March 1, 2018

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: Accounting for Interest Cost During the Period of Construction Exposure Draft (Project 9-5)

Dear Mr. Bean:

The San Diego County Regional Airport Authority (Airport Authority) is pleased to comment on the Exposure Draft of the Governmental Accounting Standards Board (GASB) on Accounting for Interest Cost during the Period of Construction.

The Airport Authority was established by the San Diego County Regional Airport Authority Act (Division 17 of the California Public Utilities Code) which became effective on January 1, 2002. The Act established the Airport Authority as a government agency of regional government with jurisdiction throughout the County of San Diego. Among other responsibilities, the Act vested the Airport Authority with the responsibility to operate the San Diego County International Airport (SDIA).

The Airport Authority is a self-sustaining entity, receiving most of its revenues through user-based fees and rents from airline and non-airline business partners operating at SDIA. Since the Airport Authority is not funded by tax revenues, the financial statements are presented as an enterprise fund using the full accrual basis of accounting. Since 2010, SDCRAA has completed or is in the process of completing $1.7 billion in capital improvements and is currently working on plans for a large scale airport development program, all of which has, and will continue to require substantial debt financing.

**Stated Objectives of the Proposed Statement**
The stated objectives of this proposed statement are: 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period; and 2) to simplify accounting for interest cost incurred during the period of construction.

**Response of Airport Authority to Stated Objectives**
The Airport Authority respectfully submits that this proposed statement does not provide an adequate solution to the GASB’s stated objectives for the following reasons:

1. As an enterprise fund, the Airport Authority operates similarly to a business with no taxing authority. Like many local agencies, there is no comparability between governmental funds and the enterprise fund within the organization. The differences in the standards and methodologies between enterprise fund accounting and governmental fund accounting influence the financial reporting at all levels. To single out the capitalization of interest to enhance comparability seems irrelevant.
2. Authoritative guidance for the cost of a capital asset has long been defined as the asset itself and includes “ancillary charges necessary to place the asset into its intended location and condition for use” (GASB 34, paragraph 18). The Airport Authority, like other airports, is very capital intensive. The construction of many of the projects could only be possible by using long-term financing. The interest that is capitalized is material to the Airport Authority’s financial statements and a necessary cost of placing the asset into service.

3. The effort to allocate capitalized interest compared to its materiality is not significant. Processes have already been developed that help organizations to capitalize interest. Other recent GASB pronouncements are far more complex and onerous for local agencies to implement without the benefit of making financial statements more understandable to users.

4. The matching principle is fundamental to full-accrual accounting. This proposal would create a significant mismatch in reporting and would be misleading to financial statement users for the cost of significant capital assets to not include finance charges.

5. Rates, fees, and charges are established to recover capitalized interest over the same period as other construction costs. If this proposal is adopted, airports and utilities will need to compute an alternative form of capitalized interest for cost recovery. This would diminish the stated objective of simplification for many agencies.

The Airport Authority encourages the GASB to re-consider its proposed statement. In our view, the stated objectives would generally not be met for airports and other capital-intensive governmental agencies. We appreciate the opportunity to submit comments on the proposed statement. If you have any questions or if you would like to discuss this matter further, please feel free to contact me at (619) 400-2438 or sbrickne@san.org.

Sincerely,

Scott Brickner
Vice President, Finance & Asset Management/Treasurer
San Diego County Regional Airport Authority