



News Release

Brazos River Authority

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POSSUM KINGDOM LAKE LEASE METHODOLOGY FREQUENTLY ASKED QUESTIONS

May 25, 2006 – Waco Texas -- On May 22, 2006, the Brazos River Authority (BRA) Board of Directors passed a resolution approving a new Cottage Site lease methodology for BRA leased property at Possum Kingdom Lake.

We hope that this resolution brings to an end several years of uncertainty for the lessees as well as for the BRA. We hope the new methodology, along with longer lease terms, will provide the PK community with the peace of mind that the lessees have said is the most important factor in their future relationship with the BRA.

We know that most PK lessees still have many questions and concerns. We'd like to take a few minutes to help answer some of the questions we've received in the last two weeks.

Q: What is the Brazos River Authority's new lease rate methodology?

A: Technically, the lease rate methodology adopted by the Board is not *new*. It was previously adopted by the Board in 2001 following the study by the Tennessee Valley Authority (TVA). However, at that time, this methodology was not completely implemented. In subsequent Board decisions, the methodology was modified to include a cap as well as a defined value frozen at 2002 county assessed property values.

The Board's most recent decision calls for full implementation of that methodology. The methodology allows lease rates to **gradually** move toward market rate while not allowing lease rates to escalate in a way that is harmful to current leaseholders.

Q: Did the Board adopt the lease rate methodology suggested by the Staubach Company?

A: No, while the Board did adopt many of the concepts listed in the Staubach Company's report, they did not adopt the Staubach's recommended lease rate methodology. The Staubach Company's proposal used independent appraisals to determine rental rates, while the methodology adopted by the Board will continue to use county assessed leasehold market values.

Q: Why did the Board choose not to use Staubach's methodology?

A: The Board chose a more conservative approach than the one recommended by Staubach. The Staubach approach used independent appraisals of the land value similar to an appraisal you might receive when purchasing a property through financing. In the long run, the cost of obtaining these appraisals to determine market value would be very costly and could result in legal challenges and/or appeals. These factors would lead to dramatic increases in lease rates over time.

Instead, the Board recognized that the county appraisal districts have an established assessment and appeal system that is reliable and standardized throughout the state. Moreover, the Board acknowledged the long-standing relationship that current lessees have with the BRA and chose a more practical approach to the lease rate methodology.

Q: Does the BRA determine lease rates based on my improvements?

A: No, the BRA determines lease rates based on your county appraisal district's assessed leasehold market value, (or land value) not the improvements.

Q: I've heard the new lease rate is complicated. How does the lease rate methodology work?

A: Beginning January 1, 2008, two things will happen:

1. the effective percentage rental rate will increase from three percent to four percent of the **most recent** county assessed leasehold market value – in this case the 2007 assessed values (as opposed to being based on the 2002 assessed value), and
2. the maximum rental rate or cap (currently set at \$2,000 a year) will be removed. The effective rate will remain at four percent of the leasehold market value for five years (through December 31, 2012). At the end of the five years, the amount will increase to five percent. This rate will remain in place for another five years (through December 31, 2017) when it will increase to and remain at six percent.

Q: Isn't there an option for lessees to choose an *incentive methodology* that includes a discount?

A: Yes, the Board also adopted a discounted rate methodology available only to current lessees who opt to sign a new lease form on or before October 1, 2007. This rate would also be effective January 1, 2008.

The discounted methodology offers a large discount off the new rate methodology for the first twenty years of the new lease.

- In the first five years (2008-2012) the lessee would receive a 50 percent discount,
- for the second five years (2013-2017) a 40 percent discount,
- for the third five years (2018-2022) a 33 percent discount, and
- for the fourth five years (2023-2027), a 17 percent discount.

Therefore; beginning January 1, 2008, instead of increasing to *four* percent, the effective leasehold rate actually goes **down** to *two* percent, then increases a percent every five years until it reaches six percent. Again, this discounted methodology will only be offered to those who opt to sign a new lease form by October 1, 2007.

Q: Why does the BRA want me to sign a new lease form?

A. The new lease form is a standardized lease that offers many benefits for the lessee. The new form will offer longer lease terms of up to 50 years with the option to terminate the lease with a one year written notice. The 50 year maximum lease term was chosen because of legal restrictions

surrounding the management of public land by a government body. This term is consistent with the existing laws and the practices of other governmental bodies, in leasing public lands.

A longer lease term offers a benefit to lessees by providing a degree of stability not found under the current lease agreement. The longer term should make bank financing much easier to obtain.

In addition, the new lease form will expressly address BRA policy providing lessees with an opportunity to remove improvements prior to the expiration or termination of their lease.

From the BRA's point of view, the new lease form will make administrative work including billing easier for our staff. It also directly recognizes the authority of the Federal Energy Regulatory Commission (FERC) over the area of shoreline around the lake of either 25-feet or 50-feet in width, depending on the location. It addresses the limitations the BRA has in granting leases or permits in the FERC areas under the FERC license.

Q: It is my understanding that under current BRA policy, I can get a new lease with a new term for bank financing purposes. Also, if I choose to transfer my lease, a new lease can be issued. Will that still be possible with a 50-year lease term?

A: Yes, this option will remain the same. The BRA currently allows lessees to request a new lease for financing purposes.

