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# In The Villages, a closely watched IRS dispute

## Case could reverberate in special districts across Florida

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The Villages bills itself as Florida's Friendliest Hometown, but the huge retirement community in central Florida has become embroiled in a dispute with the IRS over tax-exempt bonds and back taxes.

The case could have reverberations across the state since this enclave an hour north of Orlando with more than 70,000 residents is made up of a network of "community development districts." These districts, which help pay for roads, sewers and water lines, have been used by developers all over Florida.

"Clearly the markets and bond attorneys in the state are following this," said Randy Hanna, a bond lawyer based in Tallahassee who works for dozens of similar districts across the state.

Known for its numerous golf courses and nightly entertainment for the elderly, The Villages also has been a friendly place for Republican politicians to stump for votes. President George W. Bush campaigned here in 2004, and countless other Republican politicians, including Gov. Charlie Crist, have visited at election time.

The dispute with the Internal Revenue Service deals with whether the special district that issued bonds should have been able to avoid paying taxes. After months of inquiry, an IRS agent concluded in January that more than \$64.2



CHRIS LIVINGSTON / THE NEW YORK TIMES, 2007

Golf carts are parked outside a Panera Bread restaurant in The Villages, a sprawling retirement community in central Florida, where a special district's dispute with the IRS over tax-exempt bonds and back taxes has spilled out into public view.

million in bonds first issued in 2003 should not have been tax-exempt. In a lengthy analysis, the IRS states that the district does not function like a true government.

One of the criticisms is that the developer of The Villages had too much sway over the district. When the bonds were issued, the IRS found, all five board members worked for or were affiliated with the developer, The Villages of Lake-Sumter Inc.

The company is controlled by Gary Morse and his family. Morse is well known in political circles. He has made his private jet available to the Republican Party of Florida, and he owns a condominium with the husband of Alex Sink, the state's chief financial officer and the leading Democratic contender for governor in 2010.

The IRS agent investigating the district, Dominick Servadio, has questioned why the Village Center Community District used \$60 million in bond proceeds to buy guardhouses, golf courses and small parks that cost Morse's family-owned company less than \$8 million to build. Servadio suggested that such a deal would not have occurred if it had been an "arms-length transaction."

"If I was a resident of The Villages, I would be outraged by this transaction," Servadio wrote in one letter.

The IRS review has spilled out into public view because special districts must abide by the state's public records laws. The chairman of the special district criticized Servadio, saying his statements about The Villages were intended "for media exposure."

One lawyer took issue with the depiction of The Villages as a "golf course community," which prompted Servadio to counter with a list of examples, including that the community once hosted the "world's largest golf cart parade."

This month, the IRS widened its inquiry to cover more than \$400 million in additional bonds issued by special districts associated with The Villages. Servadio requested documentation regarding bonds issued as far as back as 1998.

A spokesman for the IRS would not comment on the case. Morse did not respond to a request for comment.

In May, Servadio wrote that The Villages could clear up the dispute if it agreed to buy back some \$355 million in outstanding bonds issued by two special districts, pay \$2.87 million in back taxes and promise never again to issue tax-exempt bonds.

Janet Tutt, district manager for The Villages, said there was no point in even responding to Servadio's offer.

Tutt said the community and its lawyers had asked for the case to be reviewed by IRS managers, and added that The Villages, which in 2003 had the agency

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sign off on previous tax-exempt bonds, had "done everything correctly."

She also has brushed aside questions about the purchase of golf courses and parks from Morse's company. Tutt contends that part of the \$60 million that went to the company was not 700 percent profit, as the IRS calls it.

Tutt said the district paid Morse's company for future income it would have received in fees for use of the parks and golf courses. The district is now receiving those fees and using them to pay off the bonds.

The IRS, however, has questioned the methodology used to calculate the value of those fees.

Tutt said the battle had prompted worried phone calls. "It's really been upsetting the residents to deal with the stress and anxiety," she said.

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