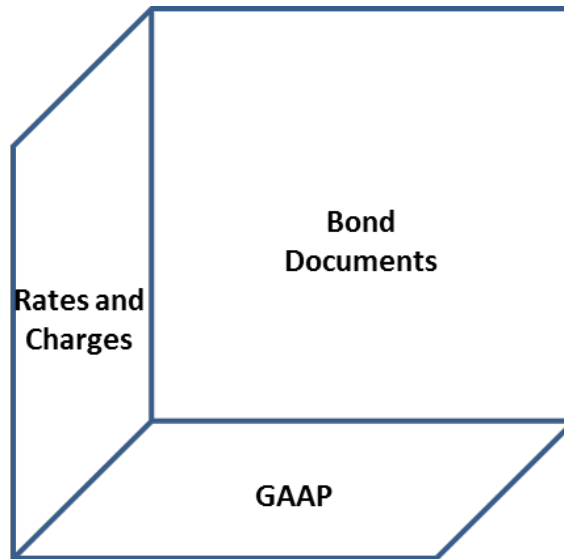


GASB 87 IMPACT ON AIRPORT FINANCE

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January 30, 2020

For any given action in airport finance, there are three perspectives/dimensions



- GAAP accounting governs the recognition of revenues and expenses, and is applied to most U.S. airports
- Bond accounting dictates the revenue requirement for a specific airport that has issued revenue bonds
- Rates and charges accounting provides a calculation of airline rates and charges for a specific airport, and the resulting airline revenues will be used to meet a portion of the requirements dictated by the bond documents

There are some well-known examples illustrating the three dimensions

Items	GAAP	Bond	Rates and Charges
Principal and Interest Payments	GAAP method	Depends on bond document: cash or deposit basis	Generally follows Bond, or use amortization
PFC for debt service	Irrelevant	Depends on bond document	Always treated as a credit
Depreciation	Operating expenses	Excluded	Excluded
Non-cash pension & OPEB	Operating expenses	Depends on bond document	Depends on bond document and airline lease
Interest earnings	Non-operating revenues	Includes a portion as Revenues	Depends on airline lease
Capital outlay	Capital expenditure	Depends on bond document	Depends on airline lease

- Many airports provide a reconciliation between GAAP and bond (trust) accounting, such as Massport
- DFW provides explanations between GAAP and R&C
- Also see article [Three Dimensions of Airport Finance](#)

MASSACHUSETTS PORT AUTHORITY

Conversions of GAAP Revenues and Expenses to the 1978 Trust Agreement Revenues and Expenses Fiscal Years Ended June 30, 2009 through June 30, 2018 (In Thousands)

S-4 Conversion of GAAP Revenues and Expenses to the 1978 Trust Agreement Revenues and Expenses

	2018	2017	2016	2015	2014
Operating Revenue:					
Per Financial Statements	\$836,391	\$760,903	\$699,478	\$662,929	\$622,471
Adjustments:					
Provision / recovery for uncollectible accounts	(\$439)	(\$1,642)	(\$186)	(\$32)	(\$465)
Other	(\$629)	\$5,189	\$69	(\$170)	(\$1,546)
Operating Revenue:					
Per the 1978 Trust Agreement	\$835,323	\$764,450	\$699,361	\$662,727	\$620,460
Income on Investments:					
Per Financial Statements	\$18,558	\$13,093	\$9,453	\$7,405	\$6,642
Adjustments:					
PFC	(\$764)	(\$1,226)	(\$965)	(\$1,068)	(\$1,098)
CFC	(\$1,301)	(\$774)	(\$478)	(\$384)	(\$417)
Self Insurance and Other Accounts	(\$4,228)	(\$3,191)	(\$2,321)	(\$2,123)	(\$1,919)
Income on Investments:					
Per the 1978 Trust Agreement	\$12,265	\$7,902	\$5,689	\$3,830	\$3,208
Total Revenues					
Per the 1978 Trust Agreement (excludes CFCs) (1)	\$847,588	\$772,352	\$705,050	\$666,557	\$623,668
Operating Expenses:					
Per Financial Statements	\$757,455	\$727,348(2)	\$688,719	\$649,531	\$612,974
Adjustments:					
Insurance	\$61	\$245	\$821	\$612	(\$95)
Payments in Lieu of Taxes	(\$20,408)	(\$19,276)	(\$19,375)	(\$19,282)	(\$18,444)
Provision for uncollectible accounts	(\$439)	(\$1,642)	(\$186)	(\$31)	(\$453)
Depreciation and Amortization	(\$262,162)	(\$252,846)	(\$247,502)	(\$227,158)	(\$217,767)
Other post-employment benefits	(\$4,480)	(\$4,903)(2)	(\$2,093)	(\$654)	(\$140)
Other Expenses	(\$10,398)	(\$3,789)	(\$5,025)	(\$5,409)	(\$4,201)
Pension	\$4,576	\$6,141	(\$4,711)	\$8,956	\$9,316
Administration Expenses	\$1,025	\$1,245(2)	\$1,338	\$1,905	\$2,370
Total Expenses					
Per The 1978 Trust Agreement	\$465,230	\$440,241	\$411,986	\$408,470	\$383,560
Net Revenue:					
Per the 1978 Trust Agreement	\$382,358	\$332,111	\$293,064	\$258,087	\$240,108

