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 management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), an enterprise fund of the City and County of San Francisco, California, appreciates the opportunity to comment on the Governmental Accounting Standards Board (the Board or GASB) above-referenced Interest Cost Accounting Exposure Draft (Exposure Draft or Proposed Standard).

We support the Board’s objective to (a) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (b) simplify accounting for interest costs incurred during the period of construction. We understand that the Exposure Draft is intended to address the accounting treatment of interest costs during the construction period for financial reporting purposes only, and that GASB is not the authority to regulate how an enterprise fund conducts its financing of capital improvement projects, including financing of construction period interest costs through debt issuances.

However, we believe that the accounting treatment of interest costs should be consistent with airports’ business practices in allowing flexibility to choose between capitalizing interest and not capitalizing interest. We wish to share the following comments with the Board:

**FAA and ICAO Policies**

The long-standing practice of capitalizing interest during construction for enterprise funds appropriately captures the benefit of future cash flows as contained in airline/airport use agreements and by the Federal Aviation Administration’s (FAA’s) Policy Regarding Airport Rates and Charges. The International Civil Aviation Organization (“ICAO”) has issued global principles for the setting of airport charges that impact air carriers. ICAO states, “Once facilities are completed and commissioned, their capital costs are generally recovered by including associated amortization or depreciations costs in the cost for user charges. Thus, aircraft operators are only charged the cost of services actually provided.” ICAO does provide national governing bodies and airports flexibility in addressing the recovery of capital costs from airlines.

**Relevance and Comparability**

It makes sense to capitalize interest costs during the construction period of a revenue generating facility like a new terminal or concourse, until the facility is opened in order to match its revenue streams with debt service expenses such that airline tenants do not pay for a building that is not in use. On the other hand, it may be appropriate to expense interest for routine projects that do not result in new revenue or move-in by airlines, such as runway repaving, electrical upgrades, seawall construction, etc., in order to minimize long-term debt impacts.
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The Airport should have a choice to either (a) capitalize interest costs on major projects such as terminal renovation/construction or (b) to charge interest during construction on non-revenue generating projects. Expensing interest (i.e. not capitalizing interest) on a major new revenue generating projects such as terminals would unnecessarily drive up airline fees to the Airport during construction. Airlines would be paying higher fees for new terminals before they can move into the facilities.

SFO has begun a $7.3 billion Capital Improvement Plan, referred to as the Ascent Program. Not financing and capitalizing interest will result in a $300 million increase in interest costs over a five-year period of the Ascent Program. Under SFO’s existing ratemaking methodology outlined in its Lease and Use Agreement with Airlines, this added interest cost will be directly charged to Airlines, which could affect airfares for the traveling public.

Therefore, SFO strongly recommends the Board consider flexibility for airports.

Summary of Proposed Changes in the Exposure Draft
In conclusion, SFO supports and proposes the following:

- An exemption for airports to be flexible to choose to expense or capitalize interest costs; and
- Retaining current flexible accounting practices, consistent with the FAA and ICAO.

If you have any questions, please feel free to call Wallace Tang, Airport Controller, at (650) 821-2850.

Very truly yours,

Leo Fermin
Chief Business & Finance Officer

Wallace Tang, CPA, CGMA
Airport Controller