May 12, 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:

Combined, we the undersigned represent the public airports within the United States. Please allow this submission to serve as the collective comments from the U.S. airports.

**Airline Use and Lease Agreements**

We appreciate the willingness of GASB staff to listen to the airport industry’s concerns during the preliminary view process. Specifically, we appreciate the recognition of the unique characteristics of airport rate setting in the United States. However, the exception language in Paragraph 36 relating to airport/airline agreements misses the fundamental reason why such agreements should be exempt from the proposed lessor accounting rules.

Paragraph 36 contains two requirements for airline/airport agreements to be exempted from the general recognition and measurement provisions of the new 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 (ED) gives the example of the US Department of Transportation (DOT) regulating leases between airports and airlines.

In general, DOT’s rate setting rules apply *only if* an airport and its airlines are not able to come to a written agreement on fees charged to airlines. Most US airports have such agreements. Airports that do not have such agreements impose rates by ordinance that comply with DOT’s rules on ratesetting. The DOT restrictions on ratesetting do not generally apply to rates set by agreement.

Airline rate setting by use agreement is based on recovering an airport’s actual costs related to its investment in and operations of its airfield and terminals. Many agreements provide for a recovery of debt service costs (including principal) versus depreciation expense and include a debt service coverage component. Operating costs can be quite variable with changing security and safety mandates and debt service costs often change substantially as new infrastructure is completed. Many agreements allow reductions in rates for all or a portion of non-airline revenues such as parking and revenues from concession and commercial development leasing.
The common characteristic these agreements share is variability of airline revenue. This is because revenues are based on actual costs that vary year to year. Rates are also variable because many reflect a sharing arrangement with airlines of all or a portion of non-airline revenues which vary due to fluctuations in airline passenger spending. It is clear airline use agreement revenues in the United States are not fixed over time, and thus should not be subject to general recognition and measurement provisions of the new statement. Airport rates are generally not tied to an index but are based on a recovery of costs as they are incurred, unlike many airport/airline rate agreements outside of the United States.

Therefore, we recommend 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

The proposed standard will result in balance sheets that are misleading because assets will be overstated. This is particularly the case for US airports. Revenues from non-aviation leases such as concession and commercial development are often shared with airlines. The proposed standard would require the recognition of a receivable from a concession contract despite the fact that all or 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, we propose 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.

Lessor Accounting

In Appendix A, the ED provides a background for this project. Ten years ago, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) began a project to reexamine their guidance on leases. This action served as an impetus for the GASB’s commencing a project of its lease requirements.

Within the past year, both the FASB and the IASB have issued new lease standards. Importantly, both of these standard setting organizations decided to leave their current requirements for lessor accounting largely intact. ACI-NA, representing its member airports in Canada (which follows IASB guidance) and the United States, strongly recommends that the GASB follow the lead of these organizations with respect to lessor accounting guidance.

The push 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 a receivable. In the view of the three associations, the proposed standard imposes significant implementation costs for lessors with little corresponding benefit for readers of the financial statement. We have inquired of our member airports, and the summation of future lease revenue is not a subject of significant investor inquiry. This is in contrast to questions about pension liabilities and the underlying actuarial assumptions. Investors are primarily concerned about debt service coverage and unrestricted cash balances. Additionally, the issue of an off balance sheet receivable has not been an issue for the rating agencies in their communications with airports.

Airports of all sizes enter into many leases for various activities. The new proposed lessor accounting rules will impose a burden for airports, particularly those medium to small airports that have fewer
accounting staff than larger airports. If the GASB decides to retain the proposed lessor accounting rules, we request an additional year be added to the proposed effective date.

We agree with other commentators who point out that the proposed standard will result in an overstatement of assets due to the fact the underlying facility asset remains on the lessor’s books. We do not think a solution for this is to require a derecognition of the underlying assets. Not only would this involve multiple implementation issues, it would be inconsistent with the fact that most airports are not permitted to transfer ownership responsibilities of such facilities.

In Paragraph B58, the ED 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.

Summary

We propose the following:

- The exemption for airport/airline use and lease agreements in the Exposure Draft should be modified to reflect actual airline ratemaking practices in the United States.
- An exemption for non-aviation leases should be provided to eliminate the overstatement of airport assets and to recognize that airport revenues in the United States are part of a closed loop system.
- GASB follow the lead of FASB and IASB by retaining current lessor accounting guidelines. If such guidelines are not retained, we request a one-year delay in the proposed effective date of the standard.

We also request that the three associations be represented at the June 29, 2016 public hearing by Max Underwood, Vice President of Finance, Dallas-Fort Worth International Airport.

Sincerely,

Kevin M. Burke
President & CEO
Airports Council International – North America (ACI-NA)

Greg Principato
President & CEO
National Association of State Aviation Officials (NASAO)

Todd Hauptli
President & CEO
American Association of Airport Executives (AAAE)