How to Request Market Value as Payment Option

October 26, 2012

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The following processes and procedures must be followed to request the Market Value payment option instead of the default Percent of Gross Revenues payment option:

1. The agreement holder (licensee/lessee/grantee) provides a written request to the TVA Recreation Agreement Specialist stating their 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.
2. TVA (the Recreation Agreement Specialist and TVA appraiser) meets with the agreement holder via teleconference or at a TVA office to discuss the process and instructions.
3. TVA provides a list of at least three approved private appraisers and written instructions for the appraisal. The list and instructions can be provided by email.
4. The agreement holder selects one of the private appraisers and reaches an agreement regarding payment and schedule arrangements. The agreement holder is responsible for paying for the appraisal directly to the private appraiser. The agreement holder can also choose to pay TVA to perform the appraisal.
5. The agreement holder, TVA (Recreation Agreement Specialist and TVA appraiser), and selected private appraiser hold a teleconference to discuss requirements for the appraisal. The agreement holder may provide written information to the appraiser and TVA regarding the operation's history and development to include such information as their cost in providing access (i.e., building roads) to the TVA property.
6. The private appraiser completes the appraisal and determines market value. All communications concerning appraisal are to include all parties (TVA, private appraiser, and agreement holder).
7. The private appraiser furnishes appraisal report to TVA and agreement holder at the same time.
8. The agreement holder provides written concurrence to use the private appraisal to determine initial annual payment.
9. TVA reviews the private appraisal and accepts or rejects it. If TVA does not accept the private appraisal, TVA will convene a meeting with the agreement holder 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, start at the beginning of the next quarter (January 1, April 1, July 1, and October 1).
11. TVA furnishes amended payment table for respective license, lease, or easement.

Appraisers: All private appraisers that TVA considers are required to be certified by the state in which they are preparing appraisals. Typically, the private appraisers are Certified General Real Estate Appraisers and 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 commercial recreation (typically a marina or campground). The market value appraisal should assume the use of the TVA 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, considering the use restrictions, the TVA land rights (above and below water) and TVA-owned improvements would yield, if sold at a public auction. The appraiser can consider the agreement holder's cost of providing access to the TVA property in determining the market value.

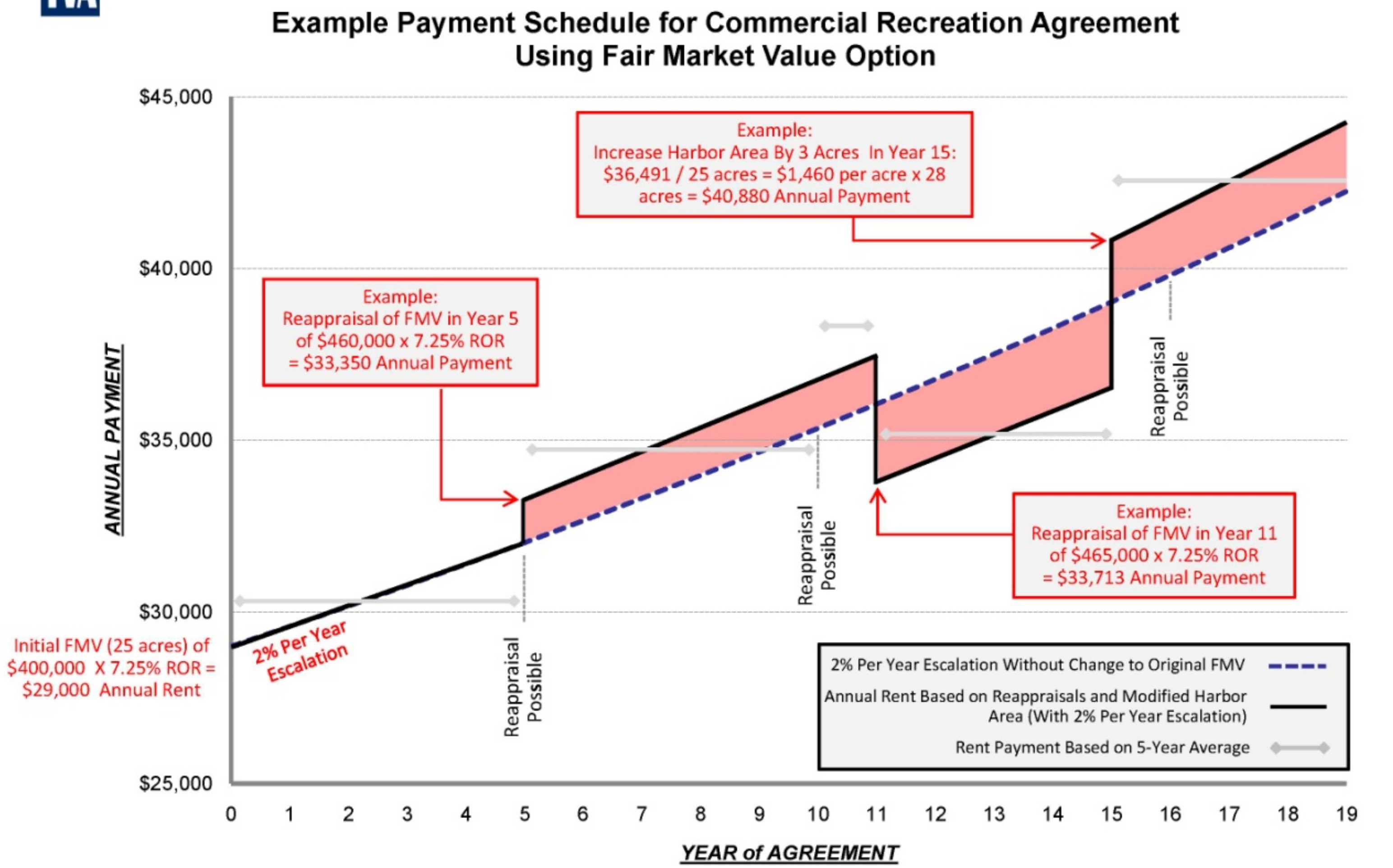
Rent Amount: A rate of return, currently 7.25%, is applied to the appraised value to determine the first year's rent. Each subsequent year, this value is escalated 2% to account for inflation. Every five-year period (2011-2015, 2016-2020, etc.), the rate of return and escalation rate are re-evaluated. See Figure 1below for an example of the process. Also, see Exhibit A as an example payment table. For easement and lease agreements, the rate of return and escalation rate remain unchanged for the full term of the agreement. For revocable license agreements, the rate of return and escalation could change at five-year intervals.

Appraisal Methods: There are three methods of appraisals: Sales Comparison Approach, Income Approach, or the Cost Approach. The private appraiser will determine the best methods to use given the unique site factors. Regardless of the method, the appraiser should provide market values on a per-acre basis for the land areas above and below the water. The appraiser may use the Sales Comparison approach for the private, unrestricted land above water and then use factors (percentages) to apply to the TVA land above and below water. Factors applied should consider utility of a specific land area under water relative to its potential value contribution to the existing marina operation based on market evidence, industry standards, and reasonable judgment. For example, private, unrestricted land above the water is appraised based on comparables (and set to 100%), then the TVA land above water might be assigned 25% (based upon appraiser's judgment considering such things as flood plain elevation, slope, current uses, etc.), then the harbor area attributable to marina slips might be assigned 50% (appraiser's judgment), the harbor area attributable to moored vessels might be assigned 25% (appraiser's judgment), and the remainder of land areas above and below water are assigned another factor based upon the appraiser's judgment. In all cases, the appraisers choose the most appropriate factor which could be less than or greater than 100%.

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.

Figure 1



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

Appraisers should determine the market value of the defined areas (above and below water areas) on a “per-acre basis.” TVA has determined the number of acres on the license area and within the harbor and will multiply the approved “per acre” value by the acres in each category to determine the first annual payment. Improvements (i.e., roads, utilities) made by the agreement holder and assets of the agreement holder (i.e., floating slips, buildings) should not be included in the appraised value. The value should reflect the restriction that the agreement 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) for each category of use (slips, mooring, open, etc.). 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 Table 1 for an example calculation and note how factors are used to value the TVA land above and under water in relation to the value of the private unrestricted land above water. See also Exhibits B, C, and D for a graphical representation of other examples. The appraiser determines the appropriate factors to use.

<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 be an integral component of the commercial marina or campground; that is, restaurant must be designed to support and encourage recreational use of the reservoir and not simply be a standalone restaurant. TVA must approve in writing in advance.
- Marina Slips in Harbor Limits
- Fuel Storage and Dispensing Facilities
- Infrastructure such as roads, parking lots, utilities, etc.
- Rental Cabins — there can be no residential use (except for a resident manager), and no long-term accommodations, timeshare, condo units, or individually owned units. This means that a rental cabin cannot be owned by an individual, partnership, or any arrangement except by the agreement 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.

Table 1: Example — Summary of Values and Payment Calculation (Appropriate Factors Determined by Appraiser)

	Acres	Value Per Acre	Total Value Component	x 7.25% (Annual Payment)	Factor (%)
Value of private, unrestricted land above water (determined by comparables)		$26,500			100%
Licensed land above normal summer pool (Total)	12				
Licensed land above normal summer pool currently used for parking, dry storage, other	10	$7,950	$79,500	$5,764	30%
Licensed land above normal summer pool used for egress/ingress/other	2	$3,975	$7,950	$576	15%
Licensed land below normal summer pool (Total)	25				
Licensed land below normal summer pool used for marina facilities and slips	18	$14,575	$262,350	$19,020	55%
Licensed land below normal summer pool used for moored boats and structures	4	$5,300	$21,200	$1,537	20%
Licensed land below normal summer pool open and unimproved	3	$1,060	$3,180	$231	4%
*Unlicensed land above normal summer pool currently used for ingress/egress/other	1	$3,975	$3,975	$288	15%
*Unlicensed land below normal summer pool currently used for marina facilities and slips	1	$14,575	$14,575	$1,057	55%
*Unlicensed land below normal summer pool currently used for moored boats and structures	1.4	$5,300	$7,420	$538	20%
Total Annual Payment — First Year			$400,150	$29,011	

* Rent will be required for areas used which are outside the current agreement area. Payment of rent does not guarantee approval for the unapproved areas. Agreement holders will be required to stop using areas which are not under an agreement or to make application to include those areas in the agreement. Programmatic and environmental reviews will be required.

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 (see Table 2). Many combinations are possible, so to calculate other scenarios of slips compared to acreage of harbor area use, use the following criteria: assume 4-foot wide fingers between slips, 6-foot to 10-foot 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 lengths of 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. TVA may require an additional appraisal in the future if new campsites are subsequently approved and constructed that were not considered in the first appraisal.

How often can the property be reappraised?

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

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 (remote area, near metropolitan area, near major highways, etc.)
- Accessibility by existing public roads; improvements on private land which are needed to access the TVA property

- 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 houseboats/structures to be reasonably situated in the same area and not scattered throughout the harbor area. Moored vessels spaced in an irregular pattern or with large spaces in between vessels will 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 slips?

As mentioned in the "Appraisal Methods" section, the appraiser may apply factors such as percentages (i.e., 25%) of the market value of the private, unrestricted land based upon comparable sales. 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 D). 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 an 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 until the following January 1. If the appraisal is 6 months or older on January 1, then the escalation will be made on that date.

How may appraisers consider access to TVA property?

TVA land is generally always accessible by either land or water. Although an adjacent landowner can prevent access across private land, it generally cannot prevent TVA from permitting structures on and uses of TVA managed land. The TVA land might be accessible from across the cove or from other upstream or downstream properties. However, these alternate accesses increase cost to the proposed user and would likely impact the viability of the commercial operation.

Regarding access, TVA lands used for commercial recreation can generally be classified into the following categories:

1. <u>All TVA land/No Private Land</u> — Under this scenario, the complete commercial operation is on TVA land and is accessible by a public road or TVA constructed roads. The agreement holder does not own any adjacent land.

2. <u>Part TVA Land/Part Private Land/Public Road Access</u> — Under this scenario, the agreement holder owns land adjacent to TVA land; however, a public road connects directly to the TVA land. The TVA land is accessible by all and an agreement for commercial use of the TVA land could easily be given to many different individuals.

3. <u>Part TVA Land/Part Private Land/No Public Road Access</u> — Under this scenario, the TVA land which is subject to the agreement is not accessible by land except across private land. The opportunity for a commercial recreation license at this location is generally limited to the owner of the adjacent back lying land. The appraiser would consider the owner's (agreement holder) cost in providing access across the private land to the TVA land and should appraise the TVA land before improvements were made or access was made available. For example, if the slope of the shoreline and back lying land is steep and heavily wooded, it should be appraised in that condition without an access road. Someone interested in the property would have to account for the cost of road building and providing access in the price they were willing to pay. The difficulty and expense in providing access would be anticipated to decrease the value of the TVA land over easily accessible land.