(1) CFC revenue collection began at Logan Airport on December 1, 2008. CFC Revenues (including investment income) were excluded from the 1978 net revenue in fiscal years 2009 and 2010 in anticipation of execution of the CFC Trust Agreement. The CFC Trust Agreement became effective May 18, 2011, and commencing with fiscal year 2011, all CFC Revenues continue to be excluded from the 1978 Trust Net Revenues.

(2) In accordance with the requirements of GASB No.75, the Authority's Net position and OPEB expense were restated as for fiscal year 2017 and forward to reflect the required adjustments.

Source: Authority's audited financial statements.

Use Agreement and Generally Accepted Accounting Principles (GAAP):

The DFW Use Agreement varies from GAAP when measuring net income. For government entities the "Change in Net Position" is used for net income while the Use Agreement uses "Net to DFW Capital Account." These two measurements differ in three major categories: Accounting differences related to the timing and categorization of revenues and expenses, Capital fund sources and uses, and items Not in the Use Agreement. The following table describes the key underlying differences between GAAP and Use Agreement accounting.

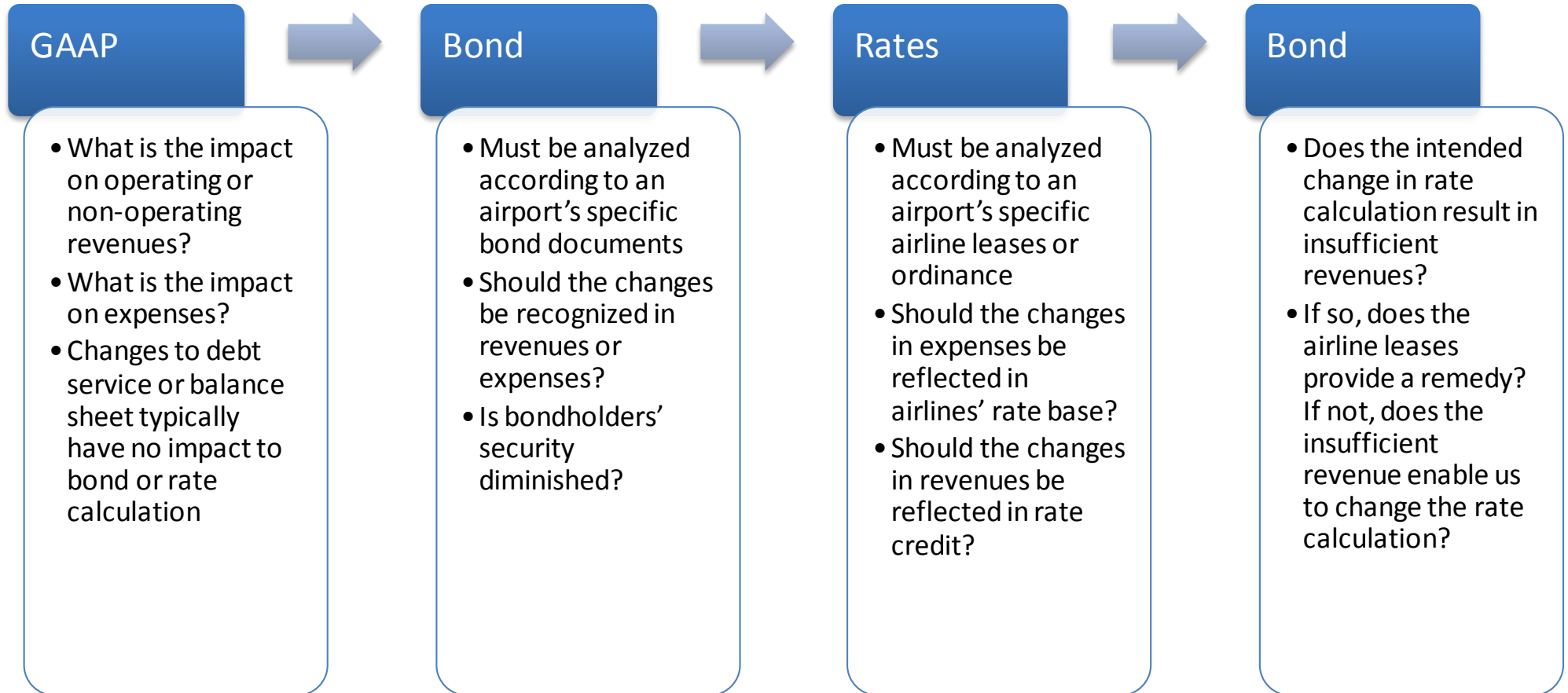
	Line Item	GAAP	Use Agreement (Operating Fund)
Accounting	Capital recovery	Depreciation	Bond principal paid
	Interest expense	Net of premium/discount, refunding costs	Accrued interest only
	Capitalized interest	Offset to interest expense, measured as project costs incurred not when borrowed	Recovered through principal after date of beneficial occupancy
	Asbestos removal	Expense immediately	Included in borrowed project costs
	Defined benefit pension costs	Expense per GASB	Contribution cost
	Passenger facility charges	Revenue recognized	Funds applied allowing for two months reserve
	Operating reserve	No expense	Reserve requirement
	Interest income	GASB market adjustment	Unrealized gain/loss not recognized
Capital Funds	Revenue (transfer)	Intercompany elimination	Revenue received and debt service paid from other DFW sources
	Debt service	Debt service sinking fund	
	Expenses	Actual incurred	
Not in Use Agreement (Operating Fund)	Air service incentives	Actual incurred	Not included
	Public facility corporation	Hyatt hotel and Rental car facility funds	
	Grants	Government reimbursements for project related costs	Not recognized
	Natural gas	Special fund for royalties	
	Non-operating interest income	Non-operating income	
	Other revenues and expenses	Non-operating funds	

