Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

199912051

Contact Person:

Telephone Number:

In Reference to:

Date: MAR 0 2 1999

Employer Identification Number:
Key District:

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Dear Sir or Madam:

This is in reply to your request for rulings as to the consequences of several proposed transactions on your exempt status under section 501(c)(3) of the Internal Revenue Code and your status as other than a private foundation under section 509(a) of the Code.

FACTS

A is exempt from federal income tax under section 501(c)(3) and is a non-private foundation under section 509(a)(3). A is the sole member of a group of nonstock, exempt corporations which, in the aggregate, operate two acute care hospital facilities and provide health care and related services to the

community. A is also the sole stockholder of certain stock corporations engaged in businesses and activities related to the delivery of health care and related services in the community.

B is exempt from federal income tax under section 501(c)(3) of the Code and is other than a private foundation under sections 509(a)(1) and 170(b)(1)(A)(iii) of the Code. B delivers health care services to the community through the operation of an acute care hospital. B is not related to A or any of its affiliates. B's sole corporate member is I, an organization that is exempt from federal income tax under section 501(c)(3). I is the controlling organization of a nationwide group of health care providers and related businesses.

A is the sole member of the following nonstock corporations: C, which operates an acute care hospital, is exempt from federal income tax under section 501(c)(3) of the Code, is other than a private foundation under sections 509(a)(1) and 170(b)(1)(A)(iii) of the Code, and is the beneficiary of the proceeds of outstanding tax-exempt bonds; D, which operates an acute care hospital, is exempt from federal income tax under section 501(c)(3), is other than a private foundation under sections 509(a)(1) and 170(b)(1)(A)(iii), and is the beneficiary of the proceeds of outstanding tax-exempt bonds; F, which provides home health care and hospice services, is exempt from federal income tax under section 501(c)(3), and is other than a private foundation under section 509(a)(2) of the Code; E, which manages medical care facilities and contracts for the provision of health services, is exempt from federal income tax under section 501(c)(3), and is other than a private foundation under section 509(a)(2); and G, which holds title to certain real estate and is exempt from federal income tax under section 501(c)(2). Each of C, D, F, E, and G is referred to herein, individually, as a "Nonstock Entity," and they are collectively referred to as the "Nonstock Entities."

A is a supporting organization within the meaning of section 509(a)(3) with respect to each of C, D, F, and E. A' Articles of Amendment and Restatement provide that the purpose of A is to operate exclusively for the benefit of, to perform the functions of, and to carry out the purposes of C, D, E, and F, by managing, supervising, monitoring, reviewing, coordinating, and planning the operations of C, D, E, and F, individually and collectively. Consistent with a ruling letter issued in 1991 by the Service, A's charter requires that at least two of the members of A's board of directors must be members of the board of directors of C; at least two of the members of A's board of directors must be

members of the board of directors of D; and at least one member of A's board of directors must be a member of the board of directors of E. In 1996, A became the sole member of F and, consistent with the 1991 letter ruling, A's charter was amended to provide that at least one member of A's board must be a member of the F board of directors.

A is the sole stockholder of the following stock corporations: L, which, along with another non-profit, tax-exempt local hospital, holds a 50% interest in a joint venture that provides management services to physician practices and hospitals; M, which, along with B, another non-profit, tax-exempt, local hospital and physicians, holds an interest in a corporation that delivers primary care health services through physician employees; N, which operates a medical office building; and P, which acquires, owns, sells and deals with investments and ownership interests in medical practices, health care related businesses, and other types of businesses. Each of these entities is referred to herein, individually, as a "Stock Entity," and they are collectively referred to as the "Stock Entities."

A also is the sole member of H, an organization that raises and manages funds as a supporting organization for each of C, D, F, and E. H is exempt under section 501(c)(3) of the Code, and is a non-private foundation pursuant to section 509(a)(3) of the Code. Consistent with a ruling letter issued by the Service in 1991, H's charter requires that at least two of the members of H's board of directors must be members of the board of directors of C; at least-two of the members of H's board of directors must be members of the board of directors of D; and at least one member of H's board of directors must be a member of the board of directors of E. In 1996 A became the sole member of F and, consistent with the 1991 letter ruling, H's charter was amended to provide that at least one member of H's board must be a member of the F board of directors.

