



September 1, 2015

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

Re: Project No. 3-24P

Dear Director of Research and Technical Activities:

Combined, we the undersigned represent the public airports within the United States. Please allow this submission to serve as the collective comments from the U.S. airports we represent on the *Preliminary Views of the Governmental Accounting Standard Board on major issues related to Leases*, Project No. 3-24P ("PV"), dated November 11, 2014.

The enclosed position paper conveys information to help GASB understand the consequences that this PV would have on U.S. airports. The impacts include additional costs and burdens to both human and technological resources at time when key airport users, e.g. airlines and aircraft owners, are seeking cost containment or reductions.

We hope the information provided will help you decide to exclude aeronautical and non-aeronautical use agreements and all real estate leases for U.S. airports in Project No. 3-24P. Please do not hesitate to contact us if we can provide any additional information. Thank you for your consideration of our views.

Kevin M. Burke
President & CEO
Airports Council International – North America
(ACI-NA)

Greg Principato
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AIRPORTS COUNCIL
INTERNATIONAL

ABOUT ACI-NA

Airports Council International-North America (ACI-NA) represents local, regional, and state governing bodies that own and operate commercial airports in the United States and Canada. ACI-NA member airports enplane more than 95 percent of the domestic and virtually all the international airline passenger and cargo traffic in North America. Approximately 380 aviation-related businesses are also members of ACI-NA, providing goods and services to airports. Collectively, more than 1.2 million people are employed at U.S. airports, which account for \$1.1 trillion in economic activity. Canadian airports support 405,000 jobs and contribute C\$35 billion to Canada's GDP.

ABOUT AAAE

Founded in 1928, the American Association of Airport Executives (AAAE) is the world's largest professional organization for airport executives, representing thousands of airport management personnel at public-use commercial and general aviation airports. AAAE's members represent some 850 airports and hundreds of companies and organizations that support airports.

ABOUT NASAO

The mission of the National Association of State Aviation Officials (NASAO) is to encourage and foster cooperation and mutual aid among the states and territories, the federal government and public sector in the development and promotion of aviation systems that can safely and effectively serve the needs of citizens, commerce and communities throughout the United States

ACKNOWLEDGMENTS

Michael Zonsius, Chief Financial Officer, City of Chicago Aviation Department is the primary author of this Position Paper. This Paper has been reviewed by the ACI-NA Finance Committee Oversight Panel: Brian Mulcahy, Des Moines International Airport, Cindy Nichol, Port of Portland, Portland International Airport, Bill O'Reilly, Albany County Airport Authority, Matt Townsend, Houston Airport System, Max Underwood, Dallas/Fort Worth International Airport, and Stan VanOstran, Metropolitan Nashville Airport Authority.

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I. INTRODUCTION

The associations representing U.S. airports, the Airports Council International – North America (ACI-NA), the American Association of Airport Executives (AAAE), and the National Association of State Aviation Officials (NASAO) (combined the “Associations”), have reviewed the Governmental Accounting Standards Board (“GASB”) published *Preliminary Views of the Governmental Accounting Standard Board on major issues related to Leases* (attached), Project No. 3-24P (“PV”), dated November 11, 2014. In addition, the Associations have also reviewed the tentative decisions made subsequent to the issuance of the PV that are posted to the GASB project website page.

This submission provides GASB with additional information for consideration of, and expansion of, the Scope exclusions contained in the PV. The Associations believe that exclusions should be expanded to also include aeronautical and non-aeronautical use agreements and all real estate leases for U.S. airports.

Generally, leases are currently distinguished between capital and operating leases. This distinction is based on criteria that have been criticized as allowing an entity to structure a lease so that the lease can be treated as an operating lease, and we agree with this criticism. Guidance for this distinction is provided by the following:

- National Council on Governmental Account (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*;
- GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*; GASB
- Statement No. 62, *Codification of Accounting and Financial Report Guidance*

Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Now that a sufficient amount of time has elapsed from the publication of the above documents and as part of GASB’s strategic plan to evaluate the effectiveness and impact of existing standards, the question arises; for governmental leases, does the distinction between capital vs. operating leases; provide essential information in an appropriate way for financial decision-making purposes?

II. OVERVIEW OF OUR RESPONSE

The Associations concur with the Governmental Accounting Standards Board foundational principle of providing a single approach for the accounting of leases; however, we respectfully request the scope exclusion be expanded to include airport aeronautical and non-aeronautical use agreements and all real estate leases for U.S. airports.

