

CITY OF JOHNSTOWN

FOURTH
AMENDED
RECOVERY PLAN
PURSUANT TO THE
MUNICIPALITIES FINANCIAL RECOVERY ACT

December 12, 2007

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CHAPTER I

Introduction

In a petition executed on June 15, 1992, the City of Johnstown (the “City”) requested that the Department of Community Affairs (now the Department of Community and Economic Development or “Department”) determine the City’s eligibility as a distressed municipality under Act 47 (the “Act”). On July 22, 1992, the Department issued its consultative evaluation which found that the City met three of the Act’s criteria for distressed municipalities in that the City had maintained a deficit over a three-year period; expenditures had exceeded revenues for three years or more; and the City had experienced a decrease in a quantified level of municipal service from the preceding fiscal year.

Based upon these findings, and following a public hearing held on July 22, 1992, the Department found that the City was distressed pursuant to the criteria set forth in the Act. On September 18, 1992, Eckert Seamans Cherin & Mellott was appointed Coordinator for the City under the Act. On January 15, 1993, the Commonwealth and Eckert Seamans Cherin & Mellott executed a contract setting forth the Coordinator’s responsibilities.

The Recovery Plan was filed with the City Clerk on April 14, 1993. The Plan Coordinator then held a series of meetings to discuss the filed Plan with the Mayor and the Administration, Council, the City’s collective bargaining units and other individuals and organizations. On May 4, 1993, the Coordinator held a public hearing in Council chambers to receive comments and questions on the Plan from the Public.

As a result of these meetings and in response to comments received, the Coordinator made certain revisions to the Plan as filed. Council adopted the Plan, as revised, on May 26, 1993.

On July 13, 1994, Council enacted Ordinance No. 4675 amending the Plan to incorporate the Point Stadium Study, dated April, 1994. The Study was prepared by Steven W. Mack through a Peer to Peer Technical Assistance Grant from the Department, as mandated by the Plan.

Over the initial 3 1/2 year period of implementation of the Recovery Plan, the City made substantial progress. Nevertheless, significant aspects of recovery addressed by the Recovery Plan required continuing and increased emphasis. Based upon an analysis contained in the Amended Recovery Plan, the Plan Coordinator concluded that although substantial progress had been made in implementing Plan recommendations and stabilizing the City's financial status, nevertheless the conditions leading to distress had not all been alleviated and the City should therefore continue to operate pursuant to the Act and an Amended Recovery Plan.

Pursuant to Ordinance No. 4766, enacted by Council on February 26, 1997, Council approved the adoption and implementation of an Amended Recovery Plan. Pursuant to Resolution No. 8431 adopted by Council on March 12, 1997, Council authorized amending the plan to incorporate a Comprehensive Recreation, Parks and Open Space Plan, prepared by Herbert, Rowland and Grubic, Inc. pursuant to a grant from the Commonwealth.

Over the following 3 year period, the City continued to make substantial progress in implementing plan recommendations and stabilizing the City's financial status. Nevertheless, the conditions leading to distress were not all alleviated and the Coordinator recommended that

the City should therefore continue to operate pursuant to the Act and a Second Amended Recovery Plan.

Pursuant to Ordinance No. 4848, enacted by Council on January 3, 2000, Council approved the adoption and implementation of the Second Amended Recovery Plan.

In the fall of 2002, the Coordinator reviewed the progress made by the City since adoption of the Second Amended Recovery Plan. Based upon that analysis, the Coordinator concluded that although substantial progress continued to be made in implementing Plan recommendations and stabilizing the City's financial status, nevertheless the conditions leading to distress had not all been alleviated and the City should therefore continue to operate pursuant to the Act and a Third Amended Recovery Plan.

Pursuant to Ordinance No. 4900, enacted by Council on December 30, 2002, Council approved the adoption and implementation of the Third Amended Recovery Plan.

In the fall of 2005, the Department and the Coordinator again reviewed the City's progress in implementing plan recommendations and stabilizing the City's financial status. On December 8, 2005, the Department held a public hearing in Johnstown to review that progress and financial status. During 2006 and the fourth quarter of 2007, the Department and Coordinator have reviewed the City's 2005 and 2006 audited financial statements and the City's actual revenues and expenditures through September, 2007. The results of those reviews are described in Chapter III.

Based upon these reviews and analysis conducted in 2006 and 2007, the Coordinator concluded that the conditions leading to distress had not all been alleviated and that the City should therefore continue to operate pursuant to the Act and a Fourth Amended Recovery Plan.

Pursuant to Ordinance No. 5009 enacted by Council on December 12, 2007, Council approved the adoption and implementation of the Fourth Amended Recovery Plan.

CHAPTER II

Administration and Community and Economic Development

Since the adoption of the Third Amended Recovery Plan in January, 2002, the City continues to make significant progress in implementing the plan recommendations. Chapter VI outlines the plan recommendations requiring continuing implementation.

Financially, although the City developed a general operating fund balance in 2001 of over \$700,000, by 2005 the City was experiencing a core operating deficit of over \$1 million. Although the City was able to balance its budgets during that period with fund transfers, including predominantly sewer fees, the annual operating deficits grew as a result of a stagnant, or even declining, real estate tax base and increasing personnel costs due primarily to increases in compensation, health benefit premiums, worker compensation and pension liabilities. These negative developments were somewhat tempered by some increases in business taxes, the new Emergency and Municipal Services Tax (EMST) and deed transfer taxes and by the City's continuing efforts to build the tax base through its economic and community development efforts. These financial and development trends are discussed in more detail in Chapter III.

Administratively, the City has successfully made the transition from its third manager under the Council-Manager form of government to its fourth manager. Curt Davis, formerly Assistant Manager, was appointed Manager on April 22, 2006. He succeeded Jeff Silka who had been appointed as Manager in April, 2002. The City has also maintained the position of Assistant Manager with the appointment of Bruce Haselrig as Assistant Manager to replace Curt Davis. In addition, the City has continued to implement new computer hardware and software in the Finance Department. These improvements have facilitated more timely and complete financial reports and efficiency in budget preparation, but work remains to be done.

City services, and the capacity to provide new services, have also improved. The Fire Department has vastly increased its ability to respond to hazardous materials accidents/spills and its training officer is now providing standardized training with all platoons. As of June 13, 2006, every member of the Fire Department had completed the sixteen (16) hours of training to be Incident Safety Officer certified. The Recreation Department has overseen significant improvements to several neighborhood playgrounds. Recreational programming is also available at these sites. Roller hockey, tennis and basketball courts are now lighted and walking trails have been added to Roxbury Park, which has become a very actively used facility. The Point Stadium Project has been completed, including the placement of artificial turf. Both local high schools and the local college have committed to usage next year. Concert promoters have been contacted and the entire project has been coordinated with the expansion of Festival Park by the Johnstown Area Heritage Association for use in their activities.

Progress is being made with tourism. Major events occurring in the City now include the Folk Fest, the Keystone Games, Thunder in the Valley and the AAABA tournament.

Finally, the community and economic development recommendations in the Plan continue to demand attention. These efforts, and the resulting increase in the City's tax base, are essential to the City's ability to provide essential public services at an affordable cost.

The City's "Renaissance Complex" is a major new and completed initiative. Renovations to the County's War Memorial such as structural upgrades, new ice rink cooling equipment and new restrooms and concession stands are included. The City's new Conference Center is completed, including the "Intermodal Transportation Center" (parking garage). A grant has been received for the placement of an automated pay station entry/exit system to allow 24 hour/7 day access to the Intermodal Transportation Center.

In addition, site work and construction are underway to transform the former Sani-Dairy property into Conemaugh Enterprises, Inc.'s Greater Johnstown Technology Park. The dairy has been demolished, and the resulting 16,000 tons of stone are being used to raise the site above the flood plane. The Technology Park will house information technology, medical research and biotechnology companies. Phase I of the project consists of a three story, 95,000 square foot building.

Housing Strategy

Council adopted a Housing Strategy on April 27, 2005. This strategy, along with the Neighborhood Revitalization Strategy Area (NRSA) discussed below, addresses one of the City's most enduring and intractable problems – the continuing deterioration of the City's aging housing stock. Pursuant to the Strategy, the City has initiated the following activities.

A. The City, through its Codes and Permits Department, has developed a database of all vacant property in the City. A new Demolition Policy and Procedure has been put in place to prioritize properties on the demolition list. The Demolition Committee, consisting of the City Manager, Assistant City Manager, Director of the Department of Community and Economic Development and the Director of the Codes and Permits Department, meets quarterly to review the list and files for each property. The list is also being cross-referenced to show which properties are eligible to be processed through the Vacant Property Review Committee (VPRC) for acquisition by the Johnstown Redevelopment Authority. The Codes Officials are updating the violation history of all of the properties to determine which properties have exhausted the time limits for appeal and are eligible to be taken to the VPRC for certification. The first list of properties certified as blighted was taken to the VPRC in December, 2005.

B. The City has purchased five properties along the Franklin Street corridor for \$120,000. The houses have been demolished, opening 34,000 square feet of contiguous open land for development. Three of the five properties are being sold through the Redevelopment Authority for development by a local expanding business.

C. The City, through its Department of Community and Economic Development and the Police Department, has compiled a list of “notorious properties.” This list is available for use in determining City efforts to acquire property for the Land Bank.

Some of the state funding sources identified below in the NRSA discussion would be eligible to help fund the Housing Strategy. The City’s priority for grants under ACT 47 is particularly valuable over the next 3 years in order to advance this critical element of the City’s recovery.

Neighborhood Revitalization Strategy Area (NRSA)

The City’s Neighborhood Revitalization Strategy Area (NRSA) was submitted to HUD which approved it on February 2, 2005. The strategy addresses the City’s Kernville and Downtown neighborhoods. The significance of an approved NRSA is that it allows the City to use CDBG funds with more flexibility in such areas as job creation/retention, housing programs and provision of public services.

The City is continuing to use neighborhood meetings for input on both the CDBG and City programs. The NRSA has placed four new projects in the downtown and Kernville areas. Two business in Kernville are medical in nature, and the Downtown project is residential revitalization of an old building into loft apartments. Both are identified under later headings. The neighborhoods of Kernville, West End, 8th Ward, Moxham, Oakhurst and Hornerstown have

formed committees that meet on a regular basis with City personnel to do community projects and coordinate activities with the City.

Upon approval by HUD of the NRSA, the City held three stakeholder meetings with residents, business and organizations focused on the Strategy's three major focus areas: human services, housing and economic development. Those meeting were held on March 27, June 20 and July 27, 2006.

The following projects are currently underway in these three focus areas:

A. Human Services – A task force of agencies offering human services in the Downtown and Kernville neighborhoods has been formed to determine what needs are not being offered and how best to reach those people in need. The first project of this task force will be a comprehensive directory for the services offered and an Information Fair for residents to talk with the agencies regarding needed assistance.

B. Housing – The City has secured a \$245,000 Anchor Building Grant from DCED for a mixed used project on Clinton Street – Cool Beans Coffeehouse/Mock Tower Lofts. This project will result in a first floor coffee shop and the first market rate housing units (condominiums) in the Downtown in decades. In addition, a new four unit market rate townhouse complex is being completed in the 8th Ward section of the City. The City has also started an Artist Relocation Program to attract artists to the Kernville neighborhood to set up residences, galleries and studios in properties that they will own and renovate. The City is also working with a local CDC to research additional housing opportunities in the Downtown and Kernville. Housing remains a high community development priority. As part of the City's FY 2006 CDBG Funding Strategy, the City has allocated \$160,000 to the Owner Occupied Housing Rehabilitation Program, \$225,000 to the First Time Homebuyer Program, \$254,000 to Public

Improvements, and \$127,500 to Code Enforcement. In addition, the City has allocated \$150,000 to the regular City-wide Demolition Program to demolish vacant substandard housing.

C. Economic Development – The Cool Beans Coffeehouse/Mock Tower Lofts will create much needed housing opportunities but it also could add significantly to the tax base. In addition, in Kernville, a doctor's office and information technology firm will share a new \$300,000 building on the corner of Franklin and Dibert Streets, adding at least 7 new jobs. For future growth, the City has acquired 35,000 square feet of blighted property along Franklin Street as discussed above.

Upper Main Street Revitalization and Development are moving forward with the Mock Loft Towers, the completed Clinton Street Enhancement Project, a \$1.5 million upgrade of the Transit Center, and the groundbreaking in November of 2006 for a new bank at the former Swank Building site.

The City has also identified several potential state funding sources to support this

Strategy:

- DCED Anchor Building Program
- DCED Main Street Program
- DCED Elm Street Program
- DCED KIZ
- DCED Enterprise Zone Grant and Tax Credits
- DCED Brownfields for Housing
- DCED Urban Development Program
- DCED Housing & Redevelopment Assistance Program
- DCED Business in our Sites
- DCED Neighborhood Assistance Program
- DCED Employment and Community Conservation-Supported Work Program
- DCED Opportunity Grant Program

- DCNR Community Conservation Partnerships Program

- PHFA MUFFI Program
- PHFA Home ownership Choice Program

Again, the City's priority for grants under Act 47 is valuable to this effort to address three of the City's most critical needs – improved human services, especially to the elderly, new housing and longer term community and economic development with an increased tax base.

Goals For 2006 – 2009

The City intends to continue emphasis upon development of market rate housing by purchasing lots, demolishing structures and thereby creating parcels of over 20,000 square feet for developers. Construction of townhouse and single family houses will be encouraged, including development of second floor housing in the Downtown.

The development of a “Life Science Corridor” between Franklin and Napoleon Streets in Kernville, linking the two hospital campuses and new Technology Park, is a priority. The project includes the assembly and demolition of structures and development of a Life Science Incubator facility. ITSI Bioscience broke ground on November 30, 2006 for a new 12,000 sq. foot building.

The City has applied to the Department for a Land Use Planning and Technical Assistance Program (LUPTAP) grant to support this project. The proposed scope of work under the grant, to be performed by Kairos Design Group, Lemoyne, Pennsylvania, includes (1) analysis (collection of available studies and plans and review of relevant ordinances), (2) master planning (design objectives, conceptual alternatives, phasing plan) and (3) financial feasibility (market analysis, financial modeling and strategy). The planning includes the solicitation and development of relations with the private development community and obtaining its input into the final development strategy.

The City and the Redevelopment Authority will continue to develop for re-use the Cambria Iron Complex. The Machine Shop building has been leased to Johnstown Plate which

is upgrading the building and anticipates adding 75-100 new jobs over the next 18 months. The Axle Works continues to increase employment, growing to 120 employees from one employee four year ago. Progress is also being made in remediating and restoring the historic Blacksmith's Shop, built in 1854, as an historical landmark and attraction.

The City is also pursuing Main Street designation, through its Discover Downtown Partnership, which would retain a Main Street Manager. All four Discover Downtown Partnership public meetings have been held with attendance averaging 110- citizens per meeting. A vision statement has been written and committees have been established for (1) Organization, (2) Design, (3) Economic Restructuring and (4) Promotion. The City has been a core participant in the process to assure coordination and cooperation with the Program.

The City, through the Economic Development Partnership, consisting of the City's Economic Development Department, the Redevelopment Authority and JARI, is continuing to meet, establish economic development priorities for the City and coordinate efforts for the recruitment of business to the region and the City.

All of these community and economic development efforts should be pursued with the goals of the Southern Alleghenies Regional Action Plan in mind. In fact, the Action Plan's emphasis on initiatives supporting small entrepreneurs, housing and developing a useful workforce are consistent with the City's own efforts, particularly in affordable housing as described above.

CHAPTER III

The City's Financial Condition

Based on a comprehensive review of the City's finances, it appears that the City's financial condition weakened in 2005 and 2006 and is projected to weaken further during fiscal years 2007, 2008 and 2009. According to the City's audited financial statements, the City went from a positive general operating fund balance in 2001 of over \$752,000 to a core operating deficit of (\$1,032,208) by year end 2006. The operating core balance for fiscal year 2006 is a deficit even after a tax increase and a carry over of sewer receipts from 2005. The increasing negative fund balance is a result of a stagnant and, in some years, declining tax base and increasing personnel costs due primarily to higher compensation, health benefit premiums, workers compensation, and pension liabilities. Figure 1 below shows the deteriorating fiscal condition of the City finances.

Fiscal Year	Total Revenues	Total Expenditures	Surplus (Deficit)
2002	\$8,352,173	\$ 8,804,583	\$ (452,410)
2003	\$9,017,546	\$ 9,119,090	\$ (101,544)
2004	\$9,337,910	\$ 9,907,617	\$ (569,707)
2005	\$9,434,659	\$10,559,659	\$(1,125,000)
2006	\$9,580,850	\$10,613,058	\$(1,032,208)

**Table 1. Financial Report-General Fund Operating Revenues & Expenditures
Wessel & Company July 11, 2007**

One significant problem for the City was addressed in 2002. The City's Home-rule Charter was amended by referendum on November 5, 2002 to remove the 3rd Class City Code tax limitations. As a result, the real estate tax millage that was dedicated to debt service was made available for general purposes, thus averting a significant fiscal crisis in 2002. However, the City continued to suffer from stagnation in its real estate tax base and, in 2005, realized the loss of the non-resident earned income tax. The non-resident tax, which was dedicated to capital expenditures only, was eliminated pursuant to initiatives contained in the Act 47 Plan. The City levied an additional 3 mills of real estate tax in order to produce enough revenue to maintain the City services in 2006 at the same level as they were in 2005. In 2007, the City again raised real estate taxes by 3 mills and made a decision not to fill several vacant positions in order to maintain services for the City at the same level. The tax increases for 2006 and 2007 were the first real estate tax increases since 1994. The history of the tax increases and tax collection per mill are shown in Figure 2. below.

Year	Total Mills	Total Collection	\$ Per Mill
2002	36.44	\$5,561,567	\$152,623
2003	36.44	\$5,109,193	\$140,208
2004	36.44	\$4,995,440	\$137,087
2005	36.44	\$4,908,153	\$134,691
2006	39.44	\$5,254,586	\$133,230
2007	42.44	\$5,517,200	\$130,000

Table 2. Five-year history of real estate tax rates and tax collection and 2007 projection.

The City's revenue trends continue to strain its ability to pay for basic services, including infrastructure repairs, public safety, and other service delivery. While the recovery program initially was successful in helping Johnstown turn the corner, the City has not arrived at its destination of a strong, sustainable financial base. The residents' expectations for delivery of

basic services will continue to exceed the City's resources until its business climate improves and its population stabilizes. Cost control, especially in personnel and related expenses, is essential in order to avoid a continuing structural deficit in its core operating funds.

Figure 3 below summarizes the City's deteriorating fiscal position over the past several years by reporting audited revenues and expenses for fiscal years 2004, 2005, 2006 and the 2007 budgeted amounts.