4. <u>TVA land is underwater only</u> — Under this scenario, TVA owns mostly easements to flow water over private land up to a certain elevation, but has some fee-owned land under the water which is included in the agreement area. This situation should be considered similar to number 3 above.

In all four scenarios, the appraisal should not include the agreement holder's assets or improvements in the appraised value. Each situation will be unique and will require investigation. The agreement holder can provide information on access and history of the site so long as the information is provided to TVA as well. These issues should be discussed during the initial teleconference at the time the appraisal process is initiated. All TVA land, above and below water, is believed to have some value, although TVA understands that values will fluctuate based upon 1) whether existing public roads provide access to the TVA property, and 2) the cost of obtaining, improving, and maintaining access.

Discuss the factors (percentages) and how they are to be used.

If this method is selected, the appraiser will select the appropriate factors to apply based upon the unique conditions at the respective site. Generally, the appraiser will determine the value of private land, unrestricted, which abuts TVA near the water (waterfront property). The appraiser will then look at the characteristics of the TVA land and consider such things as slope, portion of the property which is below the 100-year flood plain, current and approved uses, ingress and egress, and many other factors. Factors can then be applied to value the TVA land above and below the water. The appraiser may separate the TVA land above water into separate areas or give a weighted average for the entire area. For example, the appraiser could separate an area of a campground and give one factor while using another factor for areas which serve dry boat storage, restaurants, or parking lots. The appraiser also assigns a factor to value the land under the water used for slips, the area for mooring boats independent of slips, and the open unimproved area. In most cases, the open unimproved areas within permitted harbor boundaries will support some value since they have been approved for use by TVA, have had an environmental review and public notice, and generally facilitate a quicker process to expand or add additional marina facilities (slips, walkways, etc).

EXHIBIT A

EXAMPLE **EXAMPLE**

Schedule of Rental Payments

License No. ______, Tract No. ________

Facility Name: ________________________

____________ County, ____________

________________RESERVOIR

Appraised Value and Date =	$400,000	Sept 2013
Start Date =	January 1, 2014	
End Date =	December 31, 2043	
Rate of Return =	7.25%	
Annual Escalation Rate =	2%	

Data shown for 30 years; also applicable for a 30-year easement, 19-year lease, or revocable license. Appraisal will be also be provided on a "per acre" basis so that adjustments can be made up or down as area used expands or reduces. Appraisal includes land used above and below the water.

