A Public Bank for Philadelphia: a summary of evidence, key issues, and recommended actions

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Executive Summary

Is there a need for a public bank in Philadelphia?

Yes; the City would benefit from the low-cost loans that a bank could provide, as well as emergency funding to mitigate crises. This is particularly true now, when the City's bond ratings are deteriorating. The bank also has the potential to provide products targeted at unbanked and under-banked groups, of which Philadelphia has one of the largest populations in the nation.

Is Philadelphia legally permitted to establish a public bank?

Precedent and devolved powers are on the City's side. Pennsylvania has established public banks in the past, and both the City and the Commonwealth have engaged in banking activities throughout their history. Philadelphia's extensive powers under the Home Rule Charter mean that it has a good case to formalize these banking activities under the guise of a public bank, so long as it is clearly and unequivocally for public benefit and not private profit.

What should the mission of a public bank be?

A municipal bank in Philadelphia can best serve the citizens of Philadelphia by promoting economic growth for all. This includes saving the City money, and creating wealth for the population. A possible mission statement could be: 'to promote economic growth for all citizens of Philadelphia by reducing the cost of raising debt, achieving secure management of the City's finances, and widening access to credit for citizens.'

What functions could a public bank perform?

A bank can serve the City, and provide direct services to citizens. Most public bank templates focus on the former, and we suggest that a municipal bank in Philadelphia should do the same, at least initially. The City has a need for low-cost loans for infrastructure projects, and it does not have the funds to take large risks. In time, the bank could move into providing a limited number of consumer products targeted at unbanked and underbanked groups. The banks functions could eventually include:

1. **The provision of loans to government**: either through participating in bond issuances and buying down the interest rate, or through direct loans to government to finance specific projects.
2. **Management of government funds**: managing at least a portion of the City's payroll deposits and reserve funds, and investing funds for a return. A public bank could make investments that benefit the City, and the distinct operations of a bank make accountability clearer than retaining these responsibilities solely with the City Treasurer. This may lead to higher returns.

3. **The provision of financial products to individual consumers**: this could be indirectly, by underwriting loans made by community banks and thereby widening access to credit, or directly, through the provision of loans, check cashing services and low-cost bank accounts.

What governance model could a public bank adopt?

A public bank can either be governed with tight political control, governed in such a way that political influence is minimized, or somewhere between the two.

In the first model, the Mayor, or a directly appointed representative of the Mayor, makes the majority of Board appointees, chairs the Board, and has the deciding vote on split decisions. This is similar to the governance structure of the Bank of North Dakota, where the Governor makes the majority of appointments. Terms for Board members align with the political cycle, enabling the Mayor to change the bank's leadership upon election.

In the second model, the majority of Board members would be politically independent, and would require the approval of Council. The Mayor or their representative would sit on the Board but not be chair of it. Terms for Board members would run at an offset to the political cycle, meaning that bank leadership straddles the terms of City administrations.

A model in between these poles would likely involve Council as a whole, or another elected official such as the Controller, making appointments to the Bank, rather than the Mayor.

In all models, there should be at least one independent, unelected, finance expert on the Board, such as an economics professor, and a separate advisory group of finance experts that advises the Boards on key decisions. The second model may be more appropriate for Philadelphia, due to the City's past experiences with financial mismanagement.

What benefits could a public bank provide?

Between 2016 and 2017, the City committed to paying an average yield of approximately 2.46% to
2.76% on 10-year bond issues, and approximately 3.44% on 20-year bond issues. A recent downgrade from the major rating agencies following the School District restructuring will certainly
raise the yields the City is expected to pay. A public bank could accept below market yields as an investor in City bonds - enough to make the bank profitable while significantly reducing debt service costs.

A bank could also potentially provide benefits by managing the City's payroll and reserves. There are currently 22 separate City funds, all with their own investment restrictions. The City is achieving a low return with an average investment duration of less than 4 months, and average yield of less than 1%. Pooling of these funds could release more cash for longer-term, higher-yield investments.

Along with quantifiable benefits for the City's fiscal management, there are potential community benefits, such as providing financial services to underserved communities. A public bank may eventually be able to offer free or reduced cost services to low-income households, such as bank accounts with no minimum deposit, which would open up financial services to new groups.

Start-up strategy

The bank should start slowly and gradually build up its portfolio, as proof-of-concept is required. It should initially take on the responsibility for managing a small proportion of City deposits, and make a few safe investments – such as below-market-rate loans to the City to fund specific projects.

As the bank builds up credibility and makes a profit, it can take on management of more of the City's deposits, and move into riskier investments, such as consumer lending.

Next steps

First, legal opinion on whether it is legal for the City to establish and operate a public bank should be sought from the City's Solicitor.

If their opinion is favorable, the City should appropriate funds and issue a request for proposal for a feasibility study to look in depth at the issues. The scope of the feasibility study should be an analysis of the legal issues, costs and benefits, administrative challenges, and community benefits of a public bank.

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Introduction to public banking

What is the role and purpose of a public bank?

A public bank is a bank that is owned by a municipality, local or state government, which operates with the express purpose of financing projects that are in the public interest, and returning profits to the public purse.

What is the precedent for a public bank in the USA?

There is only one public bank in existence in the USA today: The Bank of North Dakota. The Bank was established in 1919 and has operated successfully for nearly 100 years. The bank's main projects are co-funding loans made by community banks, participating in the secondary mortgage market, and offering student loans. North Dakota has historically retained a larger community banking sector than other states, and has fared better in times of recession. These may be direct effects of the support offered by a public bank, although cause and effect are hard to conclusively prove.

Are other municipalities interested in exploring public banks?

Since the Great Recession of 2008, a number of municipalities have looked into establishing public banks, such as Oakland, Seattle, Santa Fe, and San Francisco. At a state level, New Jersey, Vermont and Oregon have shown an interest. All have held hearings or passed resolutions to further explore a public bank. Seattle has recently appropriated funds for a feasibility study; meanwhile the City of Santa Fe and the State of Vermont have gone the furthest, completing feasibility studies for a public bank. However, no municipality or state (other than North Dakota) has gone as far as to commit to establishing a bank.

Which products should a public bank provide?