The applicant believes that the community needs a new, full-service medical campus, including a new hospital facility, to replace the outmoded and inefficient hospital facility currently being operated by C. The hospital operated by C is the only hospital in its service community. C proposes to construct a 120-bed, acute care hospital and an ambulatory care center (the "Medical Campus"). A medical office building currently exists at that site. The relocation of obstetric services and pediatric beds to the new Medical Campus will place these services within the geographic area which contains the highest concentration of persons in need of these services.

A, B, and the Nonstock Entities have determined that it is in the best interests of the community, and in furtherance of their respective exempt purposes, for A and B to combine their respective resources to expand the availability of health care to the indigent in the community. Accordingly, A and B propose the formation of J to oversee and monitor the delivery of health care to the community, including the construction and operation of the Medical Campus. J will be formed as a limited liability company and will not elect to be treated as a corporation for federal tax purposes.

J's purposes specifically include carrying out the charitable missions of both A and B. In furtherance of J's purposes and objectives with respect to advancing and supporting the health care needs of the community, A and B intend that J will support and facilitate the development, financing and construction of the Medical Campus in a timely and efficient manner.

In exchange for its membership interest in J, and pursuant to a Contribution Agreement between A and B (the "Contribution Agreement"), B will contribute 5X to J. All of these funds will be directly applied to the development and construction of the Medical Campus. The investment of B in the Medical Campus (through J) is integral to the financing necessary to the construction of the Medical Campus. Pending the rulings requested herein, B will lend the funds pursuant to an interim financing arrangement.

Pursuant to the Contribution Agreement, A will contribute its stock interests in the Stock Entities to J and J will become the sole member of the Nonstock Entities (collectively, the "A Contribution"), in exchange for which A will receive a membership interest in J. Prior to A's Contribution, the Nonstock Entities and/or the Stock Entities will transfer X to A and/or H. After A's Contribution has been made, J will have the authority to appoint the directors of the Nonstock Entities and the Stock Entities, subject to the integrated board representation requirements discussed above. H will remain separate from J; its sole member will continue to be A. H will continue to serve as a supporting organization to C, D, F and E.

On a periodic basis, the revenues of each Nonstock Entity and each Stock Entity, over and above its costs and expenses necessary for operation, (the "available cash") will be distributed to J. At the end of each calendar year, J's available cash will be shared between A and B. The anticipated

value of A's Contribution is 20X. Thus, it is contemplated that A will own an 80 percent interest in J, and B will own a 20 percent interest. Nevertheless, A and B have determined to value the A Contribution as part of the ongoing operation of J and after the opening of the proposed new hospital, rather than upon the formation of J. When J is determined through an independent appraisal to have a value of 25X (i.e., the sum of the 20X agreed initial value of the A Contribution and the cash contribution of B) or more, A and B will share the available cash of B on the basis of their 80 percent and 20 percent ownership interests. Until that time, however, B will be entitled to a distribution of 7 percent on its contribution to the extent J has available cash. If there is not enough available cash in J, then the 7 percent distribution to B will accumulate. Also, during such period, any available cash in J in excess of the amount needed to pay such distribution to B will be distributed to A.

A, consistent with its exempt purposes of enhancing the delivery of health care services to the community and providing support to its supported organizations within the meaning of section 509(a)(3), will continue to provide funds and other assets to C, D, F, and E. All of the funds distributed from J to A will be contributed back to or used for the benefit of the Nonstock Entities for use in furtherance of the purposes of A and the Nonstock Entities. A also will continue to provide oversight through maintaining its own board made up of community members and by selecting approximately 80 percent of J board's members. Similarly, all of the funds distributed from the J to B will be used by B in furtherance of its exempt purposes.

