

How The Villages Came About And What Its Future Might Hold

Part One of Two Parts

Civil Discourse Club Presentation* - 1/30/12 and 2/6/12

What follows is an edited summary of the presentation presented jointly by Jim Stickel, Civil Discourse Club Member and Elaine Dreidame, President of the Property Owners Association of The Villages (POA).

Jim will cover the history of the development of The Villages and Elaine will talk about Residents' Advocacy.

Before we can begin, we need to define some of the acronyms that will be used in the presentations, which are as follows:

Chapter 190 - This is the Florida statute (law) passed in 1980 that authorized and continues to regulate Community Development Districts (CDDs). CDDs are very popular in Florida where now over 600 have been formed.

CDD - This stands for Community Development District, which is a form of independent special purpose government in Florida. CDDs are somewhat similar to other forms of government such as towns, municipalities, and cities, but they do not have police or judicial powers. They function as a Council-Manager form of government. In The Villages, there are ten residential CDDs and two Commercial CDDs which administer the functions of The Villages.

CDD1, CDD2, etc through CDD10 – The numbered Community Development Districts are the residential districts. Chapter 190 provides for CDD Boards to issue bonds to pay for the infrastructure necessary to build the District. The bonds' liability is passed on and assessed to the homeowners' property as the Community is built out and the bond debt is prorated over all the lots in the development and becomes a liability on each home site. The liability stays with the property until the bonds are paid back.

The CDD Board not only makes sure that all of the residents have either paid their bond liability or are doing so, but also legislates a maintenance assessment to make sure the CDD's property is as nice tomorrow as it is today. Chapter 190 provides a procedure by which the CDD Boards can transition from a 5 person landowner elected (the developer is

the landowner) to a 5 person resident elected Board (qualified elector). After six years and 250 registered voters, the actual Boards begin to be governed by the residents and not the Developer.

VCCDD - This stands for the Village Center Community Development District. This is the government which provides services, security, fire and emergency medical response, recreation facilities and services, etc., to residents in The Villages area north of highway 466. The VCCDD is a CDD and is often referred to as a Center or Commercial CDD. The actual geographic boundaries of the VCCDD are roughly the downtown area around the Spanish Springs town square, and encompass most of the area bounded by Avenida Central and Hwy 441/27 and Rolling Acres Road.

There are no residents in the VCCDD. The Landowners of the commercial District continue to elect all five supervisors, many of whom are business associates, employees, or friends of the developer, and most often do not live in The Villages.

The VCCDD provides amenities and utilities to the residential CDDs #1-3, in Sumter County, CDD #4 in Marion County, and also the area of The Villages located in the Town of Lady Lake and Lake County. (The latter area is not a CDD.)

AAC - This stands for the Amenity Authority Committee, which is a committee of the VCCDD, authorized for the purpose of decision-making on all amenity issues except Villages Public Safety, and all non-bond related amenity funds for the VCCDD amenity services area north of Hwy 466. This committee was established as a part of the Class Action Lawsuit Settlement with the Developer and the VCCDD in 2008. Another AAC may be a possibility for the area south of Hwy 466 at some time in the future.

SLCDD - This stands for the Sumter Landing Community Development District. This is the government which provides recreation facilities and services, etc. to residents in The Villages area south of highway 466. The SLCDD is also a Commercial CDD

and basically encompasses the downtown commercial area of the Sumter Landing Square. Because there are no residents within the boundaries of the SLCDD, the commercial property landowners continue to elect the supervisors of the SLCDD as is the case in the VCCDD. The SLCDD administers amenity services for residential CDDs #5-10 in Sumter County.

VCDD – This is an abbreviation for Village Community Development Districts. It is not actually a community development district, which creates some confusion among many residents. This is the acronym in the LOGO used on many District documents, vehicles, employee shirts, name tags and buildings. It is a collective term that includes all 12 districts located within The Villages. It was incorporated when the decision was made to unify departments which include customer service, community watch, property management, administration and others. Janet Tutt is the District Manager for all 12 Villages CDDs.

