How to Request Market Value as Payment Option

October 26, 2012

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The following are steps to request Market Value payment option instead of the default Percent of Gross Revenues payment option:

1. The owner sends a written request to the TVA Recreation Agreement Specialist stating the intention to have the property appraised and to potentially select the Market Value option. There is no administrative fee due to TVA to simply select this option. The commercial business owner is responsible for paying for the appraisal directly to the private appraiser. The owner can choose to pay TVA to perform the appraisal.
2. TVA (the Recreation Agreement Specialist and TVA appraiser) meets with the owner via teleconference or at a TVA office to discuss the process and instructions.
3. TVA provides a list of at least three private appraisers and written instructions for the appraisal. The list and instructions can be provided by email.
4. The owner selects one of the private appraisers and works out payment and schedule arrangements.
5. Owner, TVA (recreation agreement specialist and appraiser), and selected private appraiser hold a teleconference to discuss requirements for the appraisal.
6. Private appraiser completes the appraisal and determines Market Value. All communications concerning appraisal are to include all parties (TVA, private appraiser, and owner).
7. Private appraiser furnishes appraisal report to TVA and owner at the same time.
8. Owner provides written concurrence to use the private appraisal to determine initial annual payment.
9. TVA reviews private appraisal and accepts or rejects. If TVA does not accept the private appraisal, TVA will convene a meeting with owner and private appraiser to discuss the reason for non approval or additional information that is needed. If accepted, TVA will prepare the new payment table based upon the market value.
10. Payments, based upon the accepted Market Value, starts at the beginning of the next quarter which is at least 14 days from the date the appraisal was approved (January 1, April 1, July 1 and October 1).
11. TVA furnishes amended payment table to include in license, lease, or easement.

Appraisers: All appraisers that TVA uses are required to be certified by the state in which they are preparing appraisals. Typically, the appraisers are not only Certified General Real Estate Appraisers, but also hold a Member of the Appraisal Institute designation.

Basis for Appraisal: The appraisal is based on market value of TVA land (above and below water) assuming the property is to be utilized for a commercial marina or campground. The market value appraisal should assume the use of the land is restricted solely to commercial recreation operations and should not include any assets or improvements of the private owner. TVA will identify any improvements which it claims to own (i.e. bathhouse at TVA constructed campground, utilities, constructed roads or parking lots). The appraised value can be thought of as the expected value the TVA land (above and below water) and TVA made improvements would yield if sold at a public auction considering the use restrictions. Even for TVA lands without public access and only accessible by the backlying owner, TVA considers the market value to the backlying owner to be the same as if the TVA land has public access.

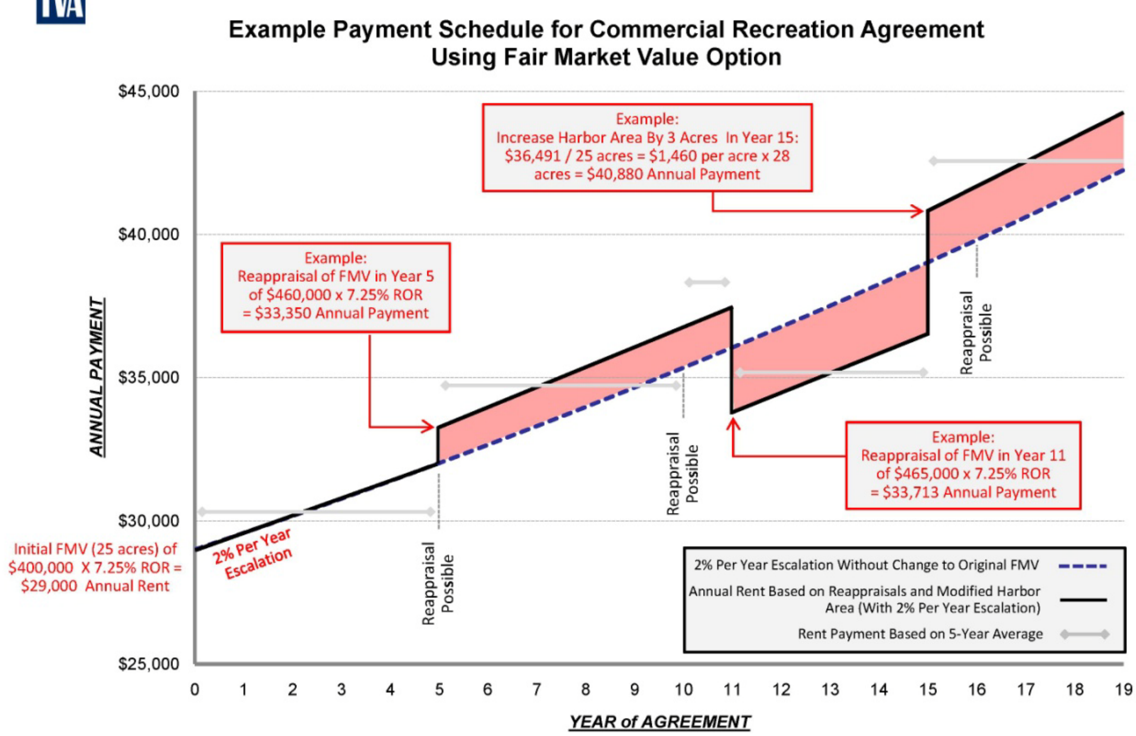
Rent Amount: A rate of return, currently 7.25%, is applied to the appraised value to determine the first years rent. Each subsequent year this value is escalated 2% to account for inflation.

