May 25, 2016

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

RE: Lease Exposure Draft (Project 3-24E)

Dear Mr. Bean:

Dallas/Fort Worth International Airport (DFW) appreciates the opportunity to comment on the Governmental Accounting Standards Board (Board) above referenced Lease Exposure Draft (ED or Proposed Standard). DFW was created by a Contract and Agreement between the Cities of Dallas and Fort Worth, dated April 15, 1968, as a joint venture between the two cities. DFW is one of the world’s largest airports covering over 17,000 acres of land. DFW currently ranks as the fourth largest airport in the world based on operations and the ninth largest in the world based on passengers. DFW is a member of Airports Council International - North America which represents local, regional, and state governing bodies that own and operate commercial airports in the United States and Canada.

DFW supports the Board’s objective to increase the usefulness of governments’ financial statements involving the accounting treatment of leases. However, DFW does not believe certain provisions in the ED meet this objective, most significantly in the regards to the proposed lessor accounting model. We wish to share certain concerns and recommendations in this response letter to the Board, many of which are shared by other airports in the United States.

**Lessor Accounting**

Within the past year, both the Financial Accounting Standard Board (FASB) and the International Accounting Standards Board (IASB) have released new lease standards, a conclusion of multi-year projects. Both of these standard setting organizations, although initially considering lessor changes, made the decision to leave their current requirements for lessor accounting largely intact. The impetus for a review of lease accounting from the Securities and Exchange Commission and the financial community originated from a concern about the lack of recognition of long-term obligations. We do not believe it originated from a concern about the lack of recognition of lessor receivables, particularly receivables that are required to be returned to airlines as a part of other agreements or agreements whose revenue streams fluctuate based on a recovery of actual costs. We urge the Board to follow the lead of the other leading standard setting organizations and leave current lessor accounting guidance largely intact.

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In Paragraph B122 of the ED, the Board states “The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions”. We do not believe the proposed standard regarding a lessor’s recognition of future lease receivables meets these objectives.

As an airport that meets regularly with rating agencies, investors and other financial stakeholders, DFW has never received questions or inquiries regarding the summation of future lease receivables. This is in sharp contrast to questions about pension liabilities, retiree medical obligations and the underlying actuarial assumptions. Investors are primarily concerned about debt service coverage, unrestricted cash balances and operating statistics of DFW.

The Airport will be burdened with significant implementation and on-going costs, while providing little or no value to the users of our financial statements. Currently, DFW has over 600 agreements with airlines and other entities operating at the Airport. As a lessor, DFW believes the current accounting treatment most accurately reflects the underlying business intentions and economics of the Airport. The recognition of a lease receivable in addition to the already recorded underlying physical asset would result in an overstatement of assets, and will result in balance sheets that are misleading.

In Paragraph B58, the Proposed Standard states that it is desirable to have symmetrical accounting between lessees and lessors. This statement does not align with historical context where there was not a symmetrical desire for users of financial statements to equally understand future liabilities and future receivables regarding off balance sheet leases. This requirement for internal symmetry between two parties in an agreement is also inconsistent with GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees.” In this standard, the guarantor is required to record a liability, but generally, there is no symmetrical asset recognized. In addition, neither the FASB nor the IASB have required such symmetry between lessors and lessees. The proposed standard is actually asymmetrical because with one lease the lessee is recording one liability, but the lessor is reflecting two assets: the lease receivable and the underlying capital asset.

**Bifurcation of Lease Revenue**

The foundational principle that leases are financings forms the basis for the lessee and lessor accounting models in the ED. For example, the ED views agreements related to an airport terminal as financings of separate lease-related assets. This approach does not reflect conditions at airports. For example, terminal concession rentals are market-driven negotiations/bids related to future sales productivity of individual tenant spaces. These spaces are single components of a changing asset whose value is indivisible to the whole terminal. There is no residual value assigned to individual tenant spaces. DFW’s concession space of DFW’s terminals is an example of such changing dynamics and is managed in much the same way that a shopping mall is managed.
Due to this substantial change in how leases are viewed by the ED, lease revenue will now have to be bifurcated between interest income and rental components. In our view, this approach does not represent the lease economics of an airport. DFW leases property, not as a financing entity, but as an economic catalyst. Airport leases are generally different from other types of leases such as the financings of equipment or similar assets that are subject to "rent or buy" decisions based on the costs of capital and expected residual values.