Q: If I sign a new lease form prior to the October 1, 2007 deadline and decide later to transfer my leasehold, will the incentive methodology still apply?

A: Yes, the discount will continue for the term of that lease. However, if a subsequent transfer requires the signing of another new lease form, the discount will not apply.

Q: Once the new lease form becomes effective, if I want to transfer my current (old) lease, will the new lessee have to sign a new lease form?

A: No, a simple transfer of the existing (old) lease can be performed. However, a new lease form with a new 50-year lease term is available if the new lessee would like the longer term.

Q: I am about to sign the option for my 10-year extension. What incentive do I have to sign the new lease document?

A: If you are in this situation, staying on your current lease is certainly an option, since it will lock you in at a rate for the period established under your current agreement.

However, it is important to remember that when that period ends, the effective percentage rate will jump to whatever the current rate is at that time and it will be based on the most recent assessed leasehold value.

So, instead of gradually increasing over a long period of time, you will experience a larger increase at the end of the extension period **and** you will have missed the opportunity to take advantage of the discount methodology.

Q: What about subleases? The Staubach report recommended discontinuing subleases. Has the Board adopted this recommendation?

A: No, while the Staubach Company's study and the previous study by the TVA recommended that the BRA stop subleases of commercial leases, the Board has not yet considered and voted upon this option. The Board is sensitive to the fact that each of these commercial camps is an investment for both the commercial camp operators and for those that reside on these properties.

However, one of the problems associated with the older commercial camps at PK is that many do not comply with current State wastewater standards. Septic systems that are not large enough for the area they serve can cause a health hazard to the persons living there as well as a health threat to the lake water and anyone who swims in an area affected by leaking or overfilled systems.

The Board is taking a cautious approach at this time and plans to consider options regarding commercial camp subleasing in the near future.

Q: What about my improvements? Can the BRA claim my improvements when my lease terminates or expires?

A: It is not the BRA's intent to take possession of any improvements that have been built on BRA property. All improvements will continue to be handled in the same manner as they are under current BRA practices – you may choose to sell your improvements along with your lease option during the term of your lease.

However, if you default on your lease or if you or the BRA chooses *not* to renew your lease, the new lease form will provide you with an opportunity to remove your improvements from the leased property.

The BRA would in no way take possession of the improvements on the lease property unless they are abandoned by you on an expired lease property.

Q: How can I determine what my lease rental rate will be effective January 1, 2008?

A: At the present time, it is not possible to determine the exact lease rate because that value is based on the 2007 county assessed leasehold market values (sometimes referred to as the land value). The 2007 values will not be available from your county appraisal district until sometime in the spring of 2007.

However, for practical purposes, you can use the 2006 county assessed values to get a good idea of what the value might be.

Where do you find these figures? Each year, all residents receive a notice from their county appraisal district of the appraised values of their land and the improvements on them. If you can not locate this letter, you should be able to obtain the information from your lender. You may also find the information on the internet under the county appraisal district's web site. For Palo Pinto County the link is www.palopintocad.org/

Once you locate your property's assessed leasehold market value (or land value), multiply that figure by four percent for the regular methodology or two percent for the discounted methodology.

For example, a property with an assessed leasehold market value (land value) of \$55,000 would be:

55,000	55,000		
x .04	x .02		
<hr/>			
\$2,200 regular	\$1,100 discounted	methodology	or methodology

Again, keep in mind that this will not give you your actual rental rate beginning on January 1, 2008, because that rate will be based on the 2007 county assessed leasehold market values which *may* change from the 2006 leasehold market value. However, the 2006 value will give you a close estimation.

We realize that the changes implemented by the Board will take some getting used to. However, the methodology and the discount are fairly easy to figure. If you have further questions, you may contact the Brazos River Authority directly by calling 254/761-3100 or via e-mail at information@brazos.org.

About the Brazos River Authority

The Brazos River Authority, with headquarters in Waco, is the oldest river authority in Texas. Created by the Texas Legislature in 1929, the Authority's 42,000 square-mile territory includes all or part of 70 counties; extending from the Texas-New Mexico border west of Lubbock to the Gulf of Mexico near Freeport.

The Authority built, owns, and operates three reservoirs (Lakes Possum Kingdom, Granbury, and Limestone). In addition to these water supply reservoirs, the Authority contracts with the Corps of Engineers for the water supply storage space at eight Federal multi-purpose flood control and water conservation reservoirs (Lakes Whitney, Belton, Proctor, Somerville, Stillhouse Hollow, Granger, Georgetown and Aquilla).

The Brazos River Authority owns and operates a regional wastewater system for the cities of Temple-Belton. The Authority also operates wastewater treatment plants for Brushy Creek Regional Wastewater System in Round Rock, and the cities of Hutto, Georgetown, Dime Box, Clute-Richwood and Sugar Land.

The Authority owns and operates water treatment systems at Lake Granbury (which supplies potable water to wholesale customers in Hood and Johnson Counties), the City of Taylor and the City of Dime Box. A potable water treatment plant located in Leander is owned jointly by the Lower Colorado River Authority and the Brazos River Authority. The Authority also engages in water quality monitoring activities throughout the Brazos River Basin.

For further information on the Brazos River Authority, please contact Judi Pierce, Public Information Officer at 254-761-3103.