Revenues:	2004 Audited	2005 Audited	2006 Audited	2007 Budget
RE Taxes-GL	\$ 3,450,941	\$ 3,440,143	\$ 3,404,627	\$ 3,469,826
Act 511	\$ 1,805,649	\$ 2,424,511	\$ 2,420,954	\$ 2,653,342
PILOT	\$ 250,000	\$ 175,000	\$ 160,000	\$ 160,000
Lic & Permits	\$ 534,862	\$ 479,340	\$ 514,893	\$ 506,170
Fines & Forfeit	\$ 129,983	\$ 167,962	\$ 180,993	\$ 146,072
Grants	\$ 1,046,962	\$ 759,731	\$ 514,874	\$ 846,461
Departmental	\$ 1,053,531	\$ 1,093,790	\$ 1,096,880	\$ 1,837,279
Interest/Inv	\$ 61,045	\$ 75,803	\$ 103,641	\$ 90,000
Interfund	\$ 795,363	\$ 786,397	\$ 969,336	\$ 717,513
Other	\$ 209,574	\$ 31,982	\$ 214,652	\$ 568,416
TOTAL	\$ 9,337,910	\$ 9,434,659	\$ 9,580,850	\$10,995,079
Expenditures:				
General Govt	\$ 167,852	\$ 234,525	\$ 181,719	\$ 172,905
Finance	\$ 3,117,782	\$ 925,042	\$ 1,168,419	\$ 1,541,855
Fire	\$ 1,986,353	\$ 2,881,349	\$ 2,819,921	\$ 2,832,685
Police	\$ 2,696,657	\$ 3,673,521	\$ 3,690,983	\$ 3,749,620
Comm Dev	\$ 210,611	\$ 269,117	\$ 229,762	\$ 178,097
Public Works	\$ 1,728,362	\$ 2,576,105	\$ 2,522,254	\$ 2,519,917
TOTAL	\$ 9,907,617	\$ 10,559,659	\$ 10,613,058	\$10,995,079
Excess Revenue	\$ (569,707)	\$ (1,125,000)	\$ (1,032,208)	\$ -
Over/(Under) Expenditures				

Table 3. Three-Year Recent History of Revenues, Expenses and Core Operating Deficits
Wessel & Company Audited Financial Statements
Statement of Revenues, Expenditures, & Changes in Fund Balances

Analysis

The City of Johnstown has experienced a stagnant tax base and escalating revenues for the past five years. The following information is provided regarding the 2004, 2005, and 2006 audited financial statements and the 2007 budget and related matters.

General Fund

Revenue

The City of Johnstown's general fund includes activities related to the general operation of the City government supported by the following major revenue categories: real estate tax, taxes authorized under Act 511, licenses and permits, fines and forfeits, departmental earnings and intergovernmental revenue. The graph below demonstrates the various sources and relative percentages for revenue that are generated for general operating purposes.

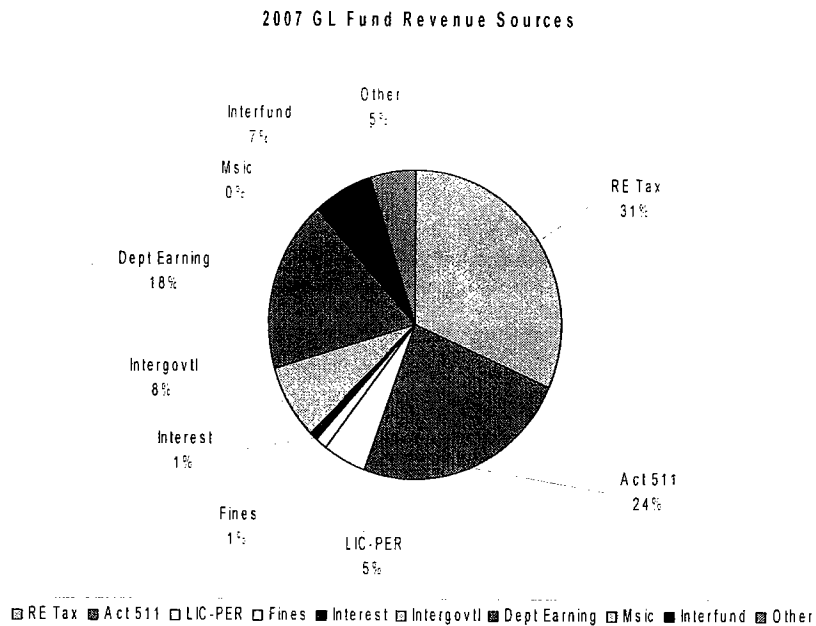


Figure 1. 2007 Revenue by Source

Overall, the city general fund revenues have increased an average of only 2.7% per year over the past five years as demonstrated in Figure 4 below.

Fiscal Year	Total Revenues	% Increase (Decrease)
2002	\$ 8,352,173	N/A
2003	\$ 9,017,546	7.97%
2004	\$ 9,337,910	3.55%
2005	\$ 9,434,659	1.04%
2006	\$ 9,580,850	1.55%
Average Increase		2.70%

Table 4. Five Year History of Total Operating Revenues

For budget year 2006, the City was forced to increase taxes from 36.44 mills to 39.44 mills in order to maintain the same level of services as was provided in the past to City residents. (NOTE: The City of Johnstown's Home Rule Charter, amended in 2002, now has no cap on real estate millage.) In 2007, the City was again forced to increase real estate taxes from 39.44 mills to 42.44 mills to maintain the same level of services. The City also left vacant several positions in the departments in order to deliver a balanced budget.

The specific sources of tax revenue for the City have either remained relatively flat or demonstrated a decreasing trend. The real estate tax collection, which makes up 31% of the City's budget and is the largest source of the City's revenue, has actually experienced a decrease since 2001 due to assessment appeals while, during the same period, non-taxable property assessments in the City have risen. As a result, the collected dollars per mill of real estate taxes has decreased from about \$150,000 per mill in 2002 to a projected \$130,000 per mill in 2007. Furthermore, the current percentage of assessed value for tax-exempt properties in the City has risen to 51%. Since real estate tax collection comprises about one-third of the City's budget, this decline in assessed value has had a devastating impact on the City's ability to support service delivery without increasing tax rates over time.

<u>Years</u>	<u>Taxable</u>	<u>Non-Taxable</u>	<u>Taxable % Inc</u>
			(-) Dec
1994	\$180,499,240	\$168,241,460	
1995	\$160,403,640	\$114,837,670	-11.13%
1996	\$152,598,940	\$117,164,470	-4.87%
1997	\$149,701,940	\$119,033,130	-1.90%
1998	\$144,396,360	\$120,509,710	-3.54%
1999	\$143,781,280	\$121,800,460	-0.43%
2000	\$144,755,840	\$119,231,480	0.68%
2001	\$155,662,560	\$108,768,280	7.53%
2002	\$142,561,560	\$117,070,720	-8.42%
2003	\$142,238,700	\$115,619,300	-0.23%
2004	\$142,238,700	\$115,619,300	0.00%
2005	\$135,738,910	\$133,635,550	-4.57%
2006	\$133,698,720	\$134,342,570	-1.50%
2007*	\$133,698,720	\$134,342,570	0.00%

Table 5. History of Property Assessments for 14 Years
2007 Estimate from Cambria County Assessment

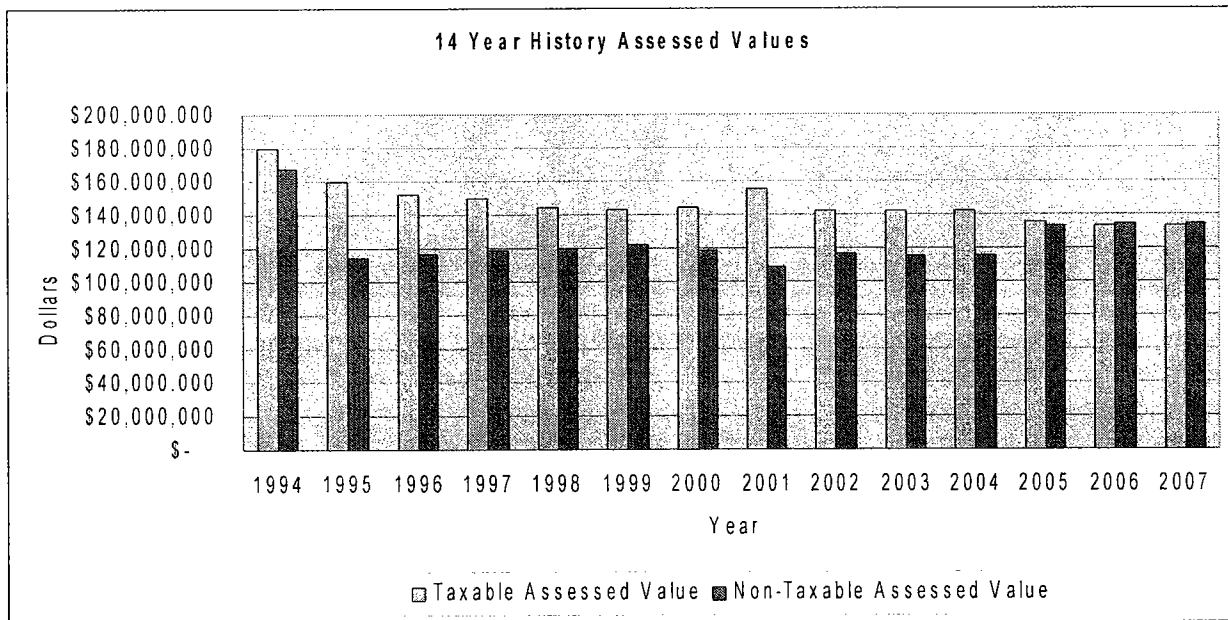


Figure 2. Fourteen-Year History of Taxable and Non-Taxable Assessed Property Values

In contrast, the City's next largest source of revenue, taxes derived from Act 511, has exhibited solid increases in collection of business taxes and from the new Emergency and Municipal Services Tax (EMST) levy (which will be changed to Local Services Tax effective January 1, 2008) but has shown decreases in earned income tax collections as the City's increased non-resident rate has been eliminated pursuant to Act 47 Recovery Plan initiatives.

