

We are citizens for using leveraged ESOP'S to capitalize and fund research endowments at public and nonprofit hospitals

- › **Many public and nonprofit hospitals across the country have entered into General partnerships(GP) with their affiliated physicians. typically the GP has the public hospital as the majority partner and the physician partners as the minority partner. The minority for profit entity pays income and property taxes and the nonprofit files a IRS form 990 or in the case of the public hospital it does not pay taxes as a government instrumentality.**
- › **We argue that an employee stock ownership plan (ESOP) can also be a partner with a public or nonprofit hospital as long as it is recognized that a ESOP is a for profit pension plan.**

A proposal to use an ESOP as a leveraged debt instrument to fund a research endowment

- › **ESOPS as a leveraging force for public private partnerships. The Chattanooga-Hamilton County Hospital Authority(Erlanger) is used here as a proposed example.**
- › **(1) The Erlanger employee stock ownership plan and the Erlanger medical research trust.**
- › **(2) Erlanger hospital (The Primary health system) creates a GP (general partnership) The Chattanooga- Hamilton County hospital authority would own a majority share of the GP.**
- › **The Erlanger hospital ESOP would purchase a minority share of Erlanger's assets to own a minority share. The Erlanger ESOP share may be leveraged**
- › **By loans paid off by future hospital revenue. The ESOP is an employee benefit plan.**
- › **(3)Erlanger would place the price paid to it for the ESOP's minority share into a trust to endow medical research. Erlanger would employ researchers and there support staffs and build buildings to house them and to equip laboratories for their use.**

ESOP Ownership Structures In a Public hospital

- › **As a for profit pension plan the ESOP would need to own a for profit entity. Indeed the ESOP could be in a partnership with the physicians in a S corporation where the ESOP is one of the S corporation partners and the S corporation is in a general partnership with the public hospital. The alternative is the ESOP's for profit entity is a partner with the physician group and the public hospital in a General partnership. The public hospital would appoint the ESOP trustee however the trustee is required under ERISA to represent the public hospitals employees best interests.**

An example, The Chattanooga-Hamilton County Hospital Authority

- › **(4) Erlanger would endeavor to hire researchers with proven records in grant writing, publishing results in the top science journals and in funding there research with NIH, NSF and CDC grant agencies.**
- › **(5) Grants shall be considered the chief funding agent for Erlanger research laboratories and buildings. These buildings and equipment shall increase the asset base of the Erlanger hospital GP!**

Research endowments attracts research funding

- › **Department of education grants should cover a lot of the work study, fellowships and graduate student workers in the labs. It is important that these employees participate in the ESOP as this keeps undergraduates in the community and broadens the base of the ESOP and in turn the assets of the research trust.**
 - › **(6) A large force of research workers shall also increase the base of Erlanger employment covered by the ESOP and also in turn broadens the base of the**
- (B) (1) Erlanger's assets are valued at about \$400 million an ESOP purchases a 10% share; this would create a \$40 million research endowment. Expend \$2 million a year of the trusts interest to hire 3 to 4 researchers. In a decade you would have 40 researchers plus support staff. A 20% purchase of Erlanger's assets by the leveraged ESOP would transfer \$40 million into the Erlanger research trust.**

Private public partnerships and the public hospital/ESOP partnership

- › **(B)(2) The Primary health System could enter into partnerships with other non profits and governmental units to assist in paying the dept leveraged to the ESOP. This could allow an ESOP with a 20% to 30 % share of the Primary health system and a corresponding increase to the Erlanger research Trust.**
- › **(B)(3) The City of Chattanooga, Hamilton County, and area nonprofits such as the Benwood and Lyndurst foundations could help pay down economic development bonds used to loan to the ESOP. Erlanger cash flows over decades would pay the balance.**

The federal role

- › **It is believed that using Chattanooga or Hamilton County economic development bonds to leverage a Chattanooga-Hamilton County Hospital Authority ESOP(Erlanger) would come under the ERISA rules and would not constitute “arbitrage” under IRS rules. Arbitrage prohibits state or local governments investing bond proceeds in investment plans. Economic development bonds would come with a covenant that the funds from the ESOP would transfer to the Erlanger research trust with a annual expenditures of a portion of the trusts earnings for scientific research.**
- › **The Economic development bonds would serve a synergistic dual purpose for each dollar invested. The Erlanger research trust would increase scientific medical research employment in the Chattanooga area and the ESOP would over many decades increase the wealth of the employees and retirees in the Chattanooga area.**
- › **The federal role could be in relaxing the 20% cap on annual contributions to a combined 401 K or defined benefit plan and the ESOP when the transaction is for the purpose of capitalizing a research trust.**

The Federal role

- › **Alternatively the federal role might be to in part allow some of the proceeds of a local economic development bond issue to directly flow to the research endowment in combination with leveraging the ESOP. The direct transfer would not be considered arbitrage as the endowments would in fact would be fulfilling there economic and scientific goals.**
- › **Instead of private bills earmarking research dollars there should be an automatic endowment process for each congressional district for scientific endeavors. Several million dollars per annum per congressional district over a decade would result in small clusters of science research in places as far flung as South Dakota. Peer review must be used for hiring and the researcher must still be successful in peer review for grants.**