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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Uniform Issue No.
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Date: OCT 24 2000

Contact Person:

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Telephone Number:

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Employer Identification Number:

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Dear Sir/Madam:

This letter is in response to your request for ruling under section 501(c)(3) of the Internal Revenue Code.

FACTS

You are a non-profit corporation incorporated on June 8, 1945 under the laws of the State of a. Your sole member is L, a section 501(c)(3) organization. Your Articles of Incorporation provide that you are to be operated exclusively for charitable, scientific and educational purposes. You operate an acute care hospital in b, c County, a rural area of the state. You offer medical services to all persons in c County and the surrounding areas of a. You have been recognized as an organization described in section 501(c)(3) of the Code and as not a private foundation because you are described in sections 509(a)(1) and 170(b)(1)(A)(iii). Your Board of Directors is comprised of persons who are independent members of the community.

According to data from the a Economic Development Office, the City of b and c County are considered to be economically distressed areas.

You operate the hospital in a building that was constructed in 1954 (the "Old Building"). With the passage of time, the Old Building has required several structural modifications and additions in order to provide additional space for patient care and to meet revised health licensure requirements mandated by the State of a for facilities providing health care. Currently, the Old Building complies with the Health

Licensure and Survey requirements established by the a Department of Health and Human Resources / Office of Health Facility Licensure and Certifications, although grandfathering variances have permitted the Old Building to meet these requirements. The Old Building, however, would require several major repairs in the near future in order for it to continue to operate as a hospital facility and to meet the minimum Health Licensure and Survey Requirements. Consequently, in 1998, your Board of Directors determined that the cost of continuing to upgrade and maintain the Old Building would far outweigh the cost of constructing a new hospital building (the "New Building"). As a result, your Board approved construction of the New Building. You expect that construction of the New Building will be completed by September 2000, and you plan to move your hospital operations to the New Building as soon as possible after its completion.

With respect to the Old Building, your Board of Directors considered several alternatives. Given the population of c County, a and the City of b, and the current economic status of those areas, your Board of Directors determined that it would most likely be unable to sell the Old Building, and therefore, did not list the property for sale with any commercial real estate broker. In reaching this conclusion, your Board relied on advice from d, a state certified real estate appraiser (the "Appraiser"), input from the M ("Board of Trade"), advice from your management, and on data from the a Economic Development Office and the a Bureau of Employment Programs. You had enlisted the assistance of the Board of Trade because it was more familiar with economic development that you were.

A second alternative your Board considered was donating the facility to N (the "College"). For various reasons, the College would not accept this donation.

Your Board also considered demolishing the Old Building. You estimated that this would cost between e, including about f for the removal of asbestos.

As a final alternative, a private business, O, offered to purchase the Old Building. O is a non-exempt limited liability company, owned by members of a family. None of the owners of O has any relation, whether business or familial, to you or to the Board of Trade or has any interest in the New Building. O's main activity is renovating abandoned or outmoded public buildings for lease. O has substantial experience in renovating old buildings and in bringing new business into these facilities. The purchase price O will pay for the Old Building has not yet been finalized, but in no event will it exceed g. However, O will pay for the cost of the asbestos removal.

Under the proposed transaction, which your Board has approved, you would convey the Old Building to the Board of Trade and the Board of Trade would immediately convey it to O at no cost. Since the Board of Trade participated in this transaction from the start, it desired to be a party to the transaction. O would then renovate the Old Building and lease office space in the renovated facility to various businesses. Both you and the Board of Trade determined that the transfer of the Old Building to O would substantially benefit the c County and b areas by generating new business in the area. O estimates that leasing office space in the renovated facility would create between 250 to 450 new jobs in the c County area paying an average of approximately $15,000 to $20,000 per year.

The Appraiser has no direct or indirect financial interest in your organization, the Board of Trade, O or in the New Building. In addition, none of the members of your Board has any direct or indirect financial interest in your organization, the Board of Trade, O or in the New Building. The conflicts of interest policy included in Section 8.2 of your Bylaws applies to the proposed transaction.

RULING REQUESTED

The proposed transaction will not adversely affect the tax-exempt status of your organization under section 501(c)(3) of the Code.