Every 5 year period (2011-2015, 2016-2020, etc.), the rate of return and escalation rate are re-evaluated. See attached graph for an example of the process. Also, see attached example payment table as Attachment A.

Appraisal Methods: There are three methods of appraisals: Sales Comparison Approach, Income Approach, or the Cost Approach. If insufficient data is available for the Sales Comparison approach and a tract is capable of producing income, then the Income Approach may be used. The Cost Approach may be useful for appraising buildings and infrastructure, however, the Sales Comparison or Income Approaches would still be used to appraise the undeveloped land. The private appraiser will determine the best methods to use given the unique site factors. When using Sales Comparison approach, the appraiser should include the amount of land above water and the amount below water included in each listed sale.

Differences between Market Value and Percentage of Gross Revenue options:

- A minimum rent based on acres, number of campsites, or per foot of shoreline does not apply to the Market Value Option.
- Annual reporting of revenue to TVA is generally not required with the Market Value Option.



This Example Includes
Rate of Return = 7.25% Escalation Rate = 2.00%

NOTE: Once Set at Beginning of Term, the Rate of Return & Escalation Rate Remain Constant Throughout the Term of the Agreement

Instructions to Private Appraiser for appraising use of TVA lands for commercial recreation operations

Appraiser should determine the market value of the licensed area (above and below water areas) on a “per acre basis”. TVA has determined the number of acres currently in use and will multiply the approved “per acre” value by the acres currently in use to determine the first annual payment. The unimproved TVA land within the license area and any TVA made improvements will be included in the market value. The value should reflect the restriction that the licensed area will be used solely for commercial recreation. The appraiser should determine separate “per acre” values for the land above the typical summer water elevation and the land below the typical summer water elevation (harbor area). As the commercial facility expands or reduces in future years, the “per acre” value, as escalated, will be used to adjust the annual payment accordingly. See Exhibits A, B and C for a graphical representation.

<u>Non Allowed Uses</u>

- Residential
- Industrial
- Retail
- Commercial Use which is unrelated to recreational use of the reservoir

<u>Allowed Uses with TVA written approval and contingent upon environmental review</u>

Note: TVA will identify the approved uses upon which the appraisal is to be based.

- Campground/Bathhouses
- Beaches/Day Use areas
- Ship/Camp Store
- Dry Storage of Recreational Boats and Equipment
- Boat Sales Showroom and office
- Boat Rentals
- Boat Repair Facility
- Boat Launching Ramps
- Restaurant - It must an integral component of the commercial marina or campground - restaurants must be designed to support and encourage recreational use of the reservoir and not simply be a standalone restaurant. TVA must approve in writing.
- Marina Slips in Harbor Limits
- Fuel Storage and Dispensing Facilities
- Infrastructure such as roads, parking lots, utilities, etc.
- Rental Cabins - Concerning rental cabins, there can be no residential use (except for a resident manager), and no long term accommodations, timeshare, condo units, individually owned units, or anything that resembles residential use. This means that a rental cabin cannot be owned by an individual, partnership or any arrangement except by the easement holder. Any cabin units must be owned by the agreement holder and rented on a daily, weekly or monthly basis. This is intended to preclude long-term accommodations exceeding 30-days.

