

**From:** Joyce Dillard  
**Sent:** Monday, September 30, 2013 6:36 PM  
**To:** Director - GASB  
**Subject:** Comments to GASB Project Nos. 3-20E and 26-5P Measurement Concepts for Assets and Liabilities and Fair Value Measurement and Application due 9.30.2013

## QUESTION 1

Do you agree or disagree with the GASB's proposal that assets and liabilities should be measured as either initial amounts or remeasured amounts?

Why do you agree or disagree?

## COMMENTS

We see a holding problem. Assets may be purchased and measures as initial amounts but if that asset is sold (to a legislated non-profit corporation) in order to obtain short-term lending, not allowed by the government without a Citizen Referendum or Vote, then the question is, what value does that non-profit corporation use for the debt instrument.

We may be seeing Fair Value at remeasured amounts without disclosure of the same.

The asset is then leased back to the government agency. It appears that no title is transferred, but we are unclear.

For instance in a recent transaction, the CITY OF LOS ANGELES owns light poles and assesses those poles in Special Districts. The light poles are sold to the MUNICIPAL CORPORATION OF LOS ANGELES MICLA to enter into debt for cash flow. MICLA then turns around leases the asset back to the CITY OF LOS ANGELES.

MICLA was incorporated after legislative approval by the CITY COUNCIL agreed upon by the MAYOR. It is a legislated non-profit corporation with a BOARD OF DIRECTORS whose successors are appointed by the BOARD themselves with approval by the CITY COUNCIL.

After debt repayment, the poles remain the property of the CITY OF LOS ANGELES. This occurs in Fire Stations, Police Stations, Buildings, Public Works projects such as stormwater and sewers.

We do not believe the asset is booked for CAFR purposes, but disclosure is made on the leases (leasebacks) and lease revenue bonds. CAFR FY 6/30/2012 states:

*The assets acquired or constructed by the Corporation are leased to the City under long-term capital lease agreements and become property of the City at the termination of the lease. The effects of the capital lease arrangements have been eliminated from the basic financial statements.*

MICLA is not the only Financing Corporation. LOS ANGELES CONVENTION AND EXHIBITION CENTER AUTHORITY is a Joint Powers Agreement with the COUNTY OF LOS ANGELES to incur debt for the Convention Center.

LAUSD LOS ANGELES UNIFIED SCHOOL DISTRICT has a Financing Corporation as does the COUNTY of LOS ANGELES.

For Public Private Partnerships, the fair value of the asset is determined by a report, not an appraisal nor a projection of future earnings.

So, the fair value at its highest and best use that is physically possible, legally permissible, and financially feasible may be limited to a single proposal not an open market competitive placement.

Whereas INITIAL AMOUNTS is easy to determine, REMEASURED AMOUNTS is subjective and easy to manipulate.

## QUESTION 2

Do you agree or disagree that a cost of services that reflects initial amounts is more useful for assessment of interperiod equity than a cost of services that reflects remeasured amounts?

Why do you agree or disagree?

## COMMENTS

It is not that simple.

You define interperiod equity "to the extent to which revenues are sufficient to cover the cost of providing services."

Revenues are not necessarily based on the underlying assets with revenue being generated by taxes and fees.

Cash flow is another issue. Debt service would be considered a service. Neither initial amounts or remeasured would impact cash flow with the complex measures of leases and leasebacks.

## QUESTION 3

Do you agree or disagree that fair value generally is not suitable for assets that will be used directly to provide services?

Why do you agree or disagree?

## COMMENTS

Again, it is not that simple.

We do not see assets booked that are grant generated funds such as police and fire vehicles. There is no offsetting liability.

## QUESTION 4

Do you agree or disagree with the GASB's four proposed measurement attributes?

Why do you agree or disagree?

## COMMENTS

Those four attributes are:

1. historical cost
2. fair value
3. replacement cost
4. settlement amount

Fair value is subjective. We do not see where that disclosure is defined. It does not appear to be market forces.

Settlement amount is also subjective under these closely-held transactions whether a Financing Corporation or a Public Private Partnership.

## QUESTION 5

Do you agree or disagree with the GASB's proposed definition of fair value?

Why do you agree or disagree?

## COMMENTS

Your definitions are:

- Fair value represents the exit price for selling an asset or transferring a liability in an open and active market.
- If fair value is used to measure nonfinancial assets, the fair value is based on their highest and best use that is physically possible, legally permissible, and financially feasible.

The limitation to “an open and active market” does not include the transactions occurring for cash flow purposes.

The basis of “highest and best use that is physically possible, legally permissible, and financially feasible” is already occurring but may not be based on a comparable asset. All appears to be physical, legal and financial but not ethical as there is no elected representation of the short-term debt incurrence.

Please embrace the practice of government operations within the control of the government and not with an outside unrelated entity.

There are legal Joint Powers Authorities and Memorandums of Understanding that cloud title and hide debt.

#### QUESTION 6

Do you agree or disagree with the GASB’s proposal that, if fair value were used to measure a nonfinancial asset, the fair value should be based on its highest and best use?

Why do you agree or disagree?

#### COMMENTS

There are problems. Highest and best use needs comparison to make the “-est” work. We do not see any mention of elimination of lesser “uses.” There is no requirement for a market, just a determination.

A market may not exist, but the creation of market for asset disposal and fast short-term cash may exist.

#### QUESTION 7

Do you agree or disagree with the GASB’s proposals regarding valuation approaches and techniques?

Why do you agree or disagree?

#### COMMENTS

Your definitions are reasonable:

1. market
2. cost
3. income

Application is based on observable inputs. What is that economic feasibility without a law or regulation?

#### QUESTION 8

Do you agree or disagree with the GASB's proposal to categorize inputs into Level 1, Level 2, or Level 3?

Why do you agree or disagree?

#### COMMENTS

They are reasonable but not enforceable as we see Level 3 being used as the main method as you require no proof or elimination method of Levels 1 and 2.

#### QUESTION 9

Do you agree or disagree with the GASB's proposal to allow governments to use a practical expedient to value investments in certain entities that calculate net asset value per share?

Why do you agree or disagree?

#### COMMENTS

Agree in the type cases cited.

#### QUESTION 10

Do you agree or disagree with the GASB's preliminary view that investments generally should be measured at fair value?

Why do you agree or disagree?

#### COMMENTS

Your definition is:

*An investment is 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.*

We now have credits market held as investments such as Transfer of Floor Area Rights TFAR. It is similar to a derivative with no sunset. There are also Community Parking Credits (Pedestrian-Oriented Districts) created.

These are cash transactions created from futures instruments based on space (air rights) or parking spaces.

How would you determine fair value?

#### QUESTION 11

Do you agree or disagree with the GASB's proposed definition of an investment?

Why do you agree or disagree?

#### COMMENTS

No, you need to address the futures markets created. We see these markets in the Air Quality Management Districts and now the California Air Resources Board.

TFAR and Parking would not be sold on an open market, but within the municipality.

#### QUESTION 12

Do you agree or disagree with the GASB's preliminary view that fair value should not be adjusted for transaction costs?

Why do you agree or disagree?

#### COMMENTS

Disagree.

Stock transactions costs have been netted. Unless the change is across the securities market, we do not see the applicability and consistency.

#### QUESTION 13

Which of the proposed fair value disclosures (items (1) through (4) above) will be valuable to the decisions you make or the assessments you perform?

How would you use the information from those disclosures you consider valuable?

#### COMMENTS

You state:

*Summary of Proposals*

*Governments would disclose:*

- 1. Amounts of assets and liabilities measured at fair value by type or class and by input **Levels 1, 2, or 3***
- 2. Techniques and inputs used to measure fair value and changes in techniques and inputs that have a significant impact on measurement*
- 3. Additional information about the use of **Level 3** inputs, including the degree to which fair value measurements are sensitive to changes in **Level 3** inputs*
- 4. Additional information about certain alternative investments, including limitations on redeeming or selling the investments.*

The Level criteria are important, but there is too much wiggle room to use Level 3 only. As you state,

***Level 3** inputs are assumptions a government develops based on the best information available to it.*

This is a single statement solution with a Financial Note only one sentence long.

Bad investments may be vetted through No. 4. How are write-offs handled?

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