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| TOPIC: Incremental Borrowing Rate for Leases | | |
| OFFICE: Office of Statewide Reporting & Accounting Policy | STATE: LA | DATE: 04/01/2022 |
| QUESTION / ISSUE:  If you are using the incremental borrowing rate for GASB 87 leases, are you using a single rate for all leases, or different rates that vary based on length of the lease term?  If you are using the incremental borrowing rate, please describe the methodology of your calculation(s). | | |

| Alaska | We are using different rates that vary based on length of the lease term.  We reached out to our Treasury division and asked for them to develop rates for us. The methodology they used is: The suggestion is to use the MMD AAA yield curve with an assumed escalator of 75 basis points (¾ percent) for the particulars of the Alaska situation. Then use that scale to determine average rates for 1 to 5, 5 to 10, 10 to 20 and over 20 leases. |
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| Arizona | We have 3 rates – one for short term (1-4 years), mid-term (5-8 years) and long-term (9+ years).  We calculated our incremental borrowing rate using a combination of our current credit rating, the Revenue Lease Bond rates per Bloomberg (available by month and credit rating), and our most recent COP (Certificate of Participation) issuance borrowing rate. The Revenue Lease Bond rates were available by month, based on credit rating and terms of 1-10 years. Using this information, we calculated the average annual rate on a 3-year term for short term leases, on the 7-year term for mid-term leases and the 10-year term for long-term leases, then added a fixed amount based on the difference between the actual COP issuance rate and the appropriate revenue lease rate on the date the COP was issued. We plan to recalculate the incremental borrowing rate once a year, and will reevaluate the fixed adjustment if/when another COP may be issued by the state. |
| California | We are using different rates based on the length of the lease term.  We are using the California Daily Yield Curve rates for our general obligation bonds. The rates are determined by using the averages from 1-5 years, 5-10 years, and over 10 years. Please see attached files for reference. |
| Colorado | Response 1:  Different rates based on the length of the lease term. Our Treasury department updates the rate on a quarterly basis, and posts it to their website. <https://treasury.colorado.gov/treasury-divisions-and-programs> (Expand the box labeled Accounting and Administrative Divisions.)    Response 2:  Colorado uses different rates that vary based on the length of the lease term.  The state of Colorado Treasury updates these rates each month. |
| Delaware | We are using a single rate for all leases.  Incremental borrowing rate is the average rate of our outstanding general obligation bonds. |
| Georgia | State Accounting Office uses different rates based on length of the lease term in 5, 10 and 20-year increments.  The Financing and Investment Division of the Georgia State Financing and Investment Commission provides updated rates to us every year once the bonds are issued in June. |
| Idaho | We are using the U.S. Treasury daily yield rate plus 1% spread as our IBR. The Treasury website has historical rates available, and it will be easy for agencies that don't have stated rates in their contract to calculate the IBR.  We submitted a list of capital leases to the Treasurer's Office to help us in determining the best estimate for our incremental borrowing rate. We also got feedback from other states from the March 2020 lease call on how they were determining their rate. Based on the answers from other states and the Treasurer's Office recommendation, we determined the best estimate would be to use the Treasury Daily Yield rate plus 1% spread. |
| Illinois | Illinois is using a single rate for the agencies of the primary government. Universities and component units will determine their own rates.  Illinois is using the average of the rates on G.O. Bonds issued during the year. |
| Indiana | Indiana typically uses a single rate for all leases when applying the incremental borrowing rate.  The Indiana Bond Bank provides a list of current tax-exempt general obligation (A) rated bond rates at varying terms and the 5-year rate is used for all leases where the incremental borrowing rate is used. The Indiana Bond Bank is an agency that assists local government in obtaining low-cost financing for their operations. |
| Iowa | Single rate for all leases.  Iowa's average lessee lease term is 9 years; average lessor lease term is 12.75 years. Iowa will use the 10-year rate from the market yield on U.S. Treasury securities at 10-year constant maturity, quoted on investment basis provided on the Federal Reserve website. The January 12-month average rate will be used to determine the following fiscal years incremental rate (January 2021 rate will be the rate for Fiscal Year Ending 2022). |
| Kansas | We are using different rates based on the length of the lease term. We received rates for 1, 3, 5, 7, 10, 20 and 30-year terms and will use the rate that best matches the length of the term of the applicable lease.  We received the rates from our Department of Financing Authority. They are the rates as of the implementation date for tax-exempt, annual appropriation rates for revenue bonds. We would have used the rates for general obligation bonds, but our state does not use those for financing. We will update these rates every year on July 1st, based on the market. |
| Michigan | Different rates.  For the purpose of discounting future lease payments in the measurement of a given lease liability, the estimate of the state of Michigan’s incremental borrowing rate will be calculated as the Fidelity “Municipal GO AA” bond index with a maturity date closest to the lease’s lease term as of the most recently ended quarter. For example, a lease arrangement commencing in May of a given year will use the percent yield of the applicable index on March 31st of that same year; a lease with a 24-year lease term will use the Fidelity “20-Year Municipal GO AA Index” while a lease with a 25-year or 26-year lease term will use the Fidelity “30-Year Municipal GO AA Index.” <https://fixedincome.fidelity.com/ftgw/fi/FIResearchMarkets?sid=2> |
| Montana | Single rate for all leases.  We are using the state's (INTERCAP) loan program borrowing rate which is updated annually. |