In order to protect the interests of the community, A and B have determined that A should have the right to acquire B's interest in J during the first two years of J, and thereafter upon the occurrence of a deadlock at J's board level or a merger by B with an entity that (1) is not exempt; (2) does not have substantial health care related business in K; or (3) competes with J's, A's, and the Nonstock Entities' delivery of health care in the community.

A and B will be the only members of J. J will have a governing board with members representing both A and B. J's CEO will serve on the board, B will be entitled to appoint 20 percent of the board members and the remaining board members (approximately 80 percent) will be appointed by A. The initial CEO of J will be the current President/CEO of A. It is expected that, unless otherwise determined by J's board, the CEO and other senior management personnel of J and the Nonstock Entities will be employed, and other management services will be provided, by A.

The board of J generally will act by majority vote of its members. Nevertheless, certain actions will require the affirmative vote of a majority of the A directors and the affirmative vote of a majority of the B directors present at a duly called meeting.

C and D borrowed the proceeds of tax-exempt bonds to finance facilities at C and D. One of the borrowings was from the proceeds of a bond issue which was tax-exempt. It is expected that additional tax-exempt bonds will be issued (the "New Bonds"), the proceeds of which will be used to finance a portion of the cost of the acquisition and construction of the Medical Campus and to refinance in whole or in part borrowings made from the prior tax exempt debt. C and D will constitute an obligated group with respect to these additional tax-exempt bonds. J will not alter the respective obligations of C and D with respect to these borrowings, nor will it be part of the obligated group with respect to the additional bonds.

A and B will, to the extent legally permissible, collaborate with regard to managed care contracting and participate in each other's networks and contracts related to the delivery of health care and related services. J will oversee such collaboration, but actual collaborative activities with respect to managed care contracts will be conducted by C, D, and B themselves. B will participate in J through its appointed board members, but will not be actively involved with the operations of J, and B will not provide ancillary services (such as corporate management) to A, J, the Nonstock Entities, or the Stock Entities. It is intended that J will enhance the quality of, and access to, health care in the community. J also will serve as the vehicle that supports and furthers the common and unifying health care missions of A and B in the community.

REQUESTED RULINGS

1) A's and H's exempt status under section 501(c)(3) of the Code and the non-private foundation status of each under 509(a)(3) of the Code will not be adversely affected by, and neither A nor H will have, or be deemed to receive, unrelated business taxable income or debt-financed income under sections 511 through 514 of the Code with respect to, any of the following:

   a) The transfer of X from the Nonstock Entities and/or the Stock Entities to A and/or H prior to the formation of J;

b) the formation of J by A and B, the making of the initial contributions to J by A and B pursuant to the Contribution Agreement, A's and B's receipt of their respective membership interests in J, the making of future contributions by A or B to J, and the participation of A and B in J as contemplated in the Operating Agreement;

c) the substitution of J as the sole corporate member of each Nonstock Entity and as the sole stockholder of each Stock Entity;

d) transfers of cash or assets from J to the Nonstock Entities or Stock Entities;

e) distributions of cash or assets from the Nonstock Entities to J and subsequent distributions of such cash or assets by J to A and B; and

f) additional contributions of cash or assets from A or B to J.

2. A's provision of management, supervision, and oversight services to the Nonstock Entities and A's receipt of payments for such services from J will not adversely affect A's status as an organization exempt under section 501(c)(3) of the Code and described in section 509(a)(3) of the Code.

3. B's exempt status under section 501(c)(3) of the Code, its status as a non-private foundation under section 509(a)(1) of the Code, and its status as a hospital organization under section 170(b)(1)(A)(iii) of the Code will not be adversely affected by, and it will not have, or be deemed to receive, unrelated business taxable income or debt-financed income under sections 511 through 514 of the Code with respect to the matters described in subparagraphs (a) - (f) in ruling request 1 above.

4. C's, D's, F's, and E' exempt status under section 501(c)(3) of the Code, G's exempt status under section 501(c)(2) of the Code, C's, D's, F's, and E' status as non-private foundations under sections 509(a)(1) or (a)(2) of the Code, and C's and D's status as hospital organizations under section 170(b)(i)(A)(iii) of the Code will not be adversely affected by, and no Nonstock Entity will have, or be deemed to receive, unrelated business taxable income or debt-financed income under

sections 511 through 514 of the Code with respect to the matters described in subparagraphs (a) through (f) ruling request 1 above.

