March 5, 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 Allegheny County Airport Authority (i.e. ACAA) appreciates the opportunity to comment on the Exposure Draft of the Governmental Accounting Standards Board ("GASB") on Accounting for Interest Cost during the Period of Construction.

ACAA was created on June 17, 1999 and exists pursuant to the Municipal Authorities Act of May 2, 1945, P. L. 382, as amended. ACAA manages the operations of two airports. PIT is the larger facility and is located 16 miles west of downtown Pittsburgh. AGC is small general aviation airport located in West Mifflin approximately 15 miles south east of downtown Pittsburgh. PIT is transitioning from a mega-connecting hub market to a strong local O&D (origination and destination) market providing passengers with increasing customer amenities and a growing list of air service options.

It is imperative that PIT be able to obtain significant long term financing for the capital changes that are necessary to make this transformation. In September of 2017 ACAA announced a $1.1 billion airport modernization capital project. The project and the future of the airport becoming the O&D airport it needs to be for the region is contingent on major capital funding.

ACAA, like most US airports, does not have taxing authority. ACAA is a self-sustaining authority (i.e. enterprise fund). ACAA operations are supported by airline user fees and non-airline revenues from businesses operating at the airport. The capital projections have anticipated that the capitalized interest will be recovered by the airline use agreement when the project is completed per the Federal Aviation Administration Policy Regarding Airport Rates and Charges.
ACAA would like for GASB to consider the following complications the new standard would present to US airports.

The first objective “…the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period…” is inconsistent with:

Airline/airport rates and charges—The capitalizing of interest during construction (i.e. runways, ramps, etc.) represents the cost of the asset that will be recovered in the user rates when the asset is placed in service. The Federal Aviation Administration Policy Regarding Airport Rates and Charges considers the capitalization of interest in airline/airport use agreements.

For airports to properly match the cash flows in their financial statements it requires the capitalization of the construction interest. The period of cost (i.e. construction interest) and its recovery in the future rates would be mismatched by this standard.

By not matching the construction interest expense with the recovery rate charges the airports financials will be negatively impacted. The negative impact on the financials could impair the airports ability to obtain reasonable debt financing and bond ratings in the future.

The second objective “…simplify accounting for interest cost incurred during the period construction.”

The simplification in interest accounting would be offset by major changes in accounting for the rates and charges calculations going forward.

ACAA requests that the GASB reconsider its proposed statement. The capitalization of interest during construction has a major impact on the financials and the funding of capital projects for US airports. If you have any questions or would like to discuss this matter further please contact me at (412)472-3540 or at dcoltrill@flypittsburgh.com.

We appreciate the opportunity to submit comments on the proposed statement.

Sincerely,

Dale Cottrill, CPA
Chief Financial Officer

DC/Imm