



TO: Village Center Community Development District Board of Supervisors

FROM: Janet Y. Tutt, District Manager

DATE: June 22, 2015

As you are aware, in January of 2008, the Village Center Community Development District (VCCDD) received an inquiry and a request for documents from the Internal Revenue Service pertaining to the VCCDD's bonds issues for the purchase of Amenity Fees and Utilities.

Over the last seven and a half years, the VCCDD (and SLCCDD) has expended an extensive amount of both human and fiscal resources answering, addressing, responding and communicating with the IRS. In addition to the resources, the IRS inquiry has created anxiety among residents concerned about the outcome of an IRS review.

The IRS identified three areas of concern regarding the VCCDD's bonds. The first was that the District paid an amount in excess of the value of what was purchased. As previously outlined and discussed with the Board, IRS spent years analyzing and reviewing this issue. The end result was a flawed analysis by the IRS which, when errors were corrected, indicated the price paid was actually in the best interest of the District. The IRS has not made any further claims regarding overpayment since the District's last response on the subject several years ago.

The second area was the IRS position that the bonds were private activity bonds. No action was taken in this area until recently and, as outlined in the Attorney Perry Israel's communications with IRS, the District's position is strong regarding this issue. This issue is still pending further activity by the IRS.

Finally, the IRS has spent the last seven and a half years taking the position that the VCCDD was not a political subdivision eligible to issue tax exempt bonds. As the Board is aware, the District filed a 7805(b) Request for Relief pertaining to the Technical Advice Memorandum issued by the IRS which determined, for the purposes of issuing tax exempt bonds, the VCCDD was not a political subdivision.

On Friday, I received the IRS determination that the 7805(b) Request for Relief was granted by the IRS. I have attached the IRS correspondence to this memo. However, it states:

Based on the circumstances of this case, we conclude that the criteria for section 7805(b) relief have been satisfied and the Issuer is entitled to relief. Therefore, TAM 1 will be applied without retroactive effect.

While the terminology is different than we are used to seeing and working with in local government, this determination means the political subdivision question is now closed as it pertains to the VCCDD's

bonds under audit. The VCCDD's position has been clear since the beginning and is clearly articulated in its submissions to IRS (on the District web site): If the IRS wants to change how a political subdivision is determined, apply the change prospectively and not retrospectively in an examination.

While my memorandums to the Boards are usually technical and factual in nature, I cannot help but comment on this development. We have worked very hard on the political subdivision issue for seven and a half years and it has taken an extensive amount of time and cost which could have been used more productively for the benefit of the services provided by the VCCDD. At times the efforts were intense – compounded by resident concerns that they would be adversely affected. However, through the entire process, there was never any question in our minds that when the facts were looked at objectively this would turn out positively in the end. And it has!!!

At this point, the IRS examination is still continuing and we will still need to get the private activity issue resolved, but the receipt the 7805(b) relief is a substantial step toward bringing the examination to a close in the future.

Please let me know if you have any questions or need further information regarding this issue.