LAW AND ANALYSIS

Section 501(c)(3) of the Internal Revenue Code provides for the exemption from federal income tax of corporations organized and operated exclusively for charitable, scientific or educational purposes, provided that no part of the corporation's net earnings inures to the benefit of any private share holder or individual.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense. The promotion of health has long been recognized as a charitable purpose. See Restatement (Second) of Trusts, sections 368, 372; Scott on Trusts, sections 368, 372; Rev. Rul. 69-545, 1969-2 C.B. 117.

Rev. Rul. 69-545 establishes the community benefit standard, which focuses on a number of factors indicating the operation of a hospital benefits the community rather than serving private interests. The revenue ruling requires all relevant facts and circumstances to be weighed in each case. The facts in Situation 1 of the revenue ruling indicate that a hospital serves the public rather than private interests if the hospital is controlled by a board composed of independent civic leaders, has an open medical staff, and an active, open, and accessible emergency room.

Rev. Rul. 98-15, 1998 I.R.B. 12, Situation 1, explicitly approves formation of a limited liability company (which is a partnership for federal tax purposes) by an exempt hospital organization, although in that ruling, the other limited liability company member is an unrelated for-profit entity. Situation 1 of the ruling concludes that the hospital organization's principal activity continues to be the provision of hospital care, even when such activities are conducted through a limited liability company, because, inter alia, the tax-exempt hospital retains control over, the limited liability company and the limited liability company serves charitable purposes. According to Rev. Rul. 98-15, for federal tax purposes, the activities of a partnership are often considered to be the activities of the partners. Aggregate treatment is also consistent with the treatment of partnerships for the purposes of the unrelated business income tax under section 512(c) of the Code. The ruling notes that in light of the aggregation

principle reflected in section 512(c), the aggregate approach also applies for purposes of the operational test set forth in section 1.501(c)(3)-1(c) of the regulations. Thus, the activities of a limited liability company treated as a partnership for federal tax purposes are considered to be the activities of an exempt organization that is an owner of the limited liability company when evaluating whether the exempt organization is operated exclusively for exempt purposes within the meaning of section 501(c)(3) of the Code. Accordingly, an organization that is exempt under section 501(c)(3) may form and participate in a partnership, including a limited liability company treated as a partnership for federal tax purposes, and meet the operational test if participation in the partnership furthers its charitable purpose, and the partnership arrangement permits the exempt organization to act exclusively in furtherance of its exempt purpose and only incidentally for the benefit of any for-profit partners.

Section 1.501(c)(3)-1(e) of the regulations provides, in part, that an organization may meet the requirements of section 501(c)(3) of the Code although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purposes and if the organization is not organized or operated for the primary purposes of carrying on an unrelated trade or business, as defined in section 513. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes.

Section 509(a)(3) of the Code excludes from the definition of private foundation an organization which is (a) organized and, at all times thereafter, is operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more organizations described in section 509(a)(1) or (2); (b) is operated, supervised or controlled by, or in connection with one or more organizations described in section 509(a)(1) or (2); and (c) is not controlled, directly or indirectly, by one or more disqualified persons (as defined in section 4946) other than foundation managers and other than one or more section 509(a)(1) or (2) organizations.

Section 1.509(a)-4(b) of the regulations states that in order to qualify as a supporting organization under section 509(a)(3) of the Code, an organization must be both organized and operated for the benefit of, to perform the functions of, or to

carry out the purposes of one or more specific publicly supported organizations. Both tests must be satisfied.

Section 1.509(a)-4(f) of the regulations provides that in order to be classified as an organization described in section 509(a)(3) an organization must stand in one of the designated relationships to its supported organization. It must either be:

(i) Operated, supervised, or controlled by,

(ii) Supervised or controlled in connection with, or

(iii) Operated in connection with, one or more publicly supported organizations.