- Clarification: Some uses such as dry storage facilities or restaurant would only be considered for approval above the 500 year flood elevation.

Table 1 — Approximate Areas					
	Licensed Area (acres)	Licensed Area currently in use for Marina & Slips(acres)	Licensed Area currently in use for Moored boats (acres)	List of TVA owned or constructed improvements on the Licensed Area	Are facilities suspected outside license area*
Land above elevation ____					
Land below elevation ____ (permitted harbor)					
Total					

* Rent will be due for areas being used outside the licensed areas while they are waiting approval. Payment of rent does not guarantee approval.

How many boat slips does TVA estimate can fit into one acre?

This estimate assumes sufficient water depth year round. It will depend on the dimensions of the individual slips, but generally, a typically designed marina can support the approximate number of slips in Table 2 below. Many combinations are possible, so to calculate other scenarios of slips compared to acreage of harbor area use, use the following criteria: a) Assume 4 foot wide fingers between slips, 6' to 10' middle walkway width depending upon the size of slips, two times the adjacent slip depth for the open spacing between adjacent sets of slips, one slip depth on the outside of the most outward sets of slips, one slip depth beyond the end of each set of slips, and 50 feet from the water's edge to the start of the slips. It is possible to fit more slips into a harbor than the number of "slips per acre" values below, especially for long sets up slips, however these values are considered typical and achievable in most circumstances.

Table 2 — Typical slip capacity per acre by slip size					
width x depth	slips per acre	width x depth	slips per acre	width x depth	slips per acre
7x16	79	15x36	23	19x64	11
10x20	54	16x40	20	20x72	9
11x24	42	17x46	16	21x80	8
12x28	34	17x50	15	22x90	7
14x32	27	18x58	12		

How many campsites does TVA allow or require per acre?

The number of campsites typically ranges from 4 to 12 campsites per acre. If there is no existing development, the appraiser should review the development plans to determine the campsites per acre. TVA will require a minimum of 4 campsites per acre for new developments unless approved otherwise. For existing developments, the appraiser should consider the number of existing campsites and any approved plans to add additional campsites. The appraiser should also consider other approved revenue producing facilities such as campground store, launch ramps, and day use areas.

How often can the property be reappraised?

Either TVA or the owner can reappraise the property after five years from the date of the first appraisal, and each five years thereafter. TVA may also reappraise if the applicant request a revision to the permit or license agreement that would allow uses that were previously not considered (adding dry storage boat slips or a restaurant).

What should the appraiser consider in determining the market value?

The appraiser will be responsible for justifying and supporting the determined market value. Some of the factors that the appraiser may consider are:

- Location
- Accessibility by public (remote area or near major highways)
- Slope and width of TVA land above water and its capability to be used commercially
- Depth of water at summer and winter elevations
- Demand for marina slips and campsites
- Price per foot for slips or per campsite typical for the local area
- Per capita income for the local area
- Proportion of Conventional Slips to moored non navigable houseboats

How many moored houseboats/structures does TVA estimate can be moored into one acre?

Typically, marinas have 2 to 8 houseboats/structures per acre, but they can have more or less. The number per acre depends on water fluctuation, size and dimension of houseboats/structures, anchorage method, travel lane width, and other factors. TVA considers 3.5 houseboats/structures per acre to be average. TVA expects that houseboats/structures to be reasonably situated in the same area and not scattered throughout the harbor area. A scattered pattern would result in a higher number of acres for which TVA would charge rent.

How should the appraiser factor in the use of harbor areas for moored houseboats/structures as they are believed to be less dense than marina slip

Ultimately, the appraiser is trying to determine what the TVA land (above and below water), restricted to commercial recreation, will yield at a public auction. The appraiser will have to consider the number of slips and the number of moored houseboats/structures and what the market demands. Many marinas' harbors are large because of the moored houseboats/structures and their spacing. If the houseboats were absent, it is unlikely the harbor could be filled completely with marina slips due to lack of demand for the large number of slips. Therefore, the appraiser should determine a "per acre" value for areas of slips and marina facilities and for areas of moored houseboats/structures (See Exhibit C). Income is expected to be greater for marina slips as compared to moored houseboats/structures. It should also be noted that many moored houseboats/structures prefer larger spacing than is physically required. This additional spacing may increase the "cost per boat" due to the desired additional benefit. This answer reflects the knowledge that there are many approved non navigable houseboats in harbor limits on a few reservoirs. However, since 1978, new non navigable houseboats have not been allowed. All new houseboats should be navigable as identified in 18 CFR 1304.101. In addition, TVA is currently reviewing its regulations regarding houseboats/structures moored, anchored, or installed in TVA reservoirs. This document or TVA's acceptance of a appraisal considering moored houseboats/structures does not imply TVA's approval or acceptance of any particular vessel, houseboat, non navigable houseboat, or floating structure.

When does the payment based upon the Market Value begin to escalate?

Annual payments escalate each January 1 by the defined escalation rate (currently 2%). If the appraisal is less than 6 months old on January 1, then the escalation will not start till the following January 1. If the appraisal is 6 months or older on January 1, then the escalation will be made on that date.

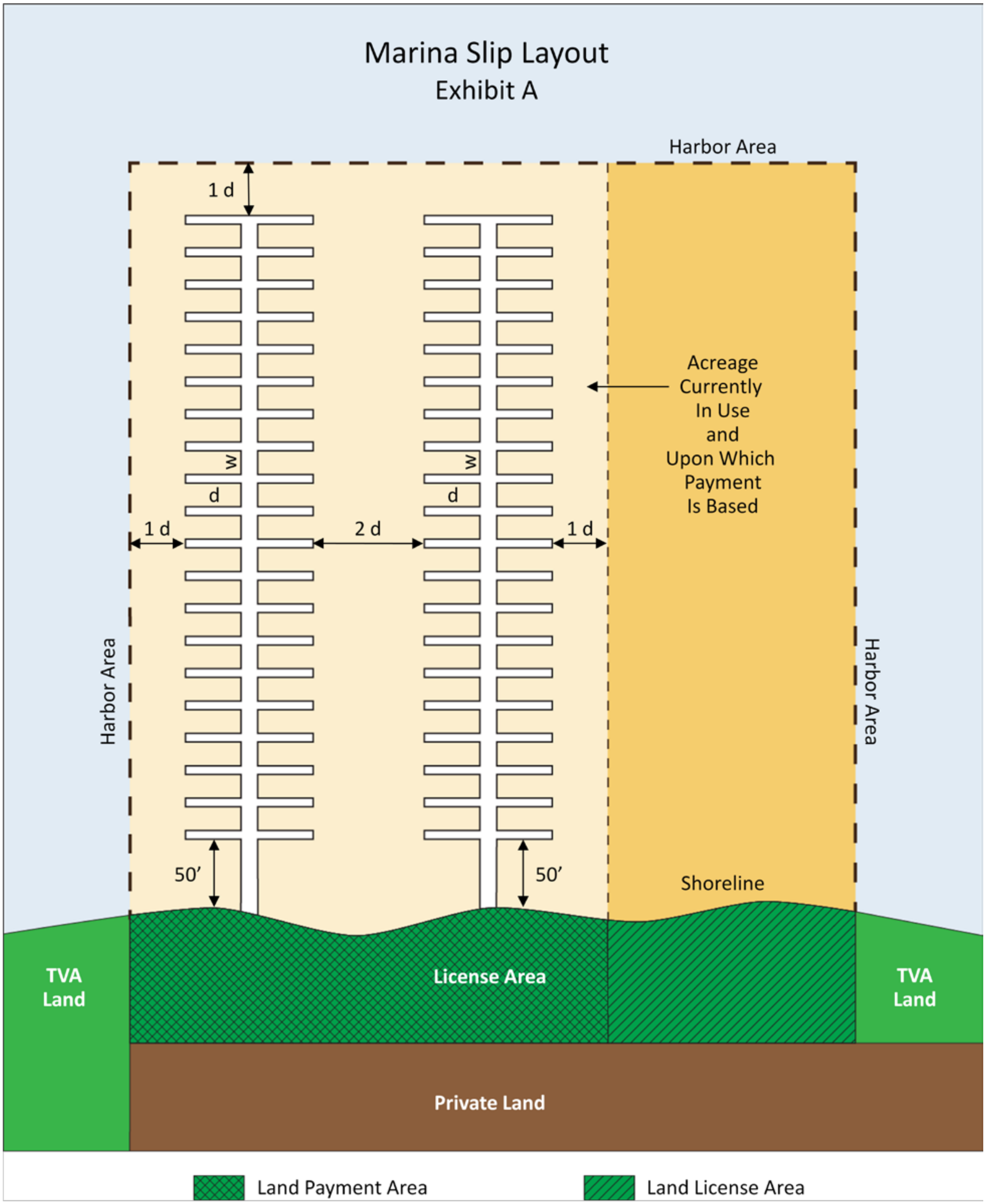
Provide an example of a payment calculation.

