Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Contact Person - ID Number:

Contact Telephone Number:

LEGEND

UIL: 4942.03-07

P = State
Q = Program Name
R = Organization
S = Year
T = Organization
V = Year
W = Organization
y dollars = Amount

Dear :

Why you are receiving this letter

This is our response to your December 30, 2015, letter requesting approval of a set-aside under Internal Revenue Code section 4942(g)(2) as well as your request for a 60-month extension to pay out the set-aside. You've been recognized as tax-exempt under section 501(c)(3) of the Code and have been determined to be a private foundation under section 509(a).

Our determination

Based on the information furnished, your set-aside program is approved under Internal Revenue Code section 4942(g)(2). Also, we conclude that you have established good cause to extend the period of time to pay out the set-aside. Therefore, we approve your request for a 60-month extension to pay out the set-aside amount.

Description of set-aside request

You are committing y dollars to fund a student debt reduction program for individuals who commit to living in P and working in a STEM occupation in P for a period of ten years. This program will be known as the Q Program. The Q Program will provide debt reduction payments on behalf of a competitively- selected group of P workers who have student debt and who are employed in the State of P in disciplines, or other STEM capabilities or requirements. For the purposes of the Q Program, "STEM" shall refer to Science, Technology, Engineering, and Mathematics.

The Q Program will be established and administered by an agency of the State of P, T, with the grant funds ultimately payable to R, T's supporting organization and an entity described in Section 501(c)(3) and 509(a)(3)(B)(1) of the Code. R will make payments from the grant funds exclusively for the purposes of the Q Program. T will promote and market the Q Program along with a new student loan consolidation and refinancing program that it plans to launch in S. Although separate programs, together the two programs will provide student debt refinancing and consolidation for qualified individuals committing to live and work in P in STEM occupations. T agrees to promote and market the Q Program through its network of businesses, educational institutions and financial lending partners. Upon your request, T will submit to you sample copies of promotional and marketing materials used in connection with the Q Program, including website content. The Q Program will build on and leverage the administrative and operational expertise of T, will enhance T's ability to market and underwrite successfully the T student debt refinancing program, and will aid T in attracting qualified lenders to participate in the program.

Due to the complex, multi-party nature of the Q Program and its unique private and public sector collaboration, you will designate a y dollars commitment as a charitable set-aside for V, with funds to be disbursed over an extended period pursuant to the terms of the program. You request an advance ruling that the proposed set-aside is a qualifying distribution for V under Section 4942(g) of the Code. You also request an extension of time beyond five (5) years to distribute to the R all amounts set aside for the purposes of the Q Program.

The Q Program will be established and administered by T and R. T will be responsible for the means and methods of administering the Q Program in conformity with the program requirements agreed to between T, R and you, including compliance with all applicable laws and regulations. You and T will establish a seven person Advisory Committee together that will work with T to provide programmatic leadership to the Q program. The Advisory Committee will be composed of individuals who collectively represent a broad cross section of STEM constituencies important to the success of the Q Program. You anticipate that the Advisory Committee will consist of: your designee, the Executive Director or a designee of W, a P nonprofit organization dedicated to championing college and career readiness and increased education attainment among P students, a professor from a STEM academic discipline employed within the University of P system, two senior representatives from leading P STEM companies, an investment professional with experience investing in and capitalizing venture, start-up, and emerging businesses, and an ad-hoc member to be mutually agree upon between you and T. T will be required to communicate regularly with you on the status and progress of the Q Program in conformance with reporting requirements to be agreed upon between T and you.

The Q Program will be open to individuals who: (i) are either residents of P or will become residents upon being hired by a P-based employer; (ii) are or will be employed by a P-based employer in a STEM occupation; and (iii) have a higher education degree or certification. The Q Program will seek to recruit and enroll individuals within the State, from across the nation and internationally. Q leaders will be selected on a nondiscriminatory basis without regard to race, gender, age, national or ethnic origin sexual orientation, or religion.

Individuals must apply for entry into the Q Program. T will run up to six (6) application cycles over a rolling three-year period (the "Application Period"), commencing sometime in S. Q accepted within each application cycle will represent a different Q Program "Cohort." Application materials will be created by T and the Advisory Committee. The materials will clearly state the terms and conditions of the Q Program, including requirements for participation. Application materials will likely require:

- The acceptance into the T Refinance Program, which requires the approval of a refinance loan by a T Refinance Program partner
- The completion and submission of a Program application, written essay, and a resume
- The participation in an interview
- A statement of intent to live and work in P for ten years
- An employment certification by a P employer

Individuals will be selected to participate in the Q Program based on their record of scholastic, academic, extra-curricular, technical or other personal achievement, application materials, interview performance, STEM professional qualifications, and transformative nature of the industry in which they work. Admitted Q will be deemed by T, working with the Advisory Committee, to be of high-quality, both personally and professionally, and to have STEM careers of importance to the P economy.

Any person who is a "disqualified person" (as defined in Section 4958(t)(l) of the Code) with respect to you, R, or T, and any person who is a "substantial contributor" (as defined in Section 4958(c)(3)(C) of the Code) or otherwise described in Section 4958(c)(3)(B) of the Code with respect to the R, shall be ineligible to participate in the Q Program. Further, no debt reduction payment shall be made pursuant to the Q Program if such payment would constitute an "excess benefit transaction" within the meaning of Code Section 4958 and the regulations thereunder.

Once an individual is accepted into the Q Program, he or she will remain in the Program and entitled to debt reduction payments so long as the individual continues to meet the eligibility requirements including continuing to live and work in P for a P based employer, making all required payments on refinanced loans under the T Refinance Program, and satisfying uniform annual reporting requirements developed by T for the Q Program. If an individual is no longer eligible for the Q Program due to failure to meet one of the eligibility requirements, T will take appropriate action to terminate the individual's participation in the Q Program and the individual will no longer receive debt reduction payments.

You will pay to R amounts only on behalf of those Q who have satisfied the requirements of the Q Program. Amounts paid to R will be applied by it exclusively for the purpose of reducing the outstanding amount of qualifying loans within each Cohort, and for no other purpose. Amounts to satisfy debt reduction payments for each Cohort will be made at the times and in the amounts as follows:

i. Within thirty (30) days following the fifth (5th) anniversary of each Cohort Commencement Date a payment shall be made by you to R in an amount equal to Fifty Percent (50%) of the then outstanding amount of principal and accrued and unpaid interest of each qualifying loan within the Cohort; and

ii. Within thirty (30) days following the tenth (10th) anniversary of each Cohort Commencement Date a payment shall be made by you to R in an amount equal to One Hundred Percent (100%) of the then outstanding amount of principal and accrued and unpaid interest of each qualifying loan within the Cohort.

In advance of a debt reduction payment being made for each Cohort following Years 5 and 10, T will certify to you: the number of Q within such Cohort receiving principal payments, the value of each such Q's reduction payment, and the total value of all payments for the Cohort. Debt reduction payments will be made to lenders participating in the T Refinance Program who hold refinanced student debt of qualifying Q within each Cohort.

To encourage the substantial effort and expenditures by T to develop the necessary core components of the Q Program, and to satisfy lenders that the debt reduction payments they are counting on in underwriting Q refinanced student debt will in fact be there when the debt reduction commitments are due, you agree to establish a segregated special custody account to be funded with your grant commitment of y dollars. Funds from the account will be used exclusively to make debt reduction payments on behalf of Q admitted to the Q Program. The use of the funds, the conditions for their release in satisfaction of commitments made to Q and their lenders, and other terms and conditions of the maintenance, investment, access to, and disbursement of the funds will be set forth in a control agreement between you, the bank, and R. Under the Control Agreement, R shall have the right to direct withdrawals from the account, and shall deposit those withdrawals to a segregated account owned and controlled by R, from which it shall make debt reduction payments in conformity with the Q Program.

According to certain financial models produced by T, in order to satisfy the anticipated debt reduction payments for approximately One Hundred Twenty-Eight (128) Q, the value of the assets on deposit in the account must increase at an average annual rate of six percent (6%). You agree to maintain assets on deposit in the account in an amount equal to (i) the original y dollars deposited in to the account, plus (ii) earnings on the assets in the account equal to six percent (6%) per annum, less (iii) any withdrawals made to fund debt reduction payments ("Target Account Value"). At the beginning of each calendar year during the operation of the Q Program, the value of the assets on deposit in the account as of December 31 of the preceding year will be determined based upon the year-end account statement ("Annual Valuation"). In the event the account value as reported in the Annual Valuation is less than the Target Account Value, then on or before February 28 of each year, you will contribute additional assets to the account in an amount sufficient to cause the amount on deposit in the account to at least equal the Target Account Value. Such additions will be designated on your books and reported by you as additions to the set-aside. In the event the account value as reported in the Annual Valuation exceeds the Target Account Value (such excess value being referred to as "Excess Assets"), you will have the option, but not the obligation, to withdraw all or any portion of excess assets from the account at any time or times during the then current calendar year.

The Q Program will conclude following the final Year 10 Cohort debt reduction payment. In the event that surplus assets remain in the account following the final debt reduction payment, you reserve the right to withdraw those assets, transfer those assets to another of your accounts, or redirect the assets in support of any other charitable program or endeavor, as you may determine. If for any reason the Q Program is not initiated or terminates prior to its planned expiration, all amounts deposited by you into the account along with any interest or investment earnings will be returned to you, subject to the commitment to fund debt reduction obligations with respect to any then existing Q to whom debt reduction payments were committed. Also, if for any reason the Q Program, R, or T are found to be ineligible to receive grants from private foundations under the Code, the funds granted by you for the program will be returned to you.