| Nevada | As of this moment, we plan to use the same incremental borrowing rate for all leases. As we progress with the implementation and working in the new software system, we may decide that there is a more logical way to determine rates.  We plan on using our bond rate for now, and that is based on hearing about several other states using that methodology. We have discussed this with our auditors and they agree with that approach, but have said that we may need to adjust it for certain types of leases if there is a usual borrowing rate for similar types of assets. |
| North Carolina | North Carolina is not determining incremental borrowing rates for our individual financial reporting entities that comprise the ACFR. Instead, we are providing guidance for how these entities can determine the rate for themselves based on the forms of debt and the risk profiles of those specific entities. Attached is the guidance we have published.  Ultimately, we believe most of North Carolina's ACFR financial reporting entities (colleges, universities, primary government agencies) will use an incremental borrowing rate. From speaking with several of them, most of their leases do not contain a specified rate, nor is it practicable or accurate to attempt calculating an implicit rate. |
| North Dakota | We are currently planning to use one incremental borrowing rate for all leases.  We are currently looking at using the prime interest rate plus 1. 4.25% |
| Ohio | We are using a single rate for all leases. We didn't feel that using different rates for different lease term lengths would result in a material change in the total liability amount calculated.  Our debt section within the Ohio Office of Budget and Management routinely issues general obligation bonds. Most of the time there is at least one general obligation bond issued every fiscal year. Each year, in June near fiscal year-end, we will reach out to the debt section to assist in determining an appropriate incremental borrowing rate to use for the next fiscal year. Through discussions with debt, they have indicated that the main factor they will use to determine the rate, will be the rates for general obligation bonds issued in the fiscal year. As of now, we do not have a lease system in place to record the lease terms, payments, etc. So, for fiscal year 2022, the calculations will be done manually. |
| Oklahoma | We are using a single rate for all leases, at least for implementation. After discussing with our auditors, we felt doing something more complex than that was going to have an immaterial impact, especially since the incremental borrowing rate is an estimate to begin with.  We are using the IRS' AFR rate for midterm length. |
| Oregon | In Oregon, the incremental borrowing rate will vary based on type of lease arrangement and the length of the lease term. The following draft policy guidance relates to how state agencies will determine the incremental borrowing rate: When state agencies are unable to determine the interest rate charged by the lessor, they should consider their agency’s recently issued debt, whether general obligation bond, revenue bond, or certificate of participation, to determine if one of those issuances would provide an incremental borrowing rate.  If one is not available or is not suitable for the lease arrangement, state agencies shall rely upon the Oregon Bond Index (<https://www.oregon.gov/treasury/oregon-bonds/Documents/Public-Financial-ServicesMDAC/undated/Bond-Index.pdf>), state of Oregon columns, and select the rate that most closely matches the effective date and lease term. |
| Pennsylvania | We are using a single rate for all leases.  Our incremental borrowing rate is based on the general obligation bonds’ weighted-average interest rate for a given year. |
| South Carolina | Different rates depending on type of leased asset and length of lease.  Machinery and equipment rates come from our State's Master Equipment Lease Agreement. Real Estate from IRS website. Guidance provided to our agencies is attached and also on our website. <https://cg.sc.gov/guidance-and-forms-state-agencies/gasb-87-lease-accounting> |
| Texas | Texas will be using different rate based on term of lease. Since the state’s credit is so strong, it borrows at or near the federal government levels; therefore, we will use the rates found at the Board of Governors of the Federal Reserve System. The state will use a calendar quarterly average rate by term. This rate will be updated on a quarterly basis for new leases as they are started. |
| Utah | We are using a single rate for all leases that do not have a stated rate. At this point, our auditors believe that adjusting the rate for length of time will not be material. The majority of our leases are 5 years with options to renew for an additional 5 years. We only have about 250 leases without a stated rate.  We are using our lease revenue bond rate of 1.75%. |
| Vermont | Vermont is using a different rate based on length of the lease term. The starting rate is 24 months and increases annually (36, 48, 60 months) based the yield to maturity GOB. Lease terms that fall between 12-month increments are rounded up (42 months term uses 48 months incremental borrowing rate).  Vermont is using Yield to Maturity from latest Bond Pricing, GOB, 2021 Series. We will update with new issues for use going forward with leases commencing after additional GOD bond sales. |
| Washington | We are using the interest rates for the state's Certificates of Participation (COP) Program. https://tre.wa.gov/home/debt-management/certificates\_of\_participation/ <https://www.tre.wa.gov/wp-content/uploads/Interest-Rate-Charts-8.pdf> The state's Treasurer's Office (OST) provides separate rates for real estate and equipment. For the building leases we are using the real estate rate, and there is only one rate for these based on the rate for the 20-year lease term. For the equipment, OST does provide several different rates, depending on the lease term. Therefore, we are using the rate that most closely matches the lease term for equipment leases. |
| Wisconsin | We are using different rates to align with the lease term. Our Capital Finance Office was able to provide us with rates for every year 1-30.  Our Capital Finance Office provided us with estimated rates based on a municipal market analysis they subscribe to and then added a spread to that. They believe this would be similar to the rate our state would be charged if we had to borrow for lease payments. |