PWA – The Project Wide Agreement – On August 29, 2003, the SLCDD Board (developer elected) and the CDD 5 Board (developer elected at the time) entered into an interlocal agreement identified as the Project Wide Agreement (other residential CDDs South of 466 have since been added to the PWA), stating that its purpose was to provide that the expense of maintaining (certain listed) project wide improvements is shared equitably.

VLS - The Villages of Lake-Sumter, Inc. – The Developer - This is the Morse family corporation that is developing The Villages. We often refer to Mr. Gary Morse as the Developer of The Villages. Mr. Morse is the son of Mr. Harold Schwartz, the founder of The Villages,

The Villages – A Master Planned, age restricted, retirement community located in Lake, Marion and Sumter Counties.

The POA - The POA (The Property Owners' Association of The Villages, Inc.) is the original property owners' association in The

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Villages, founded in 1975. The POA is an independent organization with no ties to the Developer of The Villages which might compromise its ability to speak out for Residents' Rights and the best interests of all Villagers.

The VHA - The VHA (Villages Homeowners' Association) was founded in 1991 with the encouragement and support of the Developer of The Villages. The VHA is closely aligned with the Developer and it is unlikely that the VHA will take an independent position different from that of the Developer on any Residents' Rights issue.

JIM STICKEL REMARKS:

We are presenting what we call a resident's view of The Villages. The first question would be, is there something wrong, what are they talking about... No, there is nothing wrong. In fact, if anything, this place almost defies imagination. But as residents, there are some things that you might need to know and that is what we will be focusing upon. We have no intention of stirring up a hornet's nest or starting rumors. We will simply provide facts so that you can make up your own mind. We are doing this presentation because we believe an informed electorate is vital and it will become critical in a few more years when the Developer builds his last house (Build Out).

There are a lot of places to start, but we will begin with Reedy Creek which was a swamp until the Disney brothers came from California with the dual purpose of draining the Creek, a needed improvement, and building Walt's dream - the Experimental Prototype Community of Tomorrow - EPCOT. In order to create it they purchased 30,000 acres and they used the dirt - real estate - as the collateral for bonds, commonly referred to as 'dirt bonds' which allowed the Disneys to acquire funds to build their dream. Its success inspired Florida legislators to pass a number of laws to control and assist real estate development in Florida.

Eventually, after critical legislation focused on Developments of Regional Impact was passed in the 1970s, Chapter 190 was enacted in 1980 by the State of Florida legislature. Chapter 190 assists developers in fi-

nancing their infrastructure for 'master planned communities' independent of the general (i.e., County/City) government. The CDD is a Unit of Special Purpose Government which has limited powers but also has a fair amount of sovereignty within those limited powers. Those individuals that benefit from the Special District have to pay for it and get taxed for it and are responsible for it. So, if a CDD were to go 'belly up', the residents would be at a distinct disadvantage as their development would likely not be completed. This has happened to a number of Florida CDDs in the recession, but there is no evidence that anything of that nature could happen in The Villages. Sale of a house every 4½ hours every day, 365 days a year for the past 20 years has been pretty good assurance that the infrastructure will be paid for.

Around 1992, Gary Morse began utilizing Chapter 190 to develop his dream of The Villages—Florida's Friendliest Retirement Hometown. He linked up with Gary Moyer who was one of the individuals who helped write Chapter 190. Mr. Moyer was a Manager of many CDDs and knew all the ins and outs of the law and together, they put this master planned, age restricted, retirement community into a master plan. They knew that the only way this was going to succeed was if the future residents were willing to buy and that it was going to be supportable and sellable to the general public.

