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 Spokane Airport Board, which operates Spokane International Airport (GEG) and Felts Field (SFF) in Spokane, Washington appreciates the opportunity to comment on the Governmental Accounting Standards Board (GASB) above referenced Lease Exposure Draft.

The City and County of Spokane, Washington entered into an agreement in 1962 for the purpose of jointly improving, operating, and maintaining Spokane International Airport and Felts Field under the laws of the State of Washington later codified as Revised Code of Washington 14.08 (RCW). The Spokane Airport Board (Spokane Airports) was formed as a municipal corporation in the State of Washington under the provisions of the RCW.

We are members of Airports Council International-North America (ACI-NA) and American Association of Airport Executives (AAAE) which represent local, regional, and state governing bodies that own and operate commercial airports in the United States and Canada.

We support GASB’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 Exposure Draft 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 GASB.

1. Exemption for Airline Use and Lease Agreements

Spokane Airports operate under lease agreements with the signatory airlines described as residual in nature. That is, all revenue developed by the airport is shared annually in the rate setting of terminal rent rates and airfield landing fees. Both terminal rates and landing fees are based on allowed cost recovery basis methodologies as prescribed by the US Department of Transportation.
(DOT) rate setting rules. Annually, all revenues actually collected in excess of those budgeted are, in effect, returned to the airlines through rate adjustments in the next year.

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. Paragraph 36 gives the example of the DOT regulating leases between airports and airlines.

Due to the unique nature of rate setting based on a cost recovery methodology, we request GASB to specifically exempt all lease agreements between an airport and its airline tenants from the proposed lessor accounting rules by replacing the current language in Paragraph 36 with the following language, and removing the reference to the disclosures in paragraph 51:

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.

2. Exemption for Non-Use Agreement Leases

We also believe lessor accounting for other airport / tenant leases (non-airline leases) should be excluded from the scope of the proposed standard. As stated above, revenues here from non-aviation leases such as concession and commercial development are shared with our signatory airlines through rates and charges. As noted in the above paragraph 1, airline rate setting rules are prescribed by DOT rules. As a residual agreement based airport, all revenue developed by the airport is shared annually in the rate setting of 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, Spokane Airports 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.

3. 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, Spokane Airports 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 Spokane Airports.

The management of Spokane Airports is responsible for establishing and maintaining internal controls designed to ensure its assets are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with GAAP and GASB. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived. Spokane Airports believes this same cost-benefit analysis applied to internal control should be performed on every GASB pronouncement before it is brought forward. Currently, Spokane Airports has five hundred fifty-one (551) agreements with airlines and other entities operating here that will need to be reviewed. Airport staff will be burdened with significant implementation and on-going costs, while providing little or no benefit to the users of our financial statements.

As a lessor, we believe the current accounting treatment most accurately reflects the underlying business intentions and economics of Spokane Airports. 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.

The Exposure Draft as it currently stands requires a portion of lease revenue (i.e., operating revenue) be reflected as interest income (i.e., non-operating revenue). This change in revenue classification will again impact the DOT regulated calculation of specific rates, fees, and charges per our airline agreements.

Summary of Proposed Changes in the Exposure Draft

In conclusion, the Spokane Airport Board representing Spokane International Airport and Felts Field 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,

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