APPLICABLE LAW

Section 501(a) of the Code provides an exemption from federal income tax for organizations described in section 501(c)(3), including organizations that are organized and operated exclusively for charitable, educational or scientific purposes.

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

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations provides that for an organization to be exempt as one described in section 501(c)(3) of the Code, it must be both organized and operated exclusively for one or more exempt purposes. Under section 1.501(c)(3)-1(d)(1)(i)(b) of the regulations, an exempt purpose includes a charitable purpose.

Section 1.501(c)(3)-1(b)(1) of the regulations provides that an organization is organized exclusively for one or more exempt purposes only if its articles of organization (a) limit the purposes of such organization to one or more exempt purposes and (b) do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization is operated exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(2) of the regulations defines the term "charitable" as including the promotion of social welfare by organizations designed to provide relief of the poor and distressed and to combat community deterioration.

Rev. Rul. 70-585, 1970-2 C.B. 115, held that nonprofit housing organizations created to aid low and moderate income families by lessening neighborhood tensions, eliminating prejudice and discrimination, and combating community deterioration qualifies for exemption under section 501(c)(3) of the Code.

Rev. Rul. 74-587, 1974-2 C.B. 162, held that a nonprofit organization formed to relieve poverty, eliminate prejudice, reduce neighborhood tensions, and combat community deterioration through a program of financial assistance in the form of low-cost or long-term loans to, or the purchase of equity interests in, various business enterprises in economically depressed areas is exempt under section 501(c)(3) of the Code.

Rev. Rul. 76-419, 1976-2 C.B. 146, held that a nonprofit organization that purchases blighted land in an economically depressed community, converts the land into an industrial park, and encourages

industrial enterprises to locate new facilities in the park in order to provide employment opportunities for low income residents of the area, is operated exclusively for charitable purposes and qualifies for exemption under section 501(c)(3) of the Code.

Rev. Rul. 77-111, 1977-1 C.B. 144, held that an organization formed to increase business patronage in a deteriorated area by providing information on the area's shopping opportunities, local transportation, and accommodations is not operated exclusively for charitable purposes and does not qualify for exemption under section 501(c)(3) of the Code. Similarly, an organization whose purpose is to revive retail sales in an area of economic decline by constructing a shopping center does not qualify for exemption.

RATIONALE

You are organized to operate exclusively for charitable, scientific and educational purposes. In furtherance of these purposes, you operate an acute care hospital in a facility referred to as the "Old Building," which is located in an economically distressed area of a. In furtherance of these purposes, you determined that it was necessary to relocate the hospital to a new facility (the "New Building"). You also determined that due to the prevailing economic conditions in your community, your only economically viable alternative was to transfer the Old Building, through your local board of trade, for no more than g to O, an unrelated, independent, non-exempt limited liability company. O's main activity is renovating abandoned or outmoded public buildings for lease. O has substantial experience in renovating old buildings and in bringing new business into these facilities. Under your arrangement with O, O would assume the cost of removing asbestos from the Old Building. In addition, O would renovate the Old Building and lease space in the renovated structure to businesses. O has estimated that leasing office space in the renovated facility would create between 250 to 450 new jobs in the c County area paying an average of approximately $15,000 to $20,000 per year.

By transferring the Old Building at no cost to an unrelated, independent company that will renovate the facility and create new jobs in your economically distressed community, you are furthering charitable purposes under Rev. Rul. 70-585, supra; Rev. Rul. Rul. 74-587, supra; and Rev. Rul. 76-419, supra. Any economic benefits derived by O from this transaction and by the businesses that will lease space in the renovated facility would be merely incidental in relation to the charitable purposes that are being promoted. Therefore, as a result of your transaction with O, you will continue to operate exclusively for charitable purposes, unlike the organizations described in Rev. Rul. 77-111, supra.

RULING

The proposed transaction will not adversely affect the tax-exempt status of your organization under section 501(c)(3) of the Code.

This ruling is based on the understanding that there will be no material changes in the facts upon which it is based.

This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described.

This ruling is directed only to the organization that requested it and may not be used or cited by others as precedent.

We are informing your Area Manager of this action. Please keep a copy of this ruling in your permanent records.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

(signed) Marvin Friedlander

Marvin Friedlander
Manager, Exempt Organizations
Technical Group 1