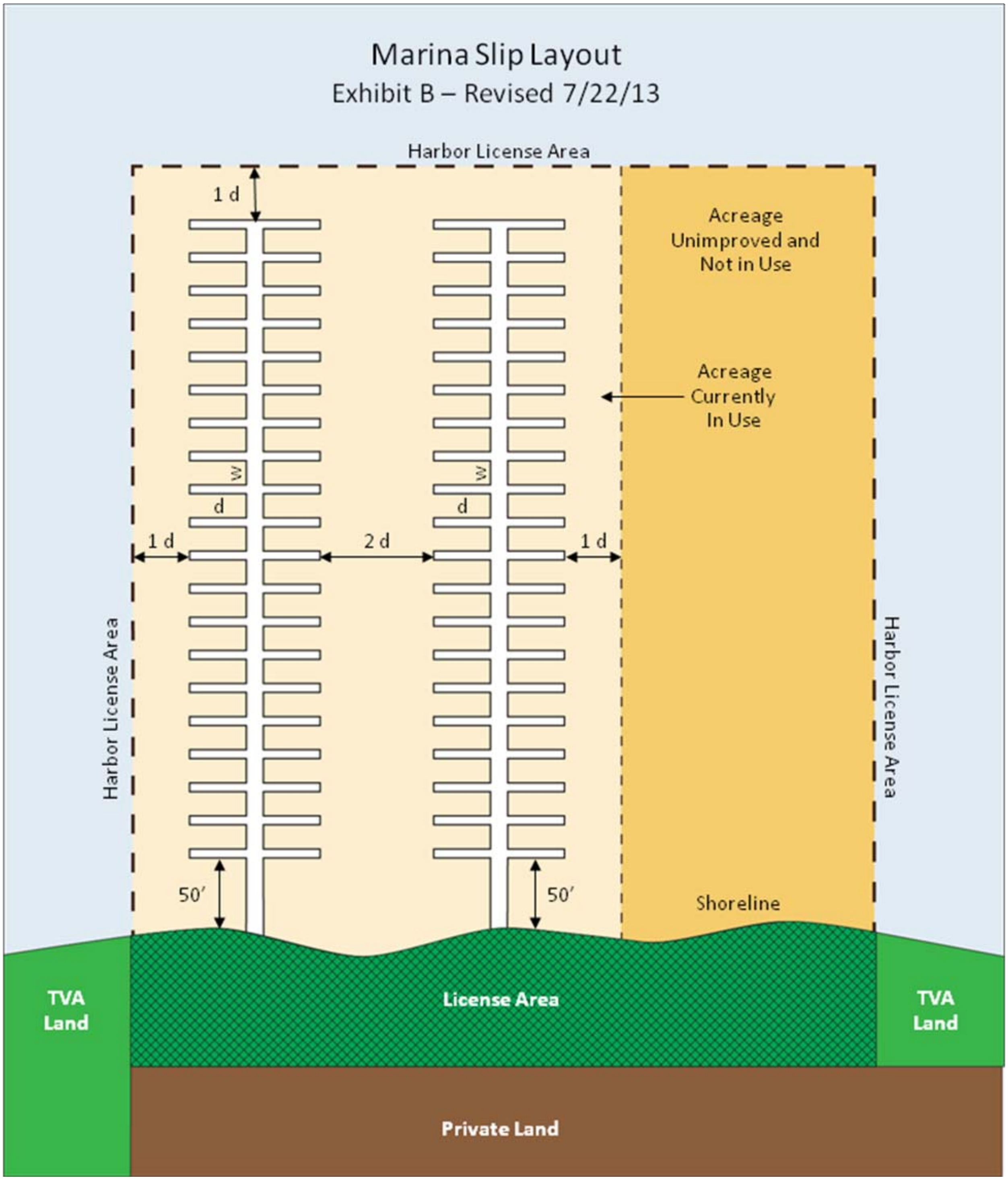
Year		Rent for CY	Average Payment	Due - January 1	Due - April 1	Due - July 1	Due - October 1	Payment Notes
	2012							
	2013							
1	2014	$29,000	$29,290	$0	$0	$0	$0	Note 1
2	2015	$29,580		$0	$0	$0	$0	Note 1
3	2016	$30,172	$31,403	$0	$0	$0	$0	Note 2
4	2017	$30,775		$0	$0	$0	$0	Note 2
5	2018	$31,391		$0	$0	$0	$0	Note 2
6	2019	$32,018		$0	$0	$0	$0	Note 2
7	2020	$32,659		$0	$0	$0	$0	Note 2
8	2021	$33,312	$34,671	$0	$0	$0	$0	Note 2
9	2022	$33,978		$0	$0	$0	$0	Note 2
10	2023	$34,658		$0	$0	$0	$0	Note 2
11	2024	$35,351		$0	$0	$0	$0	Note 2
12	2025	$36,058		$0	$0	$0	$0	Note 2
13	2026	$36,779	$38,280	$0	$0	$0	$0	Note 2
14	2027	$37,515		$0	$0	$0	$0	Note 2
15	2028	$38,265		$0	$0	$0	$0	Note 2
16	2029	$39,030		$0	$0	$0	$0	Note 2
17	2030	$39,811		$0	$0	$0	$0	Note 2
18	2031	$40,607	$42,264	$0	$0	$0	$0	Note 2
19	2032	$41,419		$0	$0	$0	$0	Note 2
20	2033	$42,248		$0	$0	$0	$0	Note 2
21	2034	$43,092		$0	$0	$0	$0	Note 2
22	2035	$43,954		$0	$0	$0	$0	Note 2
23	2036	$44,833	$46,663	$0	$0	$0	$0	Note 2
24	2037	$45,730		$0	$0	$0	$0	Note 2
25	2038	$46,645		$0	$0	$0	$0	Note 2
26	2039	$47,578		$0	$0	$0	$0	Note 2
27	2040	$48,529		$0	$0	$0	$0	Note 2
28	2041	$49,500	$50,496	$0	$0	$0	$0	Note 3
29	2042	$50,490		$0	$0	$0	$0	Note 3
30	2043	$51,499		$0	$0	$0	$0	Note 3

Note 1 (Year 2013): Annual rent is appraised value multiplied by rate of return and escalation factor.
Quarterly payments for years 2013-2015 will be based on the average of annual payments divided by 4.

