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:

Hartsfield-Jackson Atlanta International Airport (ATL, the Airport) appreciates the opportunity to comment on the Governmental Accounting Standards Board (Board) above referenced Lease Exposure Draft (ED or Proposed Standard). ATL is owned by the City of Atlanta (the City) and operated by the Department of Aviation. ATL occupies 4,750 acres of land in Clayton and Fulton counties Georgia, just south of downtown Atlanta. ATL is the world’s busiest airport by passenger traffic and number of operations and has been recognized by industry experts as the world’s most efficient airport. ATL served over 101 million passengers in 2015. ATL is 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.

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

Lessor Accounting

Within the past year, both the Financial Accounting Standards 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.

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.

In paragraph 58 of the ED, the Board states “The Board believes that governmental lessees and lessors should account for the same transaction in a way that mirrors how the other party accounts for it. Consequently, the Board determined that symmetry between the lessee and lessor accounting models is an important consideration in establishing accounting and financial reporting standards. Some respondents to the Preliminary Views questioned the need to modify existing lessor accounting and suggested that the Board retain the model provided in Statement 62. The Board acknowledges that there are fewer concerns with the lessor model in Statement 62 but believes that it should be reviewed in the interest of doing a complete reexamination of lease accounting. Pursuant to that review, the Board determined that a new lessor accounting model should be developed in the governmental environment for symmetry with the lessee model based on the foundational principal that leases are financings.” We believe that the Board’s emphasis on symmetry overlooks the underlying economics of the transaction, the concerns and needs of the user community, and creates asymmetry in two ways: 1) airports enter into various and significant agreements with non-governmental entities; therefore, the proposed standard being contrary to what FASB and IASB have developed creates asymmetry in transactions between governmental and non-governmental entities and 2) with one lease the lessee is recording one liability, but the lessor is reflecting two assets: the lease receivable and the underlying capital asset.

As an airport that meets regularly with rating agencies, investors and other financial stakeholders, ATL 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.

Implementation of lessor accounting as outlined in the Proposed Standard will burden the Airport with significant implementation and on-going costs, while providing little or no value to the users of our financial statements, and creating a real risk of countering the stated objectives of assisting users in assessing the accountability of a government’s enterprise fund activities and in making economic, social, and political decisions related to those entities. ATL has a significant number of agreements and contracts 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.

We strongly urge the Board follow the lead of FASB and IASB with respect to lessor accounting guidance. Should the Board follow the path outlined in the Proposed Standard, we would ask the Board to consider modifying language in the Proposed Standard as outlined in the two sections below.

Exemption for Airline Use and Lease Agreements

The City and most of the airlines serving the Airport (signatory airlines) have entered into agreements relating to the use of the airfield and terminal facilities. Signatory airlines represent a large majority of airlines operating at ATL and an even larger percentage of airline revenues. ATL operates under a hybrid model in which airlines pay landing fees and terminal rentals on allowed cost recovery basis
methodologies. Also under the Agreement, a certain portion of concessions 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, ATL 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 ATL. Revenues from non-aviation leases such as concessions 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).

For these reasons, ATL 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

In conclusion, ATL supports and proposes the following:

- Retaining current lessor accounting guidelines, consistent with the lead of the FASB and IASB or
- A revised exemption for airport/airline use and lease agreements to reflect actual airline ratemaking practices in the United States, and
- 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.
Sincerely,

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Cc: Roosevelt Council, Interim General Manager  
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