The schedule below is a summary of the Accounting, Capital, and Not in Use Agreement differences reconciling the Change in Net Position to the Change in DFW capital account per the Use Agreement for the year ended September 30, 2018.

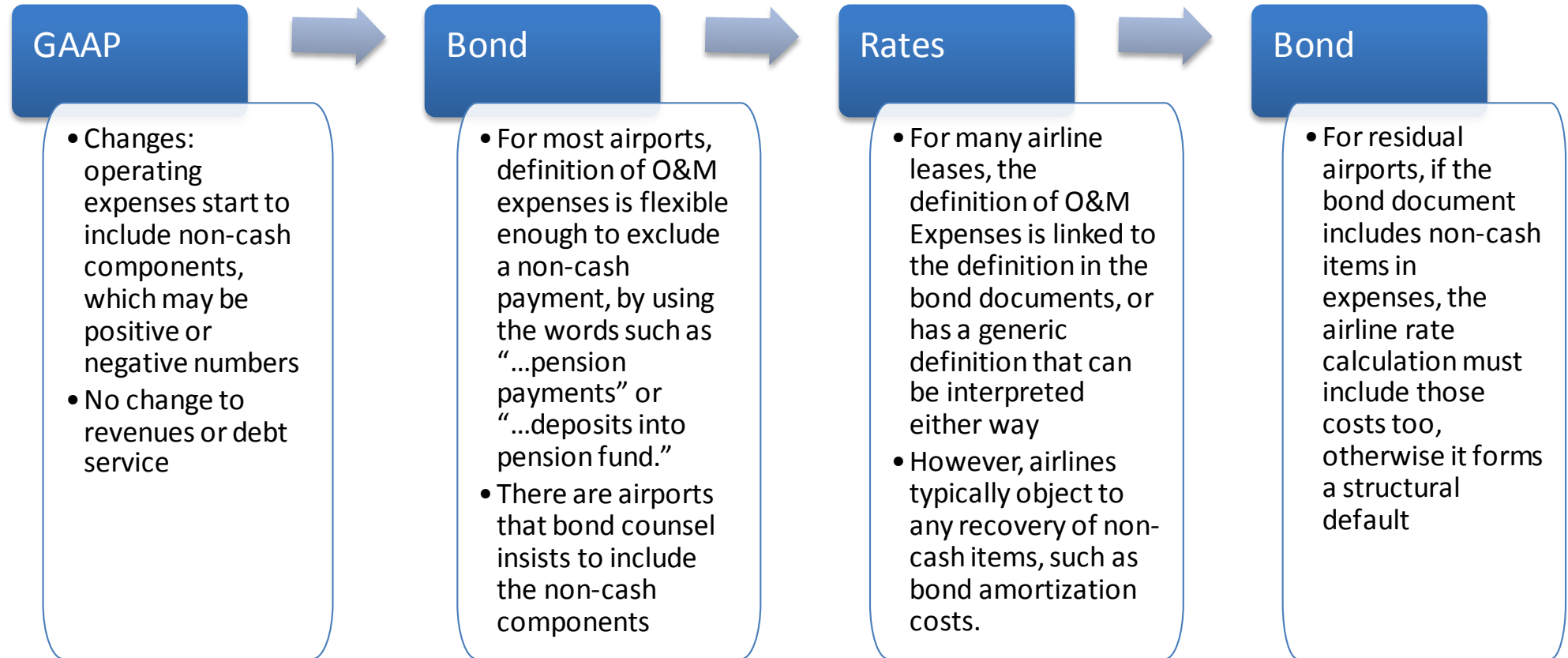
	For the Year Ended (millions)
GAAP-Use Agreement	FY 2018
Change in net position	\$ 45.8
Accounting	111.7
Capital	29.3
Not in use agreement	(103.9)
Transfer to DFW Capital account	82.9
Reduction to airline rates	49.4
DFW Cost Center net revenues	\$ 132.3

