Airports Council International – North America (ACI-NA) welcomes the opportunity to comment on the Exposure Draft ("ED") of the Governmental Accounting Standards Board ("GASB") for Omnibus 20XX. ACI-NA is the voice of North American airports, representing local, regional and state governing bodies that own and operate commercial airports in the United States and Canada. Our members represent more than 300 airports operating in the United States and Canada and nearly 400 aviation-related businesses.

The ED proposes a change in the effective date of GASB 87 implementation for governments issuing quarterly financial statements. ACI-NA requests a delay in the effective date for the lessor accounting provisions of GASB 87 for three major reasons.

**Lack of guidance on imputation of interest**

GASB 87 is requiring state and local government lessors to significantly change their accounting in a manner that is not consistent with any other public or private entity in the world. Importantly, GASB 87 and its implementation guide provide no substantive guidance to lessors as to what interest rate should be used in the discounting of such leases. In GASB 87 Paragraph 47, there is a reference to GASB 62 with regards to
imputation of interest. However, GASB 62 discusses imputation of interest from a lessee perspective, not a lessor perspective.

GASB 62 states, "the choice of a rate may be affected by the credit standing of the issuer, restrictive covenants, collateral, payment, and other terms pertaining to the debt. The prevailing rate for similar instruments of issuers with similar credit ratings will normally help determine the appropriate interest rate for present value of a specific note at its date of issuance. In any event, the rate used for valuation purposes should be the rate at which the debtor can obtain financing of a similar nature from other sources at the date of the transaction." (emphasis added). This information from a specific tenant or a group of tenants is simply not available to lessors. At airports, many of the agreements involve multi-party joint ventures. Even small airports will have hundreds of these agreements. It is simply not possible for airports to utilize the guidance in GASB 62 to arrive at an implicit interest rate for lessor accounting.

Some airports believe they might be required to hire property valuation consultants to arrive at agreement specific rates of return to determine appropriate interest rates from a lessor perspective. Not only would this be incredibly expensive and time-consuming due to the volumes of agreements, it would not be possible for airports. For example:

- The pricing of terminal concession minimum annual guarantees and percentage rents is not based on specific internal rates of return ("IRRs") but on market rents achieved at other US airports, passenger demographics, individual product profitability, bidder availability, and specific locations at each airport terminal. In addition, each airport differs in how it chooses to divide such rents between minimum annual guarantees and percent rents.
- In theory, IRRs may be able to be calculated for certain commercial development projects based on historical invested capital, but these are equity returns, not appropriate for reflection of interest income on the income statement.

The bottom line is that lessor implicit interest rates for specialized property, such as airports, is not realistic especially in the absence of practical guidance relevant to lessors. Therefore, ACI-NA is requesting GASB provide lessors with a simplified approach to arriving at a discount that can be applied in a uniform manner. Notwithstanding the fact that the Financial Accounting Standards Board (FASB) did not require significant changes to lessor accounting, the FASB did provide private and not-for-profit lessees an alternative, simplified approach to discounting in its ASC 842 (i.e., a risk-free rate). While not advocating a particular method, ACI-NA believes it is imperative that the GASB provide lessors a straight-forward method for determining
discount rates. If none is provided, it is not clear how airports will be able to implement the lessor provisions of GASB 87.

Volume of lessor agreements and available technology
The second reason that ACI-NA is requesting a delay in the implementation of the lessor provisions of GASB is the sheer volume of agreements and the lack of readily available software unique to various types of airport agreements. Due to the lack of software that incorporates their unique agreements, many airports are having to develop their own models. It is less than three months until many airports will be in the GASB 87 measurement period. As stated previously, even small airports will have hundreds of these agreements. Some airports have over 1,000 agreements.

Delay of FASB lease statement
Finally, ACI-NA notes the FASB recently postponed the implementation of Accounting Standards Update No. 2016-02, Leases, for private companies and nonprofit organizations. While this delay was considered because of the timing of revenue recognition, we believe that the implementation of GASB 87 for both the lessee and lessor (which the FASB does not require) is similar to the efforts required to implement two complex standards in the same year.

Because of the above reasons, ACI-NA requests a delay in the effective date of the lessor provisions of GASB 87. The efforts of the GASB and the opportunity to provide comments are greatly appreciated by ACI-NA and its member airports. Please do not hesitate to contact us if we can provide any additional comments.

Sincerely,

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Airports Council International – North America