See below.

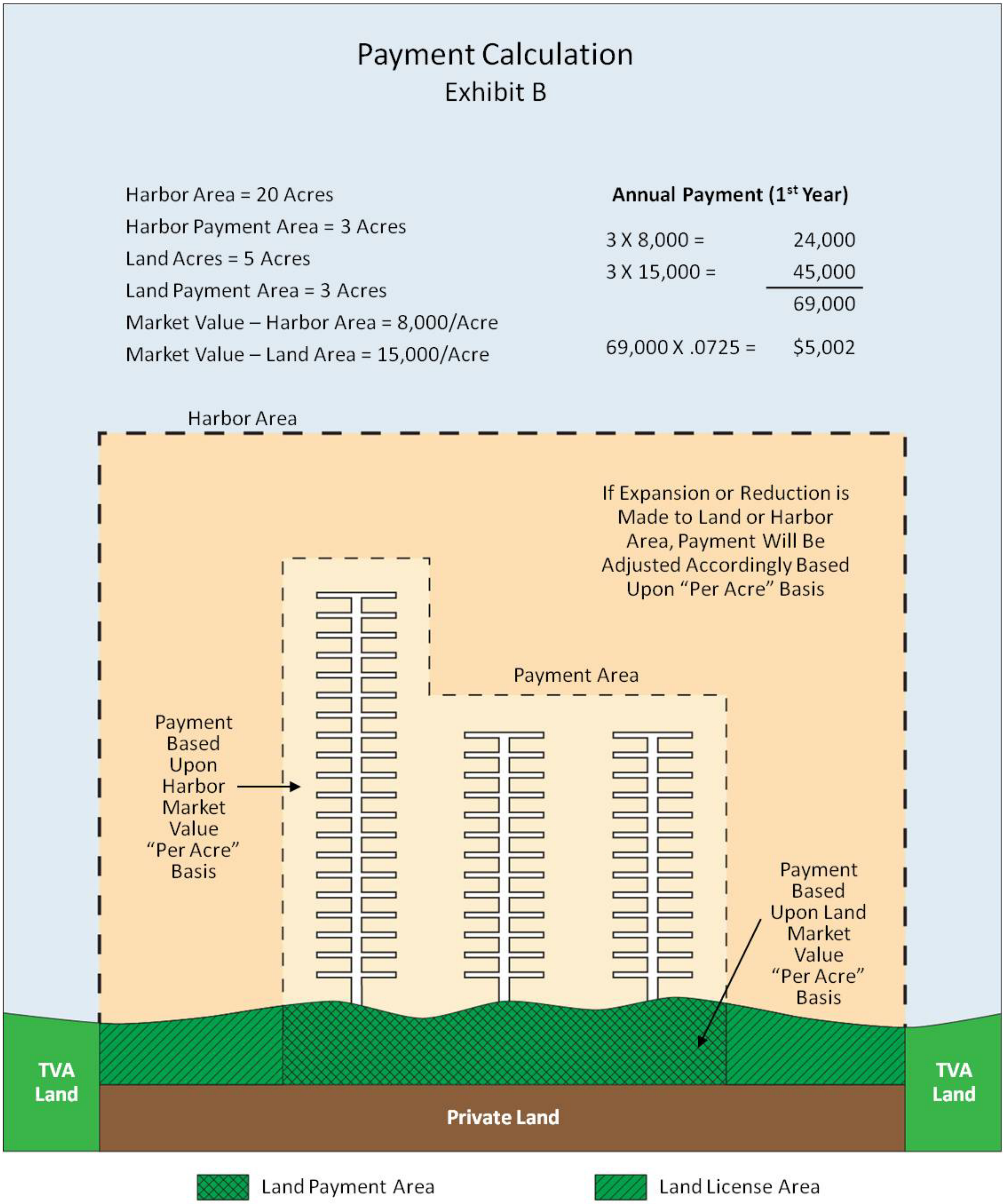
Summary of Values and Payment Calculation

