

Prospectus for the Operation of Fontana Village Resort on TVA Property

Introduction

The Tennessee Valley Authority (TVA) is seeking proposals from qualified individuals or companies to operate Fontana Village Resort (FVR), a business in Graham County, North Carolina, under a 30-year commercial recreation easement.¹ FVR was originally developed by TVA as a construction camp for Fontana Dam and has since operated under a TVA recreation lease since World War II. The Fontana Dam construction camp contained over 350 structures housing over 5,000 TVA employees, contractors, and their families. After completing the dam in 1945, TVA leased 359 acres of land and facilities to promote recreation and provide lodging to visitors at Fontana Dam, the Great Smoky Mountains, and other destinations in the Appalachian Mountains. Fontana Village is an important economic driver for Graham County, North Carolina.

FVR is a commercial resort property comprised of approximately 356 acres on TVA land (see Attachment A – Parcel 1 and Parcel 2) (the “Easement Area”) that includes, but is not limited to, a lodge (91 rooms), 124 cabins, 2 restaurants, a general store, swimming pools, multi-purpose sports fields/courts, a post office building, a gas station, a marina (60 boat slips; 18 floating cabin moorings), horse stables and trails, roads, maintenance buildings, gates, fences, kiosks, signs, lighting, utilities, vegetation, public trails and parking areas. The selected operator would operate the existing facilities pursuant to a commercial recreation easement.

In addition to the existing facilities, TVA will entertain proposals for updating and expanding the existing facilities and adding additional amenities to FVR. Any proposed additional amenities, expansion of amenities, or upgrades will be subject to TVA’s prior written approval in TVA’s discretion and will require an additional environmental and programmatic review. Separate costs for that review will be determined once the operator (Grantee) is selected and the Grantee’s proposed concept/master plan is accepted. Unless otherwise agreed, the Grantee will be responsible for paying all of these additional costs of review, which may include detailed studies such as building inspections, architectural and engineering plans review, special biological studies, archeological surveys, and other advanced environmental reviews necessary to determine the potential impacts of the proposal on wetlands, cultural resources, endangered species, or other resources as determined by TVA.

The administrative cost for obtaining a commercial recreation easement to operate the existing facilities is approximately \$110,000, which includes an initial \$5,000 application fee. The selected operator will be responsible for paying these administrative costs to TVA as well as any additional environmental and programmatic reviews, including any special studies, as described above for the additional or modified facilities. In addition, the Grantee will pay TVA rent calculated according to one of the two methods outlined below.

Attachments A through E, available through the links below, contain aerial maps and imagery of the operation, detailed site plans, a photo log of the site, and other information related to this prospectus.

¹ The United States of America owns the real property for the use and benefit of TVA. Any real property transaction must comply with applicable laws, regulations and TVA rules. TVA reserves the right to convey the appropriate legal instrument associated with any transaction.

[Attachment A – Vicinity Map and Aerial Map of Proposed Easement Boundary](#)
[Attachment B – Fontana Village Resort Site Plan](#)
[Attachment C – Fontana Village Resort Photo Log](#)
[Attachment D – Facility List](#)
[Attachment E – Ground Disturbance Avoidance Areas – Map](#)

General Information

Address:
300 Woods Rd,
Fontana Dam, NC 28733

Latitude/Longitude Coordinates:
35.43256, -83.82129

Note: The term “Grantee” is used herein to reference the individual(s) or company whose proposal is ultimately chosen by TVA and accepts an easement from TVA.

Agreement Type

The Grantee will be required to obtain real property rights in the form of an easement grant from TVA to operate a commercial recreation facility on federal property. The easement term will be for 30 years and will offer the Grantee an instrument by which to conduct business and make investments on the property. The easement will be for commercial recreation operations only, and all recreation facilities and amenities within the Easement Area must be open to the public without discrimination. The easement is assignable to a third party only upon prior review and approval by TVA, in TVA’s sole discretion.

