City of Johnstown
Cambria County

Financial Condition Evaluation of Designated Status Under Act 47

Municipalities Financial Recovery Act
(Act 47 of 1987, as Amended)

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INTRODUCTION

Since 2016, the Commonwealth of Pennsylvania's Department of Community and Economic Development ("DCED") has engaged Grass Root Solutions (GRS) to serve as the Act 47 Recovery Coordinator for the City of Johnstown (the "City"). In this capacity, the Recovery Coordinator's responsibilities include monitoring the financial progress of the City, providing consultation and advice to the City's elected officials and administrative staff, periodically reviewing and updating the City's financial Recovery Plan, and monitoring the City's implementation of the Recovery Plan.

Act 199, which amended Act 47 and was enacted in 2014, provides that municipalities operating under a Recovery Plan shall be subject to a termination of financial distress designation on the date that is five years from the effective date of the most recent Recovery Plan. For the City of Johnstown, the relevant Recovery Plan for this timeline is that Plan adopted as of October 28, 2013. Further, Act 199 requires that the Recovery Coordinator complete a report, prior to the end of the five year period, evaluating the financial condition of the municipality, and including one of the following findings:

1) conditions within the municipality warrant a termination of distressed status;

2) conditions are such that the municipality should be disincorporated;

3) conditions are such that the DCED Secretary should request a determination of a fiscal emergency; or

4) a three-year extension plan is warranted.

This Financial Condition Assessment report reflects the Recovery Coordinator's assessment as required by Act 199. Pursuant to the Act, the report will include:

- **Background** – Review of the City's involvement in the Municipalities Financial Recovery Act Program.
- **Progress under Act 47** – Statement as to whether the conditions that led to the determination of fiscal distress have been alleviated.
- **Financial Condition** – A complete review of the City's current financial condition and projection of future condition.
- **Preliminary Findings** - Recommendations as to which of the options under Section 255(a) is recommended by the Coordinator.
- **Coordinator's Recommendations** - Continuing recommendations to ensure the City will achieve an adequate level of financial stability.

BACKGROUND

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 because 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 Recovery Coordinator for the City under the Act.

The Recovery Plan was filed with the City Clerk on April 13, 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.

PROGRESS UNDER ACT 47

On July 13, 1994, Council enacted Ordinance No. 4685 amending the Plan to incorporate the Point Stadium Study, dated April of 1994. Over the initial 3 ½ 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 been alleviated and the City should 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. Nevertheless, the conditions leading to distress were not alleviated and the Coordinator recommended that the City should 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, nevertheless the conditions leading to distress had not been alleviated and the City should 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 reviewed the City's 2005 and 2006 audited financial statements and the City's actual revenues and expenditures through September 2007.

Based upon these reviews and analysis conducted in 2006 and 2007, the Coordinator concluded that the conditions leading to distress had not been alleviated and that the City should 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.

In the fall of 2010, the Coordinator reviewed the progress made by the City under the Fourth Amended Recovery Plan. Based upon that analysis, the Coordinator concluded that although substantial progress continued to be made in implementing Plan initiatives and improving the City's financial condition, nevertheless the conditions leading to distress had not been alleviated and the City should continue to operate pursuant to the Act and a Fifth Amended Recovery Plan.

Pursuant to Ordinance No. 5080, enacted by Council on December 30, 2010, Council approved the adoption and implementation of the Fifth Amended Recovery Plan.

Continuing review of the City's progress occurred during implementation of the Fifth Amended Recovery Plan. In the fall of 2012, the coordinator recommended that the City continue to operate under the Act and began preparation of the Sixth Amended Recovery Plan.

Pursuant to Ordinance No. 5137, enacted on October 28, 2013, Council approved the adoption and implementation of the Sixth Amended Recovery Plan.

Continuing review and progress was made under the Sixth Amended Recovery Plan. In February of 2016, Grass Root Solutions was appointed as the Recovery Coordinator for the City of Johnstown. The new Recovery Team conducted an extensive review of the City's financial condition. By late 2016, the City was facing a $1.8 million operating deficit that had been rolling forward for several years. The City Council found it necessary to obtain an unfunded debt loan in the amount of $6 million to restructure debt and to continue to operate and meet current year obligations.

Based on the Recovery Team's evaluation, the City continued to meet three of the Act's criteria under Act 47: 1) the City exhibited a structural deficit in seven of the past ten years; 2) expenditures exceeded revenues for three years or more; and 3) the City experienced a steady decrease in the level of municipal services over the past three years.

Pursuant to Ordinance No. 5236, adopted on August 28, 2017, by a 5-2 vote (with Williams and Stanton opposed) Council approved the adoption and implementation of the Seventh Amended Recovery Plan.

FINANCIAL CONDITION

The purpose of the Coordinator's Report on Financial Condition, pursuant to Act 47, as amended, Section 255 (a), is to evaluate the City's ability to provide and finance public services on a continuing basis. The International City/County Management Association (ICMA) and the Government Finance Officers Association (GFOA) use the following definitions and time frames when examining a local government's financial condition:

CASH SOLVENCY: *A government's ability to generate cash flow over a 60-day period to pay its bills*

BUDGETARY SOLVENCY: *A government's ability to generate revenues over its normal fiscal year to meet its expenditures and avoid deficits*

LONG-RUN SOLVENCY: *A government's ability, in the long-term, to pay all costs of doing business, as well as meeting all costs such as pension costs and accumulated accrued employee leave benefits, as they occur*

SERVICE-LEVEL SOLVENCY: *A government's ability to provide services at a certain level and quality that are required for the health, safety, and welfare of the community*

Sound financial management requires that local elected and appointed officials understand the financial condition of the City and that they make prudent decisions about the allocation of precious and limited community resources.

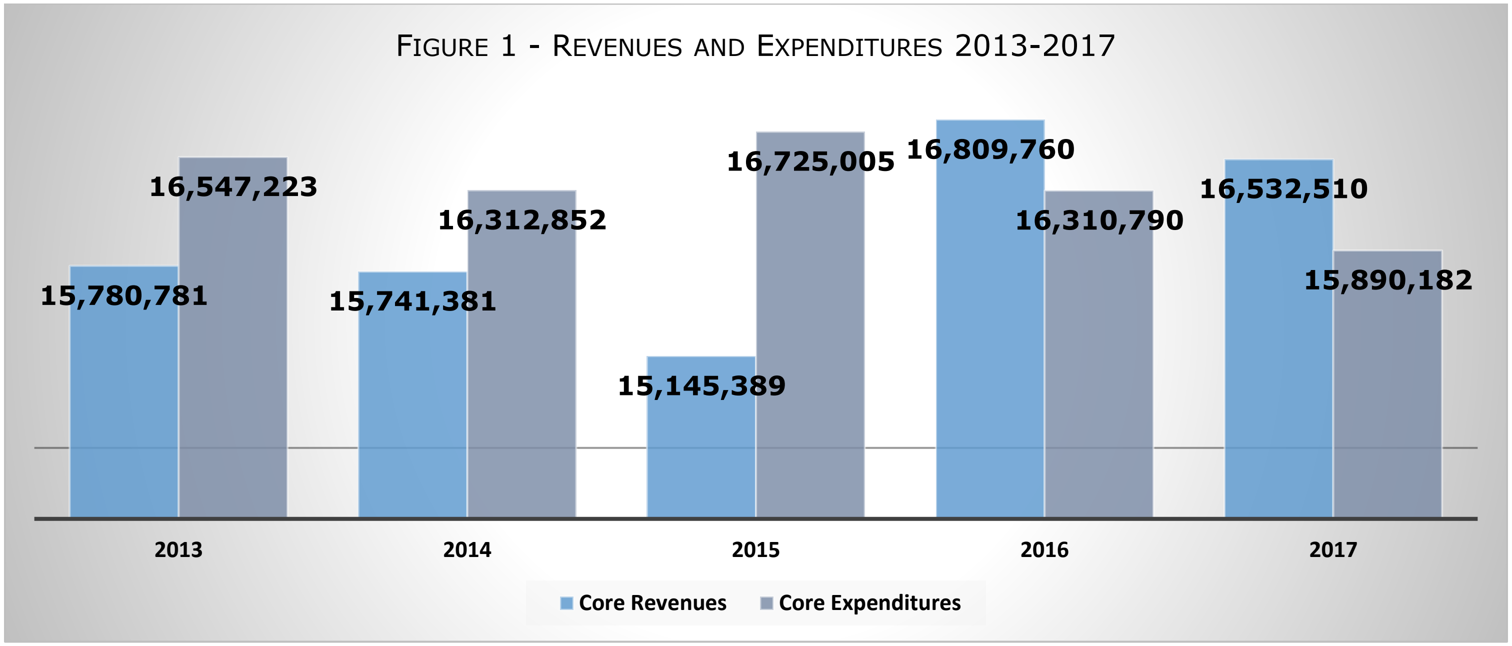
For this reason, the four levels of solvency are applied to the City's ability to deliver quality services to its residents. The prior five-year period and projections for the next five (5) years are the primary focus of this Financial Condition Evaluation

HISTORY OF FINANCIAL CONDITION

The gap between routine operating revenues and routine operating expenditures is defined as a "structural deficit." The City has experienced continuing structural deficits since its petition for financial distress in 1993. In 2008, the City's revenues finally exceeded expenditures for the first time in over a decade. But this was a result of the deposit of reserve proceeds into the general fund for reimbursement of capital expenditures. There was also a smaller deposit made to the general fund from the capital fund in 2009 resulting in a slight positive balance that year. Together these deposits provided the cash necessary for the City to address its negative fund balance for approximately two (2) years.

By 2016, the City was facing an estimated $1.8 million year-end deficit and was forced to petition the Common Pleas Court for an unfunded debt loan in the amount of $6 million to payoff existing debt and to meet current year obligations. The City continues to operate with about a $1 million gap between its ability to produce revenue and its routine operating costs.

Figure 1 provides the actual revenues and expenditures for the City's core operating funds.



SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

. . . the fact remains that the City continues to operate with about a $1 million gap between its ability to produce revenue and its routine operating costs.

The City, like other municipalities, dedicates about 85% of its expenditures to covering employee compensation and benefits. For this reason, the City has continually examined and taken steps to "right size" the staffing levels for all departments in the City. In 2003 the City had a staffing level of 209 employees. By 2013, this number was down to 163 employees. At the last update of the Recovery Plan in 2017, the City had reduced this number to 134. The reduction in the number of employees by such a considerable amount over a fifteen-year period should have resulted in a significant decrease in expenditures. However, this is not the case. Between 2007 and 2017 the City actually experienced an increase of about 3% in General Fund operating expenditures due to escalating benefit costs (both current employees' health care and post retirement employees' health care), workers compensation costs, and steadily increasing pension payments. Simply stated, the City's expenditures are increasing at a rate that is higher than the increase in revenues and the forecast for revenues is not encouraging.

TABLE 1 – REVENUES AND EXPENDITURES 2013 – PROJECTED THROUGH 2021

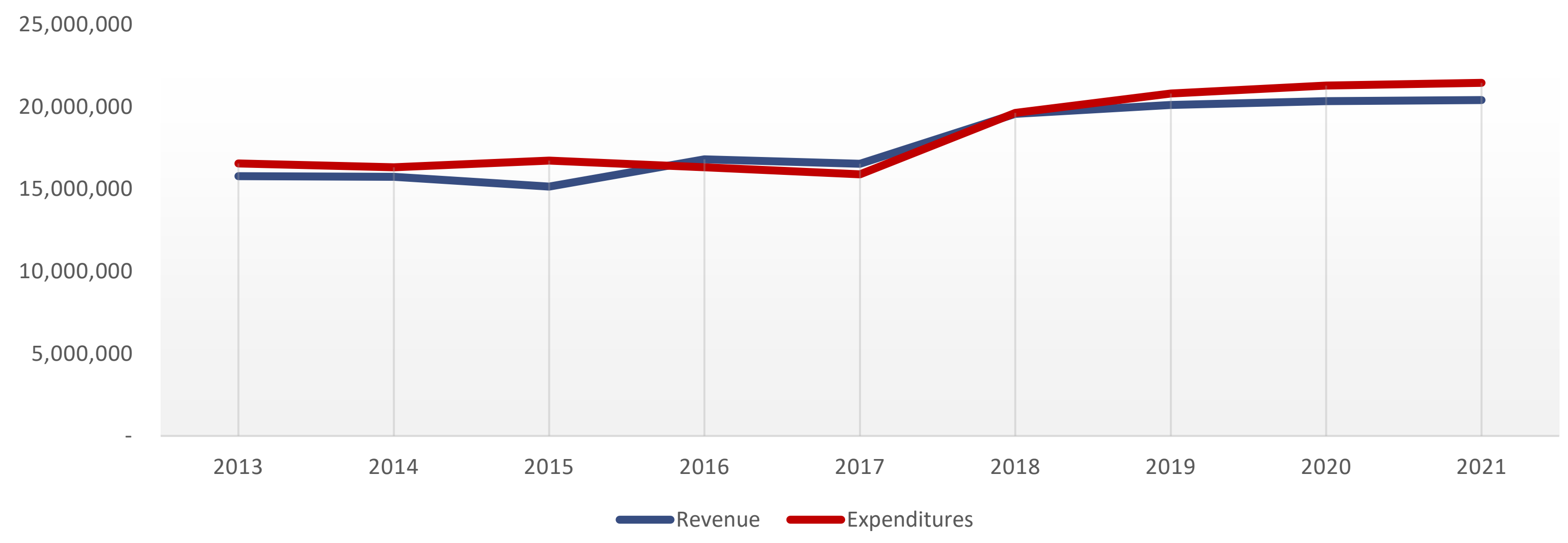
2013	Audited	15,780,781	1.66%
2014	Audited	15,741,381	-0.25%
2015	Audited	15,145,389	-3.79%
2016	Audited	16,809,760	10.99%
2017	Actual	16,532,510	-1.65%
2018	Projected	19,562,536	18.33%
2019	Projected	20,112,194	2.81%
2020	Projected	20,342,373	1.14%
2021	Projected	20,403,375	0.30%

Beginning in 2018, several core funds were combined with GL fund

SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

Figure 2 depicts the projected gap between revenues and expenditures beginning in 2018.