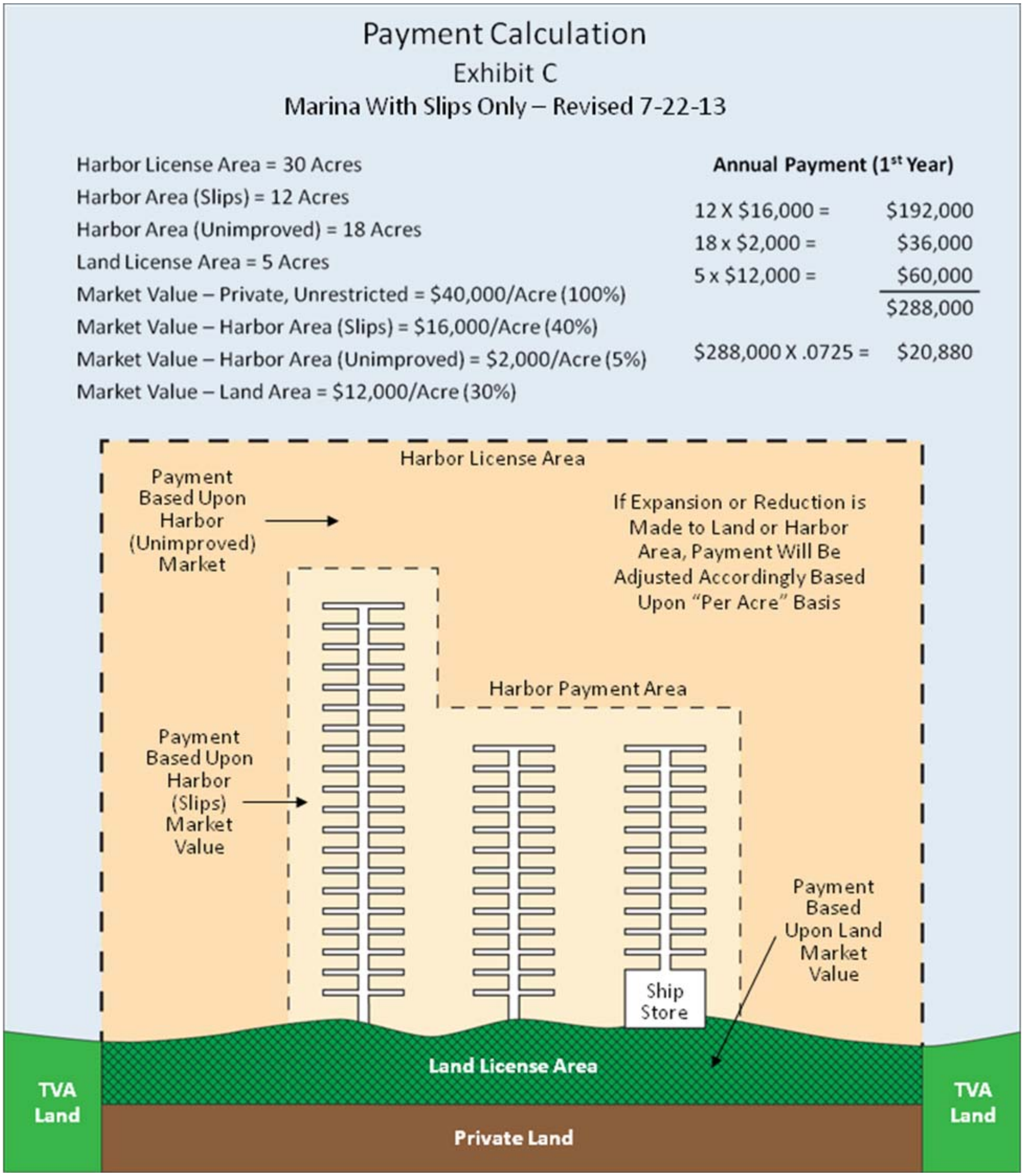
Note 2: Quarterly payments for succeeding years after 2015 will be based on averages of annual payments for five-year periods.

Note 3: Last three years are averaged for the remaining months ending December 31, 2043.
Averages over multiple years are used to allow the same payment amount for multiple years.