The Grantee may have an opportunity to renew this easement for additional terms totaling up to fifty (50) years, to a maximum occupancy of eighty (80) years total from the date the easement is executed. Any renewals will be subject to determination by TVA in its sole discretion, that: (1) TVA has no need or desire to retake the Easement Area; and (2) the Grantee has been adequately providing services and performing its obligations and will continue to do so during the extended term. Grantee will be responsible to pay all administrative or other costs related to any renewals, and each renewal will be subject to TVA’s review of the easement terms and any amendments to such terms as TVA deems necessary.

TVA anticipates being ready to execute an easement approximately four to six months after an applicant is selected by TVA to operate FVR². In the interim between the applicant’s selection and the granting of an easement, TVA is willing to issue a revocable license agreement (pending internal programmatic approvals) to the selected applicant to allow the applicant to commence commercial recreation operations at FVR.

² This timeframe assumes the legal entity acquiring the real property is not the United States government.

Administrative Fees & Commercial Recreation Rent Structure

Administrative Fees

All applicants are required to submit a check to TVA for \$5,000 with their Proposal submission. The Grantee will pay approximately \$110,000 in administrative costs, which includes the initial \$5,000 application fee, for processing of the commercial recreation license and subsequent easement. A refund of the \$5,000 application fee will be made to those applicants not selected. For an applicant that is selected, all fees and costs paid will be non-refundable, even if TVA and the applicant do not enter into an easement due to the results of TVA's administrative and risk reviews, an inability of TVA and the applicant to agree on the terms of the easement, or otherwise. Additional administrative fees will be required if the Grantee proposes to add, expand, or update amenities or applies for a renewal of the easement.

Rent Options

For each calendar year of the easement period the Grantee shall pay to TVA rent for the use of the easement premises including use of the improvements, buildings, and facilities on the easement premises. The Grantee will choose one of two options for rent payment: (1) the percent of gross revenue (PGR) approach or (2) the fair market value (FMV) approach. Under either approach, the absolute minimum rent per year shall be \$30,000 for 2022 and will be escalated 2% per year. The minimum rent per year amount will be pro-rated for easement periods of less than one year.

The easement grant will automatically reflect the PGR option unless the Grantee requests the FMV option. The calculation of rent due under either the PGR or FMV approach will take into account the TVA real property area involved in the commercial operation and any areas within the associated harbor limits over TVA land. For either option, TVA will forego payment (minimum and true-up) of rent during the first quarter of operation to allow the Grantee a reasonable time to establish operations.

In order to encourage the Grantee to make investments in the resort's real property, fixed assets, and associated infrastructure, the rental payment shall be reduced by an amount equal to the Grantee's investment in eligible infrastructure and capital improvement. Eligible infrastructure and capital improvement investments shall include only improvements made to real property and fixed assets. Capital improvements to the easement premises are the addition of permanent structural changes or the restoration of some aspect of the property that will either enhance the real property's overall value or prolong its useful life. Capital improvement investments include items that are immovable or permanently attached to real property. Eligible investments include:

- 1) Infrastructure - the electric power distribution equipment and facilities; water treatment, storage, and distribution facilities; sewage collection, treatment, and disposal facilities; and the resort roads. Infrastructure may include assets owned by the Town of Fontana Dam that directly serve FVR.
- 2) Capital improvements include structures; building envelopes (roofs, structure, windows, doors, flooring, etc.); building systems (electrical wiring, plumbing and plumbing fixtures, heating/cooling equipment, fire protection equipment, telecommunication equipment, network equipment); in-ground swimming pools; oil and gas storage tanks; and marina docks/facilities/equipment.

Personal property replacements and operational expenses are not eligible investments. Personal property is any property or property interest that is not real property or a real property interest.

Labor and materials supplied or obtained (other than from TVA) by the Grantee and actually used to improve and maintain the infrastructure are eligible investments. Any excess investment above the rental due for any year and not credited against the rental payment due for that year may be carried forward and credited against rental payments due in future years for the term of the easement period including extensions, if granted. Rent will be due in any year in which Grantee's investments and investment credits from prior years in the infrastructure or capital improvements do not exceed the calculated rental payment.

In order for an investment in infrastructure or capital improvements to be credited against a rental payment, TVA's advanced written approval that it will be so credited must be received.

