COMPREHENSIVE FINANCING REPORT

Sarasota Manatee Airport Authority (SMAA) — Lease Buyout Analysis ($33.8 Million Valuation)

EXECUTIVE SUMMARY

- **Objective & Valuation Anchor:** To accelerate possession of the ~30.9-acre East Campus parcel currently leased to New College of Florida (expiring in 2056), this report evaluates financing options anchored to the June 2026 Fair Market Value (FMV) appraisal of $33,800,000.
- **Exceptional Credit Capacity:** SMAA enters this transaction with $0 in long-term debt, $42.1 million in unrestricted cash and Treasury investments ($34.8 million above its mandatory $7.32 million operating reserve), and $14.5 million in projected annual net operating income.
- **Baseline AMT Bond Cost:** Financing the full $33.8 million via a 30-year level debt service AMT revenue bond (at a 5.15% blended True Interest Cost) requires approximately $2.24 million per year in debt service and $33.29 million in cumulative interest, backed by a strong 6.48x Debt Service Coverage Ratio (DSCR).
- **Key Cost-Saving Alternatives:** SMAA can cut lifetime interest by $19.07 million using a 15-year Tax-Exempt Direct Bank Placement (~4.75% rate; $3.20 million/year), or make the buyout nearly cash-flow neutral against recaptured market ground rent ($1.18 million/year) via a Hybrid Structure ($15.0M cash + $18.8M 30-year bond) at $1.17M–$1.24M/year.
- **Primary Regulatory Guardrail:** Because New College's pure below-market rent advantage has a present value of $13.3M–$18.2M, paying the full $33.8 million fee-simple appraised value requires an FAA-compliant Yellow Book appraisal justifying the difference through accredited campus improvements or documented relocation costs.

1. SMAA Financial Baseline & Borrowing Capacity

SMAA's existing balance sheet provides exceptional credit strength for a $33.8 million transaction:

- **Debt-Free Status:** According to SMAA's FY 2025 Audited Financial Statements, the authority carries $0 in outstanding bonds or long-term debt.
- **Liquidity & Operating Reserves:** SMAA ended FY 2025 with $42.1 million in unrestricted cash and cash equivalents (including $28.0 million in U.S. Treasuries). Under the FY 2026 Budget Book, SMAA's mandatory two-month operating reserve is $7.32 million, leaving roughly $34.8 million in deployable cash before accounting for ongoing capital projects.
- **Debt Service Coverage:** Projected FY 2026 operating revenues of $57.0 million against operating expenses of $42.5 million yield $14.5 million in net operating cash flow. At $2.24 million per year, SMAA achieves a 6.48x Debt Service Coverage Ratio (DSCR), more than five times the standard 1.25x airport revenue bond covenant.

2. Valuation Context: Prior Appraisals & Leasehold Present Value

All prior valuations between 2023 and 2026 measured SMAA's interest as landlord (selling the land to New College). Accelerating possession requires appraising New College's leasehold interest as tenant:

A. Historical Valuation Benchmarks

- **2023–2024 Leased-Fee Appraisals ($7.7M–$12.3M):** SMAA ($12.3M) and New College ($7.7M) initially agreed on an $11.5 million purchase price. In April 2024, the FAA rejected the transaction, ruling that the appraisals undervalued the land by ignoring full lease terms and below-market rent subsidies.
- **2024 Fair Market Ground Rent Benchmark ($1.29M/yr):** FAA review records documented that fair market ground rent for the parcel was $1,289,245 per year (~$0.85/sq. ft.) compared to New College's contract rent of $108,072 per year—creating an annual below-market rent advantage of $1,181,173 per year.
- **June 2026 Re-Appraisal ($33.8M):** Following updated FAA guidance, a June 2026 independent appraisal established $33,800,000 as the updated Fair Market Value of the ~30.9-acre parcel.

