payments to hospitals for non-participating billing be handled in determining the base rate for the hospitals?

Due to the inability to know what a per diem amount would have been between the hospital and the Plan Vital MCO that did not agree to a contract, no adjustment factor can be applied to hospital payments from MCOs where no contract was agreed upon. Rate adjustments to the claims paid in rate setting will be adjusted by ASES-approved rate increases.¹

The latter shows that ASES did not establish hospital-specific base rates in a neutral, objective manner.

27. Furthermore, ASES's methodology favors certain hospital providers that also function as insurance companies under Plan Vital. Per information and belief, these insurance companies provided higher reimbursement rates to their own hospitals while offering lower rates to other hospitals that delivered similar services to comparable patient groups. Therefore, relying on historical reimbursement rates would give these hospital providers an unfair advantage over others. Consequently, there is no budget-neutral amount across providers, and the base rate to be set won't reflect the reality of the provider's operations.

28. Through comprehensive financial analysis, PHG has determined that this discriminatory rate adjustment will lead to an estimated loss of \$3,179.29 per discharge or six

¹Source:https://docs.pr.gov/files/ASES/APR-RG/PR%20Plan%20Vital%20APR%20DRG_%20FAQ%20rev%2002-03-2026.pdf

hundred thirty-six thousand dollars (\$636,000) in reimbursement revenue within the 2026 calendar year alone assuming 200 Plan Vital discharges during that period, posing a severe financial challenge that jeopardizes the hospital's ongoing operations.

29. The significant loss of income will immediately impair PHG's ability to maintain adequate staffing, invest in essential medical equipment and technology, cover operational expenses, and continue providing vital healthcare services to the low-income and vulnerable patient populations it serves. Meanwhile, it unjustifiably benefits hospitals that offer similar services under comparable circumstances.

30. PHG challenges ASES's APR-DRG reimbursement system because the base rates have been calculated with incomplete and inaccurate data that don't reflect the best approximation of the operations of all hospital providers, specifically, PHG, resulting in granting unfair advantages to certain hospital providers, while putting at risk the operations of others. Moreover, the APR-DRG reimbursement system implemented does not consider referencing the Medicare cost reports that Medicare's similar MS-DRG methodology relies upon, and without using any statistically valid statewide or regional average. Instead, ASES relies on selective and non-transparent adjustments that arbitrarily benefit a small group of entrenched hospitals while reducing payments to others, including PHG. These deviations have created actuarial distortions that are inconsistent with the Medicaid Act's requirement that payments be "consistent with efficiency, economy, and quality of care" and with the core principles of the APR-DRG model.

31. The referenced calculation of the base rate is not encompassed within traditional diagnosis-related group systems such as Medicare and was not included in the Fiscal Plan approved by the Financial Oversight and Management Board of Puerto Rico (FOMB). In contrast to Medicare, which employs a standardized base rate adjusted for local labor costs, ASES intends to utilize historical reimbursement data to establish a distinct rate for each hospital.

32. ASES's new base rate under its APR-DRG reimbursement system must be assigned as an average base rate for all hospitals or all hospitals within a Core Based Statistical Area (CBSA), adjusted for labor costs, like Medicare, to prevent disparate treatment and ensure uniformity.