A public bank can perform three broad functions:

1. **The provision of loans to government**: either through participating in bond issuances and buying down the interest rate, or through direct loans to government to finance specific projects.
2. **Management of government funds**: managing at least a portion of the City's payroll deposits and reserve funds, and investing funds for a return. A public bank could make investments that benefit the City, and the distinct operations of a bank make accountability clearer than retaining these responsibilities solely with the City Treasurer. This may lead to higher returns. A public bank may also serve as a repository for the reserves of smaller municipalities in the surrounding area, which face a high cost to bank with commercial banks.
3. **The provision of financial products to individual consumers**: this could be indirectly, by underwriting loans made by community banks and thereby widening access to credit, or directly, through the provision of loans, check cashing services and low cost bank accounts to consumers.

Of these, function number 1 is the one most often championed by proponents of public banks, but functions 2 and 3 could also be core roles of a bank.

The Bank of North Dakota (BND), the nation's only public bank, operates mainly in function number 3. Its main product line (almost half of its $3,9 billion loan portfolio) is in participation loans; loans originated by community banks and then part-funded by the BND to expand the lending capacity and reduce the interest rate of the local finance system. Many of these loans are made to farmers. The BND also participates in the secondary mortgage market, and offers student loans – its only direct consumer lending. The bank primarily supports the state government by returning, on average, around 40% of its profits to the state each year. It also provides urgent funding for the state and municipalities on a case-by-case basis, aided by the fact that it can borrow in the federal funds discount window.

A municipal public bank for Philadelphia would not need to follow this template. Indeed, the BND was largely established to help provide credit to the farming sector in the state, and its mission and portfolio reflects this. There is certainly scope for a public bank in Philadelphia to have greater emphasis on providing low-cost loans to the City, and on consumer products for underserved groups – both of which are areas of need in Philadelphia.

Legal precedent, and barriers to a public bank in the Philadelphia Code

Precedent

Both the Commonwealth and the City of Philadelphia have engaged in banking activities through various city agencies. This suggests that similar functions could be performed under the guise of a bank.

The Commonwealth: Pennsylvania Infrastructure Bank (PIB), a state revolving fund, provides loans administered by the Pennsylvania Department of Transportation for eligible transportation improvement projects throughout the Commonwealth:

- PIB provides direct, low-interest loans that are repaid over time
- Repayments are recycled into new project loans
- PIB was capitalized with Federal and state funds in 1998, in accordance with 1997 enabling legislation and a Cooperative Agreement between PennDOT and the US Department of Transportation
- PIB includes four separate accounts: highway/bridge, transit, aviation, and rail freight.

PIB does not accept deposits, however revolving funds function like banks by acting as a lender or guarantor to the project sponsor. The objective is to provide financing to sectors and borrowers that historically do not receive private investment.

City of Philadelphia: The City has operated a number of revolving loan funds including the Philadelphia Authority for Industrial Development (PAID) Brownfields Remediation Revolving Loan Fund ($1m), PAID Economic Development Revolving Loan Fund ($2.35m) that responded to the shuttering of three Navy facilities in Philadelphia, and the Greenworks Revolving Loan Fund.

State and City banks in the past: In 1793, the Commonwealth established a state bank of Pennsylvania, and in 1803, the Legislature established a Bank of Philadelphia. Both of these banks were part-owned by the State, and in the case of the state bank, it was majority-owned. Furthermore, both banks were mandated to provide a minimum sum of credit to the

Commonwealth upon request. Whilst these banks no longer exist, the precedent of government-controlled banks in the Commonwealth is established.

Does Philadelphia have the power to act under its home rule authority or other statutory authority to establish a municipal bank?

A legal review conducted by Steve Masters, formerly senior staff attorney for Philadelphia City Council, concluded that the City is authorized to establish a municipal bank under its Home Rule powers.[1] Under the concept of Home Rule, Philadelphia may legislate concerning municipal governance without express statutory warrant for each new ordinance. Its ability to exercise municipal functions is limited only by its home rule charter, the Pennsylvania Constitution, and the General Assembly:

'The right to Home Rule is granted through legislation such as the First Class Cities Home Rule Act, which identifies those powers that fall within the category of Home Rule powers and those that do not. Section 17 of the Home Rule Act grants Philadelphia complete powers of legislation and administration in relation to its municipal functions. Nevertheless, the grant of powers is made subject to limitations, restrictions, and regulations enumerated in Section 18 of the Home Rule Act: "…no city shall engage in any proprietary or private business except as authorized by the General Assembly."'[2]

The underlying question when discussing Philadelphia's authority to establish a municipal bank is therefore whether the operation of a bank is a permitted municipal function or a prohibited proprietary or private business.

The precedent discussed earlier, with regards to state-controlled banks, serves as evidence that the creation and maintenance of banking institutions has historically been a government function. Meanwhile, in the intervening years since their closure, the City has continued to manage its financial affairs as a core government responsibility, and has performed banking functions, such as operating revolving loan funds. The establishment of a City-owned bank should therefore be viewed as a continuance of established precedent.

The City would only be deemed to be conducting 'unauthorized proprietary or private business' if it established a bank as a private enterprise for private purposes. With respect to of the operation of revolving loan funds, Masters states:

"So long as the city's financial lending activities are designed to achieve a public purpose, which is the case for each of the revolving loan funds, the authority to operate these loan funds flows from the city's home rule powers, even though the loan funds have distinct proprietary characteristics."[3]

The same interpretation ought to be applicable to a municipal bank, if its mission is enshrined as being for public benefit.

[1] Philadelphia's Authority to Establish a Municipal Bank. Steve Masters, JustLaws. January 2017.
[2] Ibid.
[3] Ibid.

Designating Deposit Institutions

Section 6-300 of the Philadelphia Home Rule Charter places the responsibility for safeguarding and managing Philadelphia's funds with the City Treasurer:

"The City Treasurer shall receive from the Department of Collections daily all moneys received by that Department from any source and shall make daily deposits of such moneys in such banks or institutions as may be designated by the council."[4]

An important takeaway here is that numerous City Solicitors have expressed opinions that Council has the unfettered power to establish a list of approved depositories, and to designate which depositories can be used for certain purposes. This should be able to include approving a public bank as a depository.

Legal counsel is essential prior to taking steps to establish a public bank. Despite the optimistic interpretation of Philadelphia's right to establish a bank set out above, opinion from Philadelphia's City Solicitor should be sought prior to appropriating funds for a public bank. Whilst their counsel would not serve as precedent in a court, it would help to provide some degree of certainty that a public bank for Philadelphia is legal.

