City of Houston, Houston Airport System, Finance and Accounting Division

March 6, 2015

Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 3-24P

Dear Director of Research and Technical Activities:

The Houston Airport System (HAS) appreciates having the opportunity to comment on this preliminary views (PV) document on major issues related to leases. Our concerns are summarized by the following four principal points (which are discussed in more detail with references in later paragraphs):

1. HAS does not feel that the PV document has addressed accounting for airport leases. The PV has not adequately explained why the standard operating lease concept is inappropriate to many airport leases, in particular the lease of space to retail concessionaires within airport terminals.

2. HAS does not feel that it is appropriate to report an asset on our financial statements at the same time as we report the future value of the lease of that asset. In both cases, we are reporting the service value of the asset to our organization in future years. We feel that this treatment would constitute duplicate reporting.

3. HAS is lessor of over 100 active leases, all with unique terms with regard to length, financing arrangements, operating arrangements, and other special features. Extended negotiations often cause retroactive adjustments. HAS has neither the software nor the manpower to record separate operating costs and maintain separate elaborate calculations for each lease. We do not see a reporting benefit sufficient to justify the additional cost burden of compliance.

4. HAS has issued Special Facility Revenue Bonds as conduit debt, with debt service guaranteed by lease agreements on the special facilities. Currently, GASB Interpretation #2 allows conduit bonds to be disclosed only in the notes to the financial statements. Some airport operators, including HAS, carry neither the leased asset, nor the debt liability, on the balance sheet. If the asset must be reported, as this PV requires, then this PV also needs to address proper reporting for conduit debt, superseding GASB Interpretation #2.

Airport Leases
Reference: Summary Section

The current FASB 840-10-25-25 provides specific guidance in the accounting treatment of airport leases owned by a governmental unit or authority because of their unique nature. The underlying property of an airport lease is owned by the government, is part of a larger facility, and does not transfer title. HAS is of the opinion that the current treatment of airport leases as operating leases is correct and should continue. The FASB 841-10-25-25 reads:
Leases Involving Facilities Owned by a Governmental Unit or Authority

25-25 Because of the special provisions normally present in leases involving terminal space and other airport facilities owned by a governmental unit or authority, the economic life of such facilities for purposes of classifying the lease is essentially indeterminate. Likewise, the concept of fair value is not applicable to such leases. Because such leases also do not provide for a transfer of ownership or a bargain purchase option, they shall be classified as operating leases. Leases of other facilities owned by a government unit or authority wherein the rights of the parties are essentially the same as in a lease of airport facilities shall also be classified as operating leases. Examples of such leases may be those involving facilities at ports and bus terminals. The guidance in this paragraph is intended to apply to leases only if all of the following conditions are met:

a. The leases property is owned by a governmental unit or authority.
b. The lease property is a larger facility, such as an airport, operated by or on behalf of the lessor.
c. The leased property is a permanent structure or a part of a permanent structure, such as a building, that normally could not be moved to a new location.
d. The lessor, or in some circumstances a higher governmental authority, has the explicit right under the lease agreement or existing statutes or regulations applicable to the leased property to terminate the lease at any time during the lease term, such as by closing the facility containing the lease property or by taking possession of the facility.
e. The lease neither transfers ownership of the leased property to the lessee, nor allows the lessee to purchase or otherwise acquire ownership of the leased property.
f. The leased property or equivalent property in the same service are cannot be purchased nor can such property be leased from a nongovernmental unit or authority. Equivalent property in the same service area is property that would allow continuation of essentially the same service or activity as afforded by the leased property without any appreciable difference in economic results to the lessee.

Leases of property not meeting all of the conditions in paragraph 840-10-25-25 are subject to the same criteria for classifying leases under this Subtopic that are applicable to leases not involving government owned property.

Duplicate Reporting
Reference: Chapter 5-Lessor Accounting – Paragraphs 14

Chapter 5 of the PV states that lessors should recognize a lease receivable and a deferred inflow of resources at the beginning of a lease, unless it is a short-term lease. In paragraph 14 of the same chapter, the PV is that a lessor should not derecognize the underlying asset in the lease. HAS believes that this treatment would constitute double-booking of an asset and would be misleading. We do not agree with the derecognizing the underlying asset either, since we believe that airport leases are unique as recognized by FASB and should remain operating leases.
**Complexity and Demand on Labor Resources**
Reference: Chapter 2-Applicability and Scope-Contracts with Multiple Components

In Chapter 2, paragraph 10 states that the Board’s PV is that a contract that contains both lease and service components generally should be separated so that each component is accounted for on its own. Paragraph 11 states that a contract that contains multiple lease components that have different lease terms should be separated so that each component is accounted for on its own. Additionally, lessees should separate multiple lease components when the underlying assets are in different major classes of assets.

The Houston Airport System has over 100 active leases, many of which are extremely complex to comply with Federal Aviation Administration regulations with regard to airport revenue use. The determination of separate components or multiple components is not always clearly delineated or addressed in the lease document. The additional software and manpower required to implement this proposed treatment currently and retroactively is not small, and we question whether the treatment would result in enhanced reporting. We are not convinced that the more complex reporting is useful enough to our stakeholders that it would justify the increased costs.

**Leases and Conduit Debt**
Reference: Not addressed in PV

The PV should also address the issue of conduit debt, which is often guaranteed by a long-term lease. HAS has issued Special Facility Revenue Bonds as conduit debt, with debt service guaranteed by lease agreements on the various special facilities. The City explicitly does not, and will not, guarantee the payment of the debt service in any way, so under GASB Interpretation #2, we do not report the liability on the financial statements, except in the notes as a disclosure item. We carry no related assets on the balance sheet, either, because, in accordance with Concepts Statement #4, the airport does not control or have direct benefit from these assets. While, because of Texas law, HAS is required to retain legal title to all buildings on its land, including special facilities, this does not constitute substantive control, as the airlines, car rental companies, and other lessees by agreement control the facilities during their effective useful lives. HAS recently had a change in annual auditors, and consulted a GASB representative on our accounting. He confirmed that Interpretation #2 and Concepts Statement #4 were currently most applicable to our situation. We have talked to other airport finance officers with similar situations and accounting. If the GASB board issues a new lease statement, especially if GASB wishes us to report such underlying assets on the financial statements, then we ask for the GASB board to address accounting for conduit debt.