Section 1.509(a)-4(g)(1)(i) of the regulations provides, in part, that each of the items "operated by," "supervised by" and "controlled by," as used in section 509(a)(3)(B), presupposes a substantial degree of direction over the policies, programs, and activities of a supporting organization by one or more publicly supported organizations. The relationship required under any one of these terms is comparable to that of a parent and subsidiary, where the subsidiary is under the direction of, and accountable or responsible to, the parent organization. This relationship is established by the fact that a majority of the officers, directors, or trustees of the supporting organization are, appointed by the governing body, members of the governing body, officers acting in their official capacity, or the membership of one or more publicly supported organizations.

Section 1.509(a)-4(g)(1)(ii) of the regulations provides that a supporting organization may be operated, supervised, or controlled by one or more publicly supported organizations within the meaning of section 509(a)(3)(B) even though its governing body is not comprised of representatives of the specified publicly supported organizations for, whose benefit it is operated within the meaning of section 509(a)(3)(A). A supporting organization may be operated, supervised, or controlled by one or more publicly supported organizations (within the meaning of section 509(a)(3)(B)) and be operated for the benefit of one or more different publicly supported organizations (within the meaning of section 509(a)(3)(A)) only if it can be demonstrated that the purposes of the former organizations are carried out by benefiting the latter organizations.

Section 511 of the Code imposes a tax on the unrelated business income of organizations described in section 501(c) and exempt under 501(a).

Section 512 of the Code defines unrelated business taxable income as the gross income derived from any unrelated trade or business regularly carried on, less the allowable deductions that are directly connected with the carrying on of the trade or business, both computed with certain modifications.

Section 512(c)(1) of the Code provides, in relevant part, that, if a trade or business regularly carried on by a partnership of which an organization is a member is an unrelated trade or business with respect to such organization, such organization in computing its unrelated business taxable income shall include its share (whether or not distributed) of the gross income of the partnership from such unrelated trade or business and its share of the partnership deductions connected with such gross income.

Section 513(a) of the Code provides that the term "unrelated trade or business" includes any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational or other purpose or function constituting the basis for its exemption under section 501. The term, however, does not include any trade or business carried on by the organization primarily for the convenience of its members, students, patients, officers, or employees.

Section 1.513-i(d)(1) of the regulations provides that gross income derives from unrelated trade or business, within the meaning of section 513(a) of the Code, if the conduct of the trade or business which produces the income is not substantially related (other than through the production of funds) to the purposes for which exemption is granted. This requirement necessitates an examination of the relationship between the business activities which generate the particular income in question and the accomplishment of the organization's exempt purposes.

Section 1.513-1(d)(3) of the regulations provides that in determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function which they purport to serve. If such activities are in part related to exempt functions but are conducted on a larger scale than is reasonably necessary for the performance of such functions, the activities in excess of the needs of the exempt functions will not be considered to

contribute importantly to the accomplishment of any exempt purpose of the organization.

Section 514(a) provides that in computing unrelated business taxable income under section 512, income from debt-financed property shall be included as an item of gross income derived from unrelated trade or business.

Section 514(b) provides, in general, that the term "debt-financed property" means any property which is held to produce income and with respect to which there is an acquisition indebtedness as defined in section 514(c).

Section 514(b)(i)(A) provides that the term "debt-financed property" does not include any property of which substantially all the use is substantially related to the performance of the exempt function of the organization.

Section 1.514(b)-1(b)(1)(i) of the regulations provides that in determining whether the use of property is substantially related to an organization's exempt functions or purposes for purposes of Section 514, the regulations under section 513 should be applied.

Section 1.514(b)-1(c)(1) of the regulations indicates, by example, that where an exempt hospital leases real property owned by it to an association of doctors for use as a clinic, the rents derived under such lease would not be included in computing unrelated business taxable income if the clinic is substantially related to the carrying on of hospital functions.

Section 1.514(b)-1(c)(2)(i) of the regulations provides that property owned by an exempt organization and used by a related exempt organization or by an exempt organization related to such related exempt organization shall not be treated as debt-financed property to the extent such property is used by either organization in furtherance of the purpose constituting the basis for its exemption under section 501.