33. In contrast to Puerto Rico's hospital specific base rates, the Medicare Severity Diagnoses Related Groups (MS-DRG) system has a true "Base Rate". For example, Medicare assigns each hospital in the United States one of eight standardized operating base rates. The operating base rate assigned to the hospital depends on whether their wage-index is above 1.000 or less than or equal to 1.000, if they are submitting quality data or not submitting quality data, and if they are a meaningful user of Electronic Health Records (EHR) or not meaningful users of EHR. All hospitals in Puerto Rico have a wage-index below 1.000 and all are assumed to submit quality data. Therefore, there are two Medicare base rates in Puerto Rico depending on if they are meaningful users of EHR or non-meaningful users of EHR. For a hospital in Puerto Rico that is a meaningful user of EHR, the standard operating amount for Fiscal Year 2025 is \$6,624.39 (\$4,107.12 operating labor + \$2,517.27 operating non-labor) plus a capital component of \$512.14 for a total base rate of \$7,136.53. As the name suggests, this base rate applies to all hospitals with a wage-index below 1.000, submitting quality data, and a meaningful user of EHR. This base rate is adjusted for labor considerations within a geographical area. The wage-index during FFY 2025 applicable to the operating labor component is 0.5827 and the Geographic Adjustment Factor applicable to the capital component is 0.6908. Under the Medicare Inpatient Prospective Payment System (IPPS), Professional Hospital Guaynabo and other hospitals in the San Juan-Carolina-Caguas Metropolitan area who meet the previously stated criteria receive the same wage adjusted Operating Base Rate of \$4,910.49 and a geographically adjusted capital component of \$353.81 for a total base rate of \$5,264.30 before the MS-DRG weight is applied. This is the

Medicare base rate comparable to the hospital specific base rate ASES has developed for APR-DRGs. PHG's APR-DRG base rate of \$4,953.69 is less than the Medicare IPPS base rate of \$5,264.30.

34. Historically, Medicare reimbursement rates in Puerto Rico have been significantly lower than those in the 50 U.S. states and even compared to other territories like the U.S. Virgin Islands, often around 40% below the national average (e.g., Medicare Advantage base payments at approximately 41% lower). This has perpetuated challenges in provider retention, infrastructure investment, and care quality.

35. This longstanding disadvantage is further compounded by the implementation of the APR-DRG system in Puerto Rico's Medicaid program. The implementation of the APR-DRG model within Puerto Rico's Medicaid program adds to an already insufficient financing scheme and further aggravates the financial fragility of hospitals that serve vulnerable populations. The cumulative effect of both systems, Medicare, historically underfunded, and Medicaid, with a payment model that further reduces revenues, places healthcare institutions in a critical situation.

36. ASES's recently-implemented base rate system has substantial discrepancies. For example, El Maestro hospital recently filed for bankruptcy and ceased operations. Therefore, nearby hospitals have had to absorb El Maestro's former patients. The nearest hospital to PHG, Hospital Metropolitano of San Juan, serves a similar patient population and has comparable labor costs, but the proposed base rate is \$1,121.04 higher than PHG's, which is a significant difference.

37. ASES has acknowledged that hospitals with insufficient historical experience may have unreliable base rates and has adopted a methodology assigning such hospitals a base rate equal to 80% of the Islandwide rate. However, the methodology for calculating the "80% factor" is not disclosed and appears arbitrary, lacking statistical rigor and actuarial credibility. There are generally accepted actuarial principles to estimate projected cost when there are concerns with

the credibility of the data. It involves calculating a weighted average of a group's experience compared to the pooled experience of a larger population. In the hospital base rate context, it would be a weighted average between the hospital's experience versus the island-wide or regional base rate. The weight assigned to each hospital's experience versus the island-wide or regional experience can be determined using limited fluctuation credibility theory or Bühlmann credibility.

38. PHG has identified even more discrepancies with the base rate assignments by ASES, which raises doubts regarding the system's accuracy and objectivity. For example, Doctors' Center Hospital Orlando Health in Dorado, which commenced operations in March 2022, five months subsequent to the historical period from October 1, 2021, through September 30, 2023, which ASES uses to establish the provider's base rate, was allocated a base rate of \$8,146.04 despite reporting no discharges during the initial five months.

39. In contrast, PHG's lower base rate does not account for the substantial rise in patient discharges from Plan Vital, which has resulted from the closure or bankruptcy of three regional hospitals. This discrepancy suggests inconsistencies in the application of the reference period or methodology.

40. The inconsistent implementation undermines the integrity of ASES's APR-DRG system and exacerbates the financial challenges experienced by hospitals such as PHG as they serve growing populations within Government Health Plan programs.

