October 4, 2019

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: Omnibus 20XX (Project No. 37-1)

Dear Mr. Bean:

Dallas Fort Worth International Airport ("DFW") appreciates the opportunity to comment on the Exposure Draft ("ED") of the Governmental Accounting Standards Board ("GASS") for Omnibus 20XX. The ED proposes a delay in the effective date of GASS 87 implementation for governments issuing quarterly financial statements. DFW requests a delay in the effective date for the lessor accounting provisions of GASS 87 due to the lack of clear and realistic guidance for lessors in discounting future lease billings.

It is important for the GASB to put this issue in context of the massive implementation and ongoing efforts required of state and local governments to comply with the lessor provisions of GASS 87. Currently, there is a major issue that stands in the way of implementation for lessors with a significant number of agreements. The standard (and its implementation guide) provide no workable guidance as to what interest rate should be used in the discounting of future revenues for lessors.

Paragraph 47 of GASS 87 requires the lessor to calculate the present value of future cash flows. It states that "future lease payments to be received should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease." Contrast this language on discounting to the guidance given lessees found in Paragraph 23, "The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest that would be charged for borrowing the lease payments amounts during the lease term) should be used." (emphasis added). GASS 87 provides an alternative to an implicit interest rate for lessees. No such alternative or guidance is provided explicitly to lessors.

Paragraph 47 references GASS 62 with regards to imputing interest. However, GASS 62 discusses imputing interest from a lessee perspective, not a lessor perspective. The application of the lessee's borrowing rates for DFW's 500 agreements is not realistic as those rates are not available. Almost all DFW's agreements are with non-publicly traded entities, and many of these agreements involve multi-party joint ventures. It is not feasible for DFW (or other airports) to use lessee borrowing rates to arrive at discounted lease receivables.

Some airports, including DFW, are very concerned that (absent clear guidance), their auditors may require them to develop individual property valuations in order to compute a theoretical "implicit" interest rate. This would require the services of property valuation consultants. If required, this effort would be incredibly expensive, time-consuming, and an on-going requirement. DFW doubts it would be able to implement the lessor provisions of GASS 87 if this requirement occurs. Importantly, this exercise would not be appropriate for specialized assets,
such as airport terminal concessions in which non-aviation pricing does not have a discernible interest component. For example, the pricing of terminal concession minimum annual guarantees ("MAGs") and percentage rents is based on market rents achieved at other US airports, passenger demographics, individual product profitability, bidder availability, and the specific location at each airport terminal. An interest rate is not part of the equation. Each airport differs in how it chooses to divide such rents between MAGs (included in the calculation of the lease receivable) and percent rents (which are variable and not included in the lease receivable).

Theoretically, the calculation of an "implicit rate" for a lessor would require the lessor to estimate the fair value of the underlying assets using one of several models for estimating fair value at the beginning and ending of the agreement. Since there are few appropriate sales comparisons given the unique asset type of an airport in the United States, a sales comparison fair value model would not be appropriate. An income approach requires the measurement of "net income" and a capitalization rate to impute a fair value. Since the concept of "net income" is not easily or consistently applied in the airport industry due to the unique nature of airport-airline lease agreements and multiple cost allocations based on estimates, an income approach is also not appropriate for an airport. A cost approach (replacement or reproduction) would potentially exclude significant elements of fair value from the measurement. These include specific terminal location, line of business of the tenant, passenger volume and demographics, etc. It would also require a high number of additional cost allocations, all based on estimates. Because of the high demand for limited space within an airport's terminals and land mass, it can be reasonably argued that, in certain cases, the interest rate is negative. Unfortunately, an academic discussion of how to calculate an implicit rate is sometimes divorced from the reality of having to do it for an airport, such as DFW, that has hundreds of agreements.

The choice of interest rates can make a significant difference in the lessor's receivable that is required to be recorded by GASB 87, particularly for 40-year ground and facility leases. Most of DFW's terminal concession leases are for a period of seven to ten years. DFW has tested what changes in the discount rate would have on its estimated beginning lease receivable. A range of 500 basis points (i.e., 3% to 8%) would result in an estimated lease receivable using the lower rate that is more than $400 million (i.e., 60%) higher than a receivable balance using the higher rate.

On September 26, 2019, I and others listened to a GASB sponsored webinar entitled "GASB Implementation Guides for Fiduciary Activities and Leases." In the Q&A time for leases, Ms. Deborah Beams said there were questions on discount rates. She explained the guidance for lessees, including a "fallback" for lessees to use their borrowing rate. She paused briefly. You interjected the following: "From the lessor's side, we have had a lot of questions on that. People have said well should I be looking at effectively the lessee's rate or should I be looking at the lessor's incremental borrowing rate, and again I think that either one, you know, that is an issue that hopefully we are going to be addressing in a future guide."

DFW agrees wholeheartedly that lessors should be able to use their incremental borrowing rate. DFW submitted such comments earlier this year in its response to the GASB's proposed implementation guide. If this badly needed guidance does not occur and there is no other straight-forward "fallback" for lessors (such as a risk-free rate), we don't see how the lessor provisions can be realistically implemented. At a minimum, we do not believe lessor accounting will be implemented in a consistent manner. As airports and ports have mentioned before, no
other accounting standards body is requiring lessors to do what the GASB is requiring of state and local governments.

In summary, DFW is requesting a delay to the implementation date for the lessor provisions of GASB 87 pending workable guidance on the lessor discount rate. We are very pleased that the GASB staff has recognized publicly that the lessor discount rate is an open issue and has expressed a view that guidance may be forthcoming. We strongly encourage the GASB to provide such guidance as soon as possible. Absent a delay in effective dates for lessors, it will be less than three months before calendar year-end entities enter the first year of their GASB 87 measurements.

The efforts of the GASB and the opportunity to provide comments are appreciated. We request that GASB staff contact us if you have any questions.

Sincerely,

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