In addition to rental payment reduction, TVA plans to invest up to \$2 million in infrastructure improvements with the Town of Fontana Dam. Some of these improvements are currently underway. TVA plans to complete the remainder of these improvements within five years of the execution of the easement agreement.

PGR Approach

The PGR approach will be based on a percentage of all gross revenues arising from all operations on TVA land and associated water-based facilities, including any operations by subgrantees, lessees, sublessees, and/or licensees, except for the following exclusions: (1) electric sales that are individually metered and paid to TVA under a separate power agreement; (2) hunting and fishing license fees; and (3) taxes collected for direct remittance to a taxing authority. In addition to the absolute minimum rent of \$30,000, as escalated, the Grantee shall pay rent of two-percent of annual gross revenue, as defined above, on all gross revenue in excess of \$2,000,000 during that year. Documentation of gross revenues from a Certified Public Accountant (CPA) will be required in accordance with the Documentation section below. Annual financial statements will be required no later than April 30 of each calendar year. Any breach of this requirement will trigger default under the agreement.

FMV Approach

The FMV approach is based on the appraised value of the land and facilities. The Grantee is responsible for paying for an appraisal if the FMV approach is selected and this cost will be in addition to TVA's administrative costs specified above. The Grantee can either pay TVA to conduct the appraisal or choose from a list of appraisers (minimum of 3) provided by TVA. Each appraiser will be a Certified General Real Estate Appraiser. The appraisal must meet TVA standards and will be subject to TVA review and approval. The appraisal will determine the FMV of the raw land and any TVA-provided improvements based on the particular type of commercial recreation use involved on a particular portion of the land (i.e., lodge/cabins). The most recent appraisal was conducted by TVA on August 5, 2020 and the land and facilities were appraised at a value of \$1,300,000 based on the leasehold interest of the property. The first year's payment will be 7.25% of the appraised value, which is TVA's commercial recreation rate of return. The payment will be escalated each year by 2% of the prior year's rent payment for the term of the easement. This rate of return and escalation rate will remain constant throughout the term of the easement. TVA or the Grantee can reappraise the property at its own expense after the fifth year of the easement term and at intervals of not less than five years thereafter

in accordance with the same as above for selection of appraiser. Once a new appraisal has been approved by TVA, the annual rent payments will be adjusted accordingly. In no event will the Grantee pay less than the absolute minimum rent for any calendar year (\$30,000 for 2022, escalated by 2% each year).

Documentation

Financial statements (including an accountant's opinion letter, balance sheet, income statement, statement of cash flows and notes to the statements) identifying gross revenues must be submitted annually to TVA. Financial statements are due to TVA no later than April 30 of each calendar year. The quality of the statements is listed in Table 1. Statements must clearly identify the various revenue sources from the operations on TVA land and associated harbor limits. The easement grant will allow TVA to conduct financial audits at any time at its discretion. The books and records of Grantee shall be subject to audit by TVA and its agents, including the TVA Office of Inspector General. If TVA conducts an audit which shows revenues underreported by 10% or more, TVA will charge the reasonable costs of the audit and a penalty to the Grantee. The penalty will be determined by TVA. The Grantee must also pay the appropriate rent due with respect to the unreported revenue. TVA shall have the right to terminate the easement grant for inaccurate reporting of revenue. The documentation described in this section is not required if the FMV rent method is selected.

| Table 1 | |
|------------------------------|---|
| Annual Gross Revenues | Requirement for Financial Statements |
| Less than \$1 million | Compiled by Certified Public Accountant |
| \$1 million to \$9,999,999 | Reviewed by Certified Public Accountant |
| \$10 million and higher | Audited by Certified Public Accountant |

Maintenance of Existing Infrastructure

The Grantee will be responsible for maintenance and upkeep of the Easement Area and all improvements located thereon, including recreation amenities, including but not limited to the lodge (91 rooms), cabins (124 each), 2 restaurants, a general store, swimming pools, multi-purpose sports fields/courts, a post office building, a gas station, a marina (60 boat slips; 18 floating cabin moorings), horse stables and trails, roads, maintenance buildings, gates, fences, kiosks, signs, lighting, utilities, vegetation (trees/limbs), and parking areas.