Their differentiation was that they would provide services that exceeded potential buyers expectations and far exceeded their competitors in the following areas: - **a golf cart community** - recreation trails for use by golf carts; **security** - Community Watch, their duties, their response time; **water management** - the system used in The Villages is all recycled water which goes back in the aquifer and there is no wasted water; **deed compliance** - a vital requirement to prevent rogue buyers from wrecking the look and feel of the Villages. This responsibility is now being moved from the Developer to a responsibility of the CDD Supervisors; **recreation activities** - The range and depth of the recreational amenities in the Villages is likely unparalleled in any retirement community, not only

in Florida, but also in the country; **medical access** - you can take your golf cart and go to the doctor; and **reasonable costs**.

There is no question but that things are going well in The Villages.

We want residents to be future looking optimists - somebody who wants to be part of passing on a legacy that is yet to be determined. Right now the area north of 466 is built out and complete, but south of 466 is yet to be finalized. After build out, The Villages will be influenced by resident input and this needs to come from an informed electorate.

This brings us to Elaine's presentation about residents' advocacy.

ELAINE DREIDAME REMARKS:

What I'm going to try to do is explain to you how the Developer of the Villages used Chapter 190. The 'original' Village residents - Orange Blossom Hills, Inc., co-owned by Harold Schwartz started in the early 70's and it was a mobile home park at that time. Since I am speaking on resident advocacy it's important to know that the Property Owners' Association (POA) originated in 1975. It was recognized by Harold and they worked together in trying to develop things and in fact, when Harold bought out his partner and got his son, H. Gary Morse to come down, one of the things that Gary did right off the bat was work with the POA.

In a December 14, 2007, letter to the residents in which he announced, via publication in The Daily Sun, the class action lawsuit settlement (to be discussed in more detail momentarily), H. Gary Morse asked all of the residents to support the settlement, he stated, "...The POA was out to meet me in full force when I arrived and rightfully so. We worked with them and our staff to find out what needed to be fixed and what needed to be added. That to do list included a water tower, a new well, a new waste water treatment plant, expansion of the Paradise Center and building more golf - lots of golf. It also began the tradition of the residents working with their Developer for the betterment of their community."

The Villages became The Villages of Lake -Sumter (VLS) in the early 90's when it

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merged with Orange Blossom Hills. Some problems developed from this because in the early years when Harold was having trouble getting people to build on their lots, he promised current lot owners and new purchasers who would build within a designated time period that he would provide them with basic cable, trash and free trail fees as long as they owned the home and for any immediate descendants who would live in that house thereafter. So, lots of people started building earlier than they would have otherwise.

However, after the merger, Gary, being more of a businessman than a benefactor, announced that the VLS decided that they were not going to honor that agreement. That is when the POA filed its first lawsuit. The POA was there for the property owners because individually residents had no say so, whereas collectively (through the POA) they had some clout. The POA hired an attorney, residents contributed to the legal expense fund, and the lawsuit actually went to the court house steps before the VLS agreed to honor the promises of Harold Schwartz. The next thing that happened was that Gary, who spoke highly of the POA upon his arrival, washed his hands of the POA.

Shortly thereafter another group of residents established themselves as The Villages Homeowners Association (VHA). Meanwhile, the POA was and is still operational. The VHA asked the Developer if he would affiliate with them. Gary sat down with them and they worked it out and he agreed to affiliate with them. Now mind you, both the VHA and the POA are both wonderful organizations. They both are here for the residents. The biggest difference will be evident after I read you a letter that Gary Morse wrote the VHA shortly after the VHA became operational.. They apparently had a meeting and he was not present at the meeting. In September of 1992 Gary sent a letter to the VHA Directors and Officers which read:

“At the time your group was founded, we met with your organizers and agreed to meet with you in spite of the fact that we refused to meet with the POA. We agreed to these meetings on the provision that your organiza-

tion would not be a forum for, or a conduit to the Developer, for individual’s complaints, thus preventing your organization from becoming the grievance board for the minority of disgruntled residents that the POA professed to be.