Year	Act 511	% Inc/Dec
2002	\$ 1,587,720	N/A
2003	\$ 1,686,218	6.20%
2004	\$ 1,805,649	7.08%
2005	\$ 2,424,511	34.27%
2006	\$ 2,420,954	-0.15%
2007*	\$ 2,653,695	9.61%

Table 6. Five Year History of Act 511 Tax Collection
* Projection from 2007 Budget

The mercantile and business privilege taxes have demonstrated increasingly positive collection trends over the past several years with the exception of 2006's collection which was slightly lower than 2005. However, even the additional revenue generated from the business taxes is not enough to completely offset the declining and flat revenue trends from other sources.

Year	Business Taxes	% Inc/Dec
2002	\$ 462,014	N/A
2003	\$ 503,252	8.93%
2004	\$ 511,575	1.65%
2005	\$ 546,982	6.92%
2006	\$ 535,446	-2.11%
2007*	\$ 545,000	1.78%

Table 7. Five-Year History Mercantile & Business Privilege Taxes
Wessel & Company-Financial Statement Audit Executive Summary July 11, 2007

With the exception of one large collection in 2005, deed transfer tax has also been flat over the past three years. And the collection of EIT has been problematic because collections have decreased dramatically due to the systematic elimination of the special levy provided under Act 47 from 2000 through 2007.

Year	EIT-GL Fund	EIT-Dedicated	EIT Total	Inc/Dec
2002	\$ 795,213	\$ 848,643	\$ 1,643,856	N/A
2003	\$ 804,539	\$ 789,795	\$ 1,594,334	-3.01%
2004	\$ 864,475	\$ 719,936	\$ 1,584,411	-0.62%
2005	\$ 824,420	\$ 277,762	\$ 1,102,182	-30.44%
2006	\$ 880,246	\$ 201,706	\$ 1,081,952	-1.84%

**Table 8. Five-Year History of Earned Income Tax Collection
Wessel & Company – 2007 EIT Report of Collections**

The only other positive trend for major revenue sources for the City has been in the Licenses and Permit category which has been driven by increased revenue from the cable TV franchise fees to the City. (NOTE: Even this revenue category is at risk because of the increasing use of alternate television and satellite options by consumers and pending federal and state legislation that could require open competition with current franchise holders without guarantees for franchise fees to municipalities.)

Year	License-Permits	Inc/Dec
2002	\$ 502,122	N/A
2003	\$ 521,965	3.95%
2004	\$ 534,862	2.47%
2005	\$ 479,340	-10.38%
2006	\$ 514,893	7.42%

**Table 9. Five-Year History of Licenses and Permits
City of Johnstown Financial Statements**

Intergovernmental revenue and departmental earnings are showing negative revenue trends partly due to lower draw downs for projects that have been completed and the transfer of the City's assets to outside ownership (i.e. the sewage treatment plant) or outside management (i.e. the golf course).

The following are observations drawn from a September 2007 review of the City revenue stream:

1. The City's structural core operating fund balance at year end 2005 was a negative (\$1,125,000). The City was able to achieve a positive overall fund balance for the general fund activities by transferring \$1,503,868 from sewer fund receivables into the general fund at year end. Because the City sold the sewage treatment plant to the Redevelopment Authority in 2005, the City did not collect additional sewer fee receivables beginning in fiscal year 2006.
2. The City's structural core operating fund balance at year end 2006 was a negative (\$1,032,208). There was approximately \$285,000 remaining in the City's sewer fund that was transferred into the general fund during fiscal year 2006 in order to close out the fund. This was not sufficient to create a positive overall fund balance for general operating activities for 2006.
3. The City increased its EMST (formerly the occupational privilege tax) to the statutory maximum of \$47.00 in 2005. This generates an additional \$700,000+ in revenue for the City on an annual basis. There will be a negative impact for this revenue effective in 2008 when the collections remitted to the City will be done on a quarterly basis and the fourth quarter will not be deposited with the City until 2009. Furthermore, the up-front low income exemption will erode the revenue collected from persons who fall into this category.
4. The City's general operating revenues have been either flat as in the real estate tax collection or declining as in the earned income tax collection. The City also lost a court case related to the business license fees in 2005 and, as a result, issued refunds in 2005 in the amount of \$30,000 and decreased the fees per license from \$300 to \$100 for 2006 and subsequent periods. This reduction in fees for business licenses was a budgeted decrease in the 2006 and 2007 budget.
5. Timely collection of real estate taxes continues to be a problem. The delinquency problem persists given the length of time before the Tax Claim Bureau is able to bring about tax sales. The City is still over-burdened with tax exempt properties (over 50% of total assessed value).
6. The City is taking the initiative to work with the School District to put additional pressure on their third party collector, CENTAX, to pursue the collection of EIT, Business

Privilege, and Mercantile Taxes in a more rigorous way in order to more aggressively address the delinquent collections.

6. When the non-recurring revenue is backed out from the City's revenue stream for purposes of identifying the core operating revenue and core operating expenditures, it is clear that the City's fund balance has been in a deficit position since 2002.

Fiscal Year	Total Revenues	Total Expenditures	Surplus (Deficit)
2002	\$ 8,352,173	\$ 8,804,583	\$ (452,410)
2003	\$ 9,017,546	\$ 9,119,090	\$ (101,544)
2004	\$ 9,337,910	\$ 9,907,617	\$ (569,707)
2005	\$ 9,434,659	\$10,559,659	\$(1,125,000)
2006	\$ 9,580,850	\$10,613,058	\$(1,032,208)

**Table 10. Five Year History of Revenue and Expense with Deficits
Wessel & Company – Financial Statements Executive Report July 11, 2007**

Expenditures

The City's general fund budget includes activities related to the general operation of the City government that include the following major categories: general government, administration and finance, fire department, police department, community development and public works.

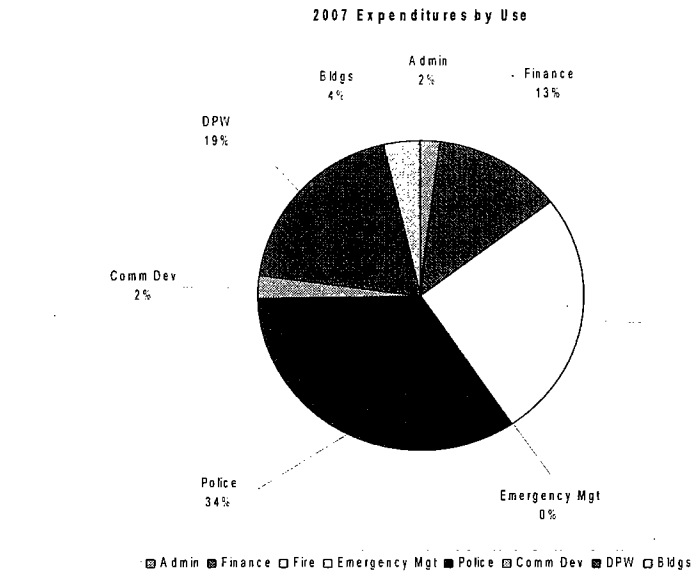


Figure 3. 2007 Expenditures by Use

Overall, the City's general operating expenses have increased, on average, by 4.8% per year over the past five years. The largest areas of increasing expenses have been in the police department, fire department, and department of public works due primarily to costs for wages and benefits. (NOTE: Capital projects have been funded from a separate capital project fund budget partially supported by the recently eliminated non-resident earned income tax rate under Act 47.)

Fiscal	Total	% Increase
Year	Expenditures	(Decrease)
2002	\$ 8,804,583	N/A
2003	\$ 9,119,090	3.57%
2004	\$ 9,907,617	8.65%
2005	\$ 10,459,659	5.57%
2006	\$ 10,613,058	1.47%
Average Increase		4.80%

**Table 11. Five Year History Total Operating Expenditures
City of Johnstown Audited Financial Statements**

Public safety expenses make up almost 60% of the City's general operating budget – with the police at 34% and the fire department at 26%. The department of public works makes up another 19% of the budget. Typically in a city budget, between 85% and 90% of the costs are associated with personnel and Johnstown is no exception. The City reported 205 full time and 13 part time employees for the DCED website statistics for 2006. With the exception of the City of Easton at 238 full time and 42 part time employees, the City of Johnstown has more employees than any other third class city of similar size.

Many of the costs of benefits are outside of the City's control with health care expense alone increasing from \$1.6 million in 2001 to \$2.5 million in 2006. Pension costs have also increased significantly from \$1.2 million in 2001 to \$2.4 million in 2007. With such high personnel costs for City employees, there are reduced resources available for areas such as planning, community development, building and code enforcement, recreation, libraries, and other quality of life activities for the community.

1. General Government

Expenses in this area are relatively stable increasing at a rate of 3.5% per year. The City filled the vacant position of Assistant Manager in July of 2006.