B. Present Value of New College's Remaining Leasehold (2026–2056)

Discounting New College's $1,181,173/year rent advantage over the remaining 30 years across standard institutional real estate discount rates yields the baseline value of the leasehold estate before building adjustments:

Discount Rate (Cap Rate)	Present Value of 30-Year Rent Advantage	Implied Gap vs. $33.8M Fee-Simple Appraisal
5.0% (Municipal bond cost of capital)	$18,157,524	$15,642,476
6.0% (Low-risk ground lease rate)	$16,258,647	$17,541,353
7.0% (Standard commercial ground lease)	$14,657,224	$19,142,776
8.0% (Higher-risk / unimproved land rate)	$13,297,390	$20,502,610

3. Public Bond Pricing & Payment Scenarios ($33.8M Par)

Under IRS rules (26 U.S.C. § 141 and § 147), SMAA's interest rate depends strictly on how the reclaimed land is used after closing:

A. AMT Private Activity Bond Scenarios (Aviation / Tenant Expansion)

If SMAA leases the reclaimed land or new facilities on it to private airlines, FBOs, or cargo carriers, the bond falls under the AMT Exempt-Facility Airport Bond category (subject to IRC § 147(d) rules requiring demolition or rehabilitation of existing buildings):

AMT Pricing Scenario (30-Year Level Debt)	30-Yr Yield	Blended TIC	Annual Debt Service	Total 30-Yr Interest
Aggressive ("A+" Rating / Strong Demand)	5.50%	5.05%	~$2,211,000	~$32,539,000
Base Case ("A" Rating / Market Consensus)	5.65%	5.15%	~$2,236,000	~$33,294,000
Conservative (Wider AMT / Inaugural Spread)	5.80%	5.30%	~$2,274,000	~$34,435,000

B. Alternative Tax Classifications (30-Year Level Debt)

- **Non-AMT Governmental Bond (4.50% – 4.75% TIC):** Applies if SMAA reclaims the parcel for public-use airport infrastructure, runway protection zones (RPZ), roadways, or noise buffers with less than 10% private business use. At a 4.65% midpoint, annual debt service drops to ~$2,112,000/year ($29,554,000 total interest).
- **Taxable Municipal Bond (6.30% – 6.60% TIC):** Required if SMAA holds existing campus structures as-is or develops the site for non-aviation commercial uses (retail, hotels, or office space). At a 6.45% midpoint, annual debt service rises to ~$2,575,000/year ($43,447,000 total interest).

4. Comprehensive Financing Options Comparison ($33.8M Target)

Financing Structure	Term	Est. TIC	Annual Debt Service	Total Interest	DSCR	Upfront Issuance & Reserve Drag
1. Non-AMT Public Bond (Public-use)	30 Yrs	4.65%	~$2,112,000	~$29,554,000	6.87x	High (~$2.8M fees + DSRF)
2. AMT Public Bond (Aviation expansion)	30 Yrs	5.15%	~$2,236,000	~$33,294,000	6.48x	High (~$2.9M fees + DSRF)
3. Taxable Public Bond (Commercial/hold)	30 Yrs	6.45%	~$2,575,000	~$43,447,000	5.63x	High (~$3.3M fees + DSRF)
4. Direct Bank Placement (Tax-exempt)	15 Yrs	4.75%	~$3,202,000	~$14,224,000	4.53x	Low (~$175K placement fees)
5. Hybrid ($15M Cash + $18.8M AMT)	30 Yrs	5.15%	~$1,244,000	~$18,519,000	11.66x	Moderate (~$1.7M fees + DSRF)
6. Hybrid ($15M Cash + $18.8M Non-AMT)	30 Yrs	4.65%	~$1,175,000	~$16,438,000	12.34x	Moderate (~$1.6M fees + DSRF)

Note: Public bond Debt Service Reserve Funds (DSRF) are funded from bond proceeds and returned to pay off the final year of debt, whereas issuance/underwriter costs of ~1.5% are sunk expenses.

