



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

Number: **200606047**
Release Date: 2/10/06
234251/SE:T:EO:RA:T:3

Date: November 14, 2005

UIL # 501.03-33
No Third Party Contact

Contact Person:

Identification Number:

Telephone Number:

Employer Identification Number:

Legend:

W =
X =
Y =
Z =
U =

Dear

We have considered your ruling request dated November 17, 2003, as amended, in which certain rulings were requested regarding the proposed activities of W and X and the federal tax consequences associated with these activities.

W is a Z nonprofit corporation recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as other than a private foundation under section 509(a)(2) of the Code. W was formed to promote educational excellence for Z school children through advocacy, visionary, leadership, and high quality services to Z school districts. W's principal activities in furtherance of its charitable and educational purposes include a variety of services for members to help them provide high quality public education.

W members include: all Z school districts, all regional education service centers, 45 junior colleges, 38 tax appraisal districts, and 146 educational cooperatives. Member services include: policy development and guidance; facilitation of programs to increase parental involvement in schools; education and training, including organizing conventions, workshops, and seminars for applicable credit; assistance with superintendent searches; public and governmental relations; human resource consulting; risk management services; Medicaid billing assistance; and a cooperative supply purchasing program. W also publishes several education-related periodicals. W receives its financial support from members' dues, fees for services described above and government grants.

In addition to the general member services, W administers the U. U provides an efficient mechanism by which school districts can invest, on a short-term basis, excess funds that are available due to timing differences in revenues and expenditures. U currently offers four Funds enabling member districts to select the investment vehicles that suit their needs. U is governed by a Board of Trustees, every member of which is either an employee or an elected official of a school district participating in the pool. The Funds are managed pursuant to contracts with registered investment advisers, and all assets are held by a custodian bank. W markets the U funds to its member school districts and provides administrative assistance, office space and equipment in support of the pooled investment services. In a Technical Advice memorandum the Service concluded that the investment services provided by W for Z school boards furthered W's charitable purpose of lessening the burdens of the Z State government.

W proposes to expand its activities to include managing such investments for local governments in Z. To this end, X (formerly Y) was established pursuant to the Z Limited Liability Company Act. W is the sole member of X. X does not elect to be treated as a corporation and, therefore, is treated as a disregarded entity for federal tax purposes. X will contract with a registered investment adviser and a custodian bank, both of which will be paid reasonable fees for their services. Participation in the funds managed by X will be limited to school districts and local governments in Z. Accordingly, X will invest only in securities which are eligible investments for these entities. It is anticipated that X's fees from investment management and administrative services will be sufficient to cover all costs. If excess funds are available, from time to time X will make distributions to other organizations recognized as exempt under section 501(c)(3) of eh Code whose purposes are charitable and educational, consistent with W's mission.

W will provide general office services to X; will facilitate insurance and employee benefit administration for X; will provide, arrange and/or pay for and monitor legal, accounting, auditing and other professional services required by X; and will lease employees to X. For these services, W will receive a service fee. The service fee will relate solely to the services W will provide for X and is separate from any distribution W may receive from time to time from X. If the service fee received by W for providing these services to X exceeds the cost of providing the services, W will apply the excess revenue to fund its services to its members that further W's charitable and educational purposes described herein.

Based on the above, the following rulings have been requested:

1. X's proposed activities in Z are consistent with W's charitable and educational purposes within the meaning of section 501(c)(3); and
2. Income received by W or X from the conduct of such activities in Z will be exempt from federal income tax.

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

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations (the regulations) provides that the term "charitable" is used in section 501(c)(3) in its generally accepted legal sense and includes lessening the burdens of government.

Rev. Rul. 85-1, 1985-1 C.B. 177, and Rev. Rul. 85-2, 1985-1C.B. 178, set forth the criteria for determining whether an organization's activities lessen the burdens of government. The relevant inquiry is whether the governmental unit considers the organization's activities to be its burden and whether the activities actually lessen the burdens of the governmental unit. An activity is a burden of government if there is an objective manifestation by the governmental unit that it considers the activities of the organization to be its burden. Whether the organization is actually lessening the burdens of government is determined by considering all of the relevant facts and circumstances. The interrelationship between the governmental unit and the organization may provide evidence that the governmental unit considers the activity to be its burden.

The “check the box” regulations at Reg. 301.7701 (T.D. 8697, 1997-1 C.B. 215, 61 F.R. 66584), effective January 1, 1997, allows certain organizations to choose treatment as either a partnership or corporation, or to be treated as a disregarded entity for federal tax purposes. Announcement 99-102, 1999-43 I.R.B. 545, confirms that a single member limited liability company is presumed to be a disregarded entity. Where the sole member is a tax-exempt organization described in section 501(a) of the Code, including an organization described in section 501(c)(3), the limited liability company is recognized as an integral part of the tax-exempt organization. Announcement 99-102 requires the exempt owner of a disregarded limited liability company to treat the operations and finances of the limited liability company as its own for tax and information reporting purposes.

W seeks to expand its exempt activities to include managing certain investments for Z school districts along with local governments in the State of Z, through the use of U. Z has a state statute which authorizes local governments to invest funds in authorized investments under prescribed conditions set out in the statute. X's activity of providing through pooled investment funds, cash management and investment services, will lessen the burdens of Z school districts and local governments consistent with W's charitable and educational purposes under section 501(c)(3) of the Code. The state statute is an objective manifestation by the state that it considers the investment activities provided by X to be its burden. Furthermore, we have determined based on all the relevant facts and circumstances the investment activities of X with respect to Z school districts and local governments in Z actually lessens the burdens of government.

Accordingly, based on all facts and circumstances, we rule as follows:

1. X's proposed activities in Z are consistent with W's charitable and educational purposes within the meaning of section 501(c)(3); and
2. Income received by W or X from the conduct of such activities in Z will be exempt from federal income tax.

This ruling only applies to the facts and Code sections cited herein.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

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

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.

A copy of this ruling is being sent to your legal representative under the provisions of a Power of Attorney, Authorization and Declaration, or other proper authorization currently on file with the Internal Revenue Service.

Sincerely,

Robert C. Harper, Jr.
Manager, Exempt Organizations
Technical Group 3

Enclosure
Notice 437

cc: