



Date: June 14, 2011

RE: IRS Update

As referenced in the IRS Update provided on June 2, 2011, attached you will find the final version of the Request for Technical Advice.

**Request for Technical Advice TEB Group 7221
Village Center Community Development District**

ISSUES:

1. Whether the Issuer (defined below) is a political subdivision within the meaning of section 1.103-1(b) of the Income Tax Regulations ("Treas. Reg.").
 - a. Whether the Issuer is motivated by a wholly public purpose.
 - b. Whether any sovereign powers were ever delegated to the Issuer when the Developer (defined below) causing the creation of the Issuer retains, directly or indirectly, control of the activities of the Issuer for an indefinite period.
2. Alternatively, if the Issuer is not a political subdivision, whether its debt is issued on behalf of a State or local governmental unit within the meaning of Treas. Reg. section 1.103-1(b).
 - c. Whether the Issuer is controlled by a state or local government unit.

FACTS:

The Developer

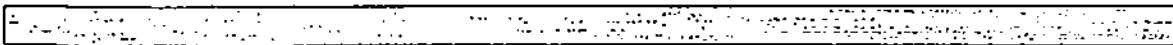
The Villages of Lake-Sumter, Inc. (formerly known as Orange Blossom Hills, Inc.) (the "Developer") is a family-owned Florida corporation existing for the purposes of developing the Development (defined below).

Harold S. Schwartz co-founded the Developer in 1959. In 1972, the Developer began development of land located within the Development, which was marketed as a manufactured home retirement community. Mr. Schwartz subsequently purchased all of his partner's interest and brought in a new management team headed by his son, H. Gary Morse.

As the Developer became profitable, it purchased additional adjacent tracts of land. In 1989, the Developer converted the focus of its operations from construction of manufactured homes to site-built homes. Currently, 100% of the stock in the Developer is owned by Holding Company of the Villages, Inc. ("HCV"). H. Gary Morse, as trustee of the H. Gary Morse VLS Trust, holds less than 1% of the stock in HCV. The remainder of the stock in HCV is held in trust for Mr. Morse's children. Each of the children is the trustee of his or her trust.

The Developer employs six general contractors that sub-contract all of the home construction and a real estate brokerage firm affiliated with the Developer acts as sales agent for new construction, within the Development. The real estate brokerage firm affiliated with the Developer also acts as sales agent for the resale of some existing homes, although the owner of a home may (and often does) choose any real estate agent, whether or not related to the Developer.

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The Issuer (defined below) was created as a community development district in 1992. From February 1992 through October 2004, the Developer acquired substantially more lands and caused the creation of eleven other separate community development districts, ten of which are Residential Districts (defined below) and one of which is another commercial district¹. The Developer petitioned for the establishment of all 12 districts by county or municipal ordinance, pursuant to the "Uniform Community Development District Act of 1980," Florida Statutes Title XIII chapter 190, as amended (the "Act"), attached as Exhibit E.

At the time of formation, as is the case in all of the 576 community development districts created in the State of Florida pursuant to the Act, the Developer, or entities affiliated with the Developer, owned substantially all of the land within each of these 12 community development districts.

The Development

The Development began in unincorporated Lake County and the Town of Lady Lake, where today approximately 11,000 residents reside outside of any community development district (the "Vested Areas"). The Vested Areas, together with the twelve community development districts are known collectively as The Villages (the "Development"). The Development is an active adult (over 55 years of age) retirement community in Center Florida. The Development is located partly within the boundaries of the Town of Lady Lake, Florida and partly within the unincorporated boundaries of Lake, Sumter and Marion Counties.

In 1992, the year in which the Village Center Community Development District (the "Center District" or the "Issuer") was formed, the Development (including sold and unsold areas) consisted of approximately 3,500 acres. By 1996, the year of the first acquisition of Amenities Fees and Amenity Facilities (both defined below) by the Center District, the Development had grown to approximately 7,385 acres. By 2003, the Development had grown to approximately

Name of Development District	Date Established
Village Community Development District 1	February 19, 1992
Issuer or Center District (defined below)	August 17, 1992
Village Community Development District 2	May 20, 1996
Village Community Development District 3	May 18, 1998
Village Community Development District 4	March 7, 2000
Sumter Landing Community Development District	March 27, 2002
Village Community Development District 5	March 27, 2002
Village Community Development District 6	February 12, 2004
Village Community Development District 7	October 6, 2004
Village Community Development District 8	October 6, 2004
Village Community Development District 9	October 6, 2004
Village Community Development District 10	October 6, 2004

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19,076 acres and was expected to contain 55,150 residences at the projected build-out. Currently, the Development contains approximately 21,464 acres and is expected to contain 56,508 residences at completion which is anticipated in 2018.

Residential Districts

In addition to the Vested Areas, the Development currently includes 10 numbered districts (the "Residential Districts"), which are primarily residential areas, and 2 districts that are solely commercial.

Each Residential District is governed by its own board of supervisors, which is elected, once the requisite number of residents exists, by the qualified electors of each Residential District based on one-person one vote. The Residential Districts provide and maintain the roads and transportation paths, rights of ways, irrigation, landscaping, fences, walls, and signage, storm water systems and structures, curbs and gutters, and streetlights, within each of its respective Residential District.

The facilities owned by the Residential Districts were funded through tax-exempt bonds, issued by the respective Residential Districts and the bonds are secured by special assessments levied on benefited land in each Residential District pursuant to sections 190.011(14) and 190.022 of the Act. As with all community development districts in Florida, the special assessments are payable by landowners within the Residential Districts and are collected as part of the county tax bill and the county remits the special assessment amounts collected to the respective Residential District.

Deed Restrictions

Prior to the sale of lots within the Development, the Developer filed a declaration of restrictions relating to the property deeds with each county recorder (collectively, "Deed Restrictions"). These deed restrictions are filed for each subdivision within the Development and are substantially similar. Restrictions on the land include use of the property, easements and rights-of-way, services required by the Developer, and enforcement of the restrictions. The use of property deed restriction contains various restrictions on building and allows the Developer the right to establish rules and regulations covering the utilization of property by notice to the homeowner. Each owner of property within a subdivision and the Developer has the right to prosecute any violations. See examples from Lake, Marion and Sumter Counties attached as Exhibit A, B and C.

Amenities Fee

Owners of property within the Development, as part of the Deed Restrictions, are obligated to pay the Developer, or its designee or assignee, a monthly fee or charge (the "Amenities Fee") in

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return for the Developer's, designee's, or its assignee's obligation to "perpetually provide the recreational facilities."

Homeowners in the Residential Districts pay the Amenities Fees to the Developer, designee, or assignee and the amount is established in the owner's deed. The Developer, its designee, or its assignee has the right to reset the fee at current prevailing rates when a subsequent transfer of the property occurs. The Amenities Fee is fixed for either one year or for the first three years and may be adjusted annually for inflation thereafter.

Community Development Districts in Florida

The Center District (defined below) is one of 576 community development districts² formed under the Act, which in the aggregate have issued more than \$6.5 billion of bonds sold as tax-exempt debt. The powers of the community development districts in Florida are described in various Florida statutes, including the Act. Section 190.002(1) of the Act sets forth the legislature's intent in creating the Act, including the public purpose of the districts, stating that a community development district constitutes a timely, efficient, effective, responsive, and economic way to manage and finance basic community development services, thereby providing a solution to the state's planning, management, and financing needs for delivery of capital infrastructure in order to service projected growth without overburdening other governments and their taxpayers. The remainder of this section summarizes some of the relevant powers and aspects relating to community development districts in Florida, including the Center District.

Under Florida law, community development districts such as the Center District are separate entities, governed by a separate board of supervisors,³ subject to the same financial planning and reporting requirements applicable to other Florida political subdivisions,⁴ the same bidding requirements as other Florida political subdivisions,⁵ and the same open records laws⁶ and open meeting laws⁷ applicable to the state, counties, and municipalities in Florida. A community development district must submit its annual budget, for purposes of disclosure and information, to the local governing authority or authorities having authority over the area included in the district.⁸ Community development districts are treated as special districts under Florida law⁹ and, as such, are subject to the laws relating to public officers and employees, including the code of ethics,¹⁰ open meeting laws,¹¹ and oversight review,¹² and possess limited sovereign

²See Florida Department of Community Affairs website (<http://www.dca.state.fl.us/fhcd/sdip/OfficialList/sumfunctionlist.cfm>).

³FLA. STAT. § 190.006(1) (2009).

⁴FLA. STAT. § 190.008(1) (2009).

⁵FLA. STAT. §§ 190.033, 287.017, 287.055, and 255.20 (2009).

⁶FLA. STAT. § 190.006(7) (2009).

⁷FLA. STAT. § 190.006(9) (2009).

⁸FLA. STAT. § 190.008(2)(b) (2009).

⁹FLA. STAT. § 189.403(1) (2009); see also FLA. STAT. § 189.4035(1) (2009).

¹⁰FLA. STAT. chapter 112 (2009).

¹¹FLA. STAT. § 189.417(2) (2009).

¹²FLA. STAT. § 189.428 (2009).

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immunity.¹³ They are required to use a qualified public depository, like other Florida political subdivisions,¹⁴ and their properties are exempt from execution and sale by general creditors like other Florida political subdivisions.¹⁵ Community development districts must submit their audits to the State each year.¹⁶

The powers that the Act delegates to community development districts, including the Center District, include the power: (1) to hold, control, and acquire by donation, purchase, or condemnation, or dispose of, any public easements, dedications to public use, platted reservations for public purposes, or any reservations for those purposes authorized by the Act;¹⁷ (2) to exercise within the district, or beyond the district with prior approval by resolution of the governing body of the county if the taking will occur in an unincorporated area or with prior approval by resolution of the governing body of the municipality if the taking will occur within a municipality, the right and power of eminent domain over any property within the state, except municipal, county, state, and federal property, for the uses and purposes of the district relating to water, sewer, district roads, and water management, specifically including, without limitation, the power for the taking of easements for the drainage of the land of one person over and through the land of another;¹⁸ (3) to raise, by user charges or fees authorized by resolution of the district board, amounts of money which are necessary for the conduct of the district activities and services and to enforce their receipt and collection in the manner prescribed by resolution not inconsistent with law;¹⁹ and (4) to assess and impose upon lands in the district ad valorem taxes as provided by the Act.²⁰ Any exercise of either power of eminent domain described above in (1) and (2) results in title to condemned land being transferred to and remaining with the community development district rather than the State of Florida or any other local government jurisdiction. Additionally, any exercise of either power of eminent domain by a community development district under the Act is through and in the district's name rather than in the name of the State of Florida or a local government jurisdiction.

Under the Act, any community development district, including the Center District, may (1) construct, operate, and maintain systems, facilities, and basic infrastructures for water management and control, water supply, sewer, and wastewater management;²¹ (2) exercise fire prevention and control, including fire stations, water mains and plugs, fire trucks, and other vehicles and equipment, after the local general-purpose government within the jurisdiction of which this power is to be exercised consents to the exercise of such power;²² (3) adopt and enforce appropriate rules in connection with the provision of one or more services through its

¹³ See, e.g., FLA. STAT. § 768.28 (2009).

¹⁴ FLA. STAT. § 190.007(3) (2009).

¹⁵ FLA. STAT. § 190.044 (2009).

¹⁶ FLA. STAT. §§ 190.008 and 218.39 (2009).

¹⁷ FLA. STAT. § 190.011(7)(a) (2009).

¹⁸ FLA. STAT. § 190.011(11) (2009).

¹⁹ FLA. STAT. § 190.011(10) (2009).

²⁰ FLA. STAT. § 190.011(13) (2009). Such tax is assessed, levied, and collected in the same manner and same time as county taxes. FLA. STAT. § 190.021(1) (2009). Only an elected board may levy and assess such a tax. *Id.*

²¹ FLA. STAT. § 190.012(1) (2009).

²² FLA. STAT. § 190.012(2)(b) (2009).

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systems and facilities;²³ (4) prescribe, fix, establish, and collect rates, fees, rentals, or other charges and to revise the same from time to time, for the facilities and services furnished by the district, within the limits of the district, including, but not limited to, recreational facilities, water management and control facilities, and water and sewer systems; and to provide for reasonable penalties against any user or property for any such rates, fees, rentals, or other charges that are delinquent;²⁴ and (5) adopt and enforce appropriate rules following the procedures of the "Administrative Procedure Act," chapter 120 of the Florida Statutes, in connection with the provision of one or more of its systems and facilities.²⁵

The Act further provides that a community development district, including the Center District, may provide

Security, including, but not limited to, guardhouses, fences and gates, electronic intrusion-detection systems, and patrol cars, when authorized by proper governmental agencies; except that the district may not exercise any police power, but may contract with the appropriate local general-purpose government agencies for an increased level of such services within the district boundaries.²⁶

The Act further authorizes community development districts, including the Center District, to "determine, order, levy, impose, collect, and enforce special assessments pursuant to [the Act] and chapter 170 ["Supplemental and Alternative Method of Making Local Municipal Improvements"]."²⁷ The special assessments may be imposed for any or all of the district's activities and powers authorized under sections 190.011 and 190.012 of the Act. These include a number of broad public or governmental purposes, such as:

- Roads²⁸
- Water management²⁹
- Water supply, sewer, and wastewater management³⁰
- Buses, trolleys, transit shelters, ridesharing facilities and services, parking improvements, and related signage³¹
- Investigation and remediation costs associated with the cleanup of environmental contamination³²

²³ FLA. STAT. § 190.012(3) (2009).

²⁴ FLA. STAT. § 190.035(1) (2009). The District has entered into interlocal agreements with the various general-purpose governments with respect to many of these matters.

²⁵ FLA. STAT. § 190.011(5) (2009).

²⁶ FLA. STAT. § 190.012(2)(d) (2009).

²⁷ FLA. STAT. § 190.011(14) (2009).

²⁸ FLA. STAT. § 190.012(1)(c) (2009).

²⁹ FLA. STAT. § 190.012(1)(a) (2009).

³⁰ FLA. STAT. § 190.012(1)(b) (2009).

³¹ FLA. STAT. § 190.012(1)(d) (2009).

³² FLA. STAT. § 190.012(1)(e) (2009).

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- Conservation areas, mitigation areas, and wildlife habitat including the maintenance of any plant or animal species³³
- Parks and facilities for indoor and outdoor recreation, cultural, and education uses³⁴
- Fire prevention and control³⁵
- School buildings and related structures³⁶
- Security, including but not limited to guardhouses, fences, gates, electronic intrusion-detection systems, and patrol cars, when authorized by proper governmental agencies³⁷
- Control and elimination of mosquitoes and other arthropods of public health importance³⁸
- Waste collection and disposal³⁹

Under the Act, special assessments are apportioned among all of the property owners within the district, without regard to whether an individual property owners' land will benefit from the assessment. Any special assessments imposed by a community development district for these purposes are liens against the property assessed that are coequal with the lien of all state, county, district, and municipal taxes⁴⁰ and are enforced in the same manner as other municipal taxes.⁴¹ As with other governmental authorities in the State of Florida, the district's ability to set rates on its systems, including its water and wastewater facilities, are not subject to regulation as a utility by the Florida Public Service Commission, which generally regulates non-governmental utilities.⁴²

In addition to special assessments, each community development district, including the Center District, is authorized to levy maintenance special assessments⁴³ (which have, in fact, been levied by both the Center District and the Residential Districts) and special assessments for capital improvements.⁴⁴ Maintenance special assessments are levied to maintain and preserve the facilities and projects of a community development district.⁴⁵ Each year a community development must establish a budget for the maintenance of its projects within the district (e.g.,

³³ FLA. STAT. § 190.011(1)(f) (2009).

³⁴ FLA. STAT. § 190.012(2)(a) (2009).

³⁵ FLA. STAT. § 190.012(2)(b) (2009).

³⁶ FLA. STAT. § 190.012(2)(c) (2009).

³⁷ FLA. STAT. § 190.012(2)(d) (2009).

³⁸ FLA. STAT. § 190.012(2)(e) (2009).

³⁹ FLA. STAT. § 190.012(2)(f) (2009).

⁴⁰ FLA. STAT. § 190.021(9) (2009).

⁴¹ FLA. STAT. § 173 (2009).

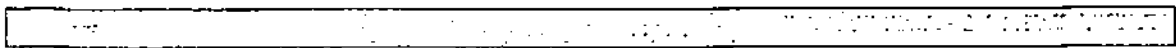
⁴² FLA. STAT. § 367.022(2) (2009).

⁴³ FLA. STAT. § 190.021(3) (2009).

⁴⁴ FLA. STAT. §§ 190.021(2) and 190.022 (2009).

⁴⁵ FLA. STAT. § 190.021(3) (2009).

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roads and storm water control systems). That budget is then apportioned among all of the property owners within the community development district, without regard to whether an individual property owners' land will benefit from the assessment.

To date, the Center District has used annual maintenance special assessments to maintain roads, sidewalks, parks and landscaped areas, security facilities, and Center District facilities such as town squares, public restrooms, and related structures. The Center District may also levy benefit special assessments for bonds issued and related expenses to finance Center District facilities and projects which are levied under this act, which would be apportioned among all of the property owners within the Center District without regard to whether an individual property owner's land will benefit from the assessment.

Both maintenance special assessments and assessments levied for capital improvements constitute liens against the property assessed that are coequal with the lien of all state, county, district, and municipal taxes.⁴⁶

The Act also empowers each community development district, including the Center District, to prescribe, fix, establish, and collect rates, fees, rentals, user charges, or other charges for the facilities and services furnished by the district, within the limits of the district, including, but not limited to, recreational services and facilities, security services such as traffic and crowd control for public events, and water and sewer systems.⁴⁷ Such rates, fees, rentals, and charges must be just and equitable and uniform for users of the same class, and may be, but are not required to be, based or computed upon some factor affecting the use of the facilities or services furnished.⁴⁸

The Center District has imposed special maintenance assessments to provide for public services that are not measured by the benefits which may be, or have been, derived by a particular user of such services.

Finally, the Act authorizes an elected board of a community development district, including the Center District, to assess and impose upon lands in the district ad valorem taxes.⁴⁹ Such tax is assessed, levied, and collected in the same manner and same time as county taxes.⁵⁰ To exercise this power, the community development district must call an election at which members of the board are elected.⁵¹

Although a community development district, including the Center District, is required to have an elected board if it has at least 250 qualified electors,⁵² in the absence of that many qualified

⁴⁶ FLA. STAT. § 190.021(9) (2009).

⁴⁷ FLA. STAT. §§ 190.035(1), 190.011(10) (2009).

⁴⁸ FLA. STAT. § 190.035(3) (2009).

⁴⁹ FLA. STAT. § 190.011(13) (2009).

⁵⁰ FLA. STAT. § 190.021(1) (2009).

⁵¹ FLA. STAT. § 190.006(3)(a) (2009).

⁵² FLA. STAT. § 190.006(3)(a)2.a (2009). A board must be elected if there are 250 qualified electors residing in the district 6 years after the initial appointment of board members (or for a district exceeding 5,000 acres in area or for a

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electors there is no restriction prohibiting a community development district from electing a board. The Center District currently does not have a board elected by qualified electors and in fact does not currently have any qualified electors. However, there are at least two parcels of property in the Center District that have not been developed, totaling approximately four acres, and zoning and land use within the Center District allows the construction of multi-family dwellings.

The Act requires that a community development district, including the Center District, remain in existence unless it is merged with another district; all of the specific community development systems, facilities, and services that it is authorized to perform have been transferred to a general-purpose unit of local government; or it is dissolved because (1) a development permit has not been obtained within 5 years of being established, (2) the district becomes inactive, or (3) if a district has no outstanding financial obligations and no operating or maintenance responsibilities, the district is dissolved by a nonemergency ordinance of the general-purpose local governmental entity that established the district.⁵³ Upon any dissolution, assets and liabilities of a community development district are transferred to another local government or political subdivision.⁵⁴

The Act provides that the local general purpose government within whose boundaries a community development district lies may adopt a nonemergency ordinance providing for a plan for the transfer of a specific community development service to the local general purpose government.⁵⁵ The plan must provide for the assumption and guarantee of the district debt that is related to the service by the local general purpose government and must demonstrate the ability of the local general purpose government to provide such service (a) as efficiently as the district, (b) at a level of quality equal to or higher than the level of quality actually delivered to the users of the service, and (c) at a charge equal to or lower than the actual charge by the district to the users of the service.

The Issuer

The Center District is a local unit of special-purpose government of the State of Florida, created in accordance with the Act pursuant to Ordinance 92-06 adopted by the Town of Lady Lake, effective August 17, 1992, attached as Exhibit D. Chapter 190, of the Florida Statutes is attached as Exhibit E. The Issuer was created on August 17, 1992. On August 30, 1993, the Issuer purchased Sunbelt Utilities, Inc. (see "Utility System" below). The first purchase by the Issuer of Amenity Facilities and Amenities Fees (see "Amenity Facilities" below) was on May 9, 1996. The Center District, which is comprised of commercial property, as originally established, encompassed approximately 169.56 acres of land, located entirely within the jurisdictional boundaries of the Town of Lady Lake, Florida in Lake County. There have been

compact, urban, mixed-use district, 500 qualified electors residing in the district 10 years after the initial appointment of board members). *Id.*

⁵³ FLA. STAT. § 190.046(2) (2009).

⁵⁴ FLA. STAT. § 190.046 (2009).

⁵⁵ FLA. STAT. § 190.046(4)(2009).

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various boundary adjustments to reduce and increase boundaries, and the current boundaries encompass 166.82 acres still located entirely within the jurisdictional boundaries of the Town of Lady Lake in Lake County. There are two undeveloped parcels of land in the Center District, totaling approximately four acres. The remaining acreage, approximately 162.82 acres, is developed. While no multi-family dwellings exist in the Center District presently, zoning and land use restrictions within the Center District allow the construction of multi-family dwellings.

The Center District also imposed annual maintenance assessments to maintain and preserve facilities within the Center District, including roads, sidewalks, parks and landscaped areas, security facilities, town square, public restrooms, storm water management and control structures, security activities and facilities, traffic and crowd control, and related structures. The Center District also provides water and wastewater systems, fire fighting, and fire prevention services, which are funded through user fees, a portion of the Amenities Fees, and assessments levied by other local governmental entities. None of the entrances to the Center District are gated and all the roads in the Center District are public thoroughfares.

Issuer's Governing Body

The Issuer is governed by a five-member Board of Supervisors (the "Board"). A majority vote of landowners determines the Board members and landowners are provided with one vote per acre or fraction thereof until the requisite numbers of qualified electors exist. Board members are not required to live within the Center District. The Board makes all decisions for the Center District. A spreadsheet showing members of the Board from the time it was formed until current has been attached as Exhibit T. Many of the board members have been employed by the land development company.

The majority of the land in the Center District was, at the creation of the Center District in 1992, owned by the Developer or a partnership controlled by the Developer. Over the years, land ownership has transferred from the Developer. Exhibit U is attached that shows the changes in the land ownership from the time it was formed until now. Today, the largest landowner in the Center District is the Center District, which owns 63.62 acres.³⁶ The Developer and all its affiliates (i.e., entities in which the Developer has a majority in ownership or on the board of directors) collectively own only 22.29 acres in the Center District, or approximately 13.4% of the total lands within the Center District, accounting for only 36, or a small minority (approximately 28%), of the 128 total landowner votes according to the Center District's landowner votes list as of September 30, 2010. Of the acreage not owned by the Center District, the substantial majority (86.6%) is held by landowners that are not the Developer or related parties to the Developer, as is the substantial majority (72%) of the voting interests.

The second largest landowner after the Center District is Lazy B Cattle Venture, Ltd., which owns 40.10 acres and gets 43 votes. Lazy B Cattle Venture, Ltd. is approximately 40% owned by the same entities and individuals that own the Developer. The third largest landowner is

³⁶ Although the Center District owns property in the Center District, it has no votes with respect to the Board or in any landowner election.

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TMW Weltfonds Rolling Acres Plaza L.P., with 19.61 acres and 20 votes. The remaining lands (and votes) are held by 10 other landowners (not including the Center District). The Center District has never had the requisite number of residents required to shift the right to vote from the system based on land ownership to the system based on qualified electors. With a lack of requisite qualified electors, each landowner receives one vote for each acre (or fraction thereof). In accordance with the Act as it applies to all community development districts in Florida, the Town of Lady Lake and Lake County cannot remove Board members individually or collectively.⁵⁷ Voters in the Residential Districts have no control over the Center District or the appointment of its Board. As early as 1998, the Developer intended to improve the land within the Center District solely for commercial and recreational uses, stating: "There will be no residential development within the District."⁵⁸ To date, this holds to be true.

Boundary Changes

Since the creation of the Center District, there have been a number of geographical boundary changes. All petitions to change a boundary are filed with the Town of Lady Lake, since it authorized creation of the Center District. There were three separate changes to the geographical boundaries of the Center District between 1996 and 2002. In each case, the Board of the Center District petitioned the Town of Lady Lake to adjust the boundaries. Subsequently the Town of Lady Lake held public hearings. Each petition requested a reduction in size and removed residential dwellings.

The dwellings had previously been used for commercial purposes, including temporary living quarters for prospective buyers of homes within the Residential Districts. Subsequently, the Developer planned to sell these units as permanent residential properties and petitioned the Town of Lady Lake to adjust the geographical boundaries in order to remove these potential residential properties.

A petition dated July 26, 1996, reduced the Center District acreage from 169.56 acres to 155.85 acres. This boundary adjustment removed 38 dwellings from the Center District, as well as some other areas. This petition was approved on August 19, 1996, and the boundaries were adjusted by Ordinance No. 96-10 by the Town of Lady Lake. See Exhibit F.⁵⁹

The second petition, dated December 3, 1999, was made reducing the Center District acreage from 155.85 acres to 136.73 acres removing 47 dwellings.⁶⁰ This petition was approved on January 18, 2000, and the boundaries were adjusted by Ordinance No. 2000-01 by the Town of Lady Lake. See Exhibit G.

⁵⁷ However, pursuant to Section 190.046(4) of the Act, the Town of Lady Lake can acquire all of the assets of the Center District by the assumption and the guarantee of the outstanding debt of the Center District.

⁵⁸ The Official Statement of the bonds issued January 6, 1998, page 9. The Offering Statement from the March 31, 2003 bond issuance, page 11, states the following: "If at any time the Board proposes to exercise its ad valorem taxing power, prior to the exercise of such power, it shall call an election at which all Supervisors shall be elected by qualified electors in the District . . . Because of the non-residential nature of the development in the District, it is unlikely that there will ever be qualified electors in the District."

⁶⁰ The O.S. for the 1999 bonds states that there were 47 townhouses in Center District at that time.

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A third petition to the Town of Lady Lake, dated June 28, 2002 proposed to reduce the Center District from 136.73 acres to 134.40 acres.⁶¹ This petition was approved on September 4, 2002, and the boundaries were adjusted by Ordinance No. 2002-08 by the Town of Lady Lake, removing 40 dwellings.⁶² As discussed above, none of the 11,000 residents of the Development residing in the Town of Lady Lake or Lake County live within a community development district. Had the 131 residential units removed from the Center District by these three petitions remained within the Center District, they would have been subject to Center District maintenance assessments not borne by their residential neighbors across the street. The Center District made a fourth petition to the Town of Lady Lake and by Ordinance No. 2006-29, adopted on June 15, 2006, the Center District was expanded to 166.81 acres to include, among others, the site owned by Target and the site owned by TMW Weltfonds Rolling Acres Plaza L.P.

Amenity Facilities

Recreational facilities throughout the Residential Districts, the portion of the Development in unincorporated Lake County, the portion of the Development in the Town of Lady Lake, the Center District, and Sumter Landing District include recreational facilities (such as golf courses, tennis courts, parks, bocce ball courts, horseshoe pits, recreation centers and swimming pools), postal facilities, water management control systems, and fire equipment and fire station (the "Amenity Facilities"). Due to the nature of the Development, which is marketed as an active lifestyle retirement community, the majority of the residents purchase homes because of the active lifestyle offered. The recreational facilities that comprise a portion of the Amenity Facilities play a major role in the delivery of that lifestyle. Amenity Facilities and Amenity Fees (see below) were first provided for approximately 20 years before the first community development district was created in the Development. The Developer has also provided for the Amenity Facilities in each Residential District and in the Vested Areas and established Deed Restrictions prior to the sale of homes or construction of the Amenity Facilities.

As each portion of the Development, including each Residential District and the Vested Areas, was developed, the Developer constructed all types of Amenity Facilities. The Developer sold home sites within each portion of the Development, including each Residential District and the Vested Areas, and retained ownership of the Amenity Facilities. Deed Restrictions required the Developer to maintain the Amenity Facilities and required homeowners to pay Amenities Fees to the Developer, its designees, or its assignees.

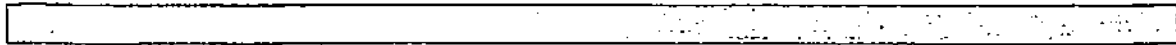
Interlocal Agreements

Among other provisions, the Act authorizes the Center District to issue bonds for the purpose, among other things, of financing, funding, planning, establishing, acquiring constructing or reconstructing, enlarging or extending, equipping, operating and maintaining recreational, security and water management facilities within the boundaries of the Center District. The Act also authorizes the Center District to exercise these powers outside its geographical boundaries,

⁶¹ The petition states it is to remove 2.33 acres and the downtown villas.

⁶² A review of the petition indicates, and the tax maps indicate, this boundary adjustment removed an area that contains approximately 40 dwellings from the Center District.

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with the consent of the local general-purpose government within the jurisdiction of which a power will be exercised.

Residential District Number 4 is located in Marion County and the remaining Residential Districts, as well as the commercial district, Sumter Landing, are located within Sumter County. The Center District is located in Lake County within the municipality of the Town of Lady Lake.

Prior to the Developer's construction of Amenity Facilities within each Residential District, the Center District entered into an agreement with the local general purpose government in which each Amenity Facility is located pursuant to sections 163.01 and 190.011(12) of the Florida Statutes. The Center District has also entered into interlocal agreements with respect to the portion of the Development in the Vested Areas as well as with respect to the portions of the Development in Residential Districts #1, #2, #3, and #4. The Center District also entered into an interlocal agreement with the general purpose government with respect to the portions of the Development outside of Residential Districts #1, #2, #3, and #4 and the Vested Areas. Together, these agreements grant the Center District authority to exercise those powers set forth in section 190.012 of the Act, and to exercise all of the powers necessary and incidental thereto, in specified geographical areas of each local general-purpose government, as though they were included in the boundaries of the Center District (the "Interlocal Agreements"). This includes Interlocal Agreements between the Center District and Marion County, Florida, dated March 7, 2000; Town of Lady Lake, Florida, dated August 5, 1994; County of Sumter, Florida, dated October 22, 1996 and County of Lake, Florida, dated March 31, 1995. See Exhibit H. Pursuant to these Interlocal Agreements, the Center District also provides fire prevention and control services to approximately 42,710 residences and to nonresidential buildings totaling 5,852,471 square feet.

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Purchase and Sale Agreements

Initially, the Developer constructed, owned, operated, and maintained Amenity Facilities throughout the Development. Beginning in May 1996, the Developer and the Center District entered into a series of agreements for purchase and sale of the Amenity Facilities and concomitant assignment of the Amenities Fees (the "Sales Agreements"). Pursuant to these Sales Agreements, the Center District purchased a multitude of tangible and intangible assets from the Developer. Through a series of Sales Agreements from May 9, 1996, through June 15, 2004, the Center District purchased Amenity Facilities from the Developer, as well as any improvements made to previously purchased assets (the "Tangible Assets") and received an assignment of the related Amenities Fees (the "Intangible Assets").⁶⁵ Prior to the approval by the Board of any Sales Agreement, public hearings and meetings are held to discuss the proposed acquisition and each purchase is subject to findings that the purchase is in the public interest. The Board has identified the public purpose of the purchases to have a governmental entity provide the services and facilities in perpetuity and to do so with all the government safeguards, transparency, and accountability that the Center District must operate by as discussed above (see "Community Development Districts in Florida"). The Board has decided to apply the nine-point test set forth in section 190.0125 of the Act (even though it is only mandatorily applicable to the acquisition of water and waste water systems) as a guide to determining whether to purchase the tangible and intangible assets comprising the Amenity Facilities and the Amenities Fees. The nine points consist of the following:

1. A review of the pro forma financial information to determine if the Center District will have an adequate financial condition and that it will have sufficient cash flow to operate effectively and to pay expenses and debt service when due.
2. Determination as to the condition of acquired facilities and whether they require additional major capital expenditures.
3. Determination that the acquisition price is reasonable.
4. Determination as to whether the impact of the acquisition on the residents of the Development is positive.
5. Determination as to whether there is anticipated additional investment required for the acquisition.
6. Determination as to the alternatives to the purchase and sale and the potential impact on residents.
7. Determination of the Center District's ability to continue to provide and maintain high-quality current level of service.

⁶⁵ There is an Agreement for Purchase and Sale between the Developer and the Center District for each sale, dated August 8, 1997, April 30, 1999, March 23, 2001, March 26, 2003, and June 15, 2004.

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8. Determination of the Center District's ability to provide services at the same cost or lower costs based on the benefits derived from being a government entity.
9. Determination the Center District can continue to operate and collect amenity fees in accordance with the deed restrictions, which is the basis for the financial transaction.

Each Sales Agreement includes a listing of assets that are located throughout the Development and are not confined to any one particular Residential District or other area of the Development.

Pursuant to the Sales Agreements, the Developer received an easement to the Tangible Assets for use by any future homeowner's of any of the Residential Districts. The Sales Agreements also provide the Center District with a collateral assignment of the right to collect Amenities Fees from any future homeowner and provides an easement to the Center District and existing homeowners for use of future facilities constructed by the Developer, within the Development. In addition to the Tangible Assets purchased from the Developer, the Center District purchased the Developer's right to receive Amenities Fees (the "Intangible Assets") and assumed the obligation of the Developer, under the Deed Restriction, to provide the Amenity Facilities perpetually.

All of the Sales Agreements have similar terms and are distinguishable by the Tangible Assets and Intangible Assets purchased, listed in an exhibit to each agreement. See Exhibit I through O

The method for conveying the Amenities Fees to the Center District was an agreement between the Center District and the Developer providing for an absolute assignment of the Amenities Fees by lot number (the "Assignment and Delegation Agreements"). Each of these Assignment and Delegation Agreements pertains to Amenities Fees paid by residents of the Development and is not confined to one Residential District or other portion of the Development. The Developer filed the Assignment and Delegation Agreements with the Clerks of Court in Marion, Lake and Sumter Counties. See Exhibit P for those filed in connection with the March 26, 2003 Sales Agreement.

Agreement for Services

On May 9, 1996, the Developer and the Center District entered into an Agreement for Services and Collateral Assignment of Amenities Fees from Future Residents (the "Agreement for Services"). The Sales Agreements required the Developer and the Center District enter into an Agreement for Services. The 1996 agreement was amended each time a new Sales Agreement was entered in to. See Exhibits Q for the initial Agreement for Services, dated May 9, 1996 and four subsequent amendments.

Pursuant to the Agreement for Services, the Developer and the Center District anticipate that as the Development grows, the need for additional recreational and security facilities will also grow. The Developer undertakes the obligation to build new recreational and security facilities and the rate of development of those facilities is tied to the growth in the Development by tracking new Amenities Fees that arise after the date of each sale of Tangible and Intangible Assets to the Center District. The Developer's obligation to construct the new facilities is secured by a collateral pledge to the Center District of the new Amenities Fees as they arise. Homeowners of lots where the Amenities Fees have not yet been transferred will pay Amenities

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Fees to the Developer and the Developer is required under the Deed Restrictions to provide the recreational facilities and security services. The Agreement for Services provides that the Center District will provide these services to the residents, prior to any assignment of their Amenities Fees to the District. The Agreement for Services indicates that billing, collection and remittance of all Amenities Fees will be performed by the Center District, utilizing the records of the Developer. This includes Amenities Fees that were previously assigned to the Center District, as well as those that were not. The Center District will retain a portion of the Future Resident Amenities Fees and remit the remainder to the Developer. The Agreement for Services also contained a requirement that the Center District provide chilled water to two Developer-owned buildings and the Agreement for Services provided that the District would lease a small amount of space to the Developer, which has since expired. Additionally, the Center District agrees to purchase golf tee time reservation services from the Developer for three years. The Developer agrees to invest 40% of the Amenities Fees not assigned to the Center District in approved capital expenditures. The Center District is provided a first lien collateral assignment of the Amenities Fees from these future residents.

Additional Functions of the Issuer

The Center District carries out its responsibilities under the Assignment and Delegation Agreements, as well as the Agreement for Services. These activities include collecting the Amenities Fees assigned to the Center District, as well as those due the Developer. The Center District also maintains the Amenity Facilities outside its boundaries, for the benefit of homeowners within the Residential Districts. This includes operating the security gates and maintaining and operating the recreational facilities located within the Residential Districts.

The Center District operates a Community Watch Department ("CWD") that provides security patrols a minimum of two times per day throughout the Development. The CWD also checks on safety and well-being of residents when requested, provides traffic control, provides support services to fire safety and unarmed security services. The CWD meets on a quarterly basis with city and county law enforcement personnel. The CWD may report any violations to local law enforcement but it has no independent enforcement power as it cannot issue citations.

Pursuant to interlocal agreements, the Center District operates The Villages Public Safety Department ("VPSD") to provide fire protection and paramedic services within the Development portion of Lake, Sumter, and Marion Counties, as well as the Town of Lady Lake. VPSD currently operates five stations and is staffed 24 hours per day by full-time firefighters and emergency medical technicians. The VPSD provides fire services throughout the Development. Under the Act, the Center District requires consent of Lake, Sumter, and Marion Counties, as well as the incorporated Town of Lady Lake, in order for the Issuer to exercise fire prevention and control. The VPSD is a voting member of the Sumter County Development Review Committee, which reviews plans for growth and addresses fire safety concerns and fire code compliance for these growth plans. The VPSD, jointly with Sumter County and the Town

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of Lady Lake, conducts reviews of and has the right to approve or disapprove construction plans for all commercial occupancies, including construction site visits and inspections. The VPSD is authorized to enforce the laws and all rules prescribed by the State Fire Marshall and also conducts annual inspections of commercial occupancies to ensure compliance with fire codes and fire safety equipment is operational. The VSPD is funded through Amenity Fee revenues, tax assessments through Sumter, Lake and Lady Lake, and ad valorem taxes in Sumter. The VSPD provides fire prevention and control services to approximately 42,710 residences and to nonresidential buildings totaling 5,852,471 square feet. In fiscal year 2009-10, the VSPD responded to approximately 9,000 calls.

The Center District operates the Utility System (defined below).

The revenue generated as a result of operating the Amenity Facilities, including the Amenities Fees collected, constitutes more than 90% of the total income of the Center District Recreation Amenity Division budget. Some 49% of the total budget of the Center District relates to recreational activities.⁶⁴ See attached Financial Statement Exhibit R and Exhibit V FY2010-11 Budgeted Revenues schedule.

The Debt Obligations and Use of Bond Proceeds

Throughout the period of November 29, 1993 through June 1, 2004, the Center District issued a total of \$426,200,000 principal amount of bonds characterized by the Center District as tax-exempt bonds to acquire or refinance the purchase of assets from the Developer and affiliated corporations with common ownership. Proceeds in the amount of \$337,389,906.37 funded the original acquisition of the Amenity Facilities and the Utility System. The revenue streams generated from monthly Amenities Fees and utility fee payments received, as well as other revenue sources of the Center District, secure the Bonds and are pledged to pay debt service on the Bonds.

The Center District is authorized to issue revenue bonds, without limitation as to amount, payable from the revenues to be derived from any of those facilities or the fees collected from the users of any of those facilities. The approval of the qualified electors is not required for revenue bonds by Florida Statutes. The Board approved issuance of the Bonds. The Bonds are authorized by the Act and are exempt from all state taxes pursuant to Section 190.021(6) of the Act.

The Center District has previously filed, in connection with one or more of its bond issuances, a Complaint for Validation of Bonds in the Lake County, Florida circuit court, pursuant to Chapter 75 of the Florida Statutes, attached as Exhibit S. The Circuit Court validated the Bonds as legal debt obligation under Florida Statutes and validated the Center District's authority to incur the debt.

⁶⁴ The Issuer's budget shows the breakdown of revenues among the ten funds under the purview of the Board. For Fiscal Year 2010-11, that budget shows \$36,163,540 of revenues related to the Recreation Amenities Division out of a total of \$73,868,838 budget. Financial statements of the Center District combine all "business-type activities," including the provision of utility services, and accordingly cannot be used to generate the revenue from the isolated Amenity Facilities.

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Substantially all capital costs for utility infrastructure and Amenity Facilities were acquired from the Developer or paid on contracts assigned to the Center District by the Developer using proceeds of the Bonds. Currently, over \$300 million in principal amount of the Bonds remain outstanding.

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The following is a table listing each bond issuance (collectively, the "Bonds"):

	TYPE OF BOND	SERIES	AMOUNT
11/29/1993	Utility Revenue		\$26,000,000
5/1/1996	Recreational Revenue	1996A	\$19,085,000
	Subordinate Recreational Revenue	1996B	\$5,915,000
6/27/1996	Bond Anticipation Note		\$11,365,000
1/1/1998	Recreational Revenue Refunding	1998A	\$60,175,000 ⁶⁵
	Subordinate Recreational Revenue	1998B	\$5,575,000 ⁶⁶
	Subordinate Recreational Revenue	1998C	\$5,340,000
10/1/1998	Utility Revenue Refunding	1998A	\$25,465,000 ⁶⁷
	Subordinate Utility Revenue	1998B	\$5,690,000
6/1/1999	Recreational Revenue	1999A	\$14,220,000
	Subordinate Recreational Revenue	1999B	\$7,665,000
3/1/2001	Recreational Revenue	2001A	\$36,455,000
	Subordinate Recreational Revenue	2001B	\$2,010,000 ⁶⁸
3/1/2003	Recreational Revenue	2003A	\$57,250,000
	Subordinate Recreational Revenue	2003B	\$7,005,000
10/1/2003	Utility Revenue	2003	\$86,400,000
6/02004	Recreational Revenue	2004A	\$39,425,000
	Subordinate Recreational Revenue	2004B	\$11,160,000

Utility System

⁶⁵ Proceeds in the amount of \$29,754,662.16 were used to advance refund the 1996 Series A bonds. The non-callable term bond, in the amount of \$3,630,000 matured 11/1/2010.

⁶⁶ The Developer was issued the 1996B Bonds in lieu of a portion of the acquisition price and these bonds were later exchanged for the 1998B bonds, upon issuance; the 1998B Bonds were not part of a new issue of bonds but were a redesignation of the 1996B Bonds.

⁶⁷ The 1998A Utility Revenue Refunding Bonds advance refunded a portion of the 1993 Utility Revenue Bonds. A \$6,200,000 non-callable term bond, maturing on 11/1/2018 remains outstanding but is legally defeased.

⁶⁸ Paid in full January 1, 2007.

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The Center District issued \$26,000,000 Utility Revenue Bonds, Series 1993 (the "1993 Utility Bonds") to finance the acquisition of Sunbelt Utilities, Inc. and finance capital improvements. Ownership of Sunbelt Utilities, Inc. and ownership of the Developer were substantially identical on the date of acquisition. Those bonds were refunded by the Utility Revenue Refunding Bonds, Series 1998A.

The Center District issued \$86,400,000 Utility Revenue Bonds, Series 2003 (the "2003 Utility Bonds") to finance the acquisition of a water and wastewater utility system owned by Little Sunter Utility Company, a private utility affiliated with the Developer.

All assets purchased with the proceeds of the 1993 Utility Bonds and the 2003 Utility Bonds are collectively referred to as the "Utility System".

Ultimately, the service area of the Utility System is expected to contain approximately 4,849 acres, approximately 21,900 residential dwelling units, approximately 330 general commercial connections, approximately 355 irrigation connections and approximately 24 fire flow connections (the "Service Area"). The residential portions of the Utility System service area are 99% complete. The Interlocal Agreements permit the provision of these services outside the Center District.

Proceeds of the Bonds in the amount of \$86,400,000 have been used to purchase the Utility System from affiliates of the Developer.

Accounting for the Assets Transferred

The Amenity Facilities (together with the assignment of the Amenities Fees) and the Utility System were purchased by the Center District at or below the values computed by individuals who held themselves out to be valuation experts hired by the Center District who were not related to or employees of the Developer. Those values were determined on an "income method" by calculating the net present value of the net cashflow streams reduced for the costs of providing the services and replacement facilities. The purchase prices were allocated between the tangible assets and the future revenue. The tangible assets composing all Amenity Facilities and the Utility Systems purchased from the Developer were recorded on the books and records of the Issuer, in accordance with generally accepted accounting principles, for financial reporting (book) purposes as assets at the Developer's book value, rather than fair market value. Amounts paid in excess of the Developer's costs were allocated on the Issuer's books as to the Intangible assets⁶⁹ at values less than the actual net present value of the net cashflow.

The table below indicates proceeds of the Bonds paid to the Developer on each issue, the Developer's cost and the intangible asset booked by the Issuer, which represents something less

⁶⁹ The amenity fee intangible is booked as "Discounted Value of Amenity Fees" and the utility intangible is booked as "Discounted Value of Utility Charges."

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than the net present value of the revenue streams of Amenity Fee and utility fee payments that will accrue to the Central District in future years:

DATE OF ISSUE	TYPE OF BOND	SERIES	PRINCIPAL AMOUNT	PROCEEDS FOR ACQUISITION	COST TO DEVELOPER	AMOUNT ALLOCATED INTANGIBLE
1/29/1993	Utility Revenue		26,000,000.00	23,431,339.00		
5/1/1996	Recreational Revenue	1996A	19,805,000.00	16,976,187.00		
	Subordinate Recreational Revenue	1996B	5,915,000.00	5,915,000.00		
1/27/1996	Bond Anticipation Note		11,365,000.00	10,034,850.00		
1/1/1998	Recreational Revenue & Refunding	1998A	60,175,000.00	26,513,105.43	9,470,482	52,464,018
	Subordinate Recreational Revenue	1998B	5,575,000.00	5,575,000.00		
	Subordinate Recreational Revenue	1998C	5,340,000.00	4,986,250.00		
0/1/1998	Utility Revenue Refunding	1998A	25,465,000.00			
	Subordinate Utility Revenue	1998B	5,690,000.00			
5/1/1999	Recreational Revenue	1999A	14,220,000.00	12,722,314.45	6,260,488	12,905,921
	Subordinate Recreational Revenue	1999B	7,665,000.00	7,118,440.00		
3/1/2001	Recreational Revenue	2001A	36,455,000.00	34,653,442.00	12,092,130	24,427,672
	Subordinate Recreational Revenue	2001B	2,010,000.00	1,866,360.00		
3/1/2003	Recreational Revenue	2003A	57,250,000.00	53,328,250.00	6,800,047	53,514,062
	Subordinate Recreational Revenue	2003B	7,005,000.00	6,581,667.50		
10/1/2003	Utility Revenue	2003	86,400,000.00	80,837,005.77	37,498,955	43,338,051
6/1/2004	Recreational Revenue	2004A	39,426,000.00	36,415,935.55	7,874,459	39,176,237
	Subordinate Recreational Revenue	2004B	11,180,000.00	10,434,780.00		
			426,600,000.00	337,389,906.37	79,796,561.00	225,827,961.00

Proceeds in the amount of \$29,754,662 were used to refund to refund 1996 bonds

The 1998B Bonds were a redesignation of the 1996B bonds, with no reissuance. The Developer is the bondholder.

The Center District has recorded the tangible assets financed by the Bonds at book value upon acquisition, which approximated fair market value, and recorded the difference between the cost and acquisition price as an intangible asset. The Center District identifies these intangible assets as "Discounted Value of Amenity Fees" and "Discounted Value of Utilities Charges".

The Financial Statements for the Fiscal Year ended September 30, 2009 identify an additional liability amount due to the Developer in the amount of \$1,381,984.⁷⁰

⁷⁰ See the Issuer's financial statements for the Fiscal Year ended September 30, 2009, Exhibit I and footnote 7.