Barriers to establishing a bank in the Philadelphia Code

Requirements of City Depositories

A key function of a public bank would likely be to act as a depository for City funds. The Philadelphia Code sets out stipulations that depositaries must meet in order to qualify to be depositaries for city funds. Depositories must:

a. *be insured by a Federal Corporation;*
b. *make available to the City quarterly statements of condition and earnings;*
c. *provide the City with independently audited Annual Statements;*
d. *provide the City with an affidavit certifying that neither it, nor any of its affiliates, is, and none will become a high cost lender or a predatory lender;*
e. *provide the City with predatory lending information;*
f. *provide the City with an annual statement of community reinvestment goals.*[5]

Conditions b through f should pose no problem to a public bank, however condition 'a' is less clear. Presently, the City deposits funds with large commercial banks such as Wells Fargo, Bank of America, and PNC. These banks have federal insurance for individuals' deposits up to the value of $250,000.[6] However federal insurance does not cover larger deposits or other financial products. City deposits in a public bank would certainly be much greater than $250,000, and so federal insurance may not be appropriate or necessary for a public bank. Indeed, this is the case with the Bank of North Dakota, which does not have FDIC insurance because it is a retail bank, and is instead backed by the full faith and credit of the state. Nonetheless, a change to the Code would be required for this stipulation not to prevent a public bank from acting as a depository.

[4] Ibid.
[5] Chapter 19, section 201 of the Philadelphia Code.
[6] Federal Deposit Insurance Corporation.

Depositories must also be of a certain size and status in order to be approved as official depositories by the City:

"No application for depository status, except from the institutions listed in subsections 19-201(1)(j)- (aa), shall be considered unless the applicant has been established for a minimum of five (5) years, has been profitable for the last two (2) years, and has a minimum of one hundred million ($100,000,000) dollars in assets."

Depositories must also hold at least the value of the City's deposits as security unless they are insured by the Federal Savings and Loans Insurance Corporation:

"Depositaries must maintain the value of the City's deposits as security, with another bank or with the Philadelphia Federal Reserve Bank, in the form of US government bonds or notes, or state or municipal bonds rates A or better by Moody's. However, to the extent that city deposits held by a depositary are insured by the Federal Savings and Loan Insurance Corporation, security is not required." [7]

In response to an information request, The City Treasurer has separately confirmed that all City deposits are currently collateralized at 102%, with collateral held at the Federal Reserve and the Bank of New York Mellon.

Clearly, a brand new public bank would not have been established for five years, would have no record of profit, and it is unlikely to be initially capitalized with as much as $100m in assets. Exemptions from these conditions would be required for a public bank to become an eligible depository.

Furthermore, it is not probable that a public bank could collateralize the City's deposits at 100%, since the bank's initial funds are likely to be provided by the City itself. It is not possible for the City to collateralize its own funds. Persuading Council to exempt the public bank from this condition may be a more difficult argument to make due to the lack of insurance of City deposits that it would entail, but if the bank were mandated to make low-risk investments with its funds, Council may be convinced. In time, as the bank accrues profit and reserves, the bank may be able to collateralize the City's deposits.

Note that in an interview for this research, the Deputy City Treasurer claimed that it is State law that the City's deposits must be collateralized at 100% or more, however a review of Title 11, the State's Code on Cities, makes no mention of such a provision. This dictates only that;

"the city treasurer shall keep public funds in banks or financial depositories as directed by council, and under the restrictions and safeguards as provided by council."

It is true that the Commonwealth's own deposits must be collateralized at 100%, as stated in Section 301 of the Pennsylvania Fiscal Code, but the state appears to delegate the power over this policy to its cities. It therefore seems that the City should have the power to change its policy towards collateral for deposits, but this would need to be confirmed in further legal review.

[7] Chapter 19, section 201 of the Philadelphia Code

Investments that the City may make with its funds

The City is permitted to invest money that is *"not required for immediate use"*, and, amongst other options, it may invest it in *"obligations of the Commonwealth or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two (2) years or less"*.[8]

In theory then, the City would be permitted to invest its reserves in a public bank, and the public bank could then use these funds to purchase City debt for a return. This would be one of the key functions of a public bank.

The Code does not specify what conditions or characteristics denote money that is *"not required for immediate use".*

What should the mission of a public bank be?

As a public bank, the mission of a municipal bank should be to serve the public. Therefore, its mission statement should be centered on addressing the needs of Philadelphia citizens, rather than on maximizing profit.

By way of an example, the mission statement of the USA's only public bank, The Bank of North Dakota, is *"to deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota."*

A municipal bank in Philadelphia can best serve the citizens of Philadelphia by promoting economic growth for all. This can be achieved by supporting investment in public services and infrastructure, promoting sound management of public finances, and widening access to credit. We therefore propose that the bank's mission should consist of these elements. For example, a mission statement could read as:

'to promote economic growth for all citizens of Philadelphia by reducing the cost of raising debt, achieving secure management of the City's finances, and widening access to credit for citizens.'

Is a public bank needed in Philadelphia?

Analysis of Philadelphia's Comprehensive Annual Financial Report

Analysis of the most recent Philadelphia Comprehensive Annual Financial Report (CAFR) from 2016 shows that there are a range of needs that a public bank could help to meet.

A public bank can fulfil a range of functions, including:

- Managing the City's working capital and payroll;
- Investing the City's reserves for a return;
- Investing in infrastructure projects;
- Participating in bond issuances that the City makes (and buying down the interest rate charged);

[8] Chapter 19, section 202 of the Philadelphia Code

- Buying down the cost of loans made by community banks to under-served communities; and
- Loaning funds to the City for other projects as required.

Philadelphia's CAFR suggests that the City has needs across many of these areas.

Infrastructure projects

As of June 2016, Philadelphia had 48 major projects under construction concurrently, representing almost $7.3 billion in combined public and private investment. Yet there are many more infrastructure needs.

For example, The American Road and Transportation Builders Association's 2017 Bridge Report showed that 20% of Pennsylvania's bridges are structurally deficient — the second highest amount in the U.S. The top 15 most traveled structurally deficient bridges in the state are in Philadelphia. Meanwhile, the Delaware Valley Regional Planning Commission estimates a $77bn infrastructure need for bridges and roads in the Philadelphia area alone by 2040.

A public bank could provide funding to meet some of the City's infrastructure needs by providing low-cost loans to the City, or participating in bond issuances for infrastructure.

The Pennsylvania Department of Community & Economic Development provides a template for such a model. It makes loans for the development of industrial parks and multi-tenant facilities to businesses that promise to retain jobs in the Commonwealth. Loans are typically made with an interest rate 1% to 2% below the industry standard, promoting local job creation and retention, and enabling businesses to take on debt that they may not otherwise be able to afford. A Philadelphia public bank would follow a similar model of making subsidized loans to invest in the City's own debt.

