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## Local Officials Get Info on "Public Bank" Concept.

WILKES-BARRE —Describing it as an “end run” around big banks and big government that could reduce the cost of floating municipal bonds while returning money to the county’s general fund, Mike Krauss extolled the virtues of establishing a “public bank” during a presentation to about 30 representatives of area governments and municipalities Monday morning.

Krauss, a director of the Public Banking Institute, said governments facing tight budgets currently have four options: “Cut services, layoffs, raising taxes or taking on more debt service. Those are the tools. We need another tool.”A public bank would be set up through a state bank charter to pool financial resources of governments and public money, using those assets in partnership with local banks that, on their own, cannot compete with the large, multi-national banks, Krauss explained.

Initial gains would be low as the bank starts up, but would grow over five or six years to the point of substantial return on investment for the sponsoring government. Krauss said a state public bank in North Dakota, in existence for 95 years, gets a returns of 17 to 25 percent some years.

In this case, Krauss was talking about the possibility of a Luzerne County public bank, an idea initially floated by Luzerne County Council Vice Chairman Edward Brominski. Brominski said he set up and paid for the breakfast and presentation at Genetti’s Best Western Hotel and Conference Center to provide information to interested parties.

Krauss said the largest banks have the most clout and can offer bigger loans and lower rates than smaller banks, but that loans have become a small part of their business, choking off credit.

Local banks, on the other hand, may be more willing to loan money but often have lower limits on how much they can provide, and higher interest rates. A public bank leverages public money to help local banks compete.

“It’s a partnership bank,” Krauss said. “There are no branches, no tellers, no ATMs, no real estate, none of those expenses.

“Let’s say you own a car dealership and you want to expand,” Krauss said. “You go to a local bank and say ‘I need $10 million,’ They say ‘our limit is $5 million’. The dealer goes to a bigger bank. That’s how big banks take their share. In North Dakota, the local bank says lets go see if the public bank will cover the rest.”

Similarly, Krauss said, a local bank may only be able to offer a loan with interest at 6 percent, but partnered with a public bank it may drop the rate dramatically.

The public bank could influence the cost of government borrowing, usually done by floating municipal bonds. “The potential impact on your bond debt is phenomenal,” Krauss said. The public bank can bid on the bond, driving down the cost. He cited a California bridge that required a $6 billion loan plus almost as much interest. “Had they banked it themselves, they could have taken maybe 30 percent off that.”

And a public bank can respond more quickly with disaster relief, Krauss said, citing a major fire in a North Dakota City. “The state bank put up $100 million before (the Federal Emergency Management Agency) was even on the ground.

Forming a public bank would require gathering interested banks and stakeholders to determine its mission, Krauss said, noting that in North Dakota the goal recently has been to fund development of high tech businesses. He said Philadelphia is contemplating a public bank, and one possible goal would be to offer low-cost mortgages for the development of some 40,000 vacant properties the city is dealing with.

Governance of the bank would also be important, with a goal of limited political input, Krauss said. The North Dakota bank has a board of bankers and business officials appointed by three elected officials. The board then chooses a director who hires any necessary staff.

After the meeting Walt McRee, another director of the Pennsylvania Public Bank Project, said that system creates multiple firewalls between politicians and bank operations.

Krauss said transparency is essential to a public bank, but also said it is built into the concept, in part because it is a public bank subject to more scrutiny than large private banks. Partnering with local banks also means risk assessments of any loan are done by two separate parties: The public bank and the local bank.

Most attendees stayed around to ask further questions after the presentation. Hazleton Mayor Joe Yannuzzi said the idea sounded promising but that it would involve a lot of work. “It’s worth exploring further,” he said, a sentiment echoed by Luzerne County Councilman and former Luzerne County Commissioner Stephen A. Urban.

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