41. California, Florida, and Massachusetts demonstrate that the APR-DRG methodology can be implemented in a fair, equitable, and non-discriminatory manner. In each of these states, hospital reimbursement begins with a uniform statewide base rate, which is then adjusted by objective, transparent factors, such as wage indices, service or age adjustors, and clearly defined provider categories, ensuring that hospitals operating under similar conditions receive the same reimbursement for the same services. Importantly, these states do not require

hospital-specific historical utilization data to establish base rates, nor do they penalize hospitals with limited or incomplete historical data. As a result, rural and non-rural hospitals within the same geographic or provider category are treated equally and placed on a comparable footing. This approach preserves stability, promotes access to care, and avoids discrimination against hospitals serving vulnerable populations or those lacking extensive historical datasets, underscoring that APR-DRG can be administered consistently with principles of fairness and equity when properly designed.

42. PHG reiterates that the base rates established under ASES's APR-DRG reimbursement framework are projected to substantially underestimate PHG's expenses under the Medicaid program, resulting in an anticipated loss of \$3,179.29 per discharge or a shortfall of Six hundred thirty-six thousand dollars (\$636,000) during the calendar year 2026 assuming 200 Plan Vital discharges.

43. ASES's APR-DRG current reimbursement system violates Section 1902 (a)(30)(A) of the Medicaid Statute because it fails to assure that "payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available to the general population in the geographic area".

44. The decision by ASES to implement the APR-DRG system without establishing a standardized average base rate applicable universally or in a non-disparate manner to all hospitals, adjusted for labor considerations, and in the absence of data for PHG during the pertinent period, constitutes a violation of PHG's right to equal protection under the law. Furthermore, this decision evidences ASES's clear intent to distinguish PHG from other providers.

45. Moreover, the absence of administrative regulations within ASES—regulations that would enable providers such as PHG to pursue administrative review of any arbitrary and capricious decisions made by ASES, including the implementation of ASES's APR-DRG current

reimbursement system—violates PHS’s right to procedural due process of law. However, even if, at the time, ASES had implemented an administrative review procedure, as a matter of law, challenges to the substantive or procedural validity of a regulation allow hospital providers, including PHG, to pursue the matter in federal court. Bridgeport Hospital v. Becerra, 589 F. Supp. 3d 1 (2022). Prior to commencing this action, PHG made multiple good-faith extrajudicial efforts to resolve this dispute, including direct written communications to ASES requesting detailed information concerning the criteria, data, and adjustments used in developing the APR-DRG base rates. Additionally, PHG filed an action in the courts of the Commonwealth of Puerto Rico pursuant to Act No. 141-2019, known as the Transparency and Expedited Procedure for Access to Public Information Act, seeking access to the underlying data and methodologies used by ASES to calculate the APR-DRG hospital-specific base rates.

46. PHG’s state transparency action is complementary to the claims asserted in this federal complaint and does not seek to resolve, nor can it resolve, PHG’s federal constitutional claims under the Due Process and Equal Protection Clauses of the Fourteenth Amendment, or its claims regarding ASES’s compliance with federal Medicaid standards. Despite these diligent efforts, ASES has refused to disclose critical information necessary to evaluate the actuarial soundness, neutrality, and legality of its rate-setting process. This continued lack of transparency further demonstrates the arbitrary and irrational nature of ASES’s actions. Consequently, PHG was compelled to file the present complaint. Unless it is ordered by this Honorable Court, ASES’s unlawful actions will lead to PHG sustaining an immediate and quantifiable loss of approximately \$3,179.29 per discharge or Six hundred thirty-six thousand dollars (\$636,000) during the calendar year 2026 assuming 200 discharges. This loss will directly compromise PHG's financial stability and its ability to continue serving Medicaid and dual-eligible beneficiaries in Puerto Rico, thus causing irreparable harm to PHG and adversely affecting the public interest.