2. Finance

The actual expenditures in this department decreased from \$2.7 million in 2001 to about \$1.168 million for 2006 due to the fact that most of the benefits and personnel related costs that were formerly captured in this category have been distributed to the respective departments. This department currently utilizes ten positions including the Finance Director and should be evaluated in terms of the specific functions for each position and the most appropriate level of staffing for the functions that are performed. The City recently implemented an upgraded municipal software system for the finance and accounting department (Pro-Soft) and this system should be used to efficiently monitor costs associated with each employee and each function in all departments so that decisions can be made about proper staffing and whether a contracted service may be more appropriate for some services.

3. Fire Department

The City's fire department, with 41 paid firefighters, makes up about 26% of the City's operating budget at about \$2.8 million for 2006. It is difficult to track the expense trending for the fire department because benefits were distributed to departments beginning in 2005. These escalating costs for health benefits, workers compensation, and pension liabilities are driving the expenses for the delivery of fire service. The table below demonstrates the escalating cost for this service.

Year	Fire Dept	Inc/Dec
2002	\$ 1,885,622	N/A
2003	\$ 1,921,116	1.88%
2004	\$ 1,962,864	2.17%
2005	\$ 2,714,499	38.29%
2006	\$ 2,819,921	3.88%

**Table 12. Five Year History of Fire Department Expenses
City of Johnstown Audited Financial Statements**

There have been some attempts to contract fire service to other communities but the interest revenue generated by these contracts has been minimal. Structure, scheduling, and staffing levels must be thoroughly reviewed before any vacant positions are filled. Any new work rule initiatives by the IAFF must be carefully analyzed with regard to impact on the City budget.

4. Police Department

The City's police department, with 48 paid police officers including the Police Chief, makes up about 34% of the City's operating budget at about \$3.7 million for 2006. It is difficult to track expense trending for the police department because benefits were distributed to departments beginning in 2005. The escalating costs for health benefits, workers compensation and pension liabilities are driving the expenses for the delivery of police service.

Year	Police Dept	Inc/Dec
2002	\$ 2,578,905	N/A
2003	\$ 2,482,595	-3.73%
2004	\$ 2,696,657	8.62%
2005	\$ 3,673,521	36.23%
2006	\$ 3,690,983	0.48%

**Table 13. Five Year History of Police Expenses
City of Johnstown Audited Financial Statements**

There are contracts for police services to other municipalities and to the housing authority, but it is unclear whether the revenue generated by these contracts actually covers the cost of providing service to these communities. Structure, scheduling, and staffing levels must be thoroughly reviewed before any vacant positions are filled.

5. Community Development

As in the past, the City enjoys considerable savings through utilization of CDBG funds to fund City projects performed by City employees. It appears that leaving some positions unfilled is still a necessity in order to obtain needed budget savings. The Animal Control program was transferred to the police department in 2006. Higher costs in this department due to the collective bargaining agreements are somewhat mitigated by the use of HUD funding to support positions and activities.

6. Public Works

The Public Works Department is now headed by a Director of Public Works rather than supervised out of the City Manager's office. The City's public works department, with 42 employees, makes up about 19% of the City's operating budget at about \$2.5 million for 2006. It is difficult to track expense trending for the public works department because benefits were distributed to departments beginning in 2005. The escalating costs for health benefits, workers compensation, and pension liabilities are driving the expenses for the delivery of public works service.

Year	Public Works	Inc/Dec
2002	\$ 1,529,207	N/A
2003	\$ 1,605,373	4.98%
2004	\$ 1,728,362	7.66%
2005	\$ 2,576,105	49.05%
2006	\$ 2,522,254	-2.09%

**Table 14. Five Year History Public Works Expenses
City of Johnstown Audited Financial Statements**

Structure, scheduling, and staffing levels must be thoroughly reviewed before any vacant positions are filled. The City has left positions vacant in this department through 2006, and unfilled positions were carried forward in order to stay within budget in 2007.

7. Health Benefits

Health benefits for all departments have escalated dramatically over the past five years for all full time employees. This expense has increased from \$1,579,109 in 2001 to \$2,513,032 in 2006 – an increase of 59% in five years.

Year	Health Insurance	Inc/Dec
2001	\$ 1,579,109.00	
2002	\$ 1,762,376.00	11.61%
2003	\$ 2,111,105.00	19.79%
2004	\$ 2,252,539.00	6.70%
2005	\$ 2,478,310.00	10.02%
2006	\$ 2,513,032.00	1.40%

**Table 15. Six Year History for the Cost of Health Care Benefits
Wessel & Company – Financial Statement Executive Summary 2007**

In addition, post-retirement health care benefits have escalated to an annual expense of over \$392,000 with forty-five (45) retirees meeting the eligibility requirements and most employees eligible for full coverage for themselves and dependents at retirement. This liability will be

calculated by the actuaries in order for the City to be in compliance with accounting standard GASB 45. This has a substantial negative impact on the general operating budget.

8. Worker Compensation

Previous worker compensation claims under the City's self-insurance fund are valued at \$1,567,192 and the City's self-insurance fund has assets of \$262,458 at year end 2006. The City became fully insured for Worker's Compensation in 1999 through a contract with Penn Prime for an annual premium amount.

Capital Fund

Revenue

The Act 47 levy that increased non-resident earned income tax helped to support the capital project fund for the City for years but was eliminated in 2005. The residents continue to pay an additional .2 % EIT rate, above the .5% maximum rate under Act 511, under the Home Rule Charter. The revenue generated from the additional .2% is dedicated to fund capital projects. In 2005, the City received approximately \$10 million from the sale of the sewage treatment plant to the Redevelopment Authority. The proceeds were transferred to the capital project fund where approximately \$6 million remains for future capital projects.

In 2006, the City completed a \$6 million general obligation bond issue for projects. Some of the planned capital projects include: improvements to Point Stadium; payoff the Washington County loan for Renaissance project; improvements to City Hall; improvements to the Public Safety Building; improvements to the Washington Street Garage. The 2006 audited financial statements report \$9,610,845 in assets in the capital fund at year end.

The City has developed a business plan for Point Stadium in order to make decisions about the priority of the projects that have been identified. To date, the City has also established a tentative marketing plan and fee structure for the Point Stadium to become revenue generating

in 2008. In addition, the City has entered into an Agreement with the War Memorial Authority for concession services at the stadium. The Authority borrowed \$75,000 to do the build outs in two stands and will pay the City 25% of the profits above the loan payment schedule until the loan is satisfied. Upon loan satisfaction, the City will receive 50% of the net income from the concession stands.

Expenditures

The assets in the capital project fund will continue, in the short run, to allow the City to fund critical projects for the community. The City prepares a Capital Project budget each year that is reviewed and approved by the City Council along with the general operating budget.

Recreation

Revenue

Recreation in the City is largely funded by a special levy on real estate. This levy, which was 4.494 mills generated over \$599,688 in 2006. This levy was increased in 2007 to 5.9555. There continues to be significant uncertainty about fees, cost recovery and uses for Point Stadium. While most municipalities place recreation programming in a fee-for-service category, the City of Johnstown fees for service only support about 11% of the operating costs for recreation. There is a social component of recreation that fulfills certain quality of life issues for residents. Recreation will, therefore, continue to be largely supported by tax revenue. A detailed cost study should be conducted by the Finance Department to determine whether there is reasonable cost recovery for recreation programs through fees.

Expenditures

The Recreation Department employs 2 full time positions at Point Stadium, 2 full-time and 2 part-time positions at Roxbury Park Stadium, and a full time Recreation Director with 2

summer assistants. In addition, there is the equivalent of 2 additional public works employees who work at the various City parks in maintenance and labor activities. Expenditures are estimated to be \$885,000 for 2007 and are expected to be covered by the tax levy and fees for services.

Sanitation Fund

Revenue

The user fee charged to all property owners for pick-up and disposal of refuse supports this Fund. Collections have improved over past years but continued oversight in the area is critical. The revenue trend indicates that there is a revenue increase that averages about 4% per year over the past four years generating over \$1.303 million in revenue for calendar year 2006. The City also annually receives a performance grant from DEP related to recycling activities that was \$81,059 in 2006.

In 2006, the Finance Department worked with Wessel and Company to do a comparison of the sanitation records with those of the water company in order to identify potential users who were not on the City records. The comparison identified discrepancies of approximately 540 accounts. The Finance Department and the Codes Department are working to research the various accounts and hope to return many of them to paying customers.

Expenditures

The total expenses for Sanitation in 2006 were \$1,390,941. For both 2005 and 2006, the City experienced an operating loss in the sanitation fund bringing the fund balance deficit at year end 2006 to a negative (\$139,898).

The City bid out the solid waste and recycling contract for 2007 and the new contract came in at \$1.174 million. Total costs for this operation are estimated to be approximately \$1.343 million for fiscal year 2007. Fees for service and the state grants for recycling should cover the cost of providing this service.

Parking Fund

Revenue

The City continues to pursue its options to increase collections through its on and off-street facilities. The total revenue generated for 2006 was \$1.176 million and estimated to be \$1.182 million for 2007.

Expenditures

The 2006 audited financial statements indicate that there was \$ 887,807 in revenue derived from services and \$1,176,711 in expenditures driving the deficit balance in the parking fund to (\$411,841). In 2005, there was a surplus in this fund due to the refunding of the Parking Bonds in 2004 that included a lower debt service payment for 2005. However, beginning in 2006, the bond payment that had been reduced returned to its original higher level. The new parking facility continues to be about 75% full on a regular basis. Currently, the \$1.182 million budget for 2006 includes 1 parking meter serviceman, 2 clerks, and 3 parking enforcement personnel. It is estimated by the Finance Department that the parking revenue will meet or exceed the parking expenditures for 2007.