The success of the Q Program, and of necessity the success and viability of the T Refinance Program with which it is partnered, depend heavily both on the participation of a significant pool of qualified lenders in the T Refinance Program and on the participation of a significant number of individuals in STEM occupations with student debt who meet the qualifications of the program. The decision of qualified lenders to participate in the T Refinance Program for P STEM employees will depend on such lenders' assessment of the depth, size and risk profile of the applicant pool and the likelihood of debt repayment by the applicants and/or by other sources. Further, any refinancing by a lender must be of a sufficient duration to make it financially attractive and viable for the lenders, but the expected 15-year duration of the refinanced student loans also necessarily presents risks to lenders.

You expect that the Q Program will result specifically in greater participation by lenders and in lower interest rates and more favorable repayment terms for Q (and likely other R Refinance Program borrowers). Additionally, the existence of the Q

Program will encourage more STEM employees to participate in the refinancing program than would otherwise, thus enhancing the risk profile of the applicant pool. At the same time, the Q Program itself will succeed in its charitable mission of bringing quality STEM employees in high-potential STEM occupations to live, work, contribute, and invest in P communities and in P's quality of life for an extended period of time. However, each constituency, whether lenders or borrowers, must be assured that the promised debt reduction payments, which will directly impact the underwriting of the refinanced loans, will be made at the expected time. Essentially, for underwriting purposes, the existence of the set-aside and the associated funding of the account will function much like a linked deposit, a guarantee, or a reserve fund, whereas a mere charitable pledge would not. You state the use of a set-aside will help materially to ensure maximum participation by both qualified lenders and borrowers and to ensure the most favorable underwriting standards. Therefore, you indicate that setting aside in V your grant commitment on your books, and further, depositing the grant funds in the account and subjecting it to the proposed Control Agreement, rather than simply pledging to make a future grant payment to satisfy debt reduction payments in years 5 and 10 of a Cohort's participation, will best accomplish the purposes of the Q Program.

Request for Extension of 60 Month Distribution Period
You requested an extension of the 60-month distribution period for the above described set-aside in support of the Q Program. You indicated that the charitable purposes of the Q Program cannot be accomplished if the amounts set-aside must be distributed within a sixty (60) month period. The long-term objectives of the program, and the realities of the duration of student loan obligations which underpin the design and administration of the program, require an extension from 5 years to 14 years to fully meet the demands of the program. You also state the time period over which its substantial charitable objectives must be cultivated and measured, the needs of participating STEM employees with student debt, and the needs and requirements of lenders whose participation is essential to the success of the program together are also cause for the requested extension.

More specifically, the set-aside must continue for 14 years (with distributions made over that time period) to ensure the repayment of student loan debt for program participants, including those in the final Q Program Cohort. T contemplates admitting candidates to the program over a three-year rolling application cycle. A debt reduction payment will be made with respect to the first Q Cohort in the sixth year of the program (being Year 5 of the first Cohort's participation after admission to the program). However, as a result of the three-year rolling application cycle, the first debt reduction payment for the last program Cohort will be in the ninth year of the program (which would be Year 5 of the final Cohort's participation). The second debt reduction payment for the first successful Cohort will be in the eleventh year of the program, being Year 10 of the first Cohort's participation, but the second debt reduction payment for the final Cohort will be in the 14th year of the program (being Year 10 of the final Cohort's participation).

The unique nature of the Q student debt reduction program requires a set-aside of as much as 14 years. The purpose of the Q Program is to attract and retain P STEM employees, to grow P STEM businesses, and to advance STEM research, education and investment in P for a period measured in decades, not a few years. A survey of financial institutions in the student loan refinancing market reveals that refinanced student loans are frequently of 10, 15 and even 20 year terms. The typical refinanced student loan has a term of at least 10 years. Such individuals must have confidence in the total grant commitment when they make the decision to refinance through the T Refinance Program versus through another lender.

More importantly, the approximately one hundred twenty-eight (128) Q must have complete confidence in your total grant commitment when they themselves commit to living and working in P for a decade or more. Achieving the charitable purposes of the program depends on individuals making this life-course decision. Q must know that the funds to guarantee the program's debt reduction payments have been committed in a secure, identifiable and formal manner for the duration of their loans, not just pledged and not just set aside for the first five years of the program. The duration of the set-aside must match the loan terms of, and the substantial level of commitment made by, participating STEM employees.

Further, the extended duration of a typical refinanced student loan is a reality lenders must account for in deciding to participate in the Q Program and the T Refinance Program. Under the T Refinance Program, the life of the refinanced student loans is expected to be as much as 15 years. The success of the Q Program depends heavily on the development of long-term contractual commitments between T and a significant pool of qualified lenders providing loan funding, underwriting, record keeping, and customer service to the program. It also depends heavily on those lenders determining that the Q Program and the T Refinance Program together support more generous repayment terms, lower interest rates, and other favorable lending terms. Generous, highly competitive lending terms are imperative to successfully attract a significant pool of STEM employees willing to commit to living and working for 10 years in P in STEM occupations.

Obviously lenders underwrite for, and commit to funding and servicing, the entire life of a refinanced loan. As such, the set-aside period must extend for fourteen (14) years and cannot be divided in successive five-year installments. A lender does not underwrite for the first half of a refinanced student loan, and then re-evaluate and underwrite anew the second half of the refinanced loan. Rather, the duration of refinanced student debt requires an underwriting, lending, and customer service process that takes into account, and obligates itself to, the full life of the loan. To achieve the competitive loan terms and the pool of qualified lenders needed to make the Q Program a success, your grant commitment must mirror in duration the expected duration of the underlying refinanced student debt.

You state that none of Section 4942(g)(2), the associated regulations, or the legislative history to Section 4942(g)(2) of the Tax Reform Act of 1969 prescribes an outer limit or maximum duration for an extension of a set-aside. The legislative history expressly states that an extension is appropriately granted when longer term grants are necessary to support and to ensure the continuity of a particular charitable program or program related investment. See House Report 91-413, (Part I), 1st Session 1969-3 C.B. 216, 217-218. Further, the House Report states that an extension would be appropriate where the State Attorney General would undertake appropriate actions to ensure that the set-aside funds will be timely and charitably distributed. Id., at 218. In this case, the Q Program is a complex, long-term program and its charitable objectives cannot be achieved over a period of time that is anything less than the expected duration of the underlying refinanced student loans of the roughly one hundred twenty- eight (128) participating Q. Further, as the Q Program is a collaborative endeavor between you and T, a State agency, and the R, a Type I supporting organization formed to advance the mission and purposes of T, the Attorney General would have a direct role in ensuring your grant commitment is distributed in accordance with the program requirements and the program's charitable purposes.

Basis for our determination
Internal Revenue Code section 4942(g)(2)(A) states that an amount set aside for a specific project, which includes one or more purposes described in section 170(c)(2)(B), may be treated as a qualifying distribution if it meets the requirements of section 4942(g)(2)(B).

Internal Revenue Code section 4942(g)(2)(B) states that an amount set aside for a specific project will meet the requirements of this subparagraph if, at the time of the set-aside, the foundation establishes that the amount will be paid within five years and either clause (i) or (ii) are satisfied.

Internal Revenue Code section 4942(g)(2)(B)(i) provides requirements for approval of a set-aside for a specific project that will be paid out in 5 years. A foundation must establish that the project is one that can better be accomplished using the set-aside than by making an immediate payment. A set-aside also may have its period to pay extended if it satisfies the requirements of section 4942(g)(2)(B)(i) of the Code and good cause is shown.

Section 53.4942(a)-3(b)(1) of the Foundations and Similar Excise Taxes Regulations provides that a private foundation may establish a project as better accomplished by a set-aside than by immediate payment if the set-aside satisfies the suitability test described in section 53.4942(a)-3(b)(2).

Section 53.4942(a)-3(b)(2) of the Foundations and Similar Excise Taxes Regulations provides that specific projects better accomplished using a set-aside include, but are not limited to, projects where relatively long-term expenditures must be made requiring more than one year's income to assure their continuity.

Section 53.4942(a)-3(b)(7)(i)(e) of the Foundation and Similar Excise Taxes

Regulations provides that you must provide a statement showing good cause as to why the set aside payment period should be extended, specifying the requested extension of time.

In Revenue Ruling 74-450, 1974-2 C.B. 388, an operating foundation converted a portion of newly acquired land into a public park under a four-year construction contract. The construction contract payments were to be made mainly during the final two years. This constituted a "specific project." The foundation's set-aside of all its excess earnings for four years was treated as a qualifying distribution under Internal Revenue Code section 4942(g)(2).

What you must do

Your approved set-aside(s) will be documented on your records as pledges or obligations to be paid by the date specified. The amounts set aside will be taken into account to determine your minimum investment return under Internal Revenue Code section 4942(e)(1)(A), and the income attributable to your set aside(s) will also be taken into account in computing your adjusted net income under section 4942(f) of the Code.

Additional information

This determination is directed only to the organization that requested it. Internal Revenue Code section 6110(k)(3) provides that it may not be used or cited as a precedent.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed in the heading of this letter.

Sincerely,

Jeffrey I. Cooper
Director, Exempt Organizations
Rulings and Agreements

Enclosure