

Airports Are Not Exempt from GASB's Leasing Standard

As airports work to determine the steps needed to implement GASB 87, *Leases*, they should pay particular attention to guidance on regulated leases in paragraphs 42 and 43. Aviation leases between airports and air carriers regulated by the Federal Aviation Administration are explicitly mentioned as a type of lease that is exempt from balance sheet recognition. In general, to meet the definition of a regulated lease, paragraph 43 states the following three requirements must be met:

- Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator
- Lease rates should be similar for lessees that are similarly situated
- The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions

The most important thing for airports to note is that these requirements only pertain to aeronautical leases. GASB's basis for conclusion states that this exclusion does not apply to airport leases that do not meet the criteria listed above. GASB also believes most leases of terminal space to restaurants and other nonaviation-related vendors are not substantially different from other nonregulated leases and, therefore, they are not exempt.

Note Disclosures for Regulated Leases

Airports should review their lease tracking information for the regulated leases to help ensure that all information for the required disclosures is available. These disclosures include:

- A general description of its agreements
- The extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty
- The total amount of inflows of resources—for example, lease revenue, interest revenue and any other lease-related inflows—recognized in the reporting period from these agreements, if that amount cannot be determined based on the amounts displayed on the face of the financial statements
- A schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter
- The amount of inflows of resources recognized in the reporting period for variable payments not included in expected future minimum payments
- The existence, terms and conditions of options by the lessee to terminate the lease or abated lease payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

In summary, airports need to deal with the implementation of GASB 87. It will be very important for airports to operationalize controls that bucket leases between regulated and nonregulated and capture the appropriate financial and disclosure information.

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