May 31, 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:

The Hillsborough County Aviation Authority - Tampa International Airport (TIA or Airport) appreciates the opportunity to comment on the Governmental Accounting Standards Board (Board) above referenced Lease Exposure Draft (Exposure Draft or Proposed Standard). The Airport is a public body corporate and is an independent special district pursuant to Chapter 2012-234, Laws of Florida, Acts of 2012 (Act). The Act provides that the Airport owns and operates all public airports in Hillsborough County, Florida. We are a member of Airports Council International-North America (ACI-NA) which represents local, regional, and state governing bodies that own and operate commercial airports in the United States and Canada.

We support 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 the regards to the proposed lessor accounting model. We wish to share certain concerns and recommendations in this response letter to the Board.

Exemption for Airline Use and Lease Agreements

TIA operates under a lease agreement with the signatory airlines (Agreement) that includes compensatory rates for terminal rentals and residual rates for airfield landing fees. Both
terminal rates and landing fees are based on allowed cost recovery basis methodologies. Also under the Agreement, a certain portion of net remaining revenues are shared with the signatory airlines.

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 US 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 based on a cost recovery methodology, TIA requests the Board to clarify that all 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.*

**Exemption for 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 Tampa International Airport. 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.
Another area of concern is in regards to the GASB measurement criteria for a lease receivable when there is a fixed and variable component. Paragraph 38 of the Exposure Draft provides guidance stating that only the fixed component of a lease will be included in the measurement of the receivable. Concession agreements at TIA include fixed and variable components, known as minimum annual guarantees (MAG) and percentage rents. Although the MAG is fixed for an annual period, the MAG is recalculated each year based on the prior year sales of the concessionaire. In reality, these types of agreements are variable over the term of the agreement. Also, the concession agreements are similar to leases in retail shopping malls which are derived from market-driven negotiations based on projected revenue levels.

For these reasons, TIA 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 or where leases contain provisions to recalculate fixed payments on an annual or periodic timeframe based on performance of the lessee.

**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, 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. 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 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, TIA has never received questions or inquiries regarding the summation of future lease receivables. This is in contrast to 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 our financial statements. Currently, TIA has over 300 agreements with airlines and other entities operating at the Airport.

As a lessor, we believe 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. Presenting financial statements that require a revenue stream to be divided between interest income and rental components will result in the need to provide additional information and clarification to the users regarding the rental revenues that support the debt covenants of the Airport.

**Summary of Proposed Changes in the Exposure Draft**

In conclusion, TIA supports and proposes 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 the FASB and IASB.

Sincerely,

Ann Davis, CPA  
Director of Finance