The Accounting category amount of \$111.7 million is primarily due to depreciation greater than bond principal paid, and unrealized interest losses on investments. The Capital category amount of \$29.3 million is primarily due to expenses in capital funds and debt service offsets. The Not in use agreement category of (\$103.9) million is primarily due to interest earnings, PFIC income, and capital grants.

Changes in GAAP ripple through bond accounting and rate calculations



GASB 68 (Pensions) and 75 (OPEBs) serve as good examples



GASB 87 affects recognition of both revenues and expenses

	Lessor/Revenues	Lessee/Expenses
Balance Sheet	Recognize lease asset and deferred inflow of resources	Recognize lease liability and right to use lease asset
Income Statement	Reclassify some rental revenues to interest revenues	Reclassify some rental expenses to interest expenses
Bond-related Question	If classified as non-operating revenues, can those interest revenues be added back to pledged Revenues for bond payment?	If classified as non-operating expenses, can those interest expenses be excluded from O&M expenses in flow of fund?
Rate-related Question	Can those interest revenues be excluded from airline credit, if currently being applied?	Can those interest expense be recovered from airlines?

Adding additional resources to Revenues under bond accounting is typically not an issue

“Revenues” shall mean all moneys received or earned ... but shall not include any moneys received as a grant or gift ... or, unless otherwise provided by resolution of the Board, any Passenger Facilities Charges. The County may select whether to use a **cash or accrual basis of accounting** ...

“Revenues” mean all income, receipts, earnings and revenues ... received by or accrued... , excluding, **except to the extent deposited in the Revenue Fund:**
(a) gifts, grants and other funds ...
...
(l) Passenger Facility Charges

- Definition of Revenues varies significantly across airports. Even cash basis is possible
- Some definitions automatically allows inclusion of non-operating revenues due to GASB 87
- Other definitions may cause issues, but strengthening shareholders’ security is typically welcomed
- Bond counsel is the party to provide an opinion

Removing GASB 87 interest earnings from airline credit is challenging

Residual

- If the bond document recognizes those interest earnings as Revenues, such earnings may be automatically captured as credits to reduce airline requirements
- It is not advisable to exclude such earnings from Revenues under the bond documents. If the airlines demand this credit and the bond document doesn't recognize such earnings, a structural default occurs

Compensatory

- For most compensatory ratemaking, concession revenues are not credited to the rate calculation. Therefore the impact is minor to start with, and may only involve some non-aeronautical land rent
- There may be a slight chance to exclude such earnings from the calculation of revenue sharing.

Adding GASB 87 interest expense to O&M under bond accounting is likely

“Operation and Maintenance Expenses” shall mean, for any period, all expenses of the Commission incurred for the operation and maintenance of the Airport, ***as determined in accordance with generally accepted accounting principles.***

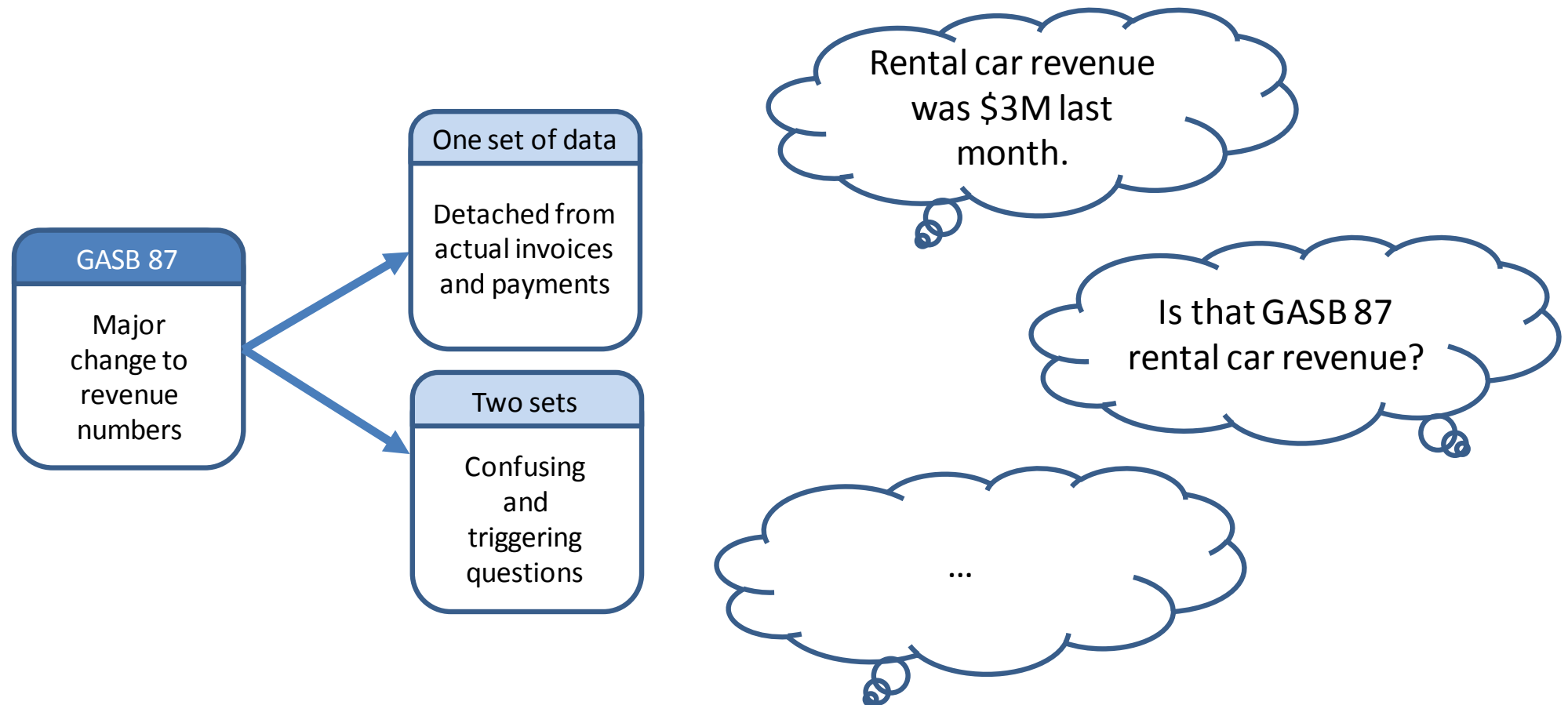
"Operation and Maintenance Expenses" means ... the costs incurred by the City in operating and maintaining the Airport ... during that Fiscal Year ... including ... all other direct and indirect expenses... which arise out of the City's ownership ... of the Airport ...

- For most airports, this interest expense may be immaterial. Therefore, the recognition is merely a technical issue
- The definition of O&M expenses are typically flexible enough to allow recovery of this type of expense items
- For a limited number of airports, this payment may fall to the bottom bucket as one of the other obligations
- Recovery from airline rates should not be an issue

Data consistency is expected to be a big and confusing issue

Report	Issues
CAFR Statistical Section	Many airports include a 10-year historical data of revenues, expenses and other key metrics. Those 10-year comparisons may need to be discontinued, or being kept in pre-GASB 87 format.
Internal Reports	Internal reports are likely to follow the pre-GASB 87 format.
Feasibility Study	Feasibility studies are likely to follow the pre-GASB 87 format.
Industry reports	ARN or AXN Factbook are likely to follow the pre-GASB 87 format.
FAA CATS	May need to coordinate with FAA to change requirements. AC150/5100-19D reads “5.0 Total Operating Revenue. This ... should represent total operating revenues per the airport's Statement of Revenues, Expenses, and Net Assets,” which implies 2021 data may not be consistent with prior data.
ACI-NA Benchmark	Undetermined and tied to FAA CATS
Rating agencies	Rating agencies conduct researches based on audited financials, which may need to be revised

Limiting GASB 87 to audited financials may be a good idea?



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