



## **Facts and Representations**

Corporation was originally created as a non-profit corporation under State law for the purpose of, in part, engaging in all activities necessary to further the interest of quality education within School District A. Corporation initially was dormant for several years until Year when City A and City B, collectively the "Cities", adopted resolutions to "establish, re-establish or reorganize a non-profit corporation" with the power to operate and finance a student loan program. In response, Corporation amended its articles of incorporation to change its purpose, how its assets were to be distributed upon dissolution, and its name to Authority. After appointment of the members of its board of directors by Cities, Authority began to operate and finance a student loan program on behalf of the Cities under the provisions of the Higher Education Act of 1965, Pub.L.No. 89-329, 79 Stat. 1219 (codified as amended at 20 U.S.C. §§ 1071-1087-4).

Pursuant to the State Statute, Authority is permitted to issue revenue bonds to purchase or make guaranteed student loans. Authority has previously issued tax-exempt qualified scholarship funding bonds for the benefit of the Cities for the purpose of financing or refinancing student loan notes incurred under the Higher Education Act of 1965. These bonds have been retired with the proceeds of a taxable note.

As part of the Health Care and Education Reconciliation Act of 2010, Pub.L.No. 111-152, §§ 2201-2213, 124 Stat. 1029, 1072-1082, the federal government discontinued the program under which the federal government had guaranteed student loan notes. As a result, Authority's governing board has decided that Authority could more effectively carry out its charitable and educational purposes by amending its articles of incorporation to allow it to engage in a broader range of activities and not be limited to the acquisition of federally guaranteed student loans.

City A is currently the sole sponsor of Authority and, as such, has the sole power to appoint and remove all the directors of Authority. Authority intends to seek the approval of City A to amend its organizational documents to provide that: (i) it shall purchase or make guaranteed student loans or alternative education loans, and otherwise provide educational opportunities in keeping with State and federal law; and (ii) upon dissolution, all of its assets must be transferred to City A after satisfaction of all of Authority's obligations and liabilities. All the directors of Authority's governing board will continue to be appointed and subject to removal by City A.

Except for the changes described above, Authority will continue to operate as before. Authority will continue to be a non-profit corporation organized and operated exclusively for charitable and educational purposes and no part of its net earnings will inure to the benefit of any private person. The directors of the governing board of Authority will continue to be appointed (and subject to removal) by City A and serve without

compensation except for reimbursement of actual expenses incurred in connection with business affairs of Authority. Further, Authority will continue to qualify as a supporting organization for City A, operating exclusively for the benefit of, to perform the functions of, or to carry out the purposes of City A.

Upon the approval of City A and pursuant to the State Statute, Authority, as part of its broader range of charitable and educational purposes, intends to issue revenue bonds on behalf of City A to obtain funds to purchase or make guaranteed student loans or alternative education loans. As part of its charitable and educational purposes, Authority may also forgive all or a portion of such student loans and alternative education loans. The revenue bonds will be payable from and secured by a pledge of revenues derived from or by reason of the ownership of guaranteed student loans or alternative education loans.

### **Law and Analysis**

Section 103(a) provides that gross income does not include interest on any state or local bond.

Section 1.103-1(a) provides, in part, that interest upon obligations of a state, territory, possession of the United States, the District of Columbia, or any political subdivision thereof (hereinafter collectively or individually called "state or local government unit") is not includable in gross income.

Section 1.103-1(b) provides, in part, that an obligation issued by or on behalf of any governmental unit by a constituted authority empowered to issue such an obligation is the obligation of such a unit.

Revenue Ruling 57-187, 1957-1 C.B. 65, holds that bonds issued by an industrial development board (the "entity") formed, pursuant to a specific state statute, after the governing body of the subject political subdivision of the state had given its formal approval to the creation of the entity, are considered issued on behalf of the political subdivision. The state statute required that the entity be formed only after approval by the governing body of the political subdivision and that the governing body of the entity be elected by the political subdivision. The state statute provided the entity with the powers to acquire, lease, and sell property and issue bonds in furtherance of its purposes. The statute also required that the entity's earnings not inure to the benefit of private persons; and upon dissolution of the entity, title to all bond-financed property revert to the political subdivision.

Comparing the facts in Rev. Rul. 57-187 to the facts as represented in this case, we conclude that Authority qualifies as an "on behalf of issuer" for purposes of § 1.103-1(b). In Year, the Cities, each a political subdivision of State, adopted resolutions pursuant to

the State Statute to "establish, re-establish or reorganize a non-profit corporation" with the power to operate and finance a student loan program. Although Authority began its corporate life as Corporation, a non-profit corporation unaffiliated with the Cities, the State Statute specifically permitted cities to request an existing non-profit corporation to act on their behalf. In response, Corporation amended its articles of incorporation to change its purpose, the distribution of assets upon dissolution, and its name to Authority. After the Cities appointed Authority's board of directors, Authority began to operate and finance a student loan program on behalf of the Cities. Authority has been under the control of the Cities since Year and, with their approval, has been issuing bonds on behalf of the Cities for the purpose of acquiring student loans since that time.

City A controls Authority through the power to elect and remove all the members of the board of directors of Authority. Upon the approval of City A, Authority will have the power to engage in a broad range of charitable activities, including the power to issue revenue bonds to purchase or make guaranteed student loans or alternative education loans. No part of the net earnings of Authority will inure to the benefit of any private person and upon dissolution of Authority all its assets must be transferred to City A after satisfaction of all of Authority's obligations and liabilities.

### **Conclusion**

Based on the facts represented, we conclude that Authority is a constituted authority within the meaning of § 1.103-1(b) for purposes of issuing bonds on behalf of City A pursuant to § 103.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any transaction or item discussed or referenced in this letter, including whether the interest on the bonds issued by Authority will be tax-exempt under § 103. This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with a Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

The ruling contained in this letter is based upon information and representations submitted by Authority and accompanied by penalty of perjury statements executed by the appropriate parties. While this office has not verified any of the materials submitted in support of the request for a ruling, it is subject to verification upon examination.

Sincerely,

Associate Chief Counsel  
(Financial Institutions and Products)

By: \_\_\_\_\_  
Timothy L. Jones  
Senior Counsel, Branch 5

cc: