September 30, 2013

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: GASB’s Proposed “Fair Value Measurement and Application” Rules

To Whom It May Concern:

We, the undersigned, wish to express our concerns with portions of GASB’s proposed rules regarding “Fair Value Measurement and Application.” Overall, we agree with the concepts presented in the document. Accurate fair value measurement of financial instruments is essential to having useful financial statements.

However, our concern is that the Preliminary Views released June 3, 2013 outlines changes to investment accounting that could have an unintended impact on the way public trust land granted to states at statehood, and land acquired with the proceeds from the management of those original land grants is valued and accounted for.

Specifically, the Definition of an Investment, Issue 3 contains current language that leaves room for differing conclusions as to accounting treatment of this land. It appears the fund could be required to report all land held in trust at the current market value instead of the historical cost as required under current accounting standards. Based on the prior GASB meeting minutes on this project, it does not appear that this was the intended course of action.

In the past, such federal land grants have been exempted from the GASB fair value updates, such as with GASB 52 (moving endowments to report real estate at fair value). The current proposal, however, does not contain similar exemption language. We would suggest adding the following statement to the Scope of the exposure draft, similar to what was incorporated in GASB 52 “This Statement does not apply to lands granted by the Federal government in connection with a state being admitted to the United States or to lands acquired with proceeds from the management of those original land grants.”

To report these lands at market values would significantly increase the balance sheet of these funds and create the appearance of assets that could be sold, though the corresponding fund balance would be restricted. Adding this exemption language would ensure that the exposure draft was more complete and understandable by Practitioners.
On the contrary, reporting these lands in accordance with the Preliminary Views - Value Measurement and Application methodology in the way other investment instruments are treated would not accurately reflect the purpose of these trusts or the value derived from the management of them.

The purpose of creating these original land trusts was to create a corpus to support specific programs. The trust funds are operated on the principle that the corpus remains intact. Any changes in accounting and reporting should clarify, not obscure the applicable purpose and management practices. In Oregon, the trust is to provide support for public school programs. While in most states the primary purpose of these original land trusts are to produce income, management of these lands is restricted by specific legislation that varies from state to state.

Further, marking these lands to market value would require reappraisal of properties every 1 to 3 years. Because trust lands are generally held for long periods of time, the additional costs of the required third party appraisals and contract oversight would have a material negative impact on total revenue generated, with little to no benefit derived from the proposed investment treatment. (For comparison’s sake, the 120,000 acres of forest land held by Oregon’s Common School Fund generates net income of about $4.1 million per year, compared to the anticipated annual appraisal costs of $1.2 million.)

In the July 2013 GASB project meeting minutes, it states that investments held in governmental funds would be excluded from the scope of the project. This would exclude many State owned lands. The language in the Preliminary Views chapter 3, paragraph 3, it states that the fund may evidence if an asset is held for income or profit. This does not clearly exclude land managed by governmental funds.

The current draft has an example of accounting for mineral rights in chapter 3 paragraph 10. Accounting for mineral rights presents other potential problems. In many cases the mineral rights are separate and distinct from the surface rights and may be owned by another entity. Legal restrictions are in place to limit the ability to sell or transfer the mineral rights. The resulting costs to determine the fair value of these mineral rights would significantly impact the monies distributed to the intended recipients.

We would request that in preparing the exposure draft that GASB please add clarifications that would provide exemptions for trust lands granted to states upon statehood or to lands acquired with proceeds from the management of those original land grants. We hope that the exposure draft provides complete and understandable information for practitioners.

Yours,

Ted Wheeler
Oregon State Treasurer