Section 1.514(b)-1(c)(2)(ii)(b) of the regulations provides that two tax exempt organizations are related to each other if one organization has control of the other organization within the meaning of paragraph (e)(4) of section 1.512(b)-1.

Section 514(c)(1) of the Code provides, in relevant part, that the term "acquisition indebtedness" means, with respect to debt-financed property, the unpaid amount of the indebtedness incurred by such organization in acquiring or improving such property.

The charitable and exempt purposes of A, B, C, D, and the other Nonstock Entities after the creation of J will be the same as prior to the creation of J. As provided in Rev. Rul. 98-15, supra, the activities of a limited liability company treated as a partnership for federal income tax purposes are considered to be the activities of an exempt organization that is an owner of the limited liability company when evaluating whether the nonprofit organization is operated exclusively for exempt purposes within the meaning of section 501(c)(3). A section 501(c)(3) organization may form and participate in a partnership, including a limited liability company which has not elected to be treated as a corporation for federal tax purposes, and meet the operational test if participation in the partnership furthers a charitable purpose, and the partnership arrangement permits the exempt organization to act exclusively in furtherance of its exempt purpose and only incidentally for the benefit of any for-profit partners.

In contrast to Rev. Rul. 98-15, both members of J will be entities that are exempt from tax pursuant to section 501(c)(3), so that the activities of J remain entirely in the control of these tax-exempt charities, and J will benefit only exempt entities. Thus, after the formation of J, A and B each will continue to promote the health of the community and otherwise accomplish their respective exempt purposes through the operation of J and the Nonstock Entities, consistent with situation 1 in Rev. Rul 98-15. Further, after the formation of J each of C, D and B will continue to operate a hospital and provide hospital care consistent with the community benefit factors for exempt health care organizations described in Rev. Rul. 69-545. The other Nonstock Entities will continue to further their exempt health care related purposes in conjunction with the activities of J.

To the extent the Stock Entities engage in trades or businesses that are not related to the exempt purposes of A and the Nonstock Entities, the size and extent of such unrelated trades or businesses will be insignificant compared to the activities of A, B, the Nonstock Entities, and the Stock Entities that are in furtherance of exempt purposes. Accordingly, the primary purposes of A, B and the Nonstock Entities, within the meaning of section 1.501(c)(3)-1(e)(1) of the regulations, will remain exempt charitable purposes.

Therefore, A, the Nonstock Entities, and B will continue to be organized and operated exclusively for exempt purposes. Furthermore, because A and B are exempt organizations, and because any income or cash of J will be allocated as

distributions only to A or B in accordance with the Operating Agreement, the creation and operation of J will not result in any private inurement or private benefit.

The exempt purposes of A, the Nonstock Entities, and B will be furthered by A's and B's participation in J because their participation enables them to provide expanded and improved health care services to the community. Accordingly, such participation will not constitute an unrelated trade or business to either A or B within the meaning of section 513 and will not result in any of their respective assets being deemed unrelated debt-financed property for purposes of section 514 of the Code. Furthermore, the transfer of assets or funds among A, H, and the Nonstock Entities (whether through J or directly) will not constitute unrelated business taxable income to any such entities.

As noted above, B will participate in, but not direct, the operation of J through its appointment of some members of J' s board, and has significant rights to approve a variety of fundamental transactions and activities of J. B will not provide ancillary services (such as corporate management) to A, J, the Nonstock Entities, or the Stock Entities. By its participation as a member in J, B will continue to promote the health of the community in accordance with its exempt purposes. The purposes of J specifically include furthering the tax-exempt purposes of its members and the Nonstock Entities and enhancing the quality of health care and promoting the general health and well-being of the community. The furtherance of these exempt purposes through C, D, F, and E will constitute substantially all of the activities of J. Thus, the activities of J and the Nonstock Entities will further and be substantially related to B's exempt purposes.