Recreation Area Expansions and Improvements

Investments in infrastructure and improvements on the Easement Area and their economic justification are solely the responsibility of the Grantee. However, all resort expansions and improvements of

infrastructure must be pre-approved in writing by TVA. All improvements shall meet local and national building codes and standards.

For the purposes of this RFP, in addition to the “as-is,” “where-is” facilities, TVA will entertain proposals for updating and expanding existing facilities, and adding additional amenities to the recreation area. Any proposed additional amenities or expansion of recreation area amenities are subject to prior written approval by TVA in its sole discretion and will require environmental and programmatic reviews. Separate costs for the review of additional amenities or expansions will be determined once the Grantee is selected and the Grantee’s proposed concept/master plan is accepted. Unless otherwise agreed, the Grantee will be responsible for paying the additional review costs, which may include detailed studies such as building inspections, architectural and engineering plans review, special biological studies, archeological surveys, and other advanced environmental reviews necessary to determine the potential impacts of the proposal on wetlands, cultural resources, endangered species, or other resources as determined by TVA. Future proposals for expansion/addition to the recreation area will also be subject to environmental and programmatic reviews and the costs associated with review of these proposals will be borne solely by the Grantee.

Upon termination or expiration of the easement, all property of any kind (including facilities, infrastructure and improvements, heavy equipment, boats and vehicles) placed on the Easement Area by Grantee, will, at TVA’s sole discretion, remain on the Easement Area and be deemed property of TVA. Grantee will execute any conveyance and title transfer documents that TVA may reasonably request. TVA shall owe no consideration for any such property to Grantee. Alternatively, TVA may require Grantee to remove any property placed on the Easement Area by Grantee and to return the Easement Area to its prior condition.

Insurance Requirements

Grantee will be responsible for procuring and maintaining in effect during the full term of the license and easement a policy or policies in such form as TVA may approve in the minimum amounts indicated below. The policy or policies must be written by an insurance company or companies which shall be rated A- or better by A.M. Best Company and are licensed to do business in North Carolina, or are an accepted surplus lines carrier, and hold an A.M. Best financial size category class rating of VII or higher. The insurance carrier or carriers and form of policies are subject to TVA’s acceptance.

A certificate of insurance evidencing such policy or policies must be delivered via email to the TVA Project Manager in advance of the commencement of operations and on an annual basis thereafter.

TVA currently anticipates requiring insurance coverages and amounts as follows:

STANDARD Coverage(s)

1. Workers Compensation
 - Part 1. Workers’ Compensation
 - Part 2. Employer’s Liability

Minimum Limits

Statutory requirements
\$1 million, bodily injury by accident each accident
\$1 million, bodily injury by disease
\$1 million, bodily injury by disease each employee

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| 2. | Commercial General Liability Combined Single Limits including Liquor Liability | \$1 million each occurrence; \$2 million aggregate |
| 3. | Automobile Liability (owned, hired, and non- owned) Combined Single Limits | \$1 million each occurrence; \$2 million aggregate |
| | <u>SPECIALTY Coverage(s)</u> | <u>Minimum Limits</u> |
| 4. | Marina Operators Liability | \$1 million each occurrence; \$1 million aggregate |
| 5. | Hull Coverage on All Vessels | Value of vessel |
| 6. | Protection & Indemnity | \$1 million each occurrence; \$1 million aggregate |
| 7. | Longshore and Harbor Workers' Compensation | Statutory requirements |
| 8. | Vessel Pollution Liability | \$1 million each occurrence |
| 9. | Pollution Liability Combined Single Limits including Cleanup Costs | \$1 million each occurrence; \$2 million aggregate |
| 9. | Excess Liability | \$10 million in excess of all primary liability coverages and limits |
| 10. | All Risk Property Insurance | Replacement cost value for all real and personal property (includes all buildings and structures) |

Deductibles or retention amounts under the policies described herein shall not exceed 5% of the per occurrence coverage limits, without the express written consent of TVA. Grantee must also be able to provide certain insurance requirements, endorsements, and waivers, as detailed by TVA in the eventual easement.