Pension Fund

Revenue

In 2006 the City levied 8.467 mills on real estate in the City to assist in funding the unfunded actuarial accrued liability (UAAL) for the pension funds. In 2007, this levy was raised to 10.049. This levy generates approximately \$1.125 million. Other revenue for the pension funds includes employee contributions, state aid, and investment returns. From 2003 through 2005, the City experienced actuarial losses in each of the pension funds due to poor investment returns, more retirees than active employees, and higher benefits, as follows: police (\$1,167,710); fire (\$731,173); and officers and non-uniform employees (\$638,740). The total actuarial loss experienced by the pension plans was (\$2,537,623) which has caused the UAAL for the plans to increase from \$8.7 million in 2000 to over \$19 million in 2005. In first quarter 2007, the City hired a pension consultant, Morrison Fiduciary Advisors, Inc. to work with the Pension Committee and the City officials to address investment policy, actuarial assumptions, and investment performance for the four respective pension funds. In August of 2007, the City selected two new investment managers to manage the funds: C.S. McKee in Pittsburgh and State Street Global Advisors in Boston.

Expenditures

Pension costs continue to escalate because of more retirees, higher wages, and additional benefits for employees in the plans. These factors, together with poor investment performance in the funds, has resulted in an increase in the City's annual pension expense from \$1,234,743 in 2001 to \$2,399,197 in 2007 – an increase of 94% in six years.

Year	Pension Expense	Inc/Dec
2001	\$ 1,240,976	N/A
2002	\$ 1,442,476	16.30%
2003	\$ 1,409,061	-2.03%
2004	\$ 1,858,040	31.94%
2005	\$ 1,930,830	6.55%
2006	\$ 2,135,177	7.96%
2007	\$ 2,399,197	12.37%

**Table 16. Seven-Year History of Pension Expenses
Mockenhaupt - 2007 Pension Actuarial Report**

The Johnstown pension plans received a determination from PERC in 1986 and continue to be in Level III Distress under Act 205 which requires the implementation of mandatory options for higher funding contributions, lower benefits for new hires, and special taxing authority.

Post Retirement Health Care Liability

Currently, the City is on a pay as you go program for funding post retirement health care benefits. During 2006, this expenditure was \$392,788. Beginning in 2007, GASB 45 standards require that the post-retirement health care for employees must be disclosed as part of the City's financial statements. Although this calculation has not been completed by the City's actuarial consultants, it will be a very large liability for the City because of the following factors:

- For police employees retiring after 01/01/97, the City is required to pay 100% reimbursement for health care for retired employees and their dependents.
- For fire employees who are age 50 and have 20 years of service and retire after 01/01/89, the City is required to pay 100% reimbursement for health care for retired employees and their dependents.

- For officers and non-uniform employees retiring after 01/01/97, the City is required to pay 100% reimbursement for health care benefits for the retired employees and their dependents.
- For sewage employees, the City pays \$250 per month reimbursement for health care expenses for retired employees and/or their dependents.

Once this liability is calculated and disclosed, the City should develop a plan and determine how to begin to fund the liability from an annual appropriation from its operating budget.

Sewage Fund

Revenue and Expenditures

The City sold the sewage treatment plant to the redevelopment authority in 2005. The City received approximately \$10 million from the sale of the plant and these funds were transferred to the capital project fund where approximately \$6 million remains for future capital projects. Residual receipts of \$1.5 million were transferred to the general fund in 2005 to offset an operating deficit. About \$285,000 of residual receipts remained in the fund in 2006. These funds were used to help offset the deficit in the general operating fund for 2006.

Review of the Fiscal year 2006 Audit

General Fund and Other Governmental Funds

The General Fund experienced an excess of expenditures over revenue totaling (\$1,032,208) at the close of the fiscal year. The City transferred \$285,000 from residual sewer receipts but the amount was not sufficient to create a positive fund balance. The Audited Financial Statements, after adjustments and transfers report a deficit fund balance for 2006 in the

general operating fund in the amount of (\$747,208). The deficit fund balance for all governmental funds (excluding the Capital Projects Funds) is (\$1,234,248.). In addition to the negative fund balance in the General Fund, other governmental funds that exhibited negative fund balances at year end 2006 are:

Kernville TIF Fund	(\$ 92,045)
Parking Revenue Fund	(\$ 411,841)
Debt Sinking Fund	(\$ 58,978)
Recreation Fund	(\$ 44,061)
Pension Fund	(\$ 762,076)
Sanitation Fund	(\$ 139,898)
Golf Fund	(\$ 70,453)

General Fund Revenue

Despite conservative budget estimates and significant discounting, revenue fell short of the budget by \$238,269 for the following reasons:

- Tax revenue received was (\$267,127) under budget.
- Payments in lieu of taxes were under budget by (\$90,000)
- Licenses and permits were under budget by (\$36,623)
- Departmental earnings were under budget by (\$73,148)
- Grants and joint projects exceeded budget by (\$64,789)

General Fund Expenditures

Expenditures exceeded the budget by (\$522,492). However, upon review, it is apparent that all departments achieved savings within individual categories but because of a budgeting error in the finance department related to reimbursement of employee benefits, the budget was substantially over-expended.

- General government was under budget by \$51,038
- Fire Department was under budget by \$73,118

- Police Department was under budget by \$45,892
- Public Works Department was under budget by \$106,360
- Finance Department exceeded the budget by (\$844,663)

Most significant savings in the departments was achieved by leaving positions vacant and through a leveling off of health insurance costs during 2006.

Budget Challenges (FY 2006-2009)

As noted above, the City of Johnstown has experienced both successes and setbacks in its recovery effort over the past three years. Based on an analysis of historical trends, the following projections for fiscal years 2007, 2008, 2009 were prepared. These projections assume that no corrective action in the form of additional revenue or cost containment is implemented.

	Actual	Actual	Actual	Projected	Projected	Projected
<i>Revenues:</i>	2004	2005	2006	2007	2008	2009
RE Taxes-GL	3,450,941	3,440,143	3,404,627	3,438,673	3,473,060	3,507,791
Act 511	1,805,649	2,424,511	2,420,954	2,486,320	2,223,411	2,553,451
PILOT	250,000	175,000	160,000	160,000	175,000	190,000
Lic & Permits	534,862	479,340	514,893	525,191	535,695	546,409
Fines & Forfeit	129,983	167,962	180,993	178,146	181,709	185,343
Grants	1,046,962	759,731	514,874	600,000	625,000	650,000
Departmental	1,053,531	1,093,790	1,096,880	1,118,818	1,149,026	1,180,049
Interest/Inv	61,045	75,803	103,641	105,196	106,774	108,375
Interfund	795,363	786,397	969,336	915,000	725,000	745,000
Other	209,574	31,982	214,652	235,000	225,000	237,000
TOTAL	9,337,910	9,434,659	9,580,850	9,762,343	9,419,674	9,903,417
<i>Expenditures:</i>						
General Govt	167,852	234,525	181,719	188,079	191,841	195,678
Finance	3,117,782	925,042	1,168,419	1,209,314	1,233,500	1,258,170
Fire	1,986,353	2,881,349	2,819,921	2,918,618	3,020,770	3,126,497
Police	2,696,657	3,673,521	3,690,983	3,727,893	3,783,811	3,840,568
Comm Dev	210,611	269,117	229,762	203,754	205,215	206,113
Public Works	1,728,362	2,576,105	2,522,254	2,484,420	2,534,109	2,584,791
TOTAL	9,907,617	10,559,659	10,613,058	10,732,078	10,969,245	11,211,816
<i>Excess Revenue Over/(Under) Expenditures</i>	(569,707)	(1,125,000)	(1,032,208)	(969,735)	(1,549,572)	(1,308,399)

**Table 17. General Operating Core Revenues and Core Expenditures
Three-Year Actual and Three-Year Projected Revenues, Expenditures, and Fund Balances**

It is projected that without a significant new source of revenue or increases to the current tax rates and/or without a significant cost containment effort that includes lower levels of staffing, the three years of substantial deficits will continue over the next three years. The detailed history

and projections from Table 17 are summarized below in Table 18 with projected operating deficits.

<i>Year</i>	<i>Revenues</i>	<i>Expenditures</i>	<i>Deficit</i>	<i>Review</i>
2004	9,337,910	9,907,617	(569,707)	Audited
2005	9,434,659	10,559,659	(1,125,000)	Audited
2006	9,580,850	10,613,058	(1,032,208)	Audited
2007	9,762,343	10,732,078	(969,735)	Projected
2008	9,419,674	10,969,245	(1,549,572)	Projected
2009	9,903,417	11,211,816	(1,308,399)	Projected

Table 18. History and Projections of General Operating Revenues and Expenditures

Of paramount concern will be structuring cost containment strategies for addressing the escalating costs related to personnel, the rising costs of insurance (especially health care coverage), the rising costs of pension and post-retirement health care liability. In order to address the further erosion of tax base, the creation of new jobs and businesses will continue to top the City's agenda. While the City Council should strive to maintain tax rates at reasonable levels, the absence of growth and updated property assessments will continue to reduce the value of a mill, resulting in revenue decreases that the City cannot afford.

Summary

The City's general fund expenses, increasing at approximately 4.8% annually, are far outpacing the City's general fund revenues, which are increasing at approximately 2.7% annually. For this reason, the City's fund balance has decreased from a high in 2001 of over \$752,000 to a negative fund balance of (\$1,032,208) at fiscal year end December 31, 2006 and projected to be at least a deficit of (\$969,735) at year end 2007.