	Acres	Value per acre	Total Value Component	x 7.25% (Annual Payment)
Licensed Land above elevation 1020 (Total)	10			
Licensed Land above elevation 1020 currently used	6	15000	90000	6525
Licensed Land above elevation 1020 not currently used	4			
Licensed Land below elevation 1020 (Total)	40			
Licensed Land below elevation 1020 used for marina facilities and slips	12	20000	240000	17400
Licensed Land below 1020 used for moored boats and structures	13	10000	130000	9425
Licensed Land below 1020 not currently used	15			
*Unlicensed Land above elevation 1020 currently used	0			
*Unlicensed Land below elevation 1020 currently used for marina facilities and slips	0			
*Unlicensed Land below elevation 1020 currently used for moored boats and structures	5	10000	50000	3625

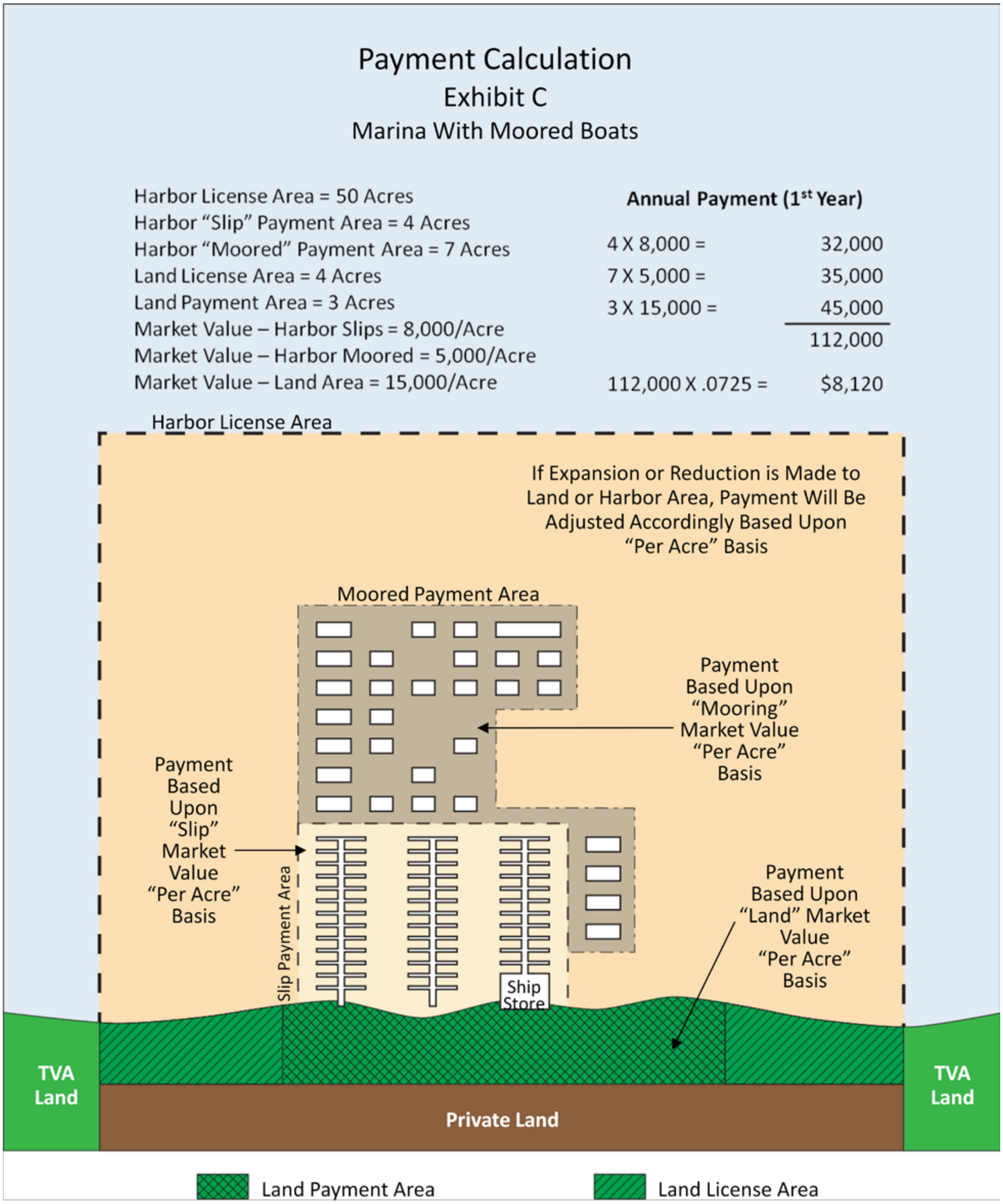
Total Annual Payment - First Year	36975



Example Slip Layout



Example Marina Layout Calculation



Example Marina with Moored Area Calculation

Attachment A
Example Payment Table

EXHIBIT C

EXAMPLE EXAMPLE

Schedule of Rental Payments

License No. ______, Tract No. ________

Facility Name: ________________________

____________ County, ____________

______________RESERVOIR

Appraised Value and Date =	$400,000	Nov. 2012
Start Date =	January 1, 2013	
End Date =	December 31, 2042	
Rate of Return =	7.25%	
Annual Escalation Rate =	2%	

Data shown for 30 years, applicable for a 30 year easement, 19 year lease, or license

Year		Rent for CY	Average Payment	Due - January 1	Due - April 1	Due - July 1	Due - October 1	Payment Notes
	2012						$0	
1	2013	$29,000.00		$7,396	$7,396	$7,396	$7,396	Note 1
2	2014	$29,580.00	$29,584	$7,396	$7,396	$7,396	$7,396	Note 1
3	2015	$30,171.60		$7,396	$7,396	$7,396	$7,396	Note 1
4	2016	$30,775.03		$8,008	$8,008	$8,008	$8,008	Note 2
5	2017	$31,390.53		$8,008	$8,008	$8,008	$8,008	Note 2
6	2018	$32,018.34	$32,031	$8,008	$8,008	$8,008	$8,008	Note 2
7	2019	$32,658.71		$8,008	$8,008	$8,008	$8,008	Note 2