Separating interest income from lease revenue will impact our rates, fees, and charges. In addition, this bifurcation will lead to inconsistencies in financial reporting among US airports. For example, one airport may choose to structure its concession leases with a high minimum annual guarantee (MAG) combined with a low percentage rent rate above the MAG. A second airport may choose the opposite approach with a low MAG but higher percentage rents. It is possible that both airports project to receive the same total amount in concession revenues from the same national retailer despite their difference in rent structure. Under the Proposed Standard, the first airport will have higher operating revenues than the second airport due to the higher portion of revenues coming from the MAG. In addition, the first airport's assets will be less overstated than the second airport. Complicating this bifurcation of lease revenue is the fact that DFW, like other airports, has some agreements in which the MAG resets each year based on a percentage of the previous year's total revenue. In other words, the MAG can fluctuate over time since the MAG is based on a percentage of the lessee's performance from the prior year.

Airline Agreements

DFW operates under an agreement with its signatory airlines. These agreements are often referred to as "use and lease" agreements. Signatory airlines represent 90 percent of air carriers operating at DFW and provide 99 percent of airline revenue at DFW. The airline agreement is a hybrid model whereby the signatory airlines pay landing fees and various terminal rates based on the net cost to provide those services. As is common in airline agreements in the United States, DFW's rates include a debt service coverage amount (i.e., profit) is included in net costs. For non-airline revenues, such as parking, concessions, and commercial development, DFW shares a portion of these revenues with the airlines.

Paragraph 36 of the Proposed Standard contains two requirements for airline/airport agreements to be exempted from the general recognition and measurement provisions of the proposed statement. First, leases must have external laws, regulations, or legal rulings that establish the costs that may be recovered through lease payments. Second, such rulings significantly limit the ability of the lessor (airport) to set rates in excess of those costs. The Exposure Draft gives the example of the US Department of Transportation (DOT) regulating leases between airports and airlines. It is important to note that the DOT restrictions on rate setting do not generally apply to rates set by agreement.

There are two major characteristics of US airport rate setting that the Board should consider in providing a revised exemption for airport/airline agreements.

1. Revenues are based on actual costs, including debt service coverage, and often include a sharing of non-airline revenues. Thus, airline revenues are not a fixed stream of revenue as is traditionally structured in a traditional lease arrangement. With increasing security and infrastructure requirements, airport rates and revenues can be highly variable and extremely challenging to forecast.
2. Substantial amounts of revenues from airline use and lease agreements are based on usage. In most agreements, landing fees are based on the number of landings and the landed weight of the aircraft. Terminal revenues established under a lease and use agreement include lease revenue for areas such as ticket counters and gate hold rooms, but also include revenues based on usage such as a gate turn fees, international passenger processing fees, and baggage system fees.

Thus, due to the unique nature of rate setting based on a cost recovery methodology, DFW requests the Board clarify that all use and lease agreements between an airport and its airline tenants are exempt from the proposed lessor accounting rules by replacing the current language in Paragraph 36 with the following language:

For leases in which lease rates are re-established periodically based on the recovery of actual costs or the sharing of other revenues with lessee, the lessor should not apply the general recognition and measurement provisions of this Statement. For such leases, the lessor should recognize an inflow of resources (for example, revenue) based on the payment provisions of the contract.

Non-Use Agreement Leases

We believe that lessor accounting for airport/tenant leases (non-airline leases) should be excluded from the scope of the proposed standard, as it will result in an overstatement of assets. This is particularly the case for US airports, including DFW. Revenues from non-aviation leases such as concession and commercial development are shared with our signatory airlines. The proposed standard would require the recognition of a receivable from a concession contract despite the fact that a portion of those proceeds will be returned to another party (i.e., airlines). In addition, per DOT rules, revenues generated on an airport cannot be diverted for non-airport usages – these revenues are part of a closed loop system.

For these reasons, DFW International Airport proposes that the GASB provide an exemption from the general recognition and measurement provisions of this Statement for leases in which all or a portion of lease proceeds are used to reduce proceeds from another party per provisions of contractual arrangements with such parties.

Summary of Proposed Changes in the Exposure Draft

DFW joins the major US airport associations and other airports in proposing the following changes in the Proposed Standard:

- Retaining current lessor accounting guidelines, consistent with the lead of the FASB and IASB
- Elimination of the requirement to bifurcate lease revenue
- Revision of the proposed exemption for airport/airline use and lease agreements to reflect actual airline ratemaking practices in the United States
- Exemption for non-aviation leases at airports to eliminate the overstatement of airport assets in the United States
DFW also requests that it be represented at the June 29, 2016 public hearing by Max Underwood, Vice President of Finance.

Sincerely,

Christopher A. Poinsatte
Chief Financial Officer and Executive Vice President
Finance & ITS