III. ISSUE

Airport owners are property managers that manage multi-year contracts/leases that are currently recognized and accounted for solely in the Statement of Revenues, Expenses and Changes in Net Position. However, with acceptance of the proposed PV, the same leases would be considered capital leases and would not only be recognized on the aforementioned statement, but on the Statement of Net Position as well. It is the recognition on this additional statement that is of concern.

Specifically, the concerns about the recognition of leases as capital leases on the Statement of Net Position are as follows:

- Cost/benefit of providing such information;

- Complexity of re-characterizing contracts with Multiple Components;
- Inapplicability to the Variable Component of Airport Contracts; and,
- Information may adversely affect the financial report.

IV. SPECIFIC COMMENTS

Chapter 1, Paragraph 11 and 12, Considerations Related to Benefits and Costs

The costs of the PV implementation do not appear to outweigh the benefits generated.

Airports may manage in excess of 300 leases that typically include the following categories:

- Land leases,
- Fixed-Based operator (FBO) leases,
- Specialized aeronautical service operator leases,
- Hangar rental leases,
- Terminal concession leases, and
- Airline leases.

Moreover, there may be multiple properties tied to each lease. For instance, a master developer of concessions will have one agreement but may have fifty different concessions/properties as part of that agreement. Since each property may be required to be calculated individually in accordance with the PV, there may be a multiple of a hundred different calculations for the airport. The additional workload associated with this will require additional human and technological resources at a cost to the airport. Furthermore, there will be ongoing costs associated with the PV implementation. There does not appear to be a benefit generated that is congruent with the increase in costs.

If one looks at the smaller airports, there are unfavorable consequences as well. At such airports, there may be multi-year real estate leases/contracts for each aircraft tied down and a multitude of t-

hangars as well. Capitalizing all these leases at other airports will place further burdens on human and technological resources.

Chapter 2, Par 10, Contracts with Multiple Components

A contract for real estate, e.g. lease, often includes the maintenance for the property and 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." The Board will grant an exception to the proposed separation requirement when measurement is not practical; however, in the airport context there is no separation between the property itself and the maintenance of that property. When an airport rents a terminal to an airline, that airline expects that snow will be removed, sidewalks will be maintained, and passengers will be kept safe. Separating these costs, whether in a single or multiple terminal environment, would be extremely complex. Therefore, airport leases should be excluded from the requirement entirely, rather than requiring airport operators to seek exceptions for their myriad leases.

Chapter 3, Lease Term

No specific comment.

Chapter 4, Lessee Accounting

No specific comment.

Chapter 5, Lessor Accounting, Paragraph 2

An airport lessor's responsibilities will include the maintenance of an operationally safe airport, the expenses of which are not [readily?] separable.



Chapter 5, Lessor Accounting, Paragraph 6

The variable component of airport contracts is material. Airports have contracts that include landing fees, and these fees are based on the lessee's usage of the facility. Revenue derived from landing fees may account for one-third of an airport's entire operating revenue.

Also, airport contracts with the airlines, particularly for airfield usage are often residual in nature. Under residual contracts, after the close of the year, a settlement is completed and the airlines either receive a credit or pay more in fees/rent based on the actual level of expenses and, in some instances, the amount of non-airline revenue during the year. In actuality, terminal fees, although based on a square footage, are variable from one year to the next and are not dependent on an index but on projected costs to maintain the airport. Since these contracts can be of varying terms, from three to 30 years, the present value used in the calculation for financial reporting purposes is questionable.

Frequently, terminal concession fees also have a fixed and variable component. In some circumstances the fixed fee may be more than the variable component, and in others, the opposite. In many cases, a major portion of a terminal concessionaire's annual rent is the variable component. By not including the variable component, the financial statements would be inaccurate and to include this component there may be a distortion year over year.

Chapter 6, Short-Term Lease Exception

No specific comment.

Chapter 7, Lease Termination and Modifications

No specific comment.

Chapter 8, Subleases and Leaseback Transactions

No specific comment.

Chapter 9, Leases with Related Parties and Intra Entity Leases

No specific comment.

V. CONCLUSION

Although airports are generally supportive of the efforts of the Board, the Associations believe that the proposed changes to lease accounting standards set forth in the PV document and subsequent tentative decisions, would not provide financial information or an accurate reflection of the economic substance of airport aeronautical and non-aeronautical agreements and leases. We therefore request that the Scope Exclusion be extended to all aeronautical and non-aeronautical use agreements and all real estate leases for U.S. airports.

The Associations thank you for your time and consideration of our request.