8	2020	$33,311.88		$8,008	$8,008	$8,008	$8,008	Note 2
9	2021	$33,978.12		$8,841	$8,841	$8,841	$8,841	Note 2
10	2022	$34,657.68		$8,841	$8,841	$8,841	$8,841	Note 2
11	2023	$35,350.84	$35,365	$8,841	$8,841	$8,841	$8,841	Note 2
12	2024	$36,057.85		$8,841	$8,841	$8,841	$8,841	Note 2
13	2025	$36,779.01		$8,841	$8,841	$8,841	$8,841	Note 2
14	2026	$37,514.59		$9,761	$9,761	$9,761	$9,761	Note 2
15	2027	$38,264.88		$9,761	$9,761	$9,761	$9,761	Note 2
16	2028	$39,030.18	$39,045	$9,761	$9,761	$9,761	$9,761	Note 2
17	2029	$39,810.79		$9,761	$9,761	$9,761	$9,761	Note 2
18	2030	$40,607.00		$9,761	$9,761	$9,761	$9,761	Note 2
19	2031	$41,419.14		$10,777	$10,777	$10,777	$10,777	Note 2
20	2032	$42,247.52		$10,777	$10,777	$10,777	$10,777	Note 2
21	2033	$43,092.47	$43,109	$10,777	$10,777	$10,777	$10,777	Note 2
22	2034	$43,954.32		$10,777	$10,777	$10,777	$10,777	Note 2
23	2035	$44,833.41		$10,777	$10,777	$10,777	$10,777	Note 2
24	2036	$45,730.08		$11,899	$11,899	$11,899	$11,899	Note 2
25	2037	$46,644.68		$11,899	$11,899	$11,899	$11,899	Note 2
26	2038	$47,577.57	$47,596	$11,899	$11,899	$11,899	$11,899	Note 2
27	2039	$48,529.13		$11,899	$11,899	$11,899	$11,899	Note 2
28	2040	$49,499.71		$11,899	$11,899	$11,899	$11,899	Note 2
29	2041	$50,489.70	$44,557	$11,139	$11,139	$11,139	$11,139	Note 3
30	2042	$38,624.62		$11,139	$11,139	$11,139	$11,139	Note 3

Note 1 (Year 2013): Annual rent is appraised value multiplied by rate of return and escalation factor.
If annual payment is less than $3000, only one payment per year is due. Years 2013-2015 are averaged.
Quarterly payments for years 2013-2015 will be based on the average of annual payments divided by 4.

Note 2: Quarterly payments for succeeding years after 2015 will be based on averages of annual payments for five year periods.

Note 3 - Last two years are averaged for the remaining months ending Dec. 31, 2042.

Adjust if ending quarter is other than 4th quarter.

Averages over multiple years are used to allow the same payment amount for multiple years.