5. Regulatory & Execution Guardrails

- **FAA Revenue Diversion & Yellow Book Compliance:** Under federal grant assurances, SMAA cannot pay more than Fair Market Value for a leasehold termination. Any buyout at $33.8 million must be supported by an independent Yellow Book / USPAP-compliant appraisal demonstrating that accredited campus improvements or documented relocation costs justify paying above the $13.3M–$18.2M pure leasehold rent value.
- **Demolition & Site-Clearing Buffer:** Because several existing campus buildings are shuttered or aging, SMAA should budget an additional $3 million to $5 million for asbestos abatement and demolition. These site-preparation costs can be rolled directly into a tax-exempt bond issue if tied to airport redevelopment.
- **Supplementary Grant Offsets (FAA AIP & FDOT):** FAA Airport Improvement Program (AIP) grants can reimburse 75%–90% of eligible land acquisition costs only if strictly dedicated to aeronautical safety, runway protection zones, or noise compatibility. Florida Department of Transportation (FDOT) Aviation Grants provide up to 50% matching funds for commercial service airport capital projects included in an approved Airport Layout Plan (ALP).

- **Governance & Approvals:** Execution requires formal approval from the SMAA Board of Commissioners, the New College of Florida Board of Trustees, the Florida Board of Governors (overseeing state university system real property), and FAA concurrence on an updated Airport Layout Plan (ALP).

6. Strategic Recommendation

- **Lowest Lifetime Cost & Fastest Execution:** Pursue a 15-year Tax-Exempt Direct Bank Placement (Option 4) at ~4.75%. SMAA's $14.5 million annual net operating income covers the $3.20 million annual payment by 4.53x, closes in 45–60 days without rating agency fees, and saves $19.07 million in interest compared to a 30-year AMT public bond.
- **Lowest Annual Budget Impact:** Execute a Hybrid Structure ($15.0M cash + $18.8M 30-year bond) (Options 5 or 6). This keeps $19.8 million in unencumbered liquidity above SMAA's mandatory reserve while reducing annual debt service to $1.17M–$1.24M/year—roughly matching the $1.18M/year in incremental fair-market ground rent SMAA recaptures by terminating New College's below-market lease.

7. Detailed Citations & Sources

1. **Sarasota Manatee Airport Authority (SMAA) Financial & Budget Documents:** Sarasota Manatee Airport Authority (2026), FY 2025 Final Audited Financial Statements (source for $0 long-term debt baseline, $42.1M unrestricted cash and U.S. Treasury investments, and historical operating results); Sarasota Manatee Airport Authority (2025), FY 2026 Budget Book – Final (source for projected 4.6M passenger enplanements, $57.0M operating revenues, $42.5M operating expenses, $14.5M net operating income, $7.32M two-month operating reserve requirement, and $48.9M capital improvement program).
2. **Federal Tax Law & Municipal Bond Structuring:** Internal Revenue Code, 26 U.S.C. § 141 (Private Activity Bond; Qualified Bond) and 26 U.S.C. § 147 (Other Requirements Applicable to Certain Private Activity Bonds, including § 147(c)(3) airport land exceptions and § 147(d) existing property rehabilitation/demolition rules); DWU Consulting, Key Decisions in Airport Revenue Bond Issuance (reference for AMT vs. Non-AMT classification, 1.25x DSCR covenant standards, and Debt Service Reserve Fund conventions).
3. **Municipal Market Yield Benchmarks:** FMSbonds Municipal Market Yields & Fidelity Fixed Income Municipal Bond Yields (November 2026 market curves for AAA, AA, and A-rated tax-exempt and taxable municipal serial/term maturities).
4. **Federal & State Aviation Grant & Valuation Regulations:** Federal Aviation Administration (FAA), Airport Improvement Program (AIP) Land Acquisition Guidelines and FAA Order 5190.6B (Airport Compliance Manual, Chapter 15: Revenue Diversion & Fair Market Value Appraisals); Florida Department of Transportation (FDOT), FDOT Aviation Grant Program Funding Information.
5. **Transaction & Appraisal History (SMAA – New College Parcel):** Federal Aviation Administration (FAA) Southern Region Determination Letter (April 2024) rejecting the proposed $11.5M sale of ~30.9 acres to New College of Florida and citing $1,289,245/year fair market ground rent vs. $108,072/year contract rent under the 1957/1966 lease agreement (expiring 2056); Sarasota Manatee Airport Authority / New College of Florida Public Records & September 2026 Filings documenting the June 2026 independent Fair Market Value re-appraisal of $33,800,000.