47. Beyond the considerable extent of the estimated financial loss, the disputed rates will further impair PHG's operational capacity, reputation, and ability to serve its patient community. Furthermore, the public interest will be adversely affected if PHG is compelled to curtail services or cease operations due to the unlawful reimbursement rates mandated by ASES, as Medicaid beneficiaries in the region will consequently lose access to essential healthcare services, a detriment that cannot be remedied through monetary compensation.

48. PHG faces ongoing enforcement actions that violate federal statutory law and constitutional protections. Without injunctive relief, it would suffer irreparable harm to its legal rights regardless of financial consequences. Since PHG will undoubtedly suffer substantial, lasting, and irreparable harm without injunctive relief, these factors strongly support granting such relief.

49. Therefore, PHG requests the Court to issue permanent injunctive relief to compel ASES to recalculate and implement the APR-DRG base rates in a manner that complies with federal law, recognized actuarial standards, and the constitutional requirements of due process and equal protection.

50. PHG does not aim to privately enforce the provisions of 42 U.S.C. § 1396a(a)(30)(A) through 42 U.S.C. § 1883 or the Supremacy Clause. Instead, PHG references Section 30(A) as the federal standard that Puerto Rico has voluntarily adopted as a condition of its Medicaid program participation. The failure of ASES to adhere to this standard and its selective manipulation of reimbursement methods represent arbitrary, discriminatory, and unconstitutional conduct.

51. PHG's claims originate from the due process and equal protection clauses of the Fourteenth Amendment, seeking prospective relief to prevent ongoing violations of federal and constitutional rights. Moreover, PHG seeks that the ASES's APR-DRG system be implemented

using uniformly calculated and applied base rates. It is PHG's contention that even though the calculations need not be precisely accurate, the base rates to be implemented must reflect ASES's best approximation of hospital providers' specific operations, which would not be achieved through incomplete and inaccurate data; "[A]gencies do not have a free rein to use inaccurate data". *Dist. Hospital Partners, L.P. v. Burwell*, 786 F. 3d 46, 56 (D.C. Cir 2015), *Bridgeport Hospital v. Becerra*, *supra*.

52. Lastly, since ASES's APR-DRG system began implementation on January 1, 2026, PHG has suffered economic losses from that date forward due to the undervalued base rate arbitrarily assigned by ASES. Therefore, PHG requests that, once ASES amends its APR-DRG system to use a base rate uniformly calculated for each hospital provider in accordance with the law, PHG be compensated retroactively for its loss of income.

WHEREFORE, PHG respectfully requests this Honorable Court to grant the remedies requested in this complaint, and as a result: (1) issue a permanent injunction prohibiting ASES, their officers, agents, employees, and all persons acting in concert with them or under their authority, from enforcing, implementing, or applying the 2026 hospital reimbursement rates set forth in the December 2025 rate schedule as applied to PHG, until such time as ASES conducts a lawful, impartial, actuarially sound and constitutional compliant recalculation consistent with the Medicaid Act, 42 U.S.C. § 1396a(a)30(A), and the due process and equal protection clauses of the Fourteenth Amendment; (2) award PHG reasonable attorney's fees, costs and expenses incurred in connection with this case; (3) PHG be compensated retroactively for its loss of income; (5) and grant such other and further equitable relief as this Court deems just, proper, and necessary to protect PHG's rights and prevent irreparable harm.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 7th day of May 2026.

CORRETJER, L.L.C.
625 Ponce de León Ave.
San Juan, Puerto Rico 00917-4819
Tel. (787) 751-4618 | (787) 751-4568
Fax.: (787) 759-6503
www.corretjerlaw.com

s/ *Eduardo J. Corretjer Reyes*
U.S.D.C. No.224113
ejcr@corretjerlaw.com

s/ *Fernando Aguayo Ruiz*
U.S.D.C. No. 302004
far@corretjerlaw.com