Bond purchases

Over the last decade, the changes in the City's bond ratings have demonstrated a gradual improvement. December 2013 was the first time that the City has been rated in the 'A' category by all three rating agencies.

However, the City's ratings have taken a downward turn more recently. In 2016 the outlook for the City's general obligation credit was changed from stable to negative by both Moody's Investor Service and Standard & Poor's. This outlook was re-affirmed by Moody's in December 2017. This is as a result of rising pensions obligations and very low reserves.

Since the initial change in Philadelphia's outlook, the City has re-taken control of its schools from the Pennsylvania-controlled School Reform Commission, and in doing so it has become responsible for meeting the $1bn projected budget deficit that the School District is facing over the upcoming five years. In contrast to the City's 'A' ratings from ratings agencies, the School District's credit rating is lower, at 'Ba2'. With the new obligation of the School District's debt and deficit on its books, the City's own debt service costs are liable to rise. A public bank is perfectly placed to help negate this risk.

Dwindling general fund reserves and a pensions deficit

In fiscal year 2016, the general fund ended with a fund balance of $148.3 million, a $3.2 million decrease from fiscal year 2015. The general fund was projected to end fiscal year 2017 with a fund balance of $106.1 million, which represents only 2.5% of the City's projected obligations. This is less than half of the low end of the City's target of 6% to 8%.

The general fund balance is projected to fall further in 2018, to a low of $47.06 million, and is not projected to rise above $100 million again until 2021.

In both 2015 and 2016, in the unrestricted portion of Philadelphia's general fund, the sum of unassigned funds – money left in the general fund that was not assigned to current or future projects – was zero. The City is very low on reserves, and has little room to deal with an economic downturn.

A public bank could help to negate low general fund reserves. In North Dakota, the state's public bank revenues are appropriated for use in plugging gaps in the state budget in years where revenues fail to meet projections, or expenditures exceed them. In this way, the bank acts as a stabilizing force for the state, and is perhaps one of the reasons why North Dakota was not hit as hard by the Great Recession as most other US states (North Dakota's economy grew by 7.3% in 2008 – twice as fast as any other state[9]). In contrast, Philadelphia does not have such a fund. A public bank could help the City through fallow years.

The City's financial situation is further weakened by under-funded pensions. Pensions remain less than 50% funded, in spite of the City contributing more than what is legally required to the fund in recent years, including dedicating sales tax revenue in addition to the minimum municipal obligation, as well as requiring new employees to contribute more to their pensions. Meanwhile, the Pension Board's assumed rate of return remains optimistically high, at 7.75%, albeit lower than a previous rate of 8.75%.

A combination of a hole in pensions funding, a lack of reserves, and the addition of the School District's budget deficit, mean that the City's finances are not well-placed to deal with an economic crisis, and are likely to become even more constrained in future years. In this context, a public bank may become an even more valuable tool to the City to meet a range of financial needs.

The City has capacity to raise more debt

At year end the City had $7.8 billion in long term debt outstanding. Of this amount, $5.2 billion represents bonds outstanding (comprised of $2.1 billion of debt backed by the full faith and credit of the City, and $3.1 billion of debt secured solely by specific revenue sources), while $2.5 billion represents other long term obligations.

Whilst the City's debt obligations are larger than its annual revenues, it does have capacity to borrow substantially more. The city is subject to a statutory limitation established by the Commonwealth as to the amount of tax supported general obligation debt it may issue. The limitation is equal to 13.5% of the average assessed valuations of properties over the past ten years. As of June 30, 2016 the legal debt limit was $5,454 billion, and at this time there

[9] 'What's North Dakota's Secret? Forbes, June 30, 2009.

was $1,841 billion of outstanding tax-supported debt leaving a legal debt margin of $3,613 billion.

With significant headroom available before the City's debt ceiling is reached, there is substantial scope for the City to borrow from a public bank at very low cost to finance investment.

Returns from current investments

Although the General Fund balance is very small, the City had a total of $657.3 million in fund balances across all City entities as of June 30th, 2016.[10] This included the following:

Fund	Balance
General Fund	$54.454m
Health Fund	$220.062m
Grants Fund	$40.831m
Other Gov. Funds	$341.970m
Total Gov. Funds	**$657.317m**

However, $610.9m – almost all non-General Fund balances – consisted of restricted funds.

Investment duration and quality[11]

Duration of investment (average maturity): 3.72 months
Average Credit Quality: AA
Purchased Yield (%): 0.88

Investment allocation[12]

Commercial Paper: 57.5%
US Treasury: 23.8%
US Agency: 13.9%
Corporate: 4.8%
Cash: 0.07%

Accountability for investment returns; could a public bank help?

Strikingly, the average length of investments made by the Treasurer is very small – less than a third of a year. The majority of assets are invested in commercial paper – short-term securities issued mainly by corporations to cover working capital needs, which typically have a maturity of no longer than 9 months. Concomitantly, the yield is very low – less than 1%. Whilst the average credit rating on these securities is relatively good (AA), commercial paper

[10] Data sourced from the City Treasurer. Data correct as of June 2016.
[11] Ibid.
[12] Ibid.

is riskier than longer-term, government investments such as US Treasury bonds, in the event of a recession.

At an average duration of investment of 3.72 months, the treasurer can make an average of 3.22 investments per year with each tranche of City funds, with a yield of 0.88% each time. This sums to an annual yield of 2.84%. That is below the yield provided by 20-year and 30-year US Treasury bonds (2.97% and 3.09% as of March 2018). US Treasury bonds are amongst the safest investments possible, and so provide some of the lowest yields. This suggests that Philadelphia's investment portfolio is not providing the level of returns that it could if funds were to be invested over a longer time period. Higher returns ought to be available from other, safe securities, such as investing in municipal debt, or long-term Treasury bonds. The Deputy Treasurer reiterated a similar view during an interview as part of this research.

Is there scope to centralize these funds into a single investment fund, and make longer-term investments with a higher yield? The City has a total of 22 different governmental funds. Each has its own restrictions due to the obligations on the funds, and the time at which they must be paid out. Could centralized management and pooling of these funds release more cash for long-term investment?

The Deputy Treasurer indicated that he planned to pursue such a consolidation exercise in the coming years; pooling the City's disparate funds to release more cash for longer-term, higher-yield investments. However, Philadelphia's conservative investment strategy has been in place for some time, a point made by the Deputy Treasurer himself, and there is no guarantee that this will change. It is possible that more effective accountability for achieving greater returns from the city's funds could be achieved if their management was undertaken by an independent public bank, rather than through an internal City department (the Treasury), as they are presently.

Benefits of a public bank

The benefits of a municipal bank would accrue to the City and its citizens. Specific benefits may be derived by underserved communities if the bank's services were targeted at these groups. Benefits would vary depending upon the activities it was to undertake, but those listed below are all achievable given a broad enough set of aims.

Benefits for the City

- **Reduced cost of issuing debt**. By participating in the City's bond issuances, a public bank can buy down the interest rate on bonds, reducing the cost of debt. Alternatively, a bank could make direct, discrete, loans to the City for specific projects at below market rates. Practically, this means that the City will have more money to spend on services and infrastructure and less on debt service payments.
- **Reduced cost of managing payroll deposits**. Presently, the City pays banks to hold its deposits, because they must be collateralized at 102%. The fees paid to banks for this service exceeds the interest earned.[13] Rather than expending bank fees for holding deposits, deposits could be held with less collateral by the public bank at a reduced cost, and a portion could potentially even be used to make short-term investments.

[13] Data sourced from the City Treasurer. Data correct as of June 2016.

- **Potential for greater accountability of investment performance**. Presently, the City achieves relatively low returns on investment of its reserve funds - less than 3% per annum. This is largely due to a very short average term of investment made by the City treasurer - less than 4 months. It may be possible for a public bank to take on the functions of investing City reserve funds, and achieve better performance through the accountability provided by having a separate entity responsible for investing funds. A public bank may also be granted the power to pool the City's 22 disparate reserve funds, and manage these funds centrally, potentially freeing up more funds for longer-term investments.
- **Potential for greater business growth**. A public bank could underwrite loans made by community banks. This could open up lower cost lending to a wider group of people, including loans for small businesses and underbanked communities, and could ultimately lead to business growth in the city.
- **Establishing Philadelphia's position as a city on the forefront of innovative public policy**. Many major US cities have considered, or are considering, establishing public banks, but the lack of a precedent is impeding the development of the sector. Philadelphia has an opportunity to be a trailblazer and provide a template for the rest of the nation's municipalities.

Benefits for citizens

- **Increased services and improved infrastructure**. By saving the City money on debt service costs, a public bank would free up resources to spend on services and infrastructure that benefits its citizens.
- **Increased employment**. By providing more resources to spend on services, and potentially promoting small business growth through underwriting of loans made by community banks, a public bank could spur economic growth, and thus job creation.
- **Increased access to products such as mortgages within the city, blight reduction loans, and student loans to universities within the city.** Similar to the Bank of North Dakota's efforts to support its rural areas and young residents, a Philadelphia Public Bank could support its areas of high urban poverty. North Dakota offers products such as the Rural Mortgage Program and student loans. With flexible requirements for mortgages up to $400,000, and reasonable rates on student loans, the state bank promotes economic mobility. The current Housing Preservation Loan Program in Philadelphia shows an appetite for these products, and the public bank could further provide these. Again, these could be achieved by underwriting loans made by community banks, or potentially by offering products directly to consumers.

Benefits for underserved communities

- **Targeted service provision**. There is potential for a public bank's charter to include a provision that a proportion of its profits must be spent on the most under-served populations in the city. This could include, for instance, increased spending on schools serving majority minority groups.
- **Increased availability of loans**. If the bank's mission included underwriting loans made by banks to underbanked communities, it would increase the availability of capital for these groups.

Case study: serving the underbanked

Philadelphia is the 9th most unbanked large city in the US with 14.3% of people unbanked and 23.5% underbanked. Unbanked households do not have an account at an insured institution, while the underbanked households have an account but have used alternative financial services within the past 12 months. Cashing a check can cost an average individual with a full time job up to $40,000 over the course of their lifetime (e.g. Walmart charges $3 to cash a check up to $1000 and $6 for checks greater than $1000). Payday loans charge APRs of 500 percent.[14] Meanwhile bank overdraft fees equate to a typical APR of 5000% over 7 days.[15] Bank minimum deposits to open and maintain an account free of fees are often barriers for low income households. 55.8% of unbanked households thought that banks were not at all interested in serving households like theirs.[16]

A public bank may be able to address some of these issues by offering free or reduced cost services to low-income households. These could include:

- opening bank accounts with a nominal minimal deposit amount
- providing access to small amounts of short-term, low-cost credit in lieu of payday loans
- enabling customers to cash checks with a very small fee.

These products would be of higher risk to a public bank than safer investments, such as making loans to the City. However, they could be initially trialed for a limited number of customers to determine profitability, and losses from offering these products on a wider basis could be funded from the bank’s profits on providing loans to the City, as part of its charter of serving all of Philadelphia’s residents.

Quantified benefits

The activities that a bank undertakes will to some extent dictate the benefits that it can achieve. For instance, if the bank is focused on providing loans to the City, benefits will be in the form of reduced debt service. If the bank is focused on providing consumer services, either directly or through underwriting of loans, benefits will be more likely to be in the form of economic growth as its products widen access to credit for underbanked communities.

It is most likely that the bank’s initial products would be centered around providing loans to the City. These are more secure investments than providing individual loans, and the profits are far easier to determine in advance. This would enable the bank to build up reserves before moving into riskier product lines.

Benefits to the City: savings on debt service

The City authorized ten separate bond issuances between August 18th 2016, and August 17th 2017. The total value of the funds raised was $1.963bn, of which $938m was new debt.

The average coupon rate and average yield offered on these bonds differed depending on the perceived quality of the security offered on the bond, and whether or not they were for refunding or for new money. All bonds offered a range of investments within the issuance,

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[14] Financial Exclusion: Why it is More Expensive to Be Poor. Penn Wharton Public Policy Initiative, June 2, 2017.
[15] The High Cost, For the Poor, of Using a Bank. The New Yorker, October 9, 2013.
[16] The Real Reason the Poor Go Without Bank Accounts. CityLab, September 11th 2013.

ranging from 1 year to 20 years. A summary of typical coupon rates and yields is provided below:

	Average coupon rate for bonds with minimum of 5 year term	Average yield at 10 years	Average yield at 20 years
New money	5%	2.46%	3.44%
Refunding	5%	2.76%	3.44%

Coupon rates and yields will rise if, as expected, the Federal Reserve approves further increases to the federal funds rate in the coming year. At least two increases are expected, in addition to one recently announced, meaning that coupons and yields are likely to be at least 0.75% higher for bond issuances in upcoming years than reported in the table above. The City's debt service cost is also liable to rise due to a deteriorating outlook from ratings agencies.

What is the cost to the city of raising debt at these rates? Most of the City's bonds have a term of 20 years. Assuming the average investment is ten years, and assuming that the average yield offered on all of the debt raised by the City in new money in the year from August 2016 was 2.46% (the average yield for a ten-year investment) and that interest is payable twice yearly, then the total debt service cost to the city would be:

$937,566,000 x 0.0246/2 x 20 = $230,641,236.

Assuming a similar amount of debt is raised next year – 2019 – and that the federal funds rate has increased by 0.75%, raising the yield to 3.21%, then the cost of the same debt would be:

$937,566,000 x 0.0321/2 x 20 = $300,958,686

A public bank could accept a lower yield than the market rate for bonds. Rather than paying a yield of 3.21%, to investors, the City could pay a yield of 2% to a public bank on a loan – enough to make the bank profitable, whilst significantly reducing debt service costs. As a reference point, The Pennsylvania Infrastructure Bank, referenced earlier, currently charges an interest rate of 2.375%.

If just $50m of the $938m of debt was offered at a yield of 2% instead of 3.21%, debt service costs on this money would reduce from $16m over ten years to $10m – a reduction of $6m.

Even greater savings would be possible if the public bank had sufficient funds to invest in more of the City's debt. Clearly then, there is significant potential for a public bank to save the City money by lowering debt service costs.

Benefits to citizens: increased business lending

Access to capital is vitally important for the health of a business community, and a public bank could help with this by underwriting loans made by community banks as a means of expanding small business lending. While Philadelphia-specific analysis is needed, the economic impact of new lending in Vermont, Santa Fe, and New Jersey has been projected by separate studies:

Every $1 million of new credit or lending would yield[17]*:*

Vermont
- *10.73 new jobs*
- *$812, 870 in Gross State Product*
- *$1,448,000 in new state output*

Santa Fe
- *8.22 new jobs*
- *$799,600 in Gross State Product*
- *$1,600,000 in new state output*

New Jersey
- *6 to 9+ new jobs*
- *$893,000 to $1.2 million in Gross State Product*
- *$1.6 million to $2.1 million in new state output*

Gross State Product is the market value produced by the labor and property of all industries located in a state, minus intermediate goods. State output is equal to gross receipts, or the total value of goods and services produced by an industry.

These are projections produced using the federal government's Regional Input-Output Modeling System (RIMS II). While Vermont ($31.09 billion GSP) and Santa Fe differ significantly in scale from Philadelphia ($388 billion gross product), New Jersey is geographically closer, overlaps industries, and has a GSP of $573.3 billion.

Case study of success: The Bank of North Dakota

The Bank of North Dakota (BND) has been in operation since 1919. Throughout its history it has achieved some impressive results and appears to have helped the state to avoid some of the worst effects of economic downturns. Some highlights include:

- Between 1995 and 2014, the Bank returned $385m to the North Dakota general fund through profits earned on its activities. This equates to $3,300 per household in North Dakota. Each year, the Bank returns approximately 40% of its profits to the general fund, although this varies from year-to-year.
- The Bank has been profitable in every year from 1995 to 2014, and its profits actually rose during the Great Recession from 2008-2010. Its profits from 1995 to 2014 were $957m.
- Since 2008, the Bank's annual return on investment has been between 17% and 26%.
- At the end of 2014, the Bank had $652m in capital and $7.2 billion in assets.
- The BND helps to capitalize community banks, and this may be a reason why the lending per capita by small community banks in North Dakota averaged $12,000 between 2005 and 2014, compared to just $3000 in the rest of the nation.

[17] Exploring a Public Bank for New Jersey: Economic Impact and Implementation Issues. Stockton University, William J. Hughes Center for Public Policy. April 2018.

Meanwhile, small business lending by community banks was more than four times the US average.
- North Dakota's community banks have generally maintained a higher loan-to-asset ratio than their counterparts in the neighboring states of South Dakota, Montana and Wyoming, and above the US average.
- North Dakota also has more local banks per capita than any other US state[18].

Although the agricultural economy of North Dakota means that BND's portfolio is different to what the portfolio of a Philadelphia public bank would be, the BND nonetheless proves that a publicly-owned bank can be successful, and an asset to its government.

Governance

A public bank can either be governed with tight political control, governed in such a way that political influence is minimized, or somewhere between these two poles.

The Bank of North Dakota is managed under the first of these models. It is controlled by what is referred to as the Industrial Commission, which is made up of the Governor, Agriculture Commissioner, and Attorney General.

The Governor also appoints an Advisory Board of directors to the Bank consisting of seven persons. Of the seven, at least two must be officers of banks whose majority of stock is owned by North Dakota residents, and at least one must be an officer of a state-chartered or federally chartered financial institution. The Governor also appoints a chairman, vice chairman, and secretary from the advisory board of directors. The term of a director is four years.

The Industrial Commission defines the duties of the advisory board of directors, meaning that the Governor of the State has significant control over the priorities of the bank. The bank also has an Executive Committee made up of seven persons, and led by the Bank's CEO.

The concentration of power at the top may be a publicly unpopular model for Philadelphia to adopt due to historical financial mismanagement in the city by politicians. In a city-specific application of the North Dakota model, the Mayor, a high ranking attorney such as the City Solicitor, and a high ranking finance expert, such as the Director of Finance, may mirror the roles of the Industrial Commission. The banking experience on the Advisory Board and Executive Committee adds credibility to Bank of North Dakota, and a similar format could be applied to a Philadelphia Public Bank.

As a counter to this view, an expert interview with someone that has 20 years of local banking experience, and close to ten years of experience in Philadelphia government, highlighted that having political leadership was essential to achieving buy-in. Philadelphia is a city that shows deference to political leaders--more so than other cities of its scale--and establishing the bank would require political oversight.[19]

Two potential models are set out below: one in which the bank is largely independent of political control, and one in which the Mayor retains control over its operations.

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[18] Public Banks: Bank of North Dakota. Institute for Local Self-Reliance. July 2015. https://ilsr.org/rule/bank-of-north-dakota-2/

[19] This source did not wish to be named.

Model 1: Limited political control.

- Board appointments made halfway through each political cycle, with terms running for four years. Appointments approved by Council, and not just by the Mayor.
- Political appointees outnumbered by politically independent appointees. Board size is large enough to limit the influence of the Mayor.
- Bank staff answer to the Board, and not to politicians.
- There should also be a separate advisory group of finance experts to advise the Board.
- Board appointees could include:
    - Mayor, or directly appointed representative of the mayor
    - Finance Director
    - Controller
    - One representative from Philadelphia-based banks
    - One independent, citizen-at-large
    - Two independent financial experts, one of whom would be the Chair of the Board. For example, these could consist of one portfolio manager and one public economist.

Model 2: Aligned to political establishment

- Board appointments made in alignment with each political cycle, with terms running for four years.
- Political appointees outnumber independent appointees. Smaller Board size to provide the Mayor with greater influence.
- Mayor, or direct appointee of the Mayor, chairs the Board, with bank staff reporting to the Chair.
- There should also be a separate advisory group of finance experts to advise the Board.
- Board appointees could include:
    - Mayor, or directly appointed representative of the mayor, who would be Chair of the Board, with final say on tied votes.
    - Two political appointees of the mayor (e.g. council members)
    - Treasurer
    - One independent financial expert.

Pros and cons of both options

Option	Pros	Cons
Bank with limited political control	Bank will be controlled by finance experts, providing greater likelihood of sound financial management Investment decisions more likely to be based on financial metrics alone, rather than political considerations, giving greater certainty of returns Reduced risk of corruption	Decision-making may be out of alignment with the prevailing political agenda, which could make it harder to sell the benefits of the bank to citizens It may be more difficult to gain political buy-in to establish the bank if politicians will not have control over it
Politically-controlled bank	Easier to get buy-in from politicians to establish the bank Bank investments can be aligned to political agenda, and so may be more aligned to the pressing needs of constituents	Likely to provoke opposition from citizens concerned about misuse of public funds Could lead to lending to favored groups or causes and exclusion of those without political connections

Potential start-up funding for a public bank

Option 1: Appropriation from the general fund or a bond issuance

The lack of reserves in Philadelphia highlights that a major barrier to establishing a public bank would be to find the resources required to set it up and make its first investments. In more favorable circumstances, an appropriation from the general fund would be recommended as the best way to provide start-up funding for a bank. This would be cheap, and enable the City to lend the money to itself without needing to raise debt. However, that option is not easily available in Philadelphia due to its low reserves.

Therefore, a more realistic, if more-costly, option, would be to raise money from a bond issue backed by the full faith and credit of the City, with the funding raised being specifically directed towards a public bank. This option would require the City to pay down debt at the rate required of other general obligation bonds, however it would provide the bank with the funding needed to make its first investments, and ultimately to become self-sufficient through the profits made on those investments. The Bank of North Dakota was funded in this way, with a bond issuance valued at $26m, in today's terms, and ultimately repaid the investment many-fold, making over $950m in profit in the last 20 years alone.

Option 2: Funding from the cannabis industry

A review of a February 2018 request for proposal for a public bank feasibility study released by the City of Seattle shows consideration for accepting cash deposits from the cannabis industry. While many states, including Pennsylvania, have made medical marijuana legal, and others have made recreational marijuana legal, the industry remains federally illegal. This prohibits businesses that grow and dispense cannabis from using the traditional banking system. A public bank that accepts cash deposits from the cannabis industry would have an opportunity to capture a significantly underserved industry and have an immediate source of start-up funding and ongoing deposits. Pennsylvania currently has 10 active marijuana growers and has the capacity to grant 50 dispensary permits. Each permit allows a business to open up to three dispensary locations.

Option 3: Issuing shares

Start-up funds could be raised by selling shares in the bank. It would be important that the City retained the majority shareholding, in order to retain control over the bank and ensure it remains public. However up to 49% of ownership in the bank could be sold off to raise funds. The downside of this is that it would dilute the City's control over the operations of the bank, and potentially dilute the bank's mission as well. It would also have implications for the governance structure of the bank and the investment decisions it would make, as shareholder representation would likely be required on the Board.

Option 4: Crowdfunding

A public bank has many supporters, and there may be scope to draw on this support to ask citizens of Philadelphia to donate small sums of money to provide at least part of the start-up funding. This would be a novel move for the City, but there is precedent of other governments having used crowdfunding before. For example, the Mayor of London uses crowd-funding to identify community-led projects that become eligible for match-funding of up to £50,000 once an agreed sum is raised from the public.[20]

Start-up strategy

A public municipal bank is a new concept, which needs to be proven. This merits a cautious approach, in which the bank slowly builds up its portfolio, funds, and product lines. This is particularly important in a City such as Philadelphia, which does not have the funds available to take large risks.

For these reasons, it may be prudent for a bank's initial operations to be limited to holding a minority of the City's deposits and investing these for a return, and making 1 to 2 relatively safe loans to the City, which will lower its debt service costs. Once the bank establishes credibility and builds reserves, it could then take greater risks, such as underwriting loans made by community banks.

[20] Crowdfund London: https://www.london.gov.uk/what-we-do/regeneration/funding-opportunities/crowdfund-london

Potential initial investments for a public bank

1. Purchase of School District bonds

With the School District's credit rating currently lagging at Ba2 (Moody's), and with a $1 billion deficit to close by 2022, it will need to raise funds, even if the Mayor's proposed increase to property taxes passes. Going to the bond market will prove costly with such a low rating.

A public bank could reduce the cost of this debt. By participating in the purchase of School District bonds, the bank could help to buy down the interest rate on the bonds, minimizing the School District's debt service costs.

2. Road Repair and Trash Collection

In the Fiscal Year 2019 budget address, the Mayor set out his intention to increase the street resurfacing budget by 50% by 2023. And rather than having just one re-paving crew, the Mayor wants to expand to three crews.

Even if this budget objective is approved, there is no certainty that additional funds will persist beyond the next fiscal year, yet street re-paving is a critical need for the city.

A public bank could make a loan to the City for the specific and sole purpose of funding an expansion of street re-paving. This would provide some guarantees that Philadelphia's streets would get the maintenance that they need.

3. 'Green bank' projects

Green banks provide financing for renewable energy and energy-efficiency projects that commercial sources will not yet provide on their own. While there are a number of state green banks—New York, Connecticut, and California, for example—Montgomery County, MD operated the only county green bank in the US.[21] The County's green bank expects to leverage public and private funds to drive investment to the sector. A public bank could also take on such projects.

