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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

SEP 15 2005

SE:T:EP:RA:T:A2

Hospital =

System =

State =

County =

This letter constitutes notice that a waiver of the minimum funding standard for the above-named plan for the plan year ending December 31,[redacted], has been granted subject to the following conditions:

(1) collateral acceptable to the PBGC be provided to the Plan for the full amount of the waiver by the later of (a) 120 days from the date of the ruling letter or (b) the earlier of (i) the date the PBGC notifies the Service in writing that this condition has not been met or (ii) 360 days from the date of the ruling letter;
(2) the Company provide to the PBGC a copy of any ruling requests it makes under section 412(f)(1) of the Code;
(3) the Company makes all required quarterly contributions to the Plan in a timely manner while the Plan is subject to a waiver of the minimum funding standard; and
(4) the Company make contributions to the Plan in amounts sufficient to meet the minimum funding requirements for the Plan for the plan years ending [redacted], through [redacted] by [redacted], respectively (without applying for a waiver of the minimum funding standard).

Your authorized representative agreed to these conditions in an e-mail dated September 14, 2005. If any one of these conditions is not satisfied, the waiver is retroactively null and void.

This conditional waiver has been granted in accordance with section 412(d) of the Internal Revenue Code ("Code") and section 303 of the Employee Retirement Income Security Act of 1974 ("ERISA"). The amount for which this conditional waiver has been granted is the contribution that would otherwise be required to reduce the balance in the funding standard account to zero as of December 31, [redacted].

The Hospital is a section 503(c)(3) tax-exempt, not-for-profit corporation. On July 1, 1983, the Hospital assumed operations of the System from the Hospital Commission of the County. The Hospital operates 2 hospitals, an outpatient healthcare facility, and a nursing home under a 50-year lease agreement with the County.

In the last few years, the Hospital has been faced with the same difficulties affecting other non-profit hospitals: (1) rising staffing costs, (2) flat or lower reimbursement rates, and (3) increasing numbers of uninsured and underinsured patients. The Hospital is the largest provider of healthcare services in the County, and also serves a sizable portion of the uninsured and underinsured population in surrounding areas.

The State is the only remaining all-payor state where a government agency regulates the rates that hospitals can charge for services. In general, all hospitals in the State must charge regulated rates. This business restraint is exacerbated by the fact that hospitals in a nearby jurisdiction are not subject to these restraints. Therefore, large health insurers have negotiated better rates in the nearby jurisdiction, and have chosen to limit their contracts with the Hospital. Also, the high proportion of indigent patients has forced the Hospital to contract for coverage from many physicians, which is critical for the continued operation of the Hospital and to provide services to the community the Hospital serves. Supplemental payments to independent physicians providing hospital-based services have caused the Hospital to suffer losses over the last 6 years. Furthermore, rising costs associated with the maintenance of the Plan have cased the Hospital to suffer severe cash-flow restraints.

Until February 2002, there had been no significant changes to the operations of the Hospital. However, the financial position of the Hospital had deteriorated considerably by February 2004, and the Governor of the State and the Executive Director of the County found it necessary to intervene in the Hospital's administration. Their intervention lead to the execution of a memorandum of understanding that called for $45,000,000 in financial assistance over a period of 5 years, the establishment of an oversight committee which reports to the board of directors of the Hospital, the County, and the State, and the selection of a turnaround management consulting firm.

The financial information provided by the Hospital clearly shows that the Company has suffered a substantial business hardship. However, the County and State have recognized the Hospital's need for increased reimbursement rates and additional revenue to fund operations. The Hospital is a crucial health care provider in the County, and the State and the County have committed themselves to finding a solution to the Hospital's financial hardship.

The Hospital has also taken a number of steps to improve its financial condition:

(1) The County and State have made short-term commitments to provide additional funding to the Hospital in the form of higher reimbursements, one time contributions for capital expenditures, and on-going subsidies for operating expenses;
(2) The Hospital has brought in new management and has hired an experienced healthcare professional turnaround firm to improve operations;
(3) The Hospital has taken steps to sell its interest in the nursing facility it operates;
(4) The Hospital is actively marketing additional properties that are not critical to its operations;
(5) The Hospital has hired a new actuarial firm to assess the Plan and to advise it on its pension funding and reporting obligations; and
(6) The Hospital has proposed to cease accruals to the Plan on or before [redacted] and is actively pursuing negotiations with the unions representing participants in the Plan to finalize the proposal.

Furthermore, the Hospital's financial condition has improved for the fiscal year ending June 30, [redacted]. Interim financial information provided for the fiscal period ending May 31, [redacted], show the Hospital operating without a loss. Furthermore, the financial projections do not take into account a potential cessation of accruals to the Plan or additional operational improvements. Based on this information, it appears that the financial hardship is temporary. Hence, the waiver of the minimum funding standard for the Plan for the plan year ending [redacted], has been granted subject to the conditions listed above.

Your attention is called to section 412(f) of the Code and section 304(b) of ERISA which describe the consequences that would result in the event the plan is amended to increase benefits, change the rate in the accrual of benefits or to change the rate of vesting, while any portion of the waived funding deficiency remains unamortized. Please note that any amendment to a profit sharing plan or any other retirement plans (covering employees covered by this plan) maintained by the Company, to increase the liabilities of those plans would be considered an amendment for purposes of section 412(f) of the Code and section 304(b) of ERISA. Similarly, the establishment of a new profit sharing plan or any other retirement plan by the Company (covering employees covered by this plan) would be considered an amendment for purposes of section 412(f) of the Code and section 304(b) of ERISA.

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

When filing Form 5500 for the plan year ending [redacted] the date of this letter should be entered on Schedule B (Actuarial Information). For this reason, we suggest that you furnish a copy of this letter to the enrolled actuary who is responsible for the completion of the Schedule B.

We have sent a copy of this letter to the Manager, EP Classification in , and to the Manager, EP Compliance Unit in

If you require further assistance in this matter, please contact

Sincerely yours,

for Carol D. Gold
Director, Employee Plans