Note 4: For licenses, rate of return, and escalation reviewed at 5-year intervals (2015, 2020, 2025, 2030)

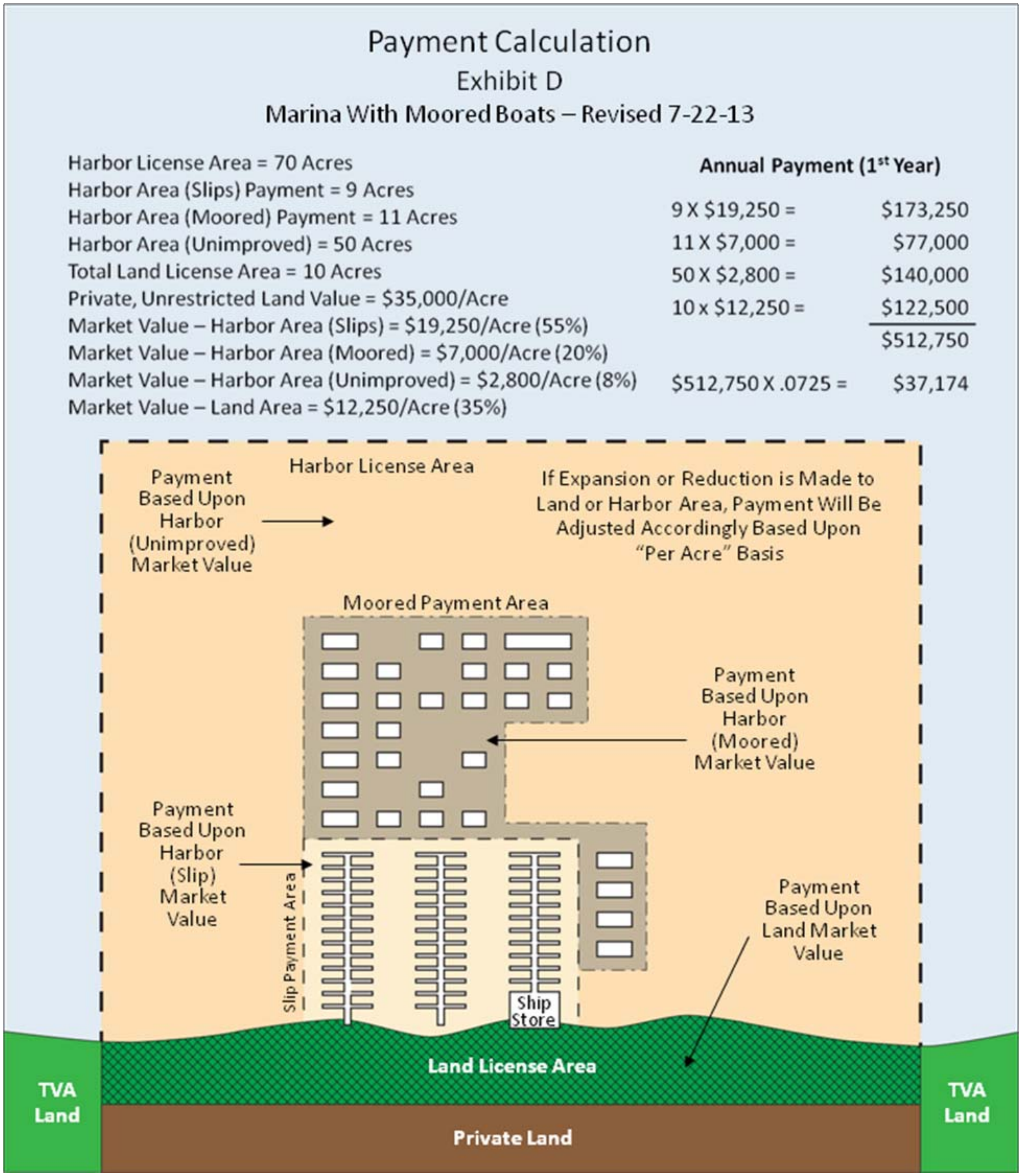


Example Marina Slip Layout



Note: Appraiser determines the private, unrestricted land value and appropriate factors (percentages) to apply to TVA land and harbor.

Example Marina Layout Calculation



Note: Appraiser determines the private, unrestricted land value and appropriate factors (percentages) to apply to TVA land and harbor.

Example Marina with Moored Area Calculation