

The Villages®

Community Development Districts

TO: Board Members, Village Center and Sumter Landing Community Development Districts

FROM: Janet Y. Tutt, District Manager

DATE: July 18, 2016

Supervisors,

It has been approximately eight and a half years since the Internal Revenue Service (IRS) advised the Village Center Community Development District and Sumter Landing Community Development District (Districts) it was conducting an audit of its tax exempt bond issues ranging in date from 1998 through 2005. Following notification, the IRS further communicated with the Districts of the issues it considered the basis for advising the Districts they were not qualified issuers of tax exempt bonds.

Over this last eight plus years, the District has spent considerable staff resources and attorney fees in an attempt to help educate the IRS as to the specific facts and information pertaining to the Districts, the State of Florida Chapter 190 providing for special purpose local governments and the Districts' bond issues. Fortunately, the National Association of Bond Lawyers (NABL) eventually took notice of what was transpiring and their organization began additional intense communications with the Internal Revenue Service. As you are aware, the result concurred with what we believed to be the case from the beginning: the Districts were a qualified issuer as a political subdivision under the rules and policies at the time the bonds were issued. NABL agreed with the Districts that the IRS could not change the rules subsequent to tax exempt bonds being issued and then retroactively apply new rules.

Following notification by the IRS that the bonds were no longer being examined for political subdivision concerns, the IRS raised questions about the tax exempt status because they believed the bonds to be private activity bonds. Again, the Districts responded stating the IRS was incorrect and although the IRS continued to state their position, the Districts were prepared to continue through due process to resolve the issue in their favor.

However, during the course of the audits, the Districts did, in fact, refund the tax exempt bonds with taxable bonds: securing a substantial savings due to market changes since the original bonds were issued. The decision by the Districts to refund the bonds was to take advantage of the low interest market available - not knowing how long the savings would be available while waiting for the IRS to complete its audits.

Although the IRS still believes the original bonds should have been taxable, and the Districts still believe the IRS analysis and position were incorrect, on July 14, 2016 the Districts received letters from the IRS that state: "You have notified us that all of the Bonds were redeemed on (Dates differ). **We have concluded that closing the examination without further IRS action supports sound tax administration.**" The closed examination applies to all tax exempt Recreational Revenue Bonds issued by the Village Center Community Development District and the Sumter Landing Community Development District.

This process has been a very long, frustrating and, due to inaccurate media coverage, an anxious one for some of our residents. However, from the beginning, the Districts (Supervisors and Staff) have assured residents of the Districts' financial strength and that the process/outcome would not adversely affect the provision of amenity services or have any impact on Amenity Fees. We remain committed to residents' expectations regarding the provision of Amenity services and want to reassure all residents of the Districts' commitment and the model which provides sustainability of The Villages community. For over 8 years we were steadfast in maintaining that the Districts had followed the law and that there was no factual basis for the IRS examination. To have this examination finally closed without penalty is a tremendous victory for our community and vindication of our Supervisors and District staff who do a tremendous job serving our residents.

Thank you to the Supervisors for your support and perseverance in seeing this audit to its conclusion. Please let me know if you have any questions or need further clarifications.