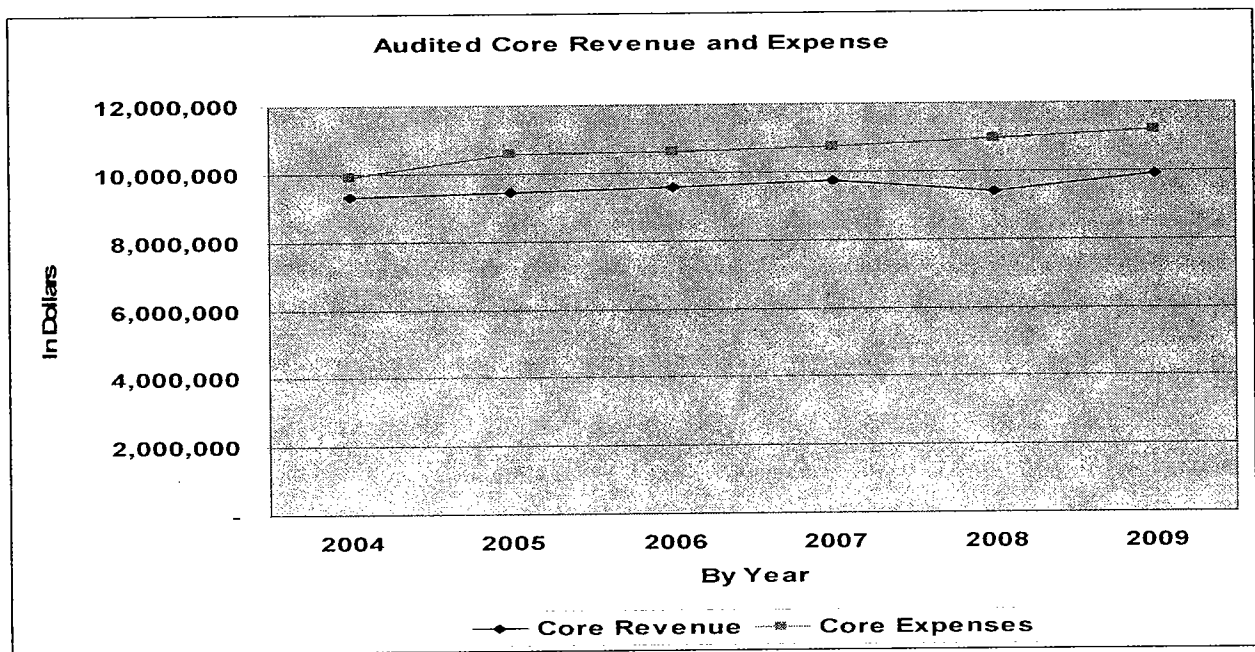


Figure 4. Core Revenue and Expenditures – Audited 2004-2006 and Projected 2007-2009

The City has been able to meet its current obligations over the past three years through a variety of one-time strategies that have generated large infusions of non-recurring cash. In fact in 2004, the City transferred \$813,574 from other funds in order to meet obligations, \$500,000 of which was from the sale of the sewage treatment plant. In 2005, the City transferred \$1,503,868 in residual sewer receipts to bring the general operating fund balance to a positive position. These strategies also included the refund of a bond issue, the sale of assets, and the aggressive collection of delinquent tax revenue. Despite these strategies, the City experienced a major decrease in its fund balance from 2001 through 2006 partly because of the decision to fund over \$1,000,000 for the Renaissance project through its general fund assets and to take on \$1,320,348 in additional debt for this project through a Washington County Note, but also because of escalating personnel costs that include staggering health care and pension expense.

The proposed 2008 budget, even with cost containment and the reduction of several positions within the City organization, exhibits an approximate \$877,000 operating deficit due to the following factors: flat revenue from real estate taxes, a decrease in Local Services Tax due to the fourth quarter “drift” into 2009; elimination of historical transfers that do not result in available cash; adjustments to revenue categories that have been over-budgeted in the past. For this reason the Recovery Plan includes the re-introduction of a special levy under Act 47 for non-resident Earned Income Tax and an increase to the resident rate for Earned Income Tax during the term of this Amended Recovery Plan. This recommended initiative for the City is addressed further in Chapter V of this Plan.

With escalating personnel and benefit costs, substantial liabilities for workers compensation, pension, and post-retirement health care benefits, and long-term debt related to economic development projects, the City is in a very precarious financial position going forward. Unless there are major improvements to the City’s tax base or major cuts in personnel costs, the City will be hard pressed to meet its current operating expenses over the next several years. The City intends to control its work force costs through attrition in some departments but minimum manning clauses in the public safety contracts continue to make it difficult to make adjustments to many of these areas. The expectation is that benefit costs will continue to rise by 8% to 15% over the next three years and that the City will continue to carry substantial liabilities as noted above.

The City is beginning to experience some healthy signs in the area of business taxes, LST revenue, and for deed transfer income. Unfortunately, the declining real estate assessments, the increases to non-taxable assessed value, and the stagnant collection of earned income tax counteract many of the positive trends in other revenue. As a result, the City is years away from

any significant revenue enhancement that will have an impact on its ability to support the City workforce at its current levels.

Table 19 below is a complete summary of all City of Johnstown governmental funds. The City's historical trends of ongoing governmental fund deficits demonstrates just how difficult it will be to bring the City finances into a positive fund balance position over the next several years.

	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Budget</i>
	2003	2004	2005	2006	2007
RE Taxes-GL	\$ 8,125,943	\$ 7,540,975	\$ 7,652,994	\$ 7,808,060	\$ 7,742,258
PILOT	\$ 250,000	\$ 250,000	\$ 175,000	\$ 160,000	\$ 160,000
Licenses & Permits	\$ 545,415	\$ 534,862	\$ 479,340	\$ 514,893	\$ 506,170
Fines & Forfeit	\$ 126,789	\$ 129,983	\$ 167,962	\$ 180,993	\$ 146,072
Intergovernmental	\$ 774,786	\$ 795,363	\$ 786,397	\$ 969,336	\$ 1,190,023
Charges for Services	\$ 2,720,032	\$ 2,677,401	\$ 2,760,870	\$ 2,714,734	\$ 2,524,283
Departmental	\$ 796,374	\$ 1,053,531	\$ 1,093,790	\$ 1,096,880	\$ 1,997,279
Interest/Inv	\$ 146,710	\$ 129,983	\$ 341,731	\$ 348,786	\$ 437,300
Grants & Joint Projects	\$ 18,438,401	\$ 7,061,154	\$ 8,571,310	\$ 9,427,080	\$ 2,733,562
Other	\$ 202,079	\$ 288,184	\$ 541,910	\$ 232,075	\$ 10,000
TOTAL	\$ 32,126,529	\$20,461,436	\$22,571,304	\$ 23,452,837	\$ 17,446,947
General Government	\$ 4,484,456	\$ 5,134,467	\$ 3,087,393	\$ 3,413,407	\$ 1,409,237
Public Safety	\$ 4,294,880	\$ 4,683,010	\$ 6,554,870	\$ 6,510,904	\$ 6,647,305
Community Development	\$ 6,350,259	\$ 3,917,469	\$ 4,809,630	\$ 4,727,596	\$ 5,561,756
Parking	\$ 1,122,409	\$ 676,153	\$ 790,847	\$ 1,176,711	\$ 111,500
Public Works	\$ 2,005,538	\$ 2,135,028	\$ 2,987,392	\$ 2,965,067	\$ 2,534,152
Human Services	\$ 424,636	\$ 396,289	\$ 940,144	\$ 827,877	\$ 883,568
Culture & Recreation	\$ 1,004,633	\$ 970,011	\$ 738,479	\$ 613,084	\$ 885,023
Capital Expenditures	\$ 13,220,463	\$ 2,916,752	\$ 3,959,495	\$ 8,730,544	\$ 1,123,943
Debt Service	\$ 67,420	\$ 38,675	\$ 97,564	\$ 1,163,065	\$ 1,066,452
Sanitation Expenses	\$ 1,219,064	\$ 1,221,032	\$ 1,427,044	\$ 1,390,941	\$ 1,361,818
TOTAL	\$ 34,193,758	\$22,088,886	\$25,392,858	\$ 31,519,196	\$ 21,584,754
Excess Revenue	\$ (2,067,229)	\$ (1,627,450)	\$ (2,821,554)	\$ (8,066,359)	\$ (4,137,807)
Over/(Under) Expenditures					

**Table 15. Four-Year History All Governmental Funds with 2007 Budgeted Amounts
City of Johnstown Audited Financial Statements and Adopted 2007 Budget**

CHAPTER IV

Work Force

The Act 47 Coordinator has analyzed the provisions and key costs associated with each City collective bargaining agreement now in effect. Given the City's financial situation, these costs and their rate of future growth must be contained. In addition, the Coordinator has analyzed the various programs and costs for non-represented employees. Costs for both employee groups must be reduced if the City is to become fiscally sound. In consideration of the City's fiscal distress, this Recovery Plan mandates the following initiatives which shall become binding upon the date of adoption of the Recovery Plan.

I. All Employees: Non-Union and All Unions

The Coordinator's initiatives for all City employees (union and nonunion) are as follows.¹ Wherever reference is made to parameters for bargaining units and collective bargaining agreements in the following initiatives (e.g., limitations on new benefits, healthcare cost containment), such provision shall also apply fully to non-represented personnel. It may also be noted that some initiatives in this section may not apply to all bargaining units, and that changes for certain groups may not be implemented until the end of current collective bargaining agreements.