Accordingly, pursuant to section 512(c), any distribution received by A and B from the Nonstock Entities through J will not be considered unrelated business taxable income.

After the creation of J, A and H will continue to support C, D, F, and E within the meaning of section 509(a)(3). Currently, A controls these beneficiary organizations by virtue of being the sole corporate member of each. After creation of J, A will continue to control these beneficiary organizations based on the fact that A will appoint approximately 80 percent of the members of the board of J, and J will be, in turn, the sole member of each Nonstock Entity. In accordance with the Operating Agreement, A will continue to provide management, supervision, monitoring, review, coordination, and planning to C, D, F, and E, each of which is a supported organization named in its charter.

In addition, H will continue to provide fundraising support to the C, D, F, and E, each of which is a supported organization named in its charter. Consistent with the ruling letters issued to A and H in 1991, A's and H's charters require that at least two of the members of their boards of directors serve on the boards of directors of C and D, and that at least one member of their boards serve on the boards of directors of E and F. A and H will continue to maintain such integrated board representation after formation of J.

The activities and operations of J will not be considered an unrelated trade or business within the meaning of section 513(a) with respect to A or B. J will be responsible for supervision, oversight, policy and planning of the Nonstock Entities and the Stock Entities. Accordingly, the activities and operations of J will promote community health and, thus, will be substantially related to the exempt purposes of A, B and the Nonstock Entities. Indeed, J's corporate purposes require it to act in furtherance of the exempt purposes of its members.

RULINGS

Therefore, we rule as follows:

1. A's and H's exempt status under section 501(c)(3) of the Code and the non-private foundation status of each under section 509(a)(3) will not be adversely affected by, and neither A nor H will have, or be deemed to receive, unrelated business taxable income or debt-financed income under sections 511-514 with respect to, any of the following:

   a) the transfer of X from the Nonstock Entities and/or the Stock Entities to A and/or H prior to the formation of J;

   b) the formation of J by A and B, the making of the initial contributions to J by A and B pursuant to the Contribution Agreement, A's and B's receipt of their respective membership interests in J, the making of future contributions by A or B to J, and the participation of A and B in J as contemplated in the Operating Agreement;

   c) the substitution of J as the sole corporate member of each Nonstock Entity and as the sole stockholder of each Stock Entity;

d) transfers of cash or assets from J to the Nonstock Entities or Stock Entities;

e) distributions of cash or assets from the Nonstock Entities to J and subsequent distributions of such cash or assets by J to A and B; and

f) additional contributions of cash or assets from A or B to J.

2. A's provision of management, supervision, and oversight services to the Nonstock Entities and A's receipt of payments for such services from J will not adversely affect A's status as an organization exempt under section 501(c)(3) of the Code and described in section 509(a)(3) of the Code.

3. B's exempt status under section 501(c)(3) of the Code, its status as a non-private foundation as a hospital under sections 509(a)(1) and 170(b)(1)(A)(iii) of the Code will not be adversely affected by, and it will not have, or be deemed to receive, unrelated business taxable income or debt-financed income under Sections 511 through 514 of the Code with respect to the matters described in subparagraphs (a) through (f) in ruling 1 above.

4. C's, D's, F's, and E' exempt status under section 501(c)(3), G's exempt status under Section 501(c)(2), C's, D's, F's and E' status as non-private foundations under 509(a)(1) or (a)(2), and C's and D's status as hospital organizations under section 170(b)(1)(A)(iii) will not be adversely affected by, and no Nonstock Entity will have, or be deemed to receive, unrelated business taxable income or debt-financed income under sections 511 through 514 of the Code with respect to the matters described in subparagraphs (a) through (f) in conclusion 1 above.

This ruling is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

The rulings in this letter only apply the specifically indicated sections of the Code and regulations to the facts that you have represented. In this letter we do not rule on the applicability of any other sections of the Code and regulations to your case.

Because this letter could help resolve any future questions about your income tax responsibility, please keep a copy of this ruling in your permanent records.

Sincerely yours,

Marvin Friedlander

Marvin Friedlander
Chief, Exempt Organizations
Technical Branch 1