Letter of Comment No. 008
File Reference: Leases2-IG87
Date Received: 04/29/2019

DFW

April 26, 2019

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

RE: Exposure Draft of a Proposed Implementation Guide - Leases (Project No. 3-24)

Dear Mr. Bean:

Dallas Fort Worth International Airport (DFW) welcomes the opportunity to comment on the Governmental Accounting Standards Board's ("GASB's") Exposure Draft on the proposed Implementation Guide for Leases.

Paragraph 47 of GASB 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 that would be charged for borrowing the lease payments amounts during the lease term) should be used." GASB 87 provides an alternative to an "implicit interest rate" for lessees. No such alternative or guidance is provided to lessors.

Consistent with other US airports, DFW has a significant number of agreements that require review with respect to applying GASB 87 - almost 700. None of these agreements include a stated interest rate. To calculate an "implicit" interest, a market value for the related property space or land is required. If an airport was a lessee leasing equipment or leasing office space in a downtown building, market data would not be difficult to obtain. However, this is not the case for the airport lessor. For the most part, airport agreements are unique to airport property, such as agreements for space inside a government owned airport terminal or land and facilities with access to runways.

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In paragraph B69 of GASB 87, there is a discussion about why the GASB thought a rate implicit in the lease was appropriate for lessors. What is missing from this discussion is whether the GASB properly considered the costs associated with determining the rate implicit in leases for lessors of specialized property like airports, transit, and ports. To arrive at a true rate implicit in leases, lessors of these specialized assets may have to hire a valuation specialist to apply cost, income, or market approaches (or a combination of these) to determine a supportable rate implicit in the lease. Further, a valuation specialist may need to be engaged on an ongoing basis to continue to update the models.

If the GASB's belief in B69 was that there would be alternatives to hiring valuation specialists to arrive at a supportable implicit interest rate, it would be helpful if the GASB would provide implementation guidance (in the form of Q & As or illustrations) that would provide governments with tools to properly arrive at this rate. Additionally, DFW requests that lessors, like lessees, be allowed to use incremental borrowing rates in the valuation of leases in which there are no stated interest rates and no readily available market values.

I appreciate the efforts of the Governmental Accounting Standards Board and the opportunity to provide comments. Please contact us if you require any additional information.

Sincerely,

Max Underwood

Max Underwood
Vice President of Finance
Dallas Fort Worth International Airport