The foregoing insurance requirements are those that TVA anticipates including in the easement and the final easement insurance requirements may vary from the foregoing. Grantee shall pay all premiums, deductibles, and self-insured retention amounts, as required by its insurers. Grantee may satisfy the minimum policy limits required in this section by either securing primary insurance coverage, or through separate excess liability or umbrella liability insurance policies, provided that the total insurance coverage limits of the policy(ies) meet this Easement's requirements.

Security Assurance

In order to ensure that rent payment obligations are fulfilled and the Easement Area is maintained in a clean, orderly, and sanitary condition and for the repair of any damage resulting from the removal of any improvements, structures, or equipment upon termination of an agreement, and in order to compensate TVA for any administrative costs incurred by TVA staff in pursuing these items, TVA requires that Grantee: (1) procure and maintain in effect for a term ending not less than seven (7) months after the termination date of the license or easement an irrevocable letter of credit naming TVA

as the sole beneficiary in a form and with a financial institution acceptable to TVA in an amount to be determined based on creditworthiness and a site condition assessment; or (2) deliver to TVA a cash deposit in an amount determined under the method described above. **The security assurance amount is anticipated to be \$5,000,000.** The final security assurance amount will be dependent on the creditworthiness of the Grantee.

The issuer of the letter of credit must be (1) a U.S. commercial bank domiciled in the United States, or (2) a U.S. branch of a foreign bank, and either must possess and maintain a Qualified Rating on its senior unsecured long-term debt, not supported by third-party enhancements, as determined by Moody's Investor Service, Inc. ("Moody's"), or its successor, Standard & Poor's Corporation ("S&P"), or its successor, and Fitch Ratings ("Fitch"), or its successor. The term "Qualified Rating" is defined in this paragraph to be a rating during the time when at least two of the following three conditions exist: the senior unsecured long-term debt, not supported by third-party enhancements, of the issuing bank (a) is 'A3' or above as rated by Moody's, (b) is 'A-' or above as rated by S&P, or (c) is 'A-' or above as rated by Fitch. A letter of credit issued by a commercial bank that does not satisfy the criteria noted above, must be confirmed by a correspondent bank that possesses and maintains a Qualified Rating. All letters of credit must be issued for a term of at least one (1) year with an automatic renewal clause for a similar term thereafter, unless otherwise approved by TVA. All letters of credit must remain in effect for the term of the contract and should be renewed at least forty-five (45) days prior to the expiration date.

TVA may, in its sole discretion, at any time with thirty (30) days' notice, increase or decrease the required amount of the letter of credit or cash deposit to take into account changes in anticipated costs of cleanup and restoration due to economic growth, additional or reduced development on the easement area, inflation, or other factors such as declining site conditions. The Grantee must provide documentation satisfactory to TVA as evidence that the required letter of credit or cash deposit has been procured in advance of the commencement of operations. When requested by TVA, the Grantee may be required to provide complete financial statements for the preceding calendar year. In its sole and absolute discretion, TVA may waive the requirement for a letter of credit or cash deposit based on the Grantee's financial condition, and such waiver may be rescinded at any time TVA determines that Grantee's financial condition is not sufficient to justify such waiver. If the Grantee provides a cash deposit to TVA to satisfy these requirements, TVA shall return the balance of a cash deposit and any simple interest accrued at TVA short-term borrowing rate, if any, that remains following TVA's use of such cash deposit for the purposes identified herein. For construction activities, TVA may require the Grantee to procure and maintain in effect during the period of construction a performance bond or similar performance assurance secured by a third party acceptable to TVA in an amount and form determined by TVA in its sole and absolute discretion.

Other Requirements / Commitments

1. The Grantee will agree to avoid any activities involving ground disturbance within the buffers of three sensitive cultural / historical resource areas on the Easement Area. These resources are the Gunter Cabin, the Welch Cove Cemetery, and the Fontana Village Negro School Building site. No excavation, grading, trenching, heavy vehicle use, or other ground disturbing activity will be permitted within the buffers of these three resources. Grantee must obtain TVA approval prior to any alterations to the Gunter Cabin and Grantee's consultation with TVA and the NC State Historic Preservation Officer will be required prior to making any such alterations. The Grantee will agree to avoid disturbing the rock pile. The Grantee will also be required to notify TVA if any inadvertent

disturbance to any of these resources is identified. See [Attachment E - Ground Disturbance Avoidance Areas - Map](#).

