

From: Joyce Dillard
Sent: Monday, September 30, 2013 6:36 PM
To: Director - GASB
Subject: Comments to GASB Project No. 26-5P Fair Value Measurement and Application due 9.30.2013

Issue 1—Definition of Fair Value

1. It is the Board's preliminary view that the definition of fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Chapter 2, paragraphs 3–6.) Do you agree with this view?

Why or why not?

COMMENTS

In our experience from a local perspective, specifically the CITY OF LOS ANGELES, we have not seen the market-based measurement and market participants.

We see arranged sales and leasebacks for cash flow purposes under a controlled (non-profit) corporation setup, legislated by the government entity.

This Financing Corporation is used in LAUSD LOS ANGELES UNIFIED SCHOOL DISTRICT and the LOS ANGELES COUNTY PUBLIC WORKS FINANCING AUTHORITY as well as State agencies in Joint Powers Agreements such as MOUNTAINS RECREATION AND CONSERVATION AUTHORITY.

The Financing Corporations bypass the requirements of Voter-approved debt.

It is unclear how the price of the exchange is determined. We can assume the need for cash would warrant a remeasured amount, but there is no disclosure either way.

Public Private Partnerships have no market outreach and asset value, so far, is determined by a Chief Administrative Officer report. Although revenues may be estimated, values determined for the assets have no basis in the fair market value of future revenues. This is not a clear sale. It is not an investment but a cash flow transaction.

Issue 2—Transaction Costs

2. It is the Board's preliminary view that transaction costs to sell an investment should be treated as period costs. That is, transaction costs would not be a reduction of an investment's fair value in the statement of financial position. Transaction costs would be reported as expenses or expenditures in the period an investment is sold. (See Chapter 2, paragraphs 21 and 22.) Do you agree with this view?

Why or why not?

COMMENTS

Disagree. As long as industry practice nets transaction costs, the public would not understand why it is not consistent across the board.

Issue 3—Definition of an Investment

3. It is the Board's preliminary view that the definition of an investment should be a security or other asset that a government holds primarily for the purpose of income or profit, and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry. (See Chapter 3, paragraphs 2–4.) Do you agree with this view?

Why or why not?

COMMENTS

This does not take into consideration those futures markets credited by derivative-type instruments.

Transfer of Floor Area Rights TFAR is similar to a derivative with no sunset. There are also Community Parking Credits (Transit-Oriented Districts) created for streets. Government-owned real property or rights-of-ways are the basis of these rights and credits.

These are cash transactions created from futures instruments based on space (air rights) or parking spaces but it is difficult to determine its value as it is not a market transaction. Future development is difficult to measure. There is a Public Benefit criteria required but we have found that aspect diminishing from its original purpose. This originated with HUD Community Development Block Grants being used on substitute projects in lieu of property being used for a Convention Center and Parking.

Public Benefit has no assigned value and minimal requirements.

Air Quality Management Districts and State Air Resources Board Cap-and-Trade have these credit-exchange markets.

Issue 4—Measurement of Investments

4. It is the Board's preliminary view that investments generally should be measured at fair value on a recurring basis. (See Chapter 3, paragraphs 14–16.) Unless specifically excluded from a fair value measurement, investments would no longer be valued using

amortized cost or other measures. (See Chapter 3, paragraph 19.) Do you agree with this view?

Why or why not?

COMMENTS

Agree.

Issue 5—Disclosures

5a. It is the Board's preliminary view that the disclosures discussed in Chapter 4 should be required. Are any of the proposed disclosures not essential to a financial statement user's understanding of financial position or inflows and outflows of resources?

Why or why not?

5b. What other disclosures related to fair value should the Board consider?

Why?

COMMENTS

This view is not tight enough. Level 3 is just a sentence long in a Note and leaves too much room not to disclose. The level of discretion left at professional judgment excludes the Public Best Interest and does not disclose any Public Benefit as a result.

There should be a test or checklist included to derive at a Level 3 disclosure. Level 3 has no guarantee that the material was reviewed and decisions were made by people experienced in the subject. We find CITY OF LOS ANGELES Chief Administrative Officer reports issued without any background or expertise.

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