FIGURE 2 - HISTORY OF REVENUE AND EXPENDITURES WITH PROJECTIONS 2013 - 2021



CORE OPERATING FUNDS

In order to conduct a comprehensive review of the activity and transactions that impact the City's overall financial condition, it is necessary to identify the "core operating funds" that are supported by the City's annual levy of taxes and fees. These funds are:

If there is a shortfall in any one of these funds during any fiscal period, it is incumbent upon the general fund to make up the shortfall and provide the funds to support the continued operations for these funds. In fact, by law, the pension fund obligations and the debt service fund obligations have primary status and must be supported by the appropriate level of tax levies or other revenue sources. The financial position of the City can only be understood through a discussion of the activity and balances captured as a part of these core operating funds (core funds).

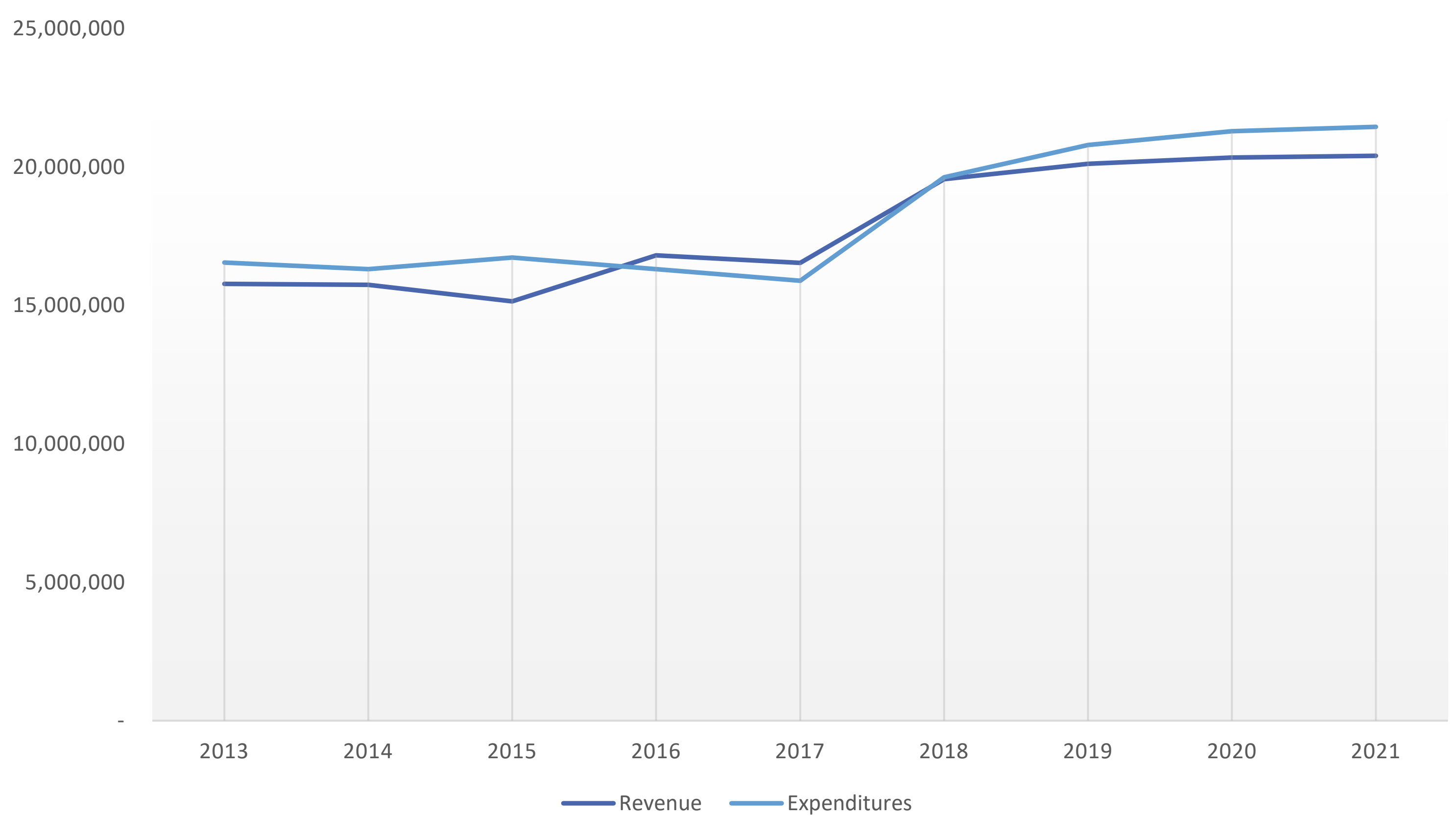
In most years, the core fund balances of the City have exhibited a structural deficit. Only in 2008 and 2009 did the City realize a significant excess of revenue over expenditures in its general fund which was a result of the transfer of capital funds from a reimbursement account and not from increases to actual core revenues. With the exception of 2008 and 2009, the City's core funds remained in a significant deficit position. The negative fund balances also became larger as they rolled forward from year to year. **Table 2** and **Figure 3** summarize the fund balance positions from 2013-2017 for the core funds and provides projections through 2021.

TABLE 2 – CORE OPERATING FUNDS – EXCESS REVENUE OVER EXPENDITURES AND FUND BALANCE

Combined Core Operating Fund Activity									
Fund	**Audited 2013**	**Audited 2014**	**Audited 2015**	**Actual 2016**	**Actual 2017**	**Projected 2018**	**Projected 2019**	**Projected 2020**	**Projected 2021**
01.General	(592,054)	(774,181)	(1,305,910)	3,285,534	404,605	19,275	(609,952)	(876,282)	(978,840)
02 & 06.Parking	(53,059)	(110,909)	(327,445)	(166,963)	166,182	(86,287)	(82,124)	(77,832)	(73,410)
17.Pension	(115,007)	(159,635)	181,713	676,459	147,123	(0)	3,360	4,256	3,782
20.Debt	(141,728)	185,005	13,556	(5,519)	5,499	500	1,770	841	1,957
21.Sanitation	7,060	82,848	47,013	8,968	22,368	-	-	-	-
22.Recreation	987	2,891	(17,511)	(113,495)	(103,449)	255	744	827	878
Excess/(Deficit)	**(893,801)**	**(773,981)**	**(1,408,584)**	**3,684,984**	**642,328**	**(66,257)**	**(686,202)**	**(948,190)**	**(1,045,633)**
Cumulative Fund Balance:									
Beginning of Year	(2,046,929)	(2,940,730)	(3,714,711)	(5,123,295)	498,970	1,141,298	1,075,041	388,840	(559,350)
Fund Balance Restated				(3,186,014)					
End of Year	**(2,940,730)**	**(3,714,711)**	**(5,123,295)**	**498,970**	**1,141,298**	**1,075,041**	**388,840**	**(559,350)**	**(1,604,984)**

SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

FIGURE 3 - CORE OPERATING FUNDS - HISTORY OF REVENUE AND EXPENDITURES WITH PROJECTIONS 2013 - 2021



SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

The combined core operating fund activity did not experience a positive position during the entire review period until 2016 when the City was forced to petition for an unfunded debt loan to meet current operating expenses. The deficit fund balances trended negatively from 2013 through 2015 when it reached a high of $1.4 million. It was projected to be over $1.8 million by the end of 2016 when the City made the decision to petition the courts for the unfunded debt loan. Part of the issue is that City revenues have been decreasing over time to a low of $15.1 million in 2015. This is partially due to the City's reduction of non-resident earned income tax to 1.1% in 2015. Even with the increase in assessed value, a higher LST rate, and an increase to parking rates, recreation rates, and sanitation rates, the City revenues for the core funds only increased by about 1% per year through 2016 as demonstrated in **Table 3** below. The City revenues only increased in years when an increase in either the real estate tax rate or the Act 511 tax rate increased. Natural increases in revenue do not typically generate enough revenue to support the City operations. Overall, the City revenues for the core funds are expected to increase to approximately $20.4 million by 2021 as demonstrated in **Table 3**. The higher revenues are being driven by combining the funds and higher collections of business privilege and earned income taxes.

TABLE 3. TOTAL OPERATING REVENUES - CORE OPERATING FUNDS

CORE OPERATING REVENUE			
2013	Audited	15,780,781	1.66%
2014	Audited	15,741,381	-0.25%
2015	Audited	15,145,389	-3.79%
2016	Audited	16,809,760	10.99%
2017	Actual	16,532,510	-1.65%
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SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

FIGURE 4 - CORE OPERATING REVENUES
2013 - 2021

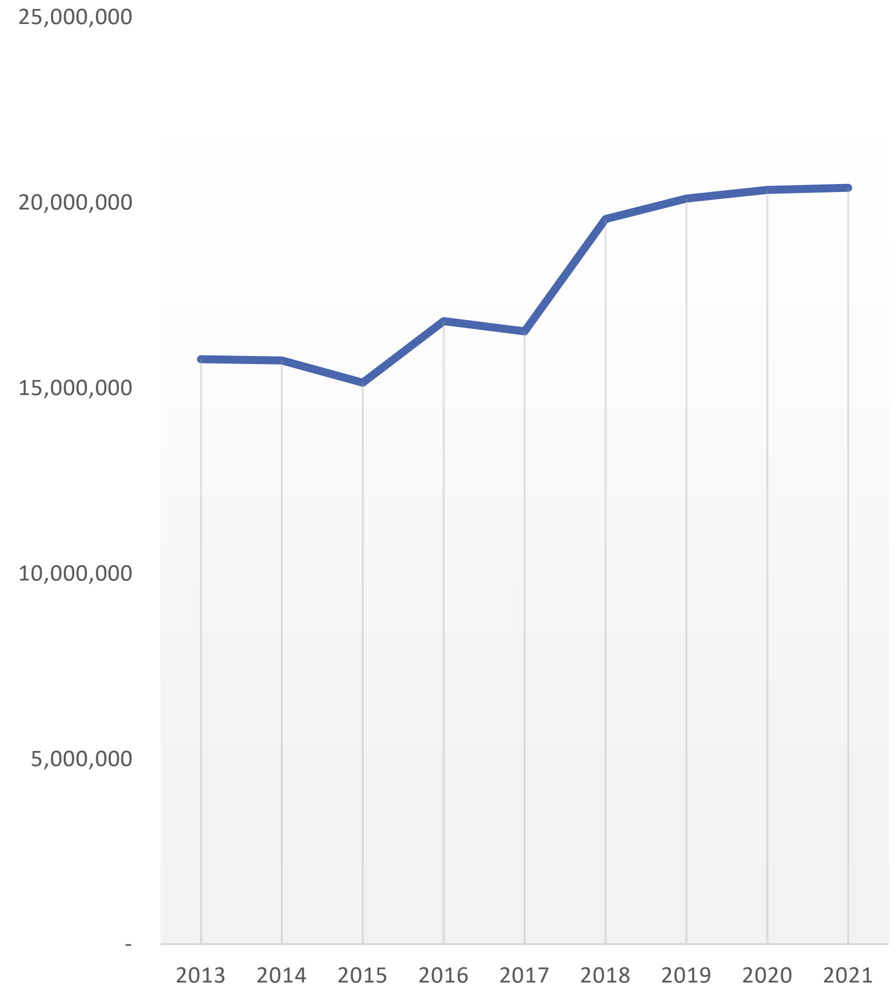
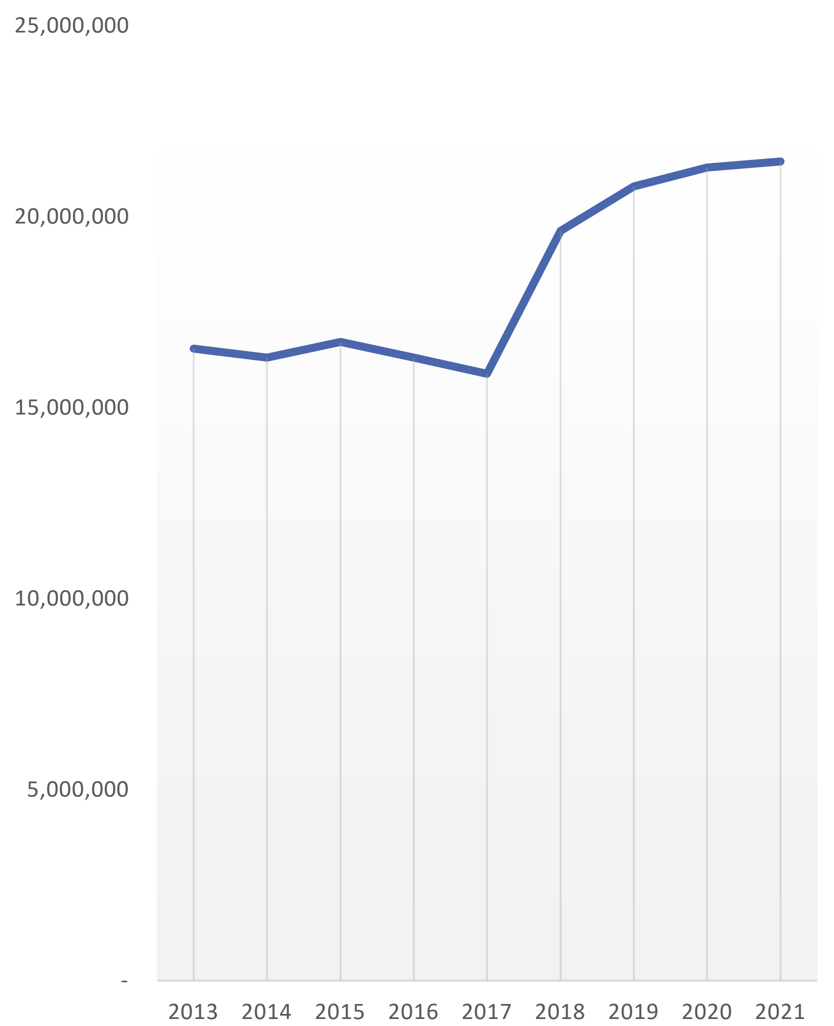


FIGURE 5 - CORE OPEARTING EXPENDITURES
2013 - 2021



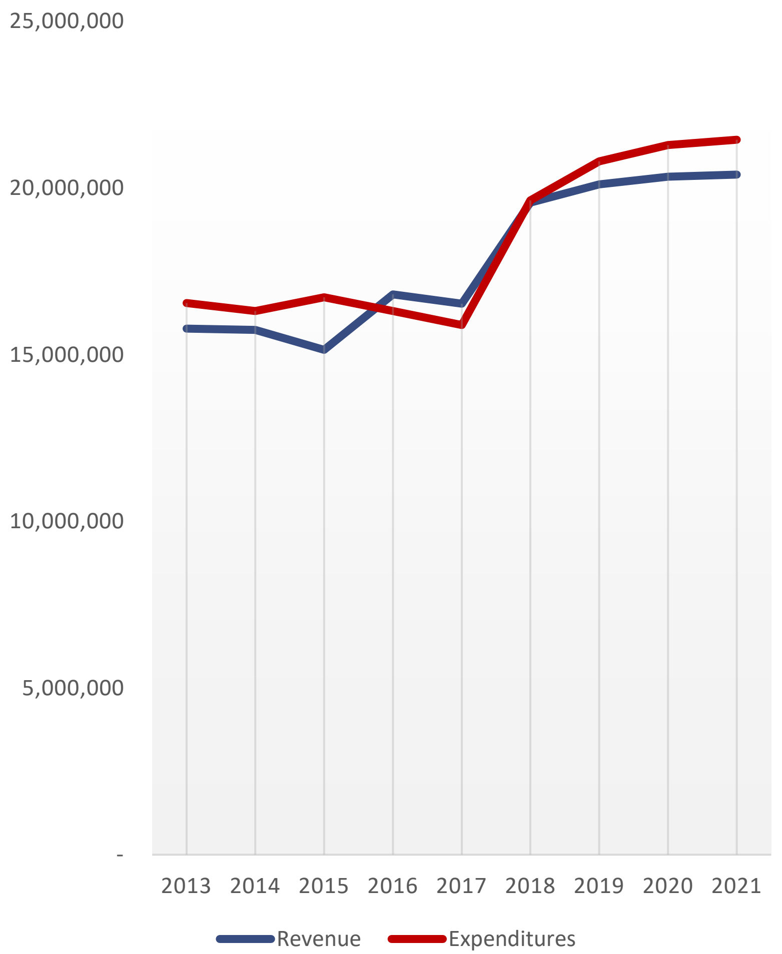
Likewise, the City has experienced decreases in its core operating expenditures over the past 5 years largely due to staff reductions and benefit restructuring. **Table 4** provides a history of the City's expenses from 2013 through 2017 and projections through 2021.

TABLE 4 TOTAL OPERATING EXPENSES – CORE OPERATING FUNDS

CORE OPERATING EXPENDITURES			
2013	Audited	16,547,223	2.05%
2014	Audited	16,312,852	-1.42%
2015	Audited	16,725,005	2.53%
2016	Audited	16,310,790	-2.48%
2017	Actual	15,890,182	-2.58%
2018	Projected	19,628,793	23.53%
2019	Projected	20,798,396	5.96%
2020	Projected	21,290,513	2.37%
2021	Projected	21,449,009	0.74%

SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

FIGURE 6 - HISTORY OF REVENUE AND EXPENDITURES WITH PROJECTIONS 2013 - 2021



A summarized review of the difference between operating revenue and operating expenses for the period 2013 projected through 2021 is shown in **Table 5**.

TABLE 5 - CORE OPERATING FUNDS – REVENUE VS EXPENSES

CORE OPERATING FUNDS HISTORY AND PROJECTIONS				
2013	Audited	15,780,781	16,547,223	(766,442)
2014	Audited	15,741,381	16,312,852	(571,471)
2015	Audited	15,145,389	16,725,005	(1,579,616)
2016	Audited	16,809,760	16,310,790	498,970
2017	Actual	16,532,510	15,890,182	642,328
2018	Projected	19,562,536	19,628,793	(66,257)
2019	Projected	20,112,194	20,798,396	(686,202)
2020	Projected	20,342,373	21,290,513	(948,140)
2021	Projected	20,403,375	21,449,009	(1,045,634)

SOURCE: WESSEL CPA AUDITED FINANCIAL STATEMENTS, CITY OF JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

While, expenses decreased in 2014 and 2016, increases are projected for 2018-2021 based on routine increases for personnel, benefits, pension payments, operating supplies, and equipment. The City is projected to exhibit a deficit in its core funds beginning in 2018 and becoming larger each year to an estimated deficit of over $1 million. Higher pension MMO payments and higher debt service payments beginning in 2019 are driving the projected deficits. While the City continues to cut expenses, the gap in operating revenue and operating expenses remains about the same as in previous years.

GENERAL FUND REVENUE

The City's general fund includes taxes, fees, and other revenue. **Figure 7** below graphically depicts the various sources and relative percentages for 2017 revenue generated for the general fund. About 77% of the City's general fund is derived from tax revenues making it extremely vulnerable to environmental and economic impacts. When values of housing and/or incomes are negatively affected, the general fund is impacted accordingly. A move from a primarily tax reliant revenue base to a revenue base that is more reliant on charges for services and fees would help to diversify the tax base. **Table 6** provides a history of the general fund operating revenues from 2013 - 2017 and projected through 2021.

FIGURE 7 - 2017 GL FUND REVENUE BY SOURCE

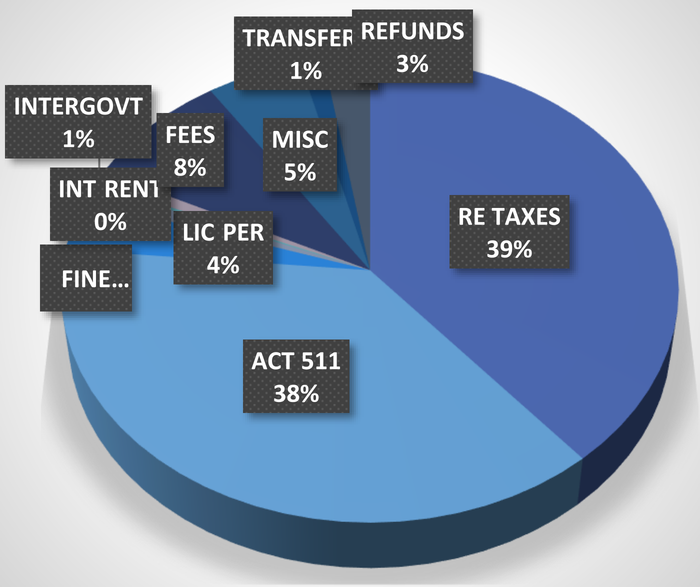


TABLE 6 - GENERAL FUND OPERATING REVENUES 2013-2021

Year	Total GL Fund Revenues	Increase/ Decrease
2013	10,421,366	7.75%
2014	10,380,828	-0.39%
2015	10,166,514	-2.06%
2016	12,025,831	18.29%
2017	10,956,074	-8.90%
2018	14,153,968[1]	29.19%
2019	14,157,386	0.02%
2020	14,180,181	0.16%
2021	14,203,080	0.16%
Average Annual Increase		4.9%

The continuing deficits are a result of a stagnant or declining revenue base as well as increasing personnel costs driven primarily by higher compensation, health benefit premiums, workers compensation, and pension liabilities. By 2015, the City

[1] Beginning in 2018, several of the core funds were collapsed into the general fund as required by the updated Recovery Plan.

had rolled forward approximately $1.4 million in prior year deficits and was forced to pursue an unfunded debt loan to meet its current obligations. **Table 7** provides a detailed history of the continuing gap between general fund operating revenues and expenses.

TABLE 7 - AUDITED HISTORY OF GENERAL FUND REVENUES, EXPENDITURES, AND EXCESS/DEFICIENCIES

REVENUE CATEGORY	2007 AUDITED	2008 AUDITED	2009 AUDITED	2010 AUDITED	2011 AUDITED	2012 AUDITED	2013 AUDITED	2014 AUDITED	2015 AUDITED	2016 AUDITED
Taxes	5,375,496	6,333,412	8,073,447	7,585,544	7,466,910	7,600,587	7,810,115	7,874,942	8,136,016	9,500,486
PILOT	120,000	240,000	202,500	224,025	227,002	219,860	224,536	226,246	12,208	9,319
Licenses/Permits	532,351	474,887	470,181	471,184	484,198	474,650	547,605	445,904	444,403	423,181
Charges for Service				28,000	28,000	28,000	30,000	30,000	35,383	33,473
Fines/Forfeits	213,732	193,063	192,354	175,290	178,334	181,830	128,157	112,207	110,889	99,217
Grants/Projects	572,674	607,508	623,272	653,448	653,663	485,575	532,232	526,394	455,745	873,785
Dept. Earnings	106,530	947,852	1,156,544	1,002,195	170,524	163,301	157,098	173,593	158,652	150,184
Intergovernmental	1,081,641	1,166,888	571,112	559,357	126,000	116,000	131,000	50,000	60,000	0
Interest	112,051	74,627	39,196	41,539	26,814	27,437	23,785	26,150	26,576	28,124
Miscellaneous	211,469	81,601	81,570	79,800	654,359	374,503	642,183	817,103	275,893	338,886
TOTAL REVENUE	**8,325,944**	**10,119,838**	**11,410,176**	**10,820,382**	**10,015,804**	**9,671,743**	**10,226,711**	**10,282,539**	**9,715,765**	**11,456,655**

EXPENDITURE CATEGORY	2007 AUDITED	2008 AUDITED	2009 AUDITED	2010 AUDITED	2011 AUDITED	2012 AUDITED	2013 AUDITED	2014 AUDITED	2015 AUDITED	2016 AUDITED
General Govt.	1,284,503	1,199,500	1,175,284	1,502,681	1,322,317	1,216,532	1,514,787	1,411,486	1,399,234	1,366,129
Public Safety	6,578,599	6,740,940	6,654,575	6,361,845	6,378,723	6,409,236	6,980,257	7,137,207	6,803,569	7,227,278
Community Dev.	242,186	182,847	151,651	122,260	399,133	119,705	94,314	113,413	229,460	120,373
Public Works	2,198,088	2,383,800	2,161,663	1,933,941	1,847,442	1,841,192	1,859,471	1,885,327	2,026,441	1,791,648
Recreation	0	0	0	269,256	223,377	273,897	293,140	239,322	296,496	276,865
TOTAL EXPENSES	**10,303,376**	**10,507,087**	**10,143,173**	**10,189,983**	**10,170,992**	**9,860,562**	**10,741,969**	**10,786,755**	**10,755,200**	**10,782,293**
Transfer In	130,000	4,665,000[3]	253,377	135,000	101,213	121,913	30,111	98,289	450,749	3,459,856
Transfer Out				-157,785	-303,659	-191,702	-271,451	-368,254	-717,224	-848,664
Excess/(Deficit)	**-888,655**	**4,125,399**	**$425,610**	**-132,393**	**-997,202**	**-510,386**	**-756,598**	**-774,181**	**-1,305,910**	**3,285,534**

SOURCE: 2007-2015 WESSEL & COMPANY AUDITED FINANCIALS

The General Fund continues to generate less revenue than needed for operating expenses annually. The gap between revenue generated and operating expenses continues to be about $1 million per year.

REAL ESTATE TAXES

At 39% of the overall general fund revenue, real estate taxes are the most significant portion of the City's revenue base. The City's home rule charter does not include a maximum millage rate so the City can levy real estate tax at any rate without limit. In 2010, the City was forced to increase the real estate tax rate by 10.04 mills from 42.44 mills to a rate of 52.48 mills (where it remains through 2018) to address the structural deficits in its operating funds. This action was taken in conjunction with staff reductions for a total elimination of 14 positions citywide. The City also implemented cost-containment initiatives. Despite the unusually large increase in the millage rate and staff reductions, the City continued to collect less revenue every year through 2015. The history of the tax millage rate increases and taxes collected per mill is shown in **Table 8**.

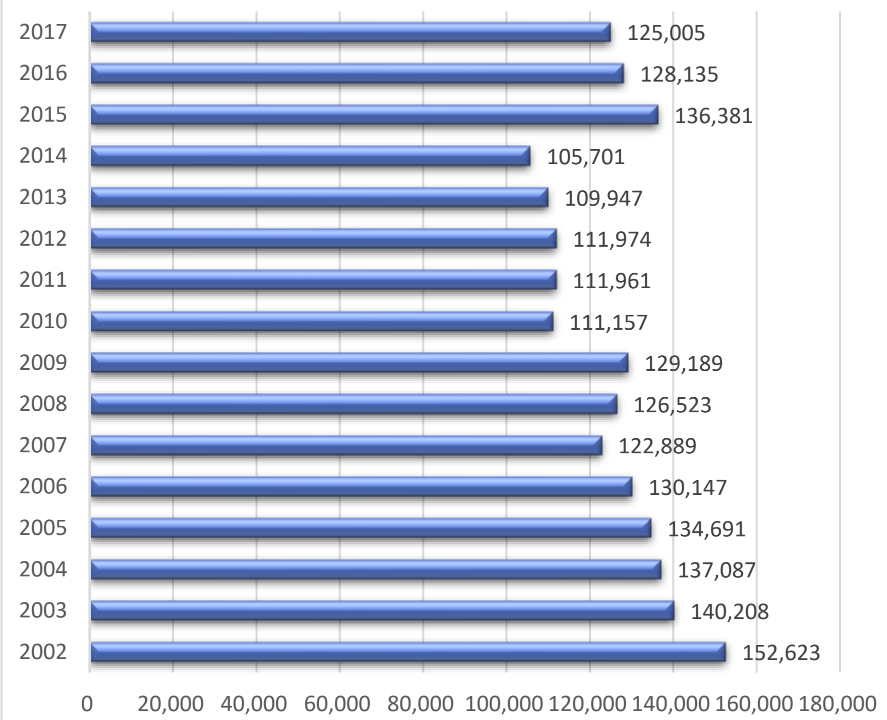
The City real estate tax collections remained between $5 million and $6 million from 2002 through 2014. In 2015, the sale of the Connemaugh Hospital (a non-profit) to Duke Lifepoint (a for profit enterprise) increased the total collection to $7.1 million. But in 2016, an appeal was filed by the hospital and the City was forced to escrow 25% of the hospital's payment and in 2017, the full impact of the appeal settlement was realized. It is expected that the total real estate tax collection has now stabilized at about $6.5 million and will continue to hold at that number.

Table 8 provides a history of millage rates and actual collections from 2002 through 2017.

