May 26, 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:

Will Rogers World Airport (Airport) appreciates the opportunity to comment on the Governmental Accounting Standards Board (Board) above referenced Lease Exposure Draft (Exposure Draft or Proposed Standard). The Oklahoma City Airport Trust (Trust) is a public trust established in 1956 to provide a means of financing and administering the construction of the City of Oklahoma City’s three airports. The Trust is a legal entity separate and distinct from the City; however, the City is the sole beneficiary of the Trust.

The Airport is a member of the both Airports Council International-North America (ACI-NA), and the American Association of Airport Executives (AAAE), which represents local, regional, and state governing bodies that own and operate commercial airports in the United States and Canada.

The Airport supports the Board’s objective to increase the usefulness of governments’ financial statements involving the accounting treatment of leases. However, we do not believe certain provisions of the Proposed Standard meet this objective, most significantly in regards to the proposed lessor accounting model. The Airport wishes to share certain concerns and recommendations in this response to the Board.

Exemption for Airline Use and Lease Agreements

The Airport operates under a lease agreement with the signatory airlines (Agreement) that includes compensatory rates for both terminal rentals and airfield landing fees. Both terminal rentals and landing fees are based on allowed cost recovery methodologies.

Paragraph 36 of the Exposure Draft 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 U.S. Department of Transportation (DOT) regulating leases between airports and airlines. The DOT restrictions on rate setting do not generally apply to rates set by agreement.

Due to the unique nature of rate setting bases on a cost recovery methodology, the Airport requests the Board to clarify that all lease agreements between and 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 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 provision 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.

Exemption for Non-Use Agreement Leases

The Airport believes 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. Revenues from non-aviation leases such as concessions and commercial development are shared with 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. There revenues are part of a closed loop system.

For these reasons, the Airport proposes that GASB provide an exemption from the general recognition and measurement provision 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.

Other Comments Regarding Proposed 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 made the decision to leave their current requirement 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. It did not originate from a concern about the lack of recognition of lessor receivables. We strongly urge the Board follow the lead of these organizations with respect to lessor accounting guidance.

In paragraph B122 of the Exposure Draft, 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 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.
Although we meet regularly with rating agencies, investors, and other financial stakeholders, the Airport has never received questions, or inquiries regarding the summation of future lease receivables. This is in contrast to the questions about pension liabilities and the underlying actuarial assumptions. Investors are primarily concerned about debt service coverage, unrestricted cash balances, and operating statistics of the Airport. The Airport will be burdened with significant implementation and on-going costs, while providing little or no value to the users of the financial statements. Currently the Airport has over 450 agreements with airlines and other entities that will likely be impacted if this new standard is adopted.

As a lessor, we believe that 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.

Summary of Proposed Changes in the Exposure Draft

In conclusion, the Airport support and proposed the following:

- A revised exemption for airport/airline use and lease agreements to reflect actual airline ratemaking practices in the United States:
- An exemption for non-aviation leases to eliminate the overstatement of airport assets, recognizing airport revenues in the United States are part of a closed loop system, and
- Retaining current lessor accounting guidelines, consistent with the lead of FASB and IASB.

Sincerely,

Kim Sotomayor, MBA, MSA
Airport Business Manager