

From: Rilli, Mark

To: GASB Director <director@gasb.org>

Subject: Comment on GASB 87 Implementation Guide - Director of Research and Technical Activities, Project No. 3-24

TO : Director of Research and Technical Activities, Project No. 3-24

[Comment on the Lease Receivable section \(4.50-4.52\) of the Proposed GASB 87 Implementation Guide](#)

In addition to the questions presented on lease receivables in the proposed GASB 87 Implementation Guide, we have the following question pertaining to the treatment of variable payments tied to an index or rate under GASB 87:

Q. Paragraph 44 of GASB 87 provides that “measurement of the lease receivable should include...

b. variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate),
initially measured using the index or rate as of the commencement of the lease term.”

For those leases with variable payments due to periodic CPI-based rent escalations, what rate of increase should be used for future escalations of the lease receivable?

Would the latest rate as of the consideration date for GASB 87 valuations be appropriate?

Is it fair to assume that this CPI-based rate of rent escalation should be fixed and applied throughout the remaining rent schedule for GASB 87 valuation purposes?

For a long term lease with annual CPI evaluations/escalations, this approach would seemingly provide an over-inflated lease receivable and subsequent interest calculation.

In any case, I believe that additional guidance as to what is meant under **item b.** is required in order to avoid confusion.

Section from GASB 87

Lease Receivable

44. A lessor initially should measure the lease receivable at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Measurement of the lease receivable should include the following, if required by a lease:

a. Fixed payments

b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term

c. Variable payments that are fixed in substance (as discussed in paragraph 45)

d. Residual value guarantee payments that are fixed in substance (as discussed in paragraph 46)

e. Any lease incentives (as discussed in paragraphs 61 and 62) payable to the lessee.

Thank you for the opportunity to make these comments and to request additional clarification.

Mark Rilli
Port Authority of NY& NJ
Comptrollers – Revenue Accounting
Off: 201-395-3485