“I regret having missed your first meeting of the fall as I understand that it regressed to a format that will be unacceptable if our meetings with your organization are to continue. After all, this is not a union vs. management scenario, we are real estate developers who are in the process of building an adult recreational community and we have efficient mechanisms in place to handle individual complaints. We are, however, always trying to improve our development and the common goal that we share with the majority of our residents, that goal of creating Florida’s finest adult recreational community.

“To that end, we are always happy to meet with groups or individuals who are able to help us accomplish that goal. I would like to arrange a meeting between your group and our staff at the earliest possible convenience to determine if your organization can help us with that goal and, if so, under what ground rules we would meet on a continuing basis.”

So that kind of set the ground rules for the VHA. If you have gone to a VHA meeting, you know that it is not an open forum like the POA where you can ask questions and talk about concerns about what might be going on at a given time. Does the VHA do good things? ABSOLUTELY. Do we need the VHA? ABSOLUTELY. Do we need the POA? ABSOLUTELY.

In contrast to the VHA, the POA has no ties or obligations to the Developer of the Villages that might compromise the POA position or its advocacy of Residents’ Rights. In other words, there is no way the VHA is going to file a lawsuit against the Developer. I cannot recall a time when the VHA took a position against whatever the Developer’s position was. I am sure there must be some, but I am thinking of things such as the vinyl siding issue where because of the POA advocacy, over 1500 homes were repaired. The entire time the Developer, his contractors, and the VHA were advocating that there was nothing wrong with the vinyl siding installa-

tion. However, in situations which were not adverse to the Developer’s position, such as pursuing Owens Corning for replacement and repair of damaged shingles, the VHA was in the forefront and very successful. Again, there is a role for both organizations.

In 1993, Gary Moyer, as VCCDD District Manager, advanced the idea of having the VCCDD acquire the amenity contracts and facilities from the Developer. The VCCDD could issue recreational revenue bonds to purchase them and then the VCCDD could run the amenity program. This would be possible because Chapter 163 allows for interlocal government agreements and Chapter 190 allows a CDD to have another government run its recreational program via an interlocal agreement and that’s what they decided to do.

The first recreation bond was issued in 1996. At that time the Developer transferred about 5,000 amenity contracts to the VCCDD along with numerous properties. Then the Developer appointed/elected VCCDD Board would decide how those amenity fees were spent. The residents had no vote.

Between 1996 and 2006, just in the VCCDD territory, the bond total with principal and interest is \$508 Million. The 2005 county tax appraisal for all of the properties transferred during this period was \$35M and the Developer was paid \$227M.

Unless one really understands more about this, it is easy to get upset with those figures. When the amenity contracts are turned over to the VCCDD and by the time this was completed there were about 21,000 amenity contracts. However, if one multiplies their monthly fee times 12, and then times 21,000, and then times 30 (for the life of the bond), the result is hundreds of millions of dollars.

The basis of the appraisal was the income approach. It was not simply based upon how much the facilities were worth, those just came along with the amenity contracts. The appraisal was based on the projected income from the amenity contracts. Once they determined what the projected income would be - based upon what the residents were paying and figuring a 3% increase a year over the life of the thirty year bond, they then sub-

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tracted the operating expenses figuring a 3% increase a year and the bond interest debt over the life of the bond. These somewhat complicated calculations yielded the amount the Developer received.

The Internal Revenue Service (IRS) is currently investigating this very issue. First of all, I will say this, the initial IRS investigator was so biased against the Developer it was hardly believable. There were many errors in his alleged facts.

Now, after four years of correspondence and several meetings, District staff now believes that the current investigator understands and acknowledges that the District was correct in using a valuation of the amenity stream as opposed to the value of the real estate when appraising the transfer. However, the IRS investigators still have a question as to whether it should have been a 15 year bond instead of a 30 year bond.