I. Limit New Contract Enhancement

Unless, and only to the extent that, applicable law requires a change in any of the wages, benefits, terms, provisions or conditions enumerated herein, all new labor agreements between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or otherwise) covering calendar years 2008 and subsequent years (or any portion thereof) shall not contain, require or provide for any of the following:

- a. new overtime or premium pay requirements;
- b. any increase in overtime or premium pay requirements;
- c. new benefits;
- d. any improvements in existing benefits;
- e. any new paid or unpaid leave;
- f. any improvements to existing paid or unpaid leaves;
- g. any additional pay for time not worked;
- h. any improvements in existing pay for time not worked;

¹ In some cases, recommendations may represent reaffirmation or clarification of existing management rights. Although most recommendations would require changes to collective bargaining agreements for union-represented personnel, inclusion of any specific recommendation herein should not automatically be interpreted to imply that the recommendation is currently constrained.

- i. any new designations that time not worked counts as time worked for the purpose of computing overtime or premium pay or increases in existing designations of same;
- j. any new benefits for retirees or other inactive employees (e.g., those in layoff or disability status);
- k. any improvements in existing benefits for retirees or other inactive employees;
- l. any other term or provision which adds any new or additional restrictions on the City's Management Rights.²

2. Redesign Healthcare Plans with Employee Contributions

The skyrocketing cost³ of employee health care is a major point of pressure for budgets across the state and the nation, in both the private and public sectors. According to national surveys, growth in health insurance costs outpaced the rate of inflation and the growth in workers' wages. Premiums for family coverage have increased by 87% since the year 2000 compared with cumulative inflation of 18% and cumulative wage growth of 20%. In 2005, premiums rose by 9.2% after an 11.2% increase in 2004. Between spring of 2005 and spring of 2006, premiums rose by 7.7%, a slower rate than the two prior years, but still higher than inflation and average wage growth. Average annual premiums for employer-sponsored coverage are \$4,242 for single coverage and \$11,480 for family coverage.

Despite these cost pressures, relatively few employers offering health benefits report that they plan to drop coverage or limit eligibility in the next year. Instead, the national trend has been to increase the level of employee premium contributions, increase plan deductibles, increase copayments or coinsurance for office visits, or increase worker payments for prescription drugs.

Over 75% of covered workers with single coverage and over 90% of covered workers with family coverage make a contribution toward the total premium for their coverage. Workers on average contribute \$627 annually toward the cost of single coverage and \$2,973 annually toward the cost of family coverage. Covered workers of smaller employers (3-199 workers) on average make a significantly higher annual contribution towards single and family coverage than covered workers of larger employers. In addition to their premium contributions, most covered workers make additional payments when they use health care services. For example, many employer plans include a general plan deductible which must be met before covered services are

² The term "Management Rights," as used herein, includes, without limitation, the rights to: promulgate and enforce work rules, policies and procedures; select, hire, promote, transfer, assign, determine the duties of, evaluate, layoff, recall, reprimand, suspend, discharge and otherwise discipline employees; establish, eliminate and redefine positions in accordance with the City's needs; determine the qualifications and establish performance standards for jobs and assignments; determine the methods, processes and means of performance, where and when work shall be performed, and the equipment to be used; determine the composition of the work force; create, abolish and change jobs and job duties; determine employees' hours and days of work, work schedules, shifts and reporting stations; determine whether to assign overtime and the amount required; require employees to work overtime; determine when a job vacancy exists, and select the best qualified candidate to fill it; take necessary actions in emergency situations; extend, curtail or change City operations and otherwise manage the City, its operations and its employees in its discretion.

³ The information regarding national trends and averages contained below is taken from the Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2006 Annual Survey*.

paid by the plan. The average annual deductible for single coverage is \$473 for workers enrolled in Preferred Provider Organizations (PPO's), which is the type of arrangement currently in effect under the City health plan. Average deductibles for covered workers with single coverage in small employers (3-199) are substantially higher than average deductibles in large employers (200 or more workers). However, these deductibles may not apply to all covered services. In addition to deductibles, many plans include co-insurance whereby the amount covered by the plan after the deductible is paid at less than 100%.

In addition, the vast majority of covered workers face copayments when they go to the doctor and for prescription drugs. The majority of covered workers are in plans that have multi-tier cost-sharing for drugs. Since 2000, the percentage of covered workers in a plan with three or more tiers of cost sharing for prescriptions has increased from 27% to 74%: (1) generic, (2) preferred and (3) non-preferred, with a higher copayment required for each tier.

The City's Health Plan as of January 1, 2007

The City currently maintains its medical PPO arrangement under a contract with Highmark Blue Cross/Blue Shield. In stark contrast to the national averages, the City's health care plans for represented employees are 100% paid by the City, while nonrepresented employees hired as of January 1, 2004 pay a small portion of the premium, and those hired after such date continue to pay the same small portion of single coverage, but are required to pay 50% of the premium for family, husband/wife or parent/child coverage.

With reference to the benefit package, the current plan contains no deductibles or coinsurance, and contains only modest copayments.

The City also maintains dental and vision coverage which is paid by the City for represented employees, and is included in the cost-sharing arrangement for non-represented employees.

A redesigned healthcare plan and employee contribution structure shall be implemented for all active employees no later than January 1, 2010 such that 2009 average costs per participant (including medical coverage, dental, and vision benefits in the aggregate) are reduced by 5 percent in year one, with future growth in the City's cost held at or below 6 percent in all future years. The revised plan design as of January 1, 2010 will be based on the average costs for those employees not covered by provisions of existing collective bargaining agreements without re-openers that were negotiated prior to the adoption of this Recovery Plan. As these existing collective bargaining agreements expire, all groups shall be moved under a single Citywide benefit program designed within the cost parameters above so as to achieve consistency, minimize administrative overhead, and maximize buying power. Opportunities for broader joint benefits programs shall also be explored. To continue to meet the above guidelines for ongoing cost containment, annual adjustments shall be made to plan design and employee contributions as necessary. City subsidies toward supplemental vision and dental care plans may also be reduced. The City shall not improve the benefit program while the Recovery Plan is in effect, even if market and/or experience factors result in underlying aggregate cost growth below the maximum rates of increase set forth above.

Further minimum guidelines for benefit structure and plan design shall include:

a. Establishment of an employee contribution toward the most affordable coverage option available to the employee at 15 percent of cost, with employees further paying the full incremental cost of any more expensive options. Alternative contribution structures (e.g., based on a percentage of salary rather than benefit cost) may be substituted with the approval of the Coordinator, so long as equivalent savings are achieved).

b. Increased office visit and prescription drug copayments, coinsurance, and other cost sharing mechanisms with periodic upward adjustments for inflation and/or changing market conditions.

3. Contain Post-Retirement Healthcare Cost

The following modifications shall be made to post-retirement health benefits:

a. The City shall no longer provide retiree healthcare to employees (or dependents) hired following the date of adoption of this Recovery Plan (or following the expiration of an existing collective bargaining agreement covering that employee, if subsequent to the Recovery Plan adoption date);

b. For all employees retiring after the date of adoption of this Plan (or following the expiration of an existing collective bargaining agreement covering that employee, if subsequent to the Recovery Plan adoption date), increases in healthcare premiums after the date of retirement shall be paid by the retiree.

c. The City shall maintain the level of benefits provided to existing retirees but shall retain the right to change the provider.

d. The healthcare, pension or other benefits currently provided to existing retirees and vested employees shall not be increased.

4. Limit Health Benefits for Part-Time Personnel

Part-time employees shall not receive City-paid health and welfare benefits. Part-time personnel may be allowed to purchase benefits at the City's cost.

5. Mandatory Post-Incident Drug and Alcohol Testing

At the City's discretion, employees shall be required to undergo drug and alcohol testing following reportable on-the-job accidents or injuries.

6. Limit Extended Healthcare Coverage

Individuals who are laid off will be limited to healthcare coverage as provided by COBRA regulations as of the date of layoff. Individuals who are disabled due to a non-work related illness or injury who are eligible for City healthcare will receive coverage for no more than twelve months from the date of disability.

7. Hiring Freeze

Unless required by an applicable collective bargaining agreement, the City shall not fill any staffing vacancies in any department without an affirmative recommendation of the City Manager and approval by the Act 47 Coordinator.

II. Union Employees: Bargaining Unit Specific Issues

1. Fire Fighters Contract

The City's Fire Fighters, including Fire Fighters, Captain, and Assistant Chief, comprise a bargaining unit represented by International Association of Fire Fighters, Local 463. The current labor agreement, which expired on December 31, 2006, as modified by the Act 111 interest arbitration award dated December 11, 2007, memorializes the terms and conditions of the Fire Fighters' employment and the rights and duties of the bargaining unit employees, the International Association of Fire Fighters, Local 463, and the City. In addition to the mandatory initiatives set forth for all employees in Section I: "All Employees: Non-union and All Unions" above, the Coordinator mandates the following specific initiatives for the Fire Fighters, which will become binding upon the date of adoption of this Fourth Amended Recovery Plan:

a. Retiree Healthcare

Employees hired on or before January 1, 2011 shall retain retiree healthcare but for such employees only and not for their dependents.

b. Minimum Manning

Article IX, Section 10 of the current labor agreement shall be replaced with the following:

The City shall have the right to determine the number and location of fire stations and companies, which includes the right to eliminate stations and companies, in its discretion. There shall be no minimum staffing levels per station or shift, or on an aggregate basis.

c. Reductions in Work Force

Article XV of the current collective bargaining agreement shall be replaced with the following:

