August 15, 2014

Director of Research and Technical Activities 
Governmental Financial Accounting Standards Board 
401 Merritt 7 
P.O. Box 5116 
Norwalk, CT 06856-5116

Re:  Project No. 26-5E – Proposed Statement on “Fair Value Measurement and Application”

The Appraisal Institute (AI) appreciates the opportunity to provide comments on the Governmental Accounting Standards Board’s (GASB) Exposure Draft of the Proposed Statement on “Fair Value Measurement and Application”. 

The Appraisal Institute is a global association of real estate appraisers with approximately 22,000 valuation professionals in almost 60 countries throughout the world. Its mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide. Appraisal Institute professionals benefit from an array of education and advocacy programs, and may hold the prestigious MAI, SRA, SRPA, AI-GRS, and AI-RRS designations.

As the largest professional organization of real estate valuers in the United States, we are strongly committed to improving the relevance and usefulness of financial reports, specifically as they relate to the valuation of real estate. We commend and support the GASB’s efforts to develop standards of state and local government accounting that result in useful information for users of financial reports, and guide and educate the public, including issuers, auditors, and users of those financial reports.

We are very supportive of the GASB efforts to modify accounting standards for state and local governmental entities to require the use of a fair value model for the reporting of investments, including investments in land, land rights, real estate, and natural resource assets. Our members stand ready to assist government agencies in the valuation of real estate-related investments. We believe that the fair value model provides the most relevant information about the composition, value, and recent changes in the value of the investment assets held by state and local governmental bodies. Reporting real estate assets held as investments at fair value enhances users’ ability to meaningfully evaluate a state or local governmental body’s investment decisions and performance. Professional real estate appraisers are able to provide credible and reliable opinions of the fair value of each these types of assets to state and local governmental bodies.

Fair Value Measurement

We generally agree with the application of the “Valuation Techniques & Approaches” and “Measurement Principles” contained in the Exposure Draft. A professionally designated real estate appraiser involved in
a valuation for financial reporting assignment who has received specialized training should have little trouble complying with the proposed standard while utilizing methods and techniques that are specific to the valuation of real estate. However, we would strongly encourage GASB to undertake an additional project to develop a standard similar to International Public Sector Accounting Standard #16, “Investment Property” which include elements that are specifically related to the application of the fair value measurement standards to real estate. Under this standard, an entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.\(^1\)

**Fair Value Application**

As we noted in our comments on the *Preliminary Views* document, we believe that the application of the fair value model should go beyond those real estate assets of a governmental entity that have a “present service capacity that is based solely on its ability to generate cash or to be sold to generate cash”. Additional real estate assets that we believe should be reported by governmental bodies at their fair value include those assets that could reasonably converted to a different use. For example, an operating, county-owned golf course (which will not be classified as an investment under the proposed standard) may have value at its highest and best use (e.g., subdivided for residential development) that is much greater than its book value. Based upon the fair value, the county may decide that the value of selling the property to a private developer to generate cash for the county’s coffers outweighs the value of continued operations as a golf course.

We believe that the users of the financial statements of a governmental entity, including legislators, bond issuers, ratings agencies, and the general public have a right to know the fair value of more of the real estate assets held by a governmental entity than just those that are held primarily for income or capital appreciation and that have a present service capacity that is based solely on the asset's ability to generate cash or to be sold to generate cash. Specifically, we believe that governmental bodies should be required to disclose the fair value of any real estate asset held by the entity that could be reasonably converted from its current use into another use and either used to generate income or sold for capital appreciation.

Clearly, the determination of the fair value of a parcel at its highest and best use is not appropriate for all real estate assets owned by a governmental entity, such as a city hall, a tunnel, or a sewer system. But, disclosure of fair value may be appropriate for those real estate assets that can be converted from their current use into another use which would generate income or sold for capital appreciation.

We appreciate the opportunity to provide comments on the GASB Exposure Draft of a Proposed Statement on Fair Value Measurement and Application. Additionally, we appreciate GASB’s consideration of many of the issues presented in our comments on the *Preliminary Views* document. While many of them were not incorporated into the Exposure Draft, we appreciate knowing that they were thoughtfully considered by the Board.

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If you should have any questions, please do not hesitate to contact Bill Garber, Director of Government and External Relations at (202) 298-5586 or bgarber@appraisalinstitute.org, or Scott DiBiasio, Manager of State and Industry Affairs at (202) 298-5593, or sdibiaseio@appraisalinstitute.org.

Sincerely,

Ken P. Wilson, MAI, SRA
2014 President