The Philadelphia Energy Authority (PEA) is an independent authority governed by a five-person board appointed by City Council. The organization's mission is to drive and support the development of long term energy projects, policy and educational programs in Philadelphia.[22] An interview with Executive Director Emily Schapira informed this memo as to the viability of PEA projects as potential investments for a public bank. Along with City Council, PEA has launched the Philadelphia Energy Campaign that will look to leverage $1 billion in public and private investment in energy efficiency and clean energy projects over 10 years.[23]

City buildings, School District buildings, and neighborhood homes and businesses will see greater energy efficiencies due to the campaign. However, the PEA is currently borrowing

[21] Green banking goes local. Brookings Institution, July 13, 2015.
[22] Philadelphia Energy Authority. http://www.philaenergy.org/about-pea/mission-values-and-goals/. Accessed April 16, 2018.
[23] Philadelphia Energy Campaign. Philadelphia City Council.

from the capital markets at the rate that is offered to the City.[24] This rate is over 4%, and a public bank could facilitate co-investing in renewable energy projects with the private sector at a lower cost.

Costs of operating a public bank

There are few figures available on the costs of starting and operating a bank. Furthermore, the costs of a public bank would not be comparable to those of a commercial retail bank, because a public bank would not initially be providing personal banking services, and so its overheads should be smaller.

However, as a reference point, the Bank of North Dakota has a $16.6 million payroll and benefits expense for a team managing $7 billion in assets. That is a staff costs/ assets ratio of 0.002. This ratio is likely to be higher for a new bank, which has certain fixed staff costs regardless of the value of its assets, such as the cost of a CEO.

As another reference point, a public bank in Philadelphia would perform many of the same functions that the Treasurer currently performs, including management of payroll and investment of funds. The Treasurer's Office has a staff of 18, with five different roles: The Treasurer, Deputy Treasurers, Accountants, Clerks and Executive Assistants.

The Treasurer currently manages over $600m in funds, and over $7bn of debt. A public bank would start by managing a fraction of these sums. If it received start-up funding equivalent to the Bank of North Dakota ($26m), then it would need only a small staff initially. If we assume that a public bank had a similar staffing structure and salaries to the Treasurer's Office, with an initial staff of four, we can estimate costs as approximately $350k:[25]

Staff member	Annual salary
Treasurer (CEO)	$ 145,000
Deputy Treasurer (Deputy CEO)	$ 103,500
Accountant	$ 46,447
Executive Assistant	$ 47,000
Total	**$ 341,947**

Steps to establishing a public bank

Step 1: Seek legal opinion from Philadelphia's City Solicitor as to the legality of Philadelphia establishing a public bank. The biggest risk to a public bank is that it would be subject to legal challenges. Challenges are particularly likely from large commercial banks, which may see public banks as a threat to their municipality customer base. Gaining assurance as to a public bank's legality prior to expending funds on its establishment is therefore critical. The legal opinion of the City Solicitor will not be considered as precedent by the courts, but would help to sway opinion, and provide a degree of assurance that a Philadelphia public bank is legal.

Step 2: Commission a feasibility study to take an in-depth look at the issues critical to a decision about whether or not to establish a public bank. This would include analysis of

[24] Emily Schapira, Executive Director, Philadelphia Energy Authority.
[25] 2018 payroll for The Treasurer's Office sourced from Open Data Philly.

legal issues, costs and benefits, administrative challenges, and community benefits of a public bank. As a reference point, the City of Seattle's proposed feasibility study for a public bank includes the scope set out above, and has a budget of $100,000. A feasibility study would require city ordinance to appropriate the funds necessary to commission it.

Step 3: Establish a commission comprising of council members to examine and define the scope, mission, charter, governance structure, and source of seed funding of a public bank. This would include public hearings, with testimony from members of the public, community groups, representatives from the banking sector, the Finance Department and Treasurer. The commission would produce recommendations for Council to approve.

Step 4: Council would pass ordinances, and/ or the Mayor would take decisions to establish a public bank, appoint staff to its Board, and appropriate start-up funds for the bank (if required). The Board would then appoint the bank's first staff members. Ordinances would also need to change the Philadelphia Code in relation to the conditions that authorized depositories for City funds must meet. Currently, these would prohibit a public bank from taking City deposits.

Step 5: The bank would make its first investments, most likely in City debt. Investment decisions should be made with the same rigor as any banking institution, and with the same requirements for due diligence of the City as private investors would demand.

Recommendations

Should the City look further into establishing a public bank?

Yes. There is clear potential for a public bank to address some of the City's challenges. These include access to low-cost loans at a time when the City's bond ratings are slipping, and the opportunity to target financial products to underbanked populations, of which Philadelphia has one of the largest populations in the nation.

Legality of a public bank

The City should seek opinion from the City Solicitor prior to appropriating any funds for a public bank feasibility study. Although precedent appears to favor the City, this opinion would help to determine whether the City would resist legal challenges to a bank.

Mission of a public bank

A municipal bank in Philadelphia can best serve the citizens of Philadelphia by promoting economic growth for all. A possible mission statement for the bank could therefore be: 'to promote economic growth for all citizens of Philadelphia by reducing the cost of raising debt, achieving secure management of the City's finances, and widening access to credit for citizens.'

Recommended functions of a public bank

1. **The provision of loans to government**: either through participating in bond issuances and buying down the interest rate, or through direct loans to government to finance specific projects.

2. **Management of government funds**: managing a government's payroll deposits and reserve funds, and investing funds for a return.
3. **The provision of financial products to individual consumers**: this could be indirectly, by underwriting loans made by community banks and buying down the interest rate on loans, or directly, through the provision of loans, check cashing services and low cost bank accounts. The focus of these products could be on underbanked groups.

Recommended governance of a public bank

The bank would benefit the City most with a governance structure that limits political control. Philadelphia's history of financial mismanagement, and the relatively strong power of Council members in the City, makes corruption a legitimate concern.

Limited political control can be achieved through Board appointments of 4-year terms that run at an offset to the political cycle, politically independent appointees outnumbering political appointees, and Board appointments approved by Council as a whole and not just the Mayor. The Board should also be advised by a separate advisory group that consists of finance experts.

Start-up strategy

The bank should start slowly and gradually build up its portfolio, as proof-of-concept is required. It should initially take on the responsibility for managing a small proportion of City deposits and investing funds for a return, and make 1 to 2 safe investments – preferably below-market-rate loans – to the City to fund specific projects.

As the bank builds up credibility and makes a profit, it can take on management of more of the City's deposits, and move into riskier investments, such as consumer lending.

Next steps

First, legal opinion on whether it is legal for the City to establish and operate a public bank should be sought from the City's Solicitor. If their opinion is favorable, the City should appropriate funds and issue a request for proposal for a feasibility study to look in depth at the issues. The scope of the feasibility study should be an analysis of the legal issues, costs and benefits, administrative challenges, and community benefits of a public bank.

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