Does the POA have a problem with using the income approach? No, but we had another issue. We had an issue because in our opinion the income was projected properly, but the expenses were not. They were not factored high enough, and there was no renewal and replacement monies allotted.

Over time, as these transactions were occurring, the VCCDD Board would meet and POA representatives would attend. We expressed great concerns about the deteriorating condition of Paradise Center, but were continually put off by the Board. Why? Because they did not have the money to do it. Why didn't they have any money? The problem and the basis of the class action lawsuit (referenced earlier) which was settled in March of 2008 was that when the appraiser figured out what the operating costs would be, it was figured at the very lowest level possible, there was no money allocated for renewal and replacement, additional staff, contingencies for such things as increases in the minimum wage, etc.

So, when it came to the point where they had to do something with Paradise, they had to refinance to rebuild Paradise Center. That was a big heads up to the POA.

In addition to the public acknowledgement that there was no R & R fund, in 2005 the

minimum wage increased, which resulted in a loss of most of our swimming pool monitors and a reduction in the services provided by Community Watch. Further, the recreation trails were not being adequately maintained. This led to the class action lawsuit settlement that was approved by the Court in March of 2008.

At that time the Developer agreed that he had overlooked some things and that adjustments were needed. In his December, 2007, letter to the residents he stated that there was a problem with their plan and that "...the commercial districts should retain their responsibility to assess their landowners, to maintain their districts and enforce their bond covenants, but after the developer builds the amenities and transfers them to these commercial districts, the responsibility to operate these amenities in perpetuity should be turned over to the residents instead of the commercial districts."

He went on to say that, "... Villages' residents seem to divide up into 3 basic groups:

Group 1 is the silent group. They love living here. They don't want to bother with anything. They just want to enjoy the golden years of their retirement.

Group 2 wants to help. They love living here and believe they can improve The Villages by working with their developer. They gravitate to the VHA.

Group 3 – they love living here. But, they believe that the developer's goal is to take advantage of the residents. They believe they can improve The Villages by challenging the developer and fighting for residents' rights. They gravitate toward the POA. The same one I worked with the day I arrived, March 1, 1983.

"The biggest complaint that Group 3 has is that they believe we sell the amenities to the Districts without establishing adequate Renewal and Replacement Reserves, and failing to accurately project the future increased costs necessary to maintain consistent service levels, thus taking advantage of residents.

"The common denominator of all 3 groups is they all love living here.

"Group 3's complaint about amenity sales can prove to be the best thing that ever happened for every resident that's here today and

those yet to move here. All we need to do is get all three groups to work together.

"...We have found some issues that could have been addressed better at the time of each sale. The most glaring one was not setting aside enough reserves to rebuild Paradise Center out of our first sale..."

"Through the diligent work of the Plaintiff's group and our representatives, a settlement agreement was reached..." which included a \$40M cash settlement, plus the creation of the AAC which would control all of the amenity funds, including the settlement money, with the only exception being funds required to service the bonds.

This Amenity Authority Committee is comprised of six members: an elected resident from each of the four residential CDDs north of Hwy 466, an elected resident from the Lake County portion of The Villages, and an appointed representative from the VCCDD.

In the SLCCDD there has been only one bond issue which was in 2005. They were ready to do a second one in 2007 but they withdrew it when the lawsuit came into play. In January of 2008, the IRS began its investigation so everything on the South side is on hold until the IRS makes its determination.

Even though the POA has filed three lawsuits against the Developer/VCCDD, winning two of them, we admire the vision of the Developer and what he has built and we are 97% satisfied. We just have a few things with which we disagree.

In the April Bulletin, we will provide you with information from Part II of our Presentation during which we will discuss the present until build out and what changes might occur when the Developer sells his last house. Stay tuned.

***The Villages Civil Discourse Club meets 10-11:30a.m. Mondays at either Colony or Savannah. Each week, an informed speaker presents a topic and the audience then has an opportunity to discuss, in a civil manner, the pros and cons. Discussions are lively and informative.**