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**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCO)  
EXECUTIVE OFFICER'S REPORT**

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CONSENT AGENDA ITEM NO. 5-B

**DATE:** March 9, 2022  
**TO:** Fresno Local Agency Formation Commission  
**FROM:** David E. Fey, Executive Officer   
**SUBJECT:** Response to Commission Question about "Custodial Credit Risk"  
**RECOMMENDATION:** Receive and File

**Summary**

At the Commission's February meeting, Commissioner Magsig raised the matter of the Commission's operational account were in excess of Federal Deposit Insurance Corporation ("FDIC") limits.

Staff has investigated this question and finds that this matter was raised in the Commission's last financial audit (for the fiscal year ending June 30, 2018). The conclusion of that financial audit under "Custodial Credit Risk," was that the auditor did not believe the Commission was exposed to any significant risk related to cash for those times when the FDIC limits were exceeded. The audit explained,

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: *The California Government Code requires that financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).* The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California laws also allows financial institutions to secure district deposits by pledging the first trust deed mortgage notes having a value of 150% of the secured public deposits. (italics added)

Staff contacted the Central Valley Community Bank to inquire about the securities pledged in an undivided collateral pool held by that institution that secure LAFCO's deposits. Bank representatives provided the following data:

Central Valley Community Bank Local Agencies Holdings Analysis  
December 31, 2021

	Market Value	% of Portfolio
U. S. Government agencies collateralized by mortgage obligations	\$ 69,409,999.01	30.87%
Obligations of states and political subdivisions	\$ 155,425,000.00	69.13%
Total pledged for local agencies	<u>\$ 224,834,999.01</u>	
Total Secured Active and Inactive Deposits	<u>\$ 135,508,572.16</u>	

CVCB representatives stated that the \$224.8M represents the amount held by the bank to secure the \$135.5M in deposits of state or local governments.

**Individuals and Agencies Receiving this Report**

- Ken Price, LAFCo Counsel

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