2. The easement grant will contain certain floodplains requirements, which will include:
 - a. Any future facilities or equipment subject to flood damage must be located above or floodproofed to elevation 1712.0 (500-year flood elevation plus 2 vertical feet).
 - b. All future development must be consistent with the TVA Flood Storage Loss Guideline;
 - c. TVA will retain the right to permanently flood Parcel 2 below elevation 1710; and TVA retains the right to temporarily and intermittently flood the entirety of Parcel 2. TVA will not be liable for any damages resulting from flooding.
3. Any proposed tree removal, tree trimming, or building demolition or modification will require a field review to determine the presence of potential habitat for threatened and endangered bat species; consultation with the US Fish & Wildlife Service may be required. The Grantee would be required to reimburse TVA for any costs associated with these activities.
4. Site development and ground disturbance will not be allowed in the old landfill site area. Grantee will be required to provide annual maintenance of the old landfill area. Maintenance items include, but may not be limited to periodic mowing to control woody growth. See [Attachment E - Ground Disturbance Avoidance Areas - Map](#).
5. Grantee will be required to provide operational utilities and infrastructure to the resort, including roads, water, sewer, electricity, telephone lines, cable, and internet. Some of the associated infrastructure and utilities (roads, water, sewer, electric systems) serving FVR are owned by the Town of Fontana Dam (Town). Historically, the FVR operator has operated and maintained these infrastructure items for the Town under a separate license or similar agreement because this infrastructure is required for commercial recreation purposes. The Grantee is expected to accept assignment of the current agreement or to facilitate and enter into a similar agreement with the Town. A copy of the current agreement is available upon request.
6. Electrical power service is supplied to FVR through a separate power contract with TVA and the Town of Fontana Dam as a direct serve customer. All purchased electric service (other than emergency or standby service) used on the easement shall be supplied exclusively by TVA. The Grantee shall not, directly or indirectly, sell, submeter, assign, or otherwise dispose of electric service or any part thereof per the terms of the power contract.
7. Grantee shall perform monthly utility meter-readings at locations designated by TVA in the Bee Cove area near the Easement Area. The Grantee will be responsible for billing, collection and submittal of revenue and reporting the data from the meter readings to TVA on a monthly basis, and as directed by TVA.
8. Historically, FVR has provided sub-leased facilities to other entities, including the US Postal Service, Frontier Communications, and the Town of Fontana Dam. The Grantee may find it beneficial to continue with these agreements with those counterparties.
9. The Grantee is expected to preserve, maintain and make available for public access the Community Church building.

10. The Grantee will be required to apply for and maintain any required permits with the US Forest Service for moorings, land use and harbor limits at the marina and a Section 26a permit from TVA for the marina and harbor limits.
11. The Grantee shall accept ownership and operational responsibilities for all underground storage tanks within the easement area. Upon termination of the easement, ownership and operational responsibilities shall revert back to TVA.

Disclosures

1. Each applicant understands that the easement will be granted in a strictly “as-is,” “where-is” condition and neither TVA nor the previous operator make any guarantees as to the quality, integrity, useful life or adequacy of any facility, structure, utility (aboveground or underground) or appurtenant works. Applicants will be expected to perform their own due diligence at their own time and expense to determine if their business plan will be feasible based on all relevant factors. Existing condition assessments and reports for electrical and water distribution systems can be made available to interested applicants upon request. TVA makes no warranty or representation as to the quality or contents of the assessments or reports.
2. TVA cannot confirm the historical revenues generated at FVR.
3. All proposals, extensions, changes and infrastructure or capital improvement proposals will be subject to National Environmental Policy Act (NEPA) and applicable environmental and cultural laws and reviews. These required reviews will be conducted by TVA at the Grantee’s expense.
4. All proposals shall be [TVA Land Policy](#) compliant.
5. TVA will require a background check and detailed financial information prior to selecting the Grantee.