TABLE 8 -HISTORY REAL ESTATE MILLAGE RATES AND COLLECTIONS

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	$5,133,014	$130,147
2007	42.44	$5,215,411	$122,889
2008	42.44	$5,369,638	$126,523
2009	42.44	$5,482,802	$129,189
2010	52.48	$5,833,542	$111,157
2011	52.48	$5,875,717	$111,961
2012	52.48	$5,876,410	$111,974
2013	52.48	$5,770,000	$109,947
2014	52.48	$5,547,187	$105,701
2015	52.48	$7,157,272	$136,381
2016	52.48	$6,724,549	$128,135
2017	52.48	$6,560,262	$125,005

FIGURE 8 - DOLLARS COLLECTED PER MILL



SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

However, the real story is the declining value of a mill of taxes in the City. As shown in **Table 8**, total real estate tax collections held steady at $5.5 million for thirteen years but the value of a mill of tax decreased from $152,000 in 2002 to $105,000 in 2014. The value increased due to the hospital assessment in 2015 but has decreased to $125,005 by 2017. The City continues to collect fewer dollars per mill than it did nearly 15 years ago. There are three reasons for this decline in collection: 1) the City property assessment values have steadily declined; 2) the collection rate is very low at 85%; and 3) the percentage of tax exempt property has steadily increased. One of the biggest challenges for the City has been the inability to collect current year real estate taxes that are levied. Since the tax millage

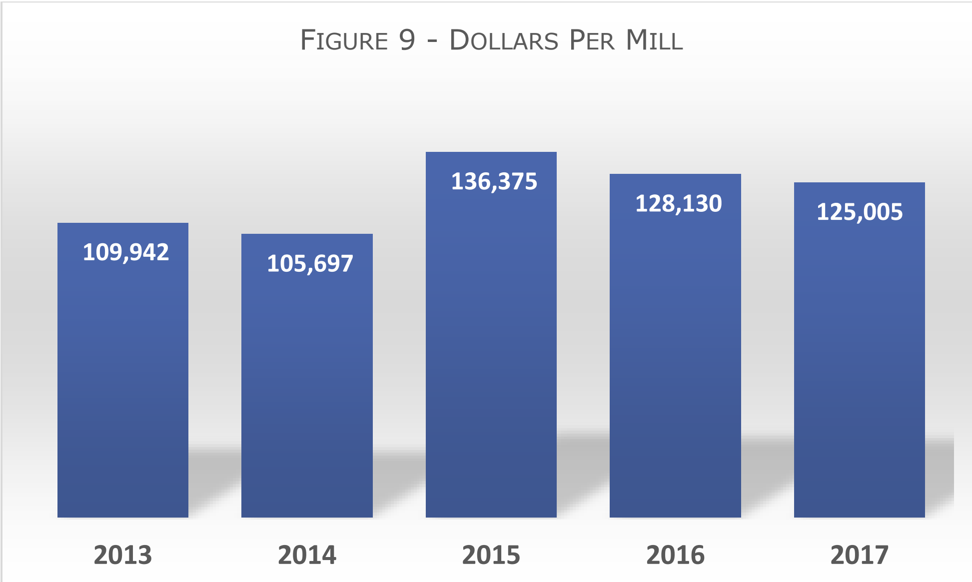
". . . . the real story is the declining value of a mill of taxes in the City."

rate was raised to 52.48 mills in 2010, the collection rate has been even lower than it was in prior years. The City has had less than an 85% collection rate over the past five (5) years. This is lower than the collection rate from 2005 through 2009 when the rate was closer to 86%. **Table 9** provides a historical analysis of the rate of delinquent collections over the past ten (10) years.

TABLE 9 - HISTORY OF CURRENT YEAR REAL ESTATE TAX COLLECTION RATES 2005-2017

YEAR	ASSESSED VALUE	MILLS	BILLED	2% DISCOUNT	ADJUSTED BILLED	CURRENT YEAR COLLECTION	% COLLECTION
2005	$135,738,910	36.44	$4,946,326	($98,927)	$4,847,399	$4,188,308	86.40%
2006	$133,698,720	39.44	$5,273,078	($105,462)	$5,167,616	$4,548,212	88.01%
2007	$136,891,020	42.44	$5,809,655	($116,193)	$5,693,462	$4,720,326	82.91%
2008	$140,221,710	42.44	$5,951,009	($119,020)	$5,831,989	$5,007,071	85.86%
2009	$135,020,470	42.44	$5,730,269	($114,605)	$5,615,663	$4,817,828	85.79%
2010	$135,371,560	52.48	$7,104,299	($142,086)	$6,962,213	$5,776,094	82.96%
2011	$135,089,200	52.48	$7,089,481	($141,790)	$6,947,692	$5,865,295	84.42%
2012	$132,940,270	52.48	$6,976,705	($139,534)	$6,837,171	$5,744,058	84.01%
2013	$133,840,370	52.48	$7,023,943	($140,479)	$6,883,464	$5,770,000	82.15%
2014	$131,740,270	52.48	$6,913,729	($138,275)	$6,775,455	$5,816,814	84.13%
2015	$167,570,050[2]	52.48	$8,794,076	($175,882)	$8,618,195	$7,419,333	84.37%
2016	$169,903,000	52.48	$8,916,509	($178,330)	$8,738,179	$6,838,570	76.70%
2017	$149,903,000	52.48	$7,866,909	($157,338)	$7,709,571	$6,500,000	82.62%

[2] In 2015, the Conemaugh Hospital was sold to Duke LifePoint Healthcare and became a taxable enterprise. Initially the full value of the sale in the amount of $41,763,850 was added to the assessed value by Cambria County. The hospital immediately filed an appeal and the City was required to escrow a portion of the payments pending a settlement or decision regarding the assessed value. In 2016, a settlement was reached that reduced the assessed value by nearly $20 million and the City was ordered to pay back any overpayment. It is expected that the City's total assessed value will stabilize at about $150 million for the next few years.



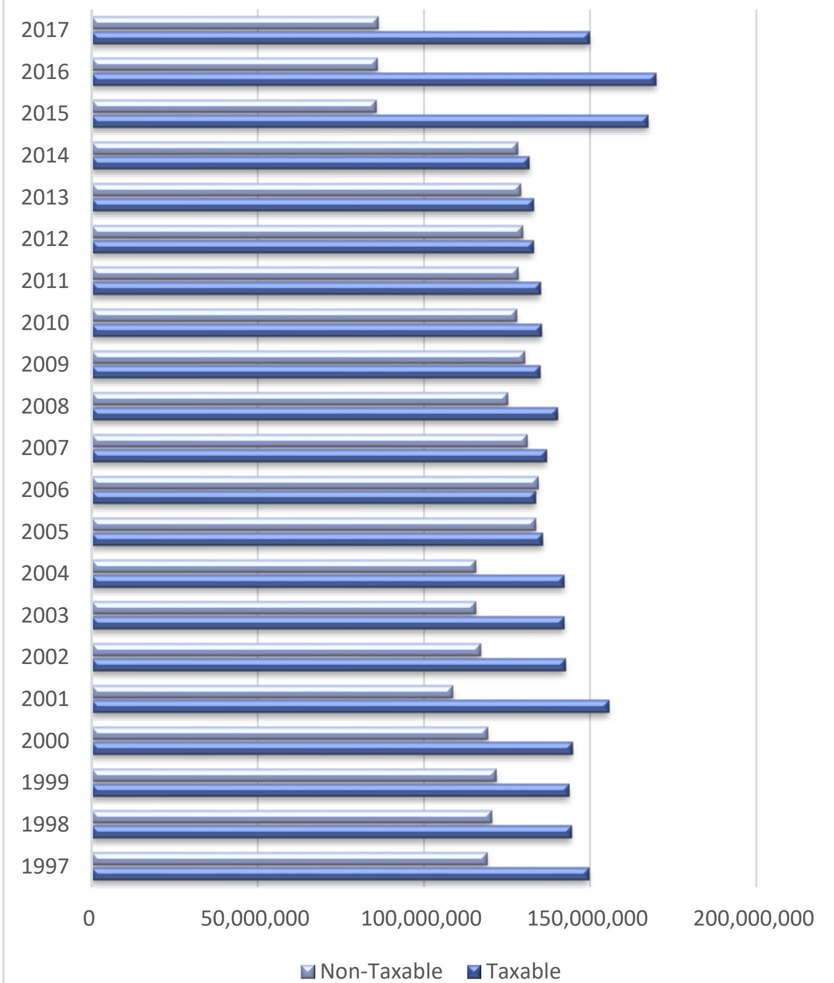
Another challenge for the City has been that non-taxable property assessments in the City rose to a high of 49% of the total assessed value by 2012. Since real estate tax revenue makes up over one-third of the City's total budget, the decline in taxable assessed value as a percentage of the whole has had a devastating impact on the City's ability to support operations without increasing tax rates. **Table 10** provides a history of the City's assessed value and the amount of the total value that is non-taxable for the past 16 years.

Table 10 identifies property assessment information for the City for the past 20 years. The second column "Total Assessed Value" is the total assessed value of all properties within the City. The third and fourth columns indicate the amount of the total assessment that is taxable and non-taxable. Over the twenty (20) years shown, the Total Assessed Value has fallen from $268,735,070 in 1997 to $237,770,850 in 2017. This was a reduction of almost $30 million of assessed value over a 20-year time frame. Over that same period, the taxable and non-taxable assessed values fell at similar rates with taxable assessments falling at an average of 1.7% per year and non-taxable assessments falling at an average of 0.97% per year. While the total values have dropped dramatically over this period, the non-taxable, as a percent of the total assessed value, remained relatively constant until the sale of the hospital in 2015. The Non-Taxable percentage was at 36.24% for 2017 which is an all-time low for tax exempt assessed value in the City.

TABLE 10 - TAXABLE AND NON-TAXABLE ASSESSED VALUE

Years	Total Assessed Values	Taxable	Non Taxable	Non Taxable as a % of Total Assessed
1997	$268,735,070	$149,701,940	$119,033,130	44.29%
1998	$264,906,070	$144,396,360	$120,509,710	45.49%
1999	$265,581,740	$143,781,280	$121,800,460	45.86%
2000	$263,987,320	$144,755,840	$119,231,480	45.17%
2001	$264,430,840	$155,662,560	$108,768,280	41.13%
2002	$259,632,280	$142,561,560	$117,070,720	45.09%
2003	$257,858,000	$142,238,700	$115,619,300	44.84%
2004	$257,858,000	$142,238,700	$115,619,300	44.84%
2005	$269,374,460	$135,738,910	$133,635,550	49.61%
2006	$268,041,290	$133,698,720	$134,342,570	50.12%
2007	$267,985,910	$136,891,020	$131,094,890	48.92%
2008	$265,495,120	$140,221,710	$125,273,410	47.18%
2009	$265,444,290	$135,020,470	$130,423,820	49.13%
2010	$263,320,920	$135,371,560	$127,949,360	48.59%
2011	$263,557,240	$135,089,200	$128,468,040	48.74%
2012	$260,721,590	$132,940,270	$129,828,420	49.80%
2013	$261,519,040	$132,940,270	$129,131,400	49.38%
2014	$258,987,240	$131,740,270	$128,245,370	49.52%
2015	$257,486,070	$167,570,050	$85,596,020	33.24%
2016	$255,752,110	$169,903,000	$85,992,480	33.62%
2017	$237,770,850	$149,903,000	$86,176,480	36.24%

FIGURE 10 - TAXABLE VS NON-TAXABLE ASSESSED VALUE 1997-2017



ACT 511 REVENUE

At 38% of the general fund revenue, the Act 511 taxes are the next highest source and, when added to the real estate tax collection, make up 77% of the overall general fund revenues. These collections have been transitioned to Berkheimer Associates who has been designated as the Act 32 Tax Collection Committee's collector for Cambria County. **Table 11** provides a history of the City's collection of Act 511 taxes from 2004 through 2017.

TABLE 11 - HISTORY OF ACT 511 TAX COLLECTION 2004-2017

YEAR	ACT 511 TAXES	% INCREASE/ DECREASE
2004	$3,293,056	N/A
2005	$3,432,277	4.23%
2006	$2,666,695	-22.31%
2007	$2,432,597	-8.78%
2008	$3,293,060	35.37%
2009	$3,922,405	19.11%
2010	$3,057,349	-22.05%
2011	$2,836,066	-7.24%
2012	$3,195,512	12.67%
2013	$3,288,213	2.90%
2014	$3,873,516	17.80%
2015	$3,634,856	-6.16%
2016	$3,812,813	4.90%
2017	$6,660,853	20.38%

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

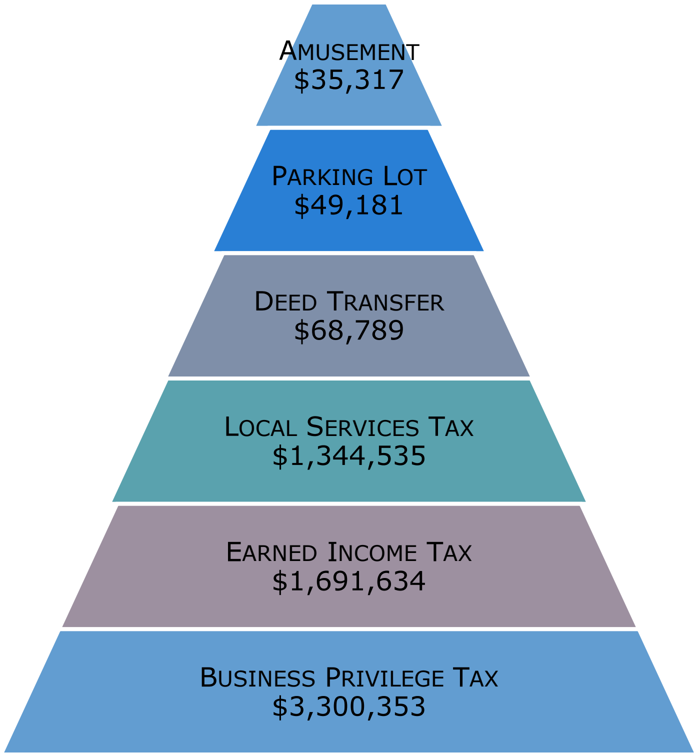


FIGURE 11 - ACT 511 TAX REVENUE BY SOURCE

Figure 11 provides a graphic depiction of the relationship among the various types of taxes that are included as part of the Act 511 collections and how much revenue was derived from each in 2017.

Until 2017, Earned Income Tax made up the largest part of the Act 511 collections. Delinquent Business Privilege Tax from the hospital and the ongoing increase in this collection has tripled and Local Services Tax, which was increased pursuant to Act 199, in 2016, now makes up the third largest source under Act 511. The Act 511 taxes have fluctuated from year to year partly because the EIT and LST rates have changed over the years. Furthermore, the City does not always recognize the income collected in the current year. When rates are changed (i.e. EIT and LST taxes), the new revenue is often partially realized in the following year.

Earned Income Taxes

About 40% of the Act 511 revenue is currently derived from EIT. Over the years, the City has adjusted the resident and non-resident EIT rate to provide funding for City services. In the 2010 Fifth Amended Plan, the City was permitted to levy the non-resident income tax at a 1.1 percent rate. The non-resident EIT was eliminated permanently in 2016 when the City enacted a $156 LST under Act 199 of 2014. **Table 12** provides the recent history of the collection of EIT.

TABLE 12 - HISTORY OF TOTAL EARNED INCOME TAX COLLECTION

YEAR	EARNED INCOME TAX COLLECTION	% INCREASE/ DECREASE ( )
2013	$2,095,324	2.50%
2014	$2,184,898 [3]	4.27%
2015	$2,287,329	4.69%
2016	$1,897,132 [4]	-17.06%
2017	$1,691,939	-4.86%

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

From 2013 through 2015, the City experienced a steady increase in EIT collection until 2016 when the City eliminated the non-resident portion of the EIT so that they were able to enact the higher LST. Without changes to the rate, the EIT will increase at about 2% per year for future years.

[3] In 2014, the resident rate for EIT was increased from .1% to .3% under the Home Rule Charter.

[4] In 2016, the City eliminated the non-resident EIT in order to increase the LST from $52 to $156 with a $12,000 low income exemption pursuant to Act 199 of 2014.

Act 511 Business Taxes

Some sources of Act 511 tax revenue for the City have experienced increases over the last three years after a marked period of decline. In fact, only EIT and business taxes have exhibited steady increases. The Local Services Tax (LST) collection initially exhibited a drastic increase when the fee was raised from $5 to $52 in 2005 and then declined in future years because the regulations about how it could be collected were changed by the PA General Assembly. **Table 13** provides three large Act 511 revenue generators. The LST (formerly the Emergency and Municipal Service Tax), makes the second largest share in the chart at $1.3 million in 2017. The LST is assessed on all persons working in the City and was increased in 2016 to the maximum permitted which is $156 per person, with $151 going to the City and $5 going to the school district. The Business Privilege Tax (BPT) and Mercantile Tax are assessed on local businesses pursuant to Act 511 and the rates cannot be increased. The City was able to recover delinquent BPT in the amount of $1.8 million from the hospital in early 2017. Collectively these three sources generated $4.7 million in 2017. These three (3) revenue sources make up about 60% of the Act 511 revenue.

TABLE 13 – ACT 511 BUSINESS TAXES - BPT, LST, MERCANTILE

YEAR	MERCANTILE	BPT	LST
2013	$171,555	$322,415	$544,159
2014	$165,917	$341,320	$559,158
2015	$170,870	$377,697	$545,709
2016	$161,394	$432,268	$1,178,683
2017	$148,803 [5]	$3,300,353	$1,366,775

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

Other Revenue Sources

Until 2014, the City was trending positively for departmental charges for services which was driven by revenue from Conemaugh Hospital's Payment in Lieu of Taxes (PILOT) and the police security contracts with the Housing Authority and the communities of West Taylor, Middle Taylor, and Lorain Borough. Since 2014, the City experienced over a $175,000 reduction in this revenue source because the hospital payment was eliminated in 2016 when the hospital become a taxable entity and the Housing Authority payment decreased from $361,000 to $331,500 in 2017.

[5] Beginning in 2017, the City collected business taxes from the hospital based on gross receipts for business operations.

TABLE 14 - HISTORY OF DEPARTMENTAL CHARGES FOR SERVICES REVENUES

YEAR	DEPARTMENTAL CHARGES FOR SERVICES	INCREASE/ DECREASE ( )
2013	$750,225	5.87%
2014	$862,429	14.96%
2015	$625,760	-27.44%
2016	$637,974	1.95%
2017	$688,259	7.88%

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

Total fees and charges have experienced a steady decline, partly due to the transfer of some of the City's assets to outside management (i.e., the golf course, Point Stadium concessions).

Summary of General Fund Revenue Observations

The following observations relative to general fund revenue are based on a June 2018 review of the City revenue stream:

1. The City generates about $11 million annually for its general fund activities derived primarily from taxes and supplemented by intergovernmental revenues, departmental earnings, and to a lesser degree, by fines, licenses, and permits. This will rise to approximately $13.5 million by 2021 because the City is combining several funds with the General Fund.

2. By 2016, the City had rolled forward deficits accumulated to $1.8 million and, as a result, took a $6 million unfunded debt loan to restructure debt and meet current year obligations. This will provide reserves to support operations for approximately two (2) years.

3. Timely collection of real estate taxes continues to be a problem and the collection rate continues to hover below 85% of taxes billed. The problem is exacerbated by the length of time that it takes for the Tax Claim Bureau to complete a tax sale of delinquent properties. The outstanding delinquent tax revenue was a significant factor in the City's decision to continue to sell its tax liens.

4. The City continues to be overburdened with successful assessment appeals in the commercial district. The Duke LifePoint Healthcare appeal had the most damaging impact when the settlement resulted in a $20 million reduction in assessed value.

5. Even after the final settlement, the City gained approximately $18 million in new assessed value through the sale of the Conemaugh Hospital to Duke LifePoint Healthcare moving it to taxable status and raising the total assessed value of the City to $149,903,000 for 2017. But this is still **$30 million lower** than the total assessed value in 1994.

6. The City transitioned its Act 511 tax collection to Berkheimer Associates, who is the countywide Tax Collection Committee's EIT tax collector. The collection for these taxes has shown a marked improvement over prior years and is projected to continue to steadily increase over the next five years.

7. The City increased its Local Services Tax (formerly the Emergency and Municipal Services Tax) to the statutory maximum of $47 in 2005. This source generated an additional $525,000 in revenue for the City on an annual basis. In 2016, the City made the decision to enact a higher LST under Act 199 of 2014 which permits Act 47 communities to raise the LST from $52 to $156 if they eliminate the non-resident EIT. A calculation revealed that the higher LST would generate more revenue than the non-resident EIT. **But the City will lose the ability to levy the higher LST upon exit from the Act 47 designated status resulting in a reduction of nearly $1 million in current revenue.**

8. The City relies heavily on the collection of EIT (at a rate of 1.3% under the City's Home Rule Charter since 2010) from City residents. The City has completely eliminated the non-resident EIT in order to increase the LST under Act 199 of 2014 and has, therefore, lost the ability to levy a non-resident EIT in the future.

9. The increased business privilege tax revenue from Duke Lifepoint Healthcare provided an additional $1.1 million annually beginning in 2017. However, there has been discussion about closing or reducing the campus that exists within the City's limits which could reduce the amount of this collection in the future.

10. The City continues to make transfers from its Sewer Upgrade Fund to the General Fund for reimbursement for sewer project coordination and maintenance expenses in the amount of $450,000.

11. The City sold tax liens in 2017 for $732,000 which was distributed on a pro rata basis to the General Fund, Debt Fund, and Pension Funds. Together with the budgeted reimbursement of operating expenses from the Sewer Upgrade Fund, this will continue to provide operating revenue for the City for fiscal year 2018.

12. When the non-recurring revenue (i.e. proceeds from the reimbursement fund and from the unfunded debt loan) is backed out of the City's revenue stream for purposes of identifying the core revenue, it is evident that the City's operating position continues to exhibit a significant structural imbalance and that without corrective action it will continue into future years.

Table 15 provides a summary of the General Fund Activity from 2013 through 2017 and projected through 2021.

TABLE 15 - GENERAL FUND ACTIVITY 2013 PROJECTED THROUGH 2021

01. General Fund	Audited 2013	Audited 2014	Audited 2015	Audited 2016	Actual 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Revenue	10,226,711	10,282,539	9,715,765	11,456,655	10,308,650	13,494,693	13,513,586	13,532,505	13,551,450
Expenditures	(10,741,969)	(10,786,755)	(10,755,200)	(10,782,293)	(10,064,456)	(10,891,531)	(11,011,338)	(11,132,463)	(11,254,920)
Difference	**(515,258)**	**(504,216)**	**(1,039,435)**	**674,362**	**244,194**	**2,603,162**	**2,502,248**	**2,400,042**	**2,296,530**
Transfer in (SAN)						19,275			
Transfer in (SEWER)			400,000	450,000	450,000	450,000	450,000	450,000	450,000
Transfers In (LFF)	30,111	98,289	50,749	119,176	197,424	190,000	193,800	197,676	201,630
Transfer In (DS)				2,890,680	Unfunded Debt Loan				
Transfer Out OPEB	(271,451)	(368,254)	-	-	(261,909)	(50,000)	(50,000)	(50,000)	(50,000)
Transfer Out (DS)			-	-	(156,468)	(858,640)	(858,000)	(1,039,000)	(1,030,000)
Transfer Out (RF)			(133,459)	(21,000)	-	(101,000)	(103,000)	(105,000)	(107,000)
Transfer Out (PF)				(333,495)	-	(2,118,522)	(2,630,000)	(2,615,000)	(2,625,000)
Transfer Out (CAP)			(583,765)	(494,189)	(68,636)	(115,000)	(115,000)	(115,000)	(115,000)
Prior Period Adjustment	164,544	-		-	-	-			
Excess/(Deficit)	**(592,054)**	**(774,181)**	**(1,305,910)**	**3,285,534**	**404,605**	**19,275**	**(609,952)**	**(876,282)**	**(978,840)**
Fund Balance:									
Beginning of Year	1,644,269	1,052,215	278,034	(1,027,876)	848,427	1,253,032	1,272,307	662,355	(213,927)
Fund Balance Restated				(2,437,107)					
End of Year	1,052,215	278,034	(1,027,876)	848,427	1,253,032	1,272,307	662,355	(213,927)	(1,192,767)

GENERAL FUND EXPENDITURES

The City's general fund expenditures have been about $11 million and are projected to increase to $15.1 million by 2021. The General Fund captures the basic activities related to the general operation of the City government, including the following major categories: general government, administration and finance, fire department, police department, community development, parks, and public works. It also includes most of the compensation, benefits, and personnel related expenses for the City employees. The City has done a remarkable job of containing expenses over the past 20 years to an average increase of just 2.2% per year, as reflected in **Table 16**. This has been accomplished through a combination of reducing staff and achieving savings in the structure of employee benefits. The problem continues to be that transfers to other funds that make up the core funds (i.e. parking, pension, debt, sanitation, and recreation) in the amount of $2.1 million are required to pay other legal obligations and support activities. **Table 16** provides a history of the general operating fund expenses summarized from 2013 and projected through 2021.

TABLE 16 - GENERAL FUND OPERATING EXPENDITURES 2002-2021

Year	Total GL Fund Expenditures	Increase/ Decrease
2013	11,013,420	6.89%
2014	11,155,009	1.29%
2015	11,472,424	2.85%
2016	11,319,058	-1.34%
2017	10,551,469	-6.78%
2018	14,134,693[6]	33.96%
2019	14,767,338	4.48%
2020	15,056,463	1.96%
2021	15,181,920	0.83%
Average Annual Increase		4.90%

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

[6] Beginning in 2018, the General Fund expenditures increased because of the collapse of several funds into the General Fund.

FIGURE 12 - 2017 EXPENDITURES BY USE

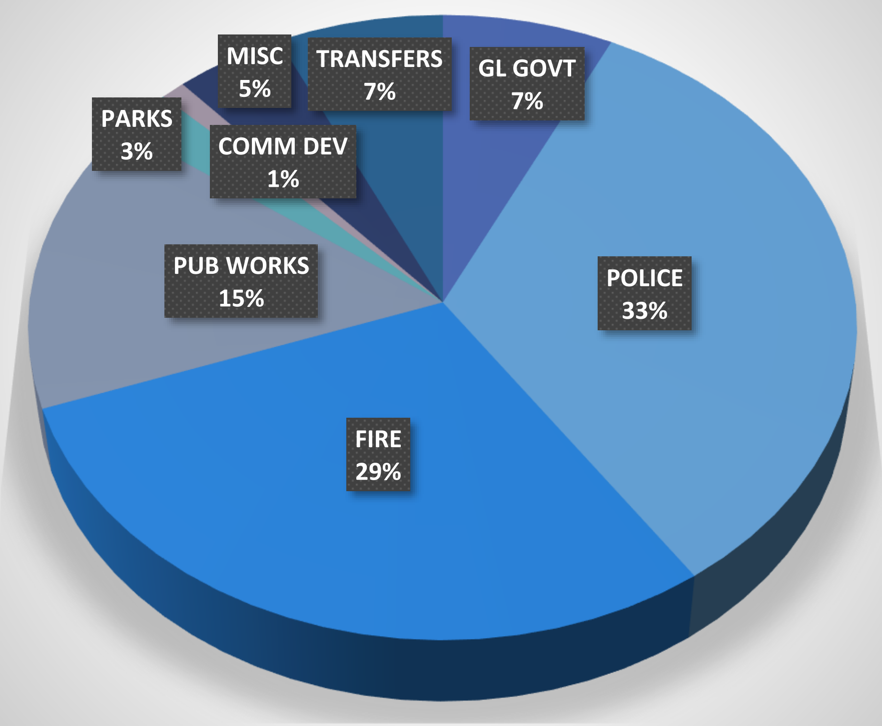


Figure 12 provides a breakdown of the general fund expenditure categories and their relative percentage of allocated resources from the 2017 actual expenditures.

The departments experiencing the highest increases in expenditures have historically been the Police Department, Fire Department, and Department of Public Works, due to escalating costs of wages and benefits and long-term pension liabilities.[7] Public safety expenses make up 62% of the City's general operating budget – with the police department at 33% and the fire department at 29%. The Department of Public Works makes up another 15% of the budget. General government, finance, and community development make up only 8% of the overall general fund budget. This analysis is somewhat skewed because the City does not show its pension obligations, sanitation, debt service, parking, or recreation expenses as part of the General Fund. In a typical local government operating budget, these activities would be a part of the General Fund expenditures and would lower the percentages for other individual department allocations.

Staffing

In the General Fund, personnel related costs make up over 85% of the overall expenses. For this reason, the issue of staffing is the most important factor in evaluating City expenses currently and for cost containment planning for the future.

The City reported 134 full-time employees for budget year 2017. This is a decrease of 24 employees since the Fifth Amended Plan in 2010. Most of the decrease is the transfer of the sewage department to the Redevelopment Authority. The reductions and increases in Full Time Equivalent (FTE) employees since the Fifth Amended Plan have been in the following departments:

[7] Capital projects are funded from a separate capital project fund budget.

TABLE 17 - STAFFING INCREASES AND DECREASES SINCE 2013

	INCREASE SINCE 2013	DECREASE SINCE 2013
COUNCIL		
CITY MANAGER		
FINANCE		2
POLICE	3	
POLICE/FIRE CLERICAL		1
FIRE		7
FIRE CLERICAL		
COMMUNITY DEVELOPMENT		4
PW INFRASTRUCTURE	3	
PW BUILDING AND GROUNDS		
PW REPAIR SHOP		
SEWER UPGRADE		1
PARKING METERS		1
SEWAGE		20
TOTAL CHANGE	**6**	**36**

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

The police and public works departments were the only departments to experience increases in staffing between 2013 and 2017. The three police employees were supported by a federal COPS grant that is no longer available. As a result, the department is scheduled to reduce to 38 employees in 2018. The public works employees were transferred from the sewage operation. The City has made a concerted effort to reduce the number of positions in the past 10 years precisely because it is the only way for the City to have a significant impact on containing expenditures. In fact, the City has gone from a complement of over 209 employees in 2003 to 134 in 2017 and lower in 2018. This is a 35% reduction in staffing over a 15-year period. The departments most affected by the reductions are the administration and finance at 55% reduction; the public works department at 45% reduction; and the recreation office and sewage department which have been completely eliminated. During the same period, the police department experienced a 20% decrease and the fire department experienced a 21% decrease. **Table 18** provides a comprehensive staffing review for the past 15 years.

TABLE 18 - STAFFING LEVELS BY DEPARTMENT 2003 – 2018

DEPARTMENT	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CITY COUNCIL	9	9	9	9	9	9	9	9	7	7	7	7	7	7	7
CITY MANAGER	3	3	3	3	3	3	2	2	2	2	2	2	2	2	2
FINANCE	11	11	11	10	9	9	8	6.5	6.5	5.5	7	6	6	5	5
POLICE	48	49	50	49	47	45	41	37	38	38	39	42	43	42	42
POLICE/FIRE OFFICE	7	7	7	7	6	6	6	5	4.5	4.5	4.5	5.5	4.5	3.5	3.5
FIRE	42	43	43	43	43	43	43	43	39	35	39	37	37	32	32
FIRE OFFICE	1	1	1	1	1	1	1	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5
COMMUNITY DEV.	15	15	17	15	15	15	12	11.5	10.5	9.5	13	12	14	8.75	9
PUB. WORKS OFF	3	3	3	3	3	2.5	2.5	2.5	2.5	2.5	2	2	2	1.25	2
INFRASTRUCTURE	29	30	33	30	27	17	18	14	13	13	14	16	21	19	17
BLDG & GROUNDS	10	10	8	7	8	8	6	5	5	4	6	6	7	6	6
REPAIR SHOP	4	4	4	3	3	3	3	2	2	2	2	2	2	2	2
SEWER UPGRADE	0	0	0	0	0	0	0	0	1	1	1	1	1	1	0
SANITATION	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0
PARKING/METERS	6	6	6	6	6	6	6	6.5	5.5	5.5	6	5	6	6	5
SEWAGE	17	17	17	17	16	16	16	16	16	16	17	16	0	0	0
SEWAGE OFFICE	3	3	2	2	2	2	3	3	3	3	3	2	0	0	0
RECREATION OFFICE	1	1	1	1	1	1	1	0	0	0	0	0	0	0	0
TOTAL FULL TIME	**209**	**212**	**215**	**206**	**199**	**186.5**	**177.5**	**165**	**156**	**149**	**163**	**162**	**153**	**136**	**134**

The staffing levels are not at an unreasonable level but the population served has gone from 28,134 in 1990 to 19,712 in 2017, a 29% reduction in people and tax base. For this reason, the City continues to struggle to support the current complement of employees. It is important for the Council, the City Manager, and department heads to continually re-evaluate whether the City can continue the current staffing levels into the future.

Benefits

Benefits, as a part of the overall personnel costs, are an important driver for the cost of the City operations. The cost of benefits has increased from $1.6 million in 2001 to $3.5 million in 2017. This includes approximately $1.5 million for post-retirement benefits. The City has attempted to manage healthcare costs through the most recent collective bargaining and arbitration results that provide for increases to the required employee co-pay contribution as well as limits to the City's premium contributions.

Pension obligations have also driven overall expenditures for the City. Johnstown is ranked 12th out of over 2000 pension plans in Pennsylvania for being the most underfunded with approximately $21.5 million in assets and over $45 million in liabilities, resulting in only a 45% funding status. The Minimum Municipal Obligation (MMO) has increased from $3.4 million in 2013 projected to be $3.8 million by 2021. Even with such large annual contributions, the funds continue to be in the "severely distressed" category. A longer discussion of the pension problem is included in the Pension Fund section.

DETAILED REVIEW OF EXPENDITURE CATEGORIES

General Government

Expenses in this area are relatively stable, increasing at a rate of 2% per year. The position of Assistant Manager was eliminated beginning in the 2010 budget. There are only 2 positions contained in this category – the Manager and the Executive Secretary.

Finance

The expenditures for the Finance Department were $336,659 in 2017. The finance department is divided into two distinct functions: payments and administration. The payments division consists of 2 full-time union employees dedicated to the real estate tax collection, cashiering, parking, and miscellaneous payment tasks. The administrative side of the department consists of 3 employees: Finance Director, Accounting Assistant, and Payroll Clerk.

As part of the Fifth Amended Plan initiatives, beginning in 2012, the City upgraded its technology and completely revamped its financial management system developing a structure that is consistent with the DCED Chart of Accounts. The installation of the Freedom Systems software in 2011 brought the City in line with GASB and AICPA accounting guidelines. The Freedom system is built on a DCED fund structure and provides cashiering ability for recording receipts that addressed a significant internal control deficiency by eliminating the need for manual manipulation to transfer data to the general ledger. This system upgrade coupled with the incorporation of the DCED chart of accounts provides for a complete Enterprise Resource Planning (ERP) system.

In 2013, the City completed a fiber optic installation that improved the system connection between administration and the public safety operation forming one single Information Technology Network (ITN.) This connectivity saved the City $22,000 in the first year and resulted in an annual savings of at least $45,000. The connection allowed the City to interface the financial management ERP software for all departments and eliminated redundant servers. In addition, 14 new workstations were provided in various departments and locations to efficiently interconnect with the new system. As part of the workstation upgrades, older versions of Windows were upgraded and replaced.

Since 2013, several improvements have been made to the structure of funds and accounting groups and internal controls have been examined. In 2015, there was the discovery of a theft of approximately $20,000 in the department by the City Manager who was previously the Finance Director. The theft involved petty cash and the use of credit cards and these areas have been scrutinized and additional controls have been installed. The City Manager resigned and was prosecuted in 2016.

The next appointed Finance Director streamlined many of the accounting processes, implemented best practices, and improved the budgeting process. However, the Finance Director left this position in December of 2017 and the position was vacant for months until the new Finance Director was hired in May of 2018.

Fire Department

The City's Fire Department, with a Fire Chief and 32 paid firefighters, makes up about 29% of the City's general fund expenditures at about $3.3 million in 2017. The Fire Department expenditures increased at about 1.23% per year for the past 10 years. The arbitration award of 2012 eliminated the overall minimum staffing requirement but retained a shift staffing of 3 personnel per apparatus and one Assistant Chief. As a result, the staffing level for this department is down 8 positions since 2012. Staffing is always a challenge for the City's ability to further control the cost of fire service.

Expenses in the fire department are exacerbated by post-retirement health benefits that are almost as high as the current employee benefits. In 2017 the cost for health insurance benefits for active employees was $524,395, while the cost for post-retirement health care for retirees was $515,524. Although the original arbitration award in 2011 provided for firefighters to contribute 15% of the healthcare premium cost, capped the City's share of the cost of the annual premium to 6%, and eliminated retiree healthcare for new hires, the reopened arbitration award reduced the firefighter premium contribution to 5%, eliminated the 6% cap on the City's share of the premium increase, and reinstituted retiree healthcare benefits. The City negotiated a new contract with the firefighters during 2017 and reached a tentative agreement in April of 2018. Under the new agreement, the City's cost for health insurance premium increases must be at or below six (6%). If the City receives a renewal that exceeds (6%), the City will have the right to reopen the collective bargaining agreement for wages and health insurance only. The final agreement calls for 2% per year increases in compensation, a 10% contribution for health insurance, the elimination of a requirement to call out firefighters before mutual aid, and the ability for the City to hire part-time firefighters to cover shifts.

Table 19 outlines the costs for fire services over the past five years and projected through 2021.

TABLE 19 - FIRE DEPARTMENT EXPENSES WITH PROJECTIONS

YEAR	FIRE DEPARTMENT EXPENSES	INCREASE/ DECREASE
2013	$3,328,758	2.62%
2014	$3,116,712	-6.37%
2015	$3,099,483	-0.55%
2016	$3,073,219	-0.85%
2017	$3,260,796	6.10%
2018	$3,267,318	0.20%
2019	$3,273,852	0.20%
2020	$3,280,400	0.20%
2021	$3,286,961	0.20%

The number of firefighters was reduced from 39 to 37 in 2014.

The number of firefighters was reduced from 37 to 32 in 2016.

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

In addition to the expenditures shown for the fire department, an additional $1.5 million was paid into the Firemen's Pension Fund for the required MMO payment in 2017. This expenditure is shown in a separate fund which will be reviewed in the Pension Fund section. This brings the total cost for fire services to approximately $4.8 million in 2017.

Police Department

The City's Police Department, with the Police Chief and 37 police officers, makes up about 33% of the City's general fund expenditures, at about $3.5 million in 2017 and projected to be $3.7 million by 2021. The current staffing level is a reduction of 10 positions from the 48 active officers in 2003. **Table 20** outlines the cost of police services over the past 15 years and projected through 2021.

TABLE 20 - POLICE EXPENSES WITH PROJECTIONS

YEAR	POLICE DEPARTMENT EXPENSES	INCREASE/ DECREASE
2013	$3,369,426	0.14%
2014	$3,494,409	3.71%
2015	$3,408,752	-2.45%
2016	$3,583,499	2.55%
2017	$3,558,617	1.84%
2018	$3,601,320	1.20%
2019	$3,644,536	1.20%
2020	$3,688,271	1.20%
2021	$3,732,530	1.20%

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

The number of police officers was increased from 39 to 42 in 2014 3 positions were funded under the federal COPS program.

The number of police officers is currently at 38 plus the Chief. The City has not been awarded any additional COPS funding.

Despite the staffing reductions, the Police Department expenses have increased at about 1.2% per year for the past 5 years. The arbitration award that was issued in April of 2010 enabled the City to better manage costs for health benefits by requiring a 15% contribution towards health care and an annual 6% limit on the City's premium increase. However, expenses are exacerbated by post-retirement benefits that are almost as high as the current employee benefits. In 2017 the cost for health insurance benefits for active employees was $500,044 while the cost for post-retirement health care for retirees was $492,309.

In addition to the expenditures shown for the police department, an additional $1.2 million will be paid into the Police Pension Fund for the MMO in 2017. This expenditure is shown in a separate fund which will be reviewed in the Pension Fund section. This brings the total cost for the police department to approximately $4.7 million in 2017.

The City also provides police services under contract to the Housing Authority and to three adjacent communities. The City has taken the initiative to ensure that contracts with the Housing Authority and other municipalities for the provision of police services cover the actual cost of providing these services, including wages, benefits, equipment, and fuel.

Although the FOP contract expired on December 31, 2016, the City was unable to negotiate a new contract and a one-year extension was signed with the union in May of 2017. Under this one-year extension agreement, employees received a 1.5% increase for 2016 and members of the bargaining unit continued to contribute 15% of the health insurance premium. Retiree healthcare is no longer available to employees hired on or after January 1, 2012. Pursuant to the Sixth Amended Recovery Plan, the City's cost for health insurance premium increases must be at or below six (6%). If the City receives a renewal that exceeds (6%), the City will have the right to reopen the collective bargaining agreement for wages and health insurance only.

The City negotiated a new contract with the police department during 2017 that was signed on February 16, 2018 with a term of January 1, 2018 through December 31, 2020. The agreement calls for a 2% per year increase to compensation and reduced pension benefits for new hires. In return, the police agreed to a new schedule that is designed to more efficiently cover shifts and the elimination of E-days and the payment of double-time for working holidays.

Community Development

As in the past, the City enjoys considerable savings through utilization of Community Development Block Grant (CDBG) funds to support City projects performed by City employees. These funds are currently under attack by the federal government and may not be available to cities in the future.

This department oversees the planning, zoning, and code enforcement activities for the City. In 2014, the City added 2 code enforcement positions in an attempt to become more aggressive in pursuing code violations. Projected cost increases in this department due to the collective bargaining agreements are somewhat mitigated by the use of Housing and Urban Development (HUD) funding to support positions and activities.

Only about $139,365 was paid for community development from the general fund in 2017 which is only about 1% of the general fund expenditures. Most of the program revenues and expenditures are captured in other City funds.

Public Works

The Public Works Department includes a Director and 25 employees and makes up about 15% of the City's operating budget, at about $1.7 million in 2017. The current workforce is a significant reduction from 43 employees in 2007. The City has controlled costs in this department primarily through leaving positions vacant and by managing benefit costs. In fact, the City's expenses for this department, because of the reductions in the workforce, are lower in 2017 than they were in 2002. However, the costs for wages, health benefits, workers compensation, and pension liabilities continue to drive expenses.

TABLE 21. PUBLIC WORKS EXPENSES WITH PROJECTIONS

YEAR	PUBLIC WORKS EXPENSES	INCREASE/ DECREASE
2013	$1,922,237	4.40%
2014	$1,868,205	-2.81%
2015	$1,980,651	6.02%
2016	$1,739,921	-12.15%
2017	$1,739,704	-0.01%
2018	$1,722,655	-0.98%
2019	$1,705,773	-0.98%
2020	$1,689,056	-0.98%
2021	$1,672,504	-0.98%

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

The City has left positions vacant in this department every year since 2007 which has helped to control the expenses. In addition to the expenditures shown for the public works department, approximately $593,762 will be paid into the Officers and Employees Pension Fund for the MMO in 2017. This expenditure is shown in a separate fund which will be reviewed in the Pension Fund section. This brings the total cost for public works to $2.3 million in 2017.

Although the AFSCME contract expired on December 31, 2016, the City was unable to negotiate a new contract and a one-year extension was signed with the union in June of 2017. Under this one-year extension agreement, employees received a 1.5% increase for 2016 and members of the bargaining unit who make more than $11/hour continue to contribute 15% of the health insurance premium. Employees who make less than $11/hour contribute 10% of the health insurance premium. Retiree healthcare is no longer available to employees hired on or after January 1, 2010. Pursuant to the Sixth Amended Recovery Plan, the City's cost for health insurance premium increases must be at or below 6%. If the City receives a renewal that exceeds 6%, the City will have the right to reopen the collective bargaining agreement for wages and health insurance only.

The City negotiated a new contract in 2018 that provided a 2% per year increase to compensation, 15% contribution to healthcare and made changes to the pension benefit for new hires that are consistent with the Third Class City Code.

Health Benefits

Health benefits for full-time employees in all departments escalated dramatically over a 15-year period increasing from $1,762,376 in 2002 to $2,310,065 in 2017 - about a 30% increase. In arbitration awards and negotiated settlements, the City was able to implement 15% contributions from employees towards premiums, a cap of 6% increase to be absorbed by the City, and a restructuring of benefits. By 2012 the City was able to reduce its overall costs to $2,089,762, a 23% reduction from 2011 and a 38% reduction from 2010. For 2013, the City was again able to restructure the benefits and to gain acceptance by some of the bargaining units for a lower cost plan. One factor that impacts the reduction in benefits is that the City insures fewer active employees than ever before and has eliminated post-retirement healthcare for new hires. But post-retirement healthcare costs continue to increase as current employees retire and are still entitled to these benefits. **Table 22** provides a history of annual health care costs for City employees.

TABLE 22 - COST OF HEALTH CARE BENEFITS WITH PROJECTIONS

YEAR	HEALTH INSURANCE EXPENSES	INCREASE/ DECREASE
2013	$2,507,405	19.99%
2014	$2,779,042	10.83%
2015	$2,305,398	-17.04%
2016	$2,135,576	-7.37%
2017	$2,310,065	8.17%
2018	$2,425,568	5.00%
2019	$2,546,847	5.00%
2020	$2,674,189	5.00%
2021	$2,807,898	5.00%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

Health Care costs will continue to rise in the foreseeable future and the City must continue to negotiate with health care providers and the unions to keep costs manageable. In 2017, the health care benefits for employees are about 20% of the general fund budget. In addition, other post-retirement healthcare benefits (OPEB) escalated to an annual expense of $1.5 million by 2018. The total amount of OPEB liabilities incurred as of January 1, 2017, as calculated by the actuaries, is $21 million. Although these benefits have been eliminated for future hires current payments for the accrued liability have a substantial negative impact on the general operating budget. The annual OPEB payment will grow proportionate to retirements that take place with OPEB liability. The Recovery Plan requires the City to set up a fund to begin to contribute to a fully funded OPEB obligation.

WORKERS COMPENSATION

Workers compensation costs had become a significant problem for the City at the time that the Sixth Amended Plan was updated and adopted. A combination of higher premiums and a deteriorating claims and loss record resulted in a 40% increase to the City's premium. For this reason, the City was enrolled in the State Workers Insurance Fund (SWIF) beginning in 2013 in an attempt to control costs and address claims. By 2016, the City had done a remarkable job of turning this around and controlling claims and the premium was reduced from $711,130 in 2014 to $270,439 in 2016. **Table 23** provides the recent history of the City's premium increases by department.

TABLE 23 - WORKERS COMPENSATION PREMIUM BY DEPARTMENT

DEPARTMENT	2010	2011	2012	2013	2014	2015	2016
Management	1,300	1,486	1,600	1,703	586	672	324
Finance	1,361	1,406	1,710	1,691	1384	1532	868
Community Development	158	199	245	255	233	293	286
Police	136,428	184,774	249,100	220,676	278,351	167,280	166,567
Fire	241,942	255,143	310,616	305,184	315,063	210,347	215,03
Public Works	46,280	53,803	79,079	61,057	101,368	67,14	69,004
Parks & Recreation	6,257	7,091	14,814	13,271	14,145	10,902	11,887
Total General Fund	**433,726**	**503,902**	**657,164**	**603,837**	**711,130**	**455,740**	**270,439**

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

Table 24 provides a 3-year history of the City's workers compensation claims. Because the number and dollars for claims paid have decreased significantly, the City's premiums have been reduced.

TABLE 24 – WORKERS COMPENSATION CLAIM COST ANALYSIS

Claim Cost Analysis (All Claims)							
	Policy Year 2009	Policy Year 2010	Policy Year 2011	Policy Year 2012	Policy Year 2013	Policy Year 2014	Policy Year 2015
Total Incurred Losses	385,136	395,660	259,389	138,130	67,523	93,692	44,704
Paid Losses	385,135	395,662	259,385	138,132	60,493	84,882	44,704
# of Open Claims	0	0	0	0	6	3	0
Total # of Claims	23	29	24	30	46	31	32

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

Summary of Expenditures and Observations

The following observations regarding general fund expenditures are based on a June 2018 review of the City expenditures:

1. The City's general fund expenses are projected to be over $13.5 million per year beginning in 2018 for support of general fund activities. This is an obvious problem because the general fund revenues are projected to be only about $13 million per year resulting in a large and growing funding gap.

2. City expenditures increased at a remarkably low 2.2% per year over the past 10 years. This demonstrates an exceptional effort at cost containment.

3. Most of the cost containment has been a result of lower staffing levels. The number of positions has decreased by 24 Full Time Equivalents (FTE) from 2012 to January 2017 lowering the total number of employees from 149 to 134 in 2017. With such a large decrease in the number of employees there should have been a dramatic reduction in expenditures. Unfortunately, expenses for personnel related benefits including current and post-retirement health care and pension obligations have erased the gains achieved through reducing the number of positions.

4. The gap between operating revenues and expenditures steadily increased through 2015. By 2016, the deficit had reached an estimated $1.8 million and City Council was forced to seek an unfunded debt loan in the amount of $6 million to restructure debt and meet current operating obligations.

5. Benefits and pension liabilities continue to escalate in spite of the best efforts of the City to address the escalating costs. Although the healthcare costs have leveled out at about $2.5 million annually due to cost containment efforts that were

mandated in the Recovery Plan and implemented through arbitrated and negotiated settlements in 2010, 2013, and 2017, they will continue to rise in future years. The Pension MMO will increase by $300,000 in 2019 and the Debt Service will increase by $238,000 beginning in 2020.

6. The general fund in isolation, without considering the other core funds that reflect the City activities, is close to being balanced by enough revenue to support general fund operations. However, the debt service fund, the parking fund, the pension fund, and the recreation fund continue to negatively impact the stability of the City's financial condition.

REVIEW OF THE 2016 GENERAL FUND AUDITED FINANCIAL STATEMENTS

As part of this Financial Condition Evaluation, a review of the most recently audited financial statements was completed in order to evaluate the accuracy of the City's budgeted amounts in the general fund relative to the actual revenue received and expenditures incurred. During 2015, the general fund experienced a deficiency of revenues over expenditures totaling ($1,305,910) at the close of the fiscal year. This negatively impacted the general fund balance by reducing it from a positive $278,034 to a negative ($1,027,876). The City had achieved the positive fund balance in 2009 and 2010 by transferring funds in the amount of $4,665,000 in 2008 and $253,377 in 2009 from the reserve account for the reimbursement of expenses made from the general fund. By the end of 2015, these reserves were completed exhausted. In 2016, the City borrowed $6 million as an unfunded debt loan with approval from Common Pleas Court and DCED to restructure debt and meet current year obligations. This resulted in an estimated positive fund balance of $1,063,188 by the end of 2016.

Revenue

A review of the 2015 audited Actual Revenue to Budgeted Revenue indicates that the actual revenue fell short of the budget by ($2,135,188) for the following reasons:

- Tax revenue was under budget by $612,252. This is partly due to the requirement to escrow a portion of the taxes that were under appeal by the Duke LifePoint Healthcare System.
- The PILOT was under budget by $5,792
- Charges for Services exceeded the budgeted amount.
- Licenses and permits were under budget by $27,847.
- Fines and forfeits were under budget by $49,861.
- Departmental earnings were under budget by $12,573.
- Interfund charges and reimbursements exceeded the budgeted amount by $80,333.
- Grants and joint projects were under budget by $302,008.
- Interest earnings were under budget by $8,424.
- Miscellaneous revenue was under budget by $1,200,147. This was revenue that was budgeted that never materialized.

Expenditures

Fire, Police, Community Development, Culture and Recreation, and Public Works all exceeded budget allocations in 2015. General Government and Finance achieved savings from the budgeted allocations. A review of the 2015 audited Actual Expenditures to Budgeted Expenditures indicates that the actual expenditures exceeded the budget by $80,616 for the following reasons:

- General government was under budget by $1,977.
- Finance Department was under budget by $320,100.
- Fire Department was over budget by $15,410.
- Police Department was over budget by $145,774.
- Public Works Department was under budget by $104,267.
- Community Development was under budget by $72,182.
- Parks and Recreation was under budget by $21,531.

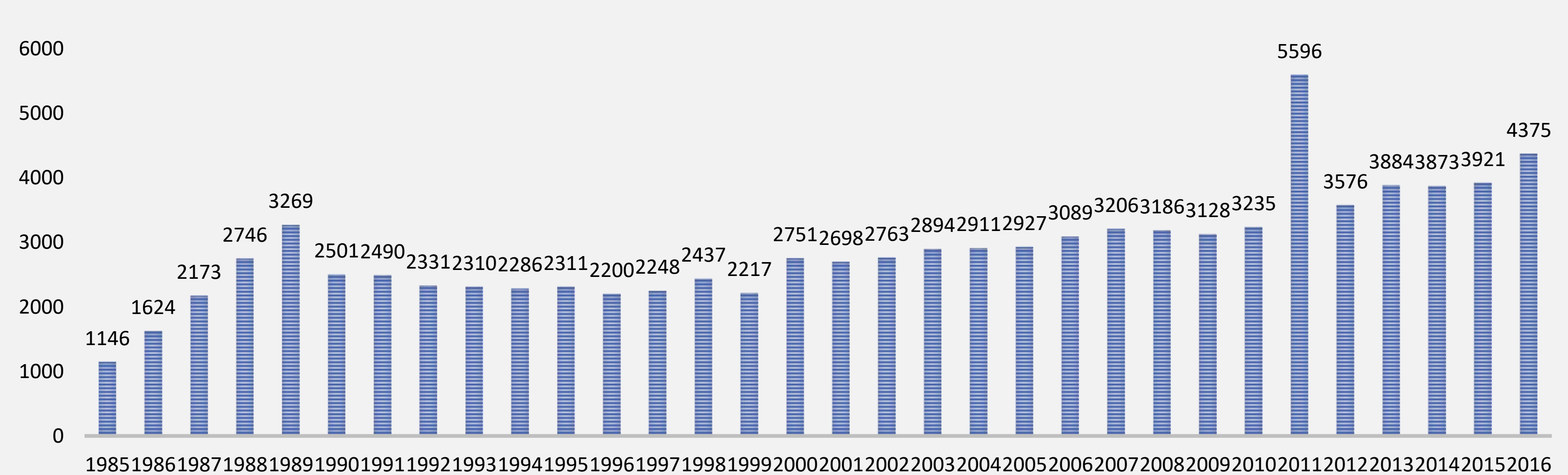
The City should continue to refine its budget process and include better projections for both revenues and expenditures. The adopted 2018 budget is a much-improved document that provides documentation and support for the budget projections and relies on revenue that is based on historical accuracy.

PENSION FUND

Revenue

In 2017 the City levied 17.3831 mills of real estate taxes per dollar of assessed valuation of property in the City to assist in addressing the unfunded actuarial accrued liability (UAAL) for the pension funds. This levy generated approximately $2.3 million in current year real estate taxes. Other revenue for the pension fund includes funds from the sale of liens, employee contributions, state aid, and investment returns. A history of the state aid unit value over the past 30 years is shown.

FIGURE 13 - HISTORY OF STATE AID UNIT VALUES



SOURCE: PENNSYLVANIA EMPLOYEES RETIREMENT COMMISSION WEBSITE

State aid is an important factor in funding the plans. It is based on the unit value derived from foreign casualty insurance premiums which are reported by the Commonwealth annually. The unit value is applied to the number of active employees that are reported by the City to the Auditor General's Office in March of each calendar year. Police and fire employees receive credit for two units while all other employees receive credit for one unit. Over the past 25 years, the unit value has increased from $1,146 in 1985 to $4,375 in 2016. In 2011, there was an exceptional "one-time only" payment of $5,596 per unit to all municipalities in the Commonwealth. This produced excess funds that were used to offset pension expenses in subsequent years. In 2017, the state aid was $953,704.

Because the state aid units are awarded based on active employees and the City has reduced its workforce over the years, the City receives less state aid than in the past even though the unit value has increased substantially. In fact, there are over twice as many retired employees who are drawing pension payments from the pension plan than active employees to support it. The 2017 valuation of the pension plan reported the following active and retired employees.

TABLE 25 - PENSION FUND PARTICIPANTS – ACTIVE AND RETIRED

PARTICIPANTS IN 2017	POLICE FUND	FIRE FUND	OFFICERS/ EMPLOYEES	SEWAGE FUND	TOTAL
Retirees and Beneficiaries	92	73	81	18	264
Deferred-Vested	6	1	2	6	15
Active Employees	38	33	43	0	114
Total	**136**	**107**	**126**	**24**	**393**

SOURCE: 2015 ACTUARIAL VALUATION AND 2015 AUDITED FINANCIAL STATEMENTS

With the exception of 2011 when the unit value was exceptionally high, the City's state aid allocation decreased from the 2007 allocation of $970,419 to $953,704 in 2017. Unfortunately, the City continues to require about $3.4 million in revenue to support its pension obligation and must look to other sources such as real estate tax levies for additional revenue. In fact, based on a change in interest and compensation actuarial assumptions, the projected MMO payment for 2019 is projected to be $3.7 million.

Investment Performance

Investment performance has long been a problem for the City's funds with losses in most periods from 2007 through 2011. In August of 2007, the City selected two new investment managers to manage the funds after a review of the investment performance of the plans. C.S. McKee in Pittsburgh and State Street Global Advisors in Boston were selected as investment managers for the funds. But, through 2013, the plans continued to exhibit losses in valuation of assets. In 2014, the City engaged AndCo Consulting (formerly the Bogdan Group) to provide pension investment guidance for investment of pension funds. Since the 2013 valuation, the City has experienced actuarial gains in each of the pension funds. The primary reason for these gains was investment returns that met or exceeded the assumed rate of 7.5 percent per annum. Part of the gains are also a result of the City beginning to make the full MMO payment to the fire pension fund and to the sewage employees fund instead of the 25% reduced amortization permitted by law. In fact, the higher contributions have resulted in an improvement in the Fire Pension Fund from 31.6% funded in 2013 to 42% funded in 2017. The investment gains to each fund are shown in **Table 26**.

TABLE 26 – PENSION ASSETS BY FUND

YEAR	POLICE FUND ASSETS	FIRE FUND ASSETS	OFFICERS & EMPLOYEE ASSETS	SEWAGE FUND ASSETS	TOTAL
2013	$8,914,258	$5,182,741	$6,132,396	$1,285,460	$21,514,855
2015	$10,120,578	$6,223,767	$6,561,374	$1,440,462	$24,346,181
2017	$10,708,268	$7,319,417	$6,613,008	$1,645,238	$26,285,931
Increase in Assets Since 2013	**$1,794,010**	**$2,136,676**	**$480,612**	**$359,778**	**$4,771,076**

SOURCE: 2015 ACTUARIAL VALUATION AND 2015 AUDITED FINANCIAL STATEMENTS

The two investment managers chosen in 2007 (C.S. McKee and State Street Global) continue to manage the funds in 2017 and the City has realized investment gains in the funds. By 2015, the value of assets had increased to $24.3 million and by 2017 are reported as $26.2 million which demonstrates additional gains in value.

Expenditures

In 2012, the Johnstown pension funds received a determination from the Pennsylvania Employee Retirement Commission (PERC) that the Plans had devolved to a Level III Severe Distress status under Act 205. This was a result of total actuarial losses experienced by the pension plans between 2009 and 2011 ($2,002,801) on top of a loss between 2007 and 2009 ($3,021,464). The actuarial losses caused the Unfunded Accrued Actuarial Liability (UAAL) for the plans to increase from $16 million in 2003 to over $24 million by 2011.

By 2011, the City's combined pension plans were only 47% funded with the fire pension plan in the worst position at only 34% funded. The condition of the funds declined further by the 2013 valuation at which time the total funds had declined to 45% funded and the fire department fund had declined to only 31.6%. **Table 27** provides the history of the UAAL.

Although the funding status improved slightly by the 2015 valuation, the fire department pension plan, at 37% funded, had only about five (5) more years of funds available for benefits. Although the assets continue to increase, the liabilities are increasing simultaneously – from $37 million in 2003 to $49 million in 2017.

TABLE 27 - PENSION UNFUNDED ACCRUED ACTUARIAL LIABILITY (UAAL)

YEAR	TOTAL ACTUARIAL VALUE OF ASSETS	TOTAL ACTUARIAL ACCRUED LIABILITY (AAL)	TOTAL UNFUNDED AAL (UAAL)	TOTAL FUNDED RATIO
2003	$21,699,879	$37,768,221	$16,068,342	57%
2005	$20,882,649	$40,008,680	$19,126,031	52%
2007	$21,605,207	$41,265,778	$19,660,571	52%
2009	$20,972,820	$41,877,580	$20,904,760	50%
2011	$21,914,312	$46,308,890	$24,394,578	47%
2013	$21,514,855	$47,422,975	$25,908,120	45%
2015	$24,346,181	$48,352,745	$24,006,564	50%
2017	$26,285,931	$49,662,193	$23,376,262	53%

SOURCE: CITY OF JOHNSTOWN ANNUAL AUDITS

There are mandatory remedies for Level III Distress pension funds under Act 205 that must be considered by the City including the establishment of a revised benefit plan for newly hired employees. In 2013, the City commissioned its actuary, Mockenhaupt Benefits Group (MBG), to undertake a study of the options that are mandatory and/or available to the City to address the unfunded actuarial liabilities of the Plan. The Sixth Amended Plan required that the City initiate several changes to its pension plans pursuant to its authority under Act 205 to address its unfunded pension liabilities.

The City has pursued a number of strategies to control the future costs of pension liabilities, including better investment management, changes to benefits for newly hired employees, and reductions in active staff. The City also reduced the investment assumption from 8% to 7.5% and continued to make the full MMO payments to the Fire fund and the Sewage fund. For 2011 through 2016, the City elected the Act 44 option which provides for the ability to reduce the City's Minimum Municipal Obligation (MMO) by 25% for the Police Pension Fund and the Officers and Employee Fund and to amortize that amount over the next 20 years at the interest rate in the actuarial assumptions of the Plan. Beginning in 2017, the "smoothing" provision ended and the City paid the full MMO in the amount of $3.4 million. The City's actuary provided MMO projections through 2021 and this evaluation is based on the MBG projections.

It is projected that the pension obligation will increase to $3.8 million by 2021. **Table 28** provides a history of the MMO expense paid from the Pension Fund from 2001 – 2017 and projected through 2021. These payments are partially offset by state aid received and deposited into the Fund.

TABLE 28 - PENSION MMO EXPENSES WITH PROJECTIONS

Year	Pension MMO Expense	Increase/ Decrease ( )
2007	$2,447,203	14.61%
2008	$2,722,437	11.25%
2009	$2,407,340	-11.57%
2010	$2,661,152	10.54%
2011	$2,092,202	-21.38%
2012	$2,112,550	0.97%
2013	$2,474,894	17.15%
2014	$2,982,701	20.52%
2015	$3,500,494	17.36%
2016	$3,253,153	-7.07%
2017	$3,390,281	4.22%
2018	$3,258,974	-3.87%
2019	$3,779,220	15.96%
2020	$3,778,062	-0.03%
2021	$3,803,495	0.67%

SOURCE: JOHNSTOWN FINANCIAL RECORDS, MBG PROJECTIONS, AND GRS ANALYSIS

Table 29 provides a comprehensive overview of the activity in the Pension Fund from 2012 through 2017 and projected through 2021. Until 2013, the Redevelopment Authority was reimbursing the City for the MMO for Sewage employees. Once this operation was privatized, the payment was no longer made by the Authority for reimbursement to the City. This reduces the revenue to the fund by approximately $110,000 and must be made up from City funds increasing the City's MMO in the future.

TABLE 29 – PENSION FUND ACTIVITY 2012 – 2016 AND PROJECTIONS THROUGH 2021

17. Pension Fund										
	Audited	**Audited**	**Audited**	**Audited**	**Audited**	**Actual**	**Projected**	**Projected**	**Projected**	**Projected**
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
RE Taxes	1,532,849	1,351,930	1,885,492	2,889,073	2,512,709	2,335,149	-	-	-	-
State Aid	867,861	908,707	826,742	792,654	919,477	953,704	968,010	982,530	997,268	1,012,227
Liened	-	-	-	-	-	178,975	172,392	170,000	170,000	170,000
Interest	315	343	274	480	491	939	50	50	50	50
Sewage Employ	96,693	98,907	110,558	-	-	-	-	-	-	-
Revenue	**2,497,718**	**2,359,887**	**2,823,066**	**3,682,207**	**3,432,677**	**3,468,767**	**1,140,452**	**1,152,580**	**1,167,318**	**1,182,277**
Transfers In (RE Taxes)					267,677	68,636	2,118,522	2,630,000	2,615,000	2,625,000
							-			
MMO	(2,112,550)	(2,474,894)	(2,982,701)	(3,500,494)	(3,023,895)	(3,390,280)	(3,258,974)	(3,779,220)	(3,778,062)	(3,803,495)
Excess/(Deficit)	**385,168**	**(115,007)**	**(159,635)**	**181,713**	**676,459**	**147,123**	**(0)**	**3,360**	**4,256**	**3,782**
Fund Balance:										
Beginning of Year	(1,010,860)	(625,692)	(740,699)	(900,334)	(718,618)	(42,159)	104,964	104,964	108,323	112,579
End of Year	**(625,692)**	**(740,699)**	**(900,334)**	**(718,618)**	**(42,159)**	**104,964**	**104,964**	**108,323**	**112,579**	**116,361**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

PARKING FUND

Revenue

The Parking Fund is made up of two (2) funds, the Parking Fund – 02 and the Intermodal Parking Garage – 06. The total Parking Fund Revenues were $755,519 in 2017 as shown in **Table 30**. Revenues for the Parking Fund consist of meter revenue, parking garage revenue, parking space rentals, fines, neighborhood passes, and unloading zone fees. Although the trend has been a modest annual increase in revenues, projections are that in future years, the City will not generate enough revenue to cover operating expenses and debt service payments. The City will have to continue to transfer approximately $250,000 annually to cover the debt service related to the Parking Fund. Revenue is projected to be between $750,000 and $800,000 annually.

Expenditures

The parking fund has been operating at a deficit since 2006 and continued to generate deficits in 2010, 2011, and 2012. The $589,000 operating expenses in 2017 include one parking meter serviceman, one senior meter person, one parking enforcement personnel, one laborer (public works support), and a full-time parking coordinator.

Although the parking fund as it is currently structured can support the parking operation, it cannot generate enough revenue to pay the annual debt service payment on the parking garage debt that has been consolidated with general obligation debt. In 2013, this debt was moved to the Debt Service Fund and the Parking Fund provides a transfer to the Debt Service Fund to partially offset the debt payment. The total expenditures for 2018 are budgeted at $848,177 including the transfer for the debt service payment. Projections are that the fund will continue to experience deficits through 2021 without any intervention by City management to address the deficits.

The parking facilities are in disrepair and require extensive improvements. The City commissioned a structural engineering study of its parking facilities in 2012 and used some of the savings from the 2013 refund of the General Obligation Bond – Series 2006 to complete repairs that were necessary in order to continue the use of its parking facilities.

In 2017, the City requested an Act 47 grant through DCED to undertake an asset valuation study in an attempt to begin the privatization or monetization of the parking facilities in the City. Once the valuation is complete, the City intends to develop options for selling or leasing these facilities for private management.

Table 30 provides a comprehensive history of the revenues, expenditures and fund balances for the Parking Fund from 2012 projected through 2021.

TABLE 30 – PARKING FUND ACTIVITY 2013 – 2017 WITH PROJECTIONS THROUGH 2021

02. and 06. Parking Fund	Audited 2012	Audited 2013	Audited 2014	Audited 2015	Audited 2016	Actual 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Fees	758,865	754,254	758,976	746,415	799,519	643,912	656,790	669,926	683,325	696,991
Fines and Forfeits						109,087	105,000	105,000	105,000	105,000
Interest	67	45	39	61	(160)	2,520	100	100	100	100
Other		2,428	-	-	-	-	-	-	-	-
Revenue	**758,932**	**756,727**	**759,015**	**746,476**	**799,359**	**755,519**	**761,890**	**775,026**	**788,425**	**802,091**
Interest Expense										
Grant Funds (Restricted)				62,779	593,476	186,778				
Expenditures	(1,118,863)	(1,040,132)	(941,749)	(978,009)	(1,253,798)	(589,337)	(598,177)	(607,150)	(616,257)	(625,501)
Transfers In (GL)		365,470	184,169		333,495	-	-	-	-	-
Transfers Out (DS)					(639,495)	-	(250,000)	(250,000)	(250,000)	(250,000)
Interest Expense	(136,395)	(135,124)	(112,344)	(95,912)	-	-	-	-	-	-
Excess/(Deficit)	**(496,326)**	**(53,059)**	**(110,909)**	**(327,445)**	**(166,963)**	**166,182**	**(86,287)**	**(82,124)**	**(77,832)**	**(73,410)**
Fund Balance:										
Beginning of Year	(2,822,162)	(3,318,488)	(3,371,547)	(3,482,456)	(3,809,901)	(290,873)	(124,691)	(210,978)	(293,101)	(370,934)
Fund Balance Restated					(123,910)					
End of Year	**(3,318,488)**	**(3,371,547)**	**(3,482,456)**	**(3,809,901)**	**(290,873)**	**(124,691)**	**(210,978)**	**(293,101)**	**(370,934)**	**(444,344)**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

DEBT SERVICE FUND

REVENUE

The City's debt service fund is primarily supported through an annual real estate tax levy, sale of liens, and the interest earnings associated with the deposited funds. In 2017 the millage was set at 7.4357 mills and generated $942,480 in real estate tax collections. There was $37,485 in lien sales and $38,540 in fees bringing the total revenue in this fund to $1,019,333.

Expenditures

The City's debt service obligation for 2017 was $1,170,302 requiring a transfer from the General Fund of $156,468 to cover the shortfall. This includes the parking garage debt and the payments for the unfunded debt loan Series of 2016. **Table 31** provides a detailed review of the debt service requirements for 2017 through 2021.

TABLE 31 – DEBT SERVICE PAYMENT SCHEDULE 2017-2021

YEAR	KS STATE BANK #1	KS STATE BANK #2	SERIES OF 2013	UNFUNDED DEBT LOAN 2016	TOTAL
2017	78,458	96,754	276,593	717,000	1,170,302
2018	78,458	96,754	275,493	717,000	1,210,704
2019	78,458	96,754	274,393	717,000	1,215,800
2020	78,458	96,754	513,224	717,000	1,405,436
2021	78,458	96,754	511,586	717,000	1,403,798

SOURCE: JOHNSTOWN FINANCIAL RECORDS AND GRS ANALYSIS

Because the revenue generated in this fund is not enough to cover the entire debt service payment obligations, it will be necessary for the City to contribute between $130,000 to $350,000 to cover these payments. Beginning in 2020, the debt service payments will increase by $238,000 because the payments for the GO Series of 2013 will increase. This will require at least an additional $350,000 in funding from the General Fund. **Table 32** provides the schedule of long term debt that is outstanding as of January 1, 2017.

TABLE 32 - LONG TERM DEBT SCHEDULE

LENDER	ISSUE AMOUNT	OUTSTANDING DECEMBER 31, 2016
Kansas State Bank Loan #1	$1,000,000	$431,246
Kansas State Bank Loan #2	$1,101,264	$828,436
GO Bonds Series of 2013	$10,357,156	$6,485,000
GO Note - Unfunded Debt	$6,000,000	$6,000,000
TOTAL GO Long Term Debt	$18,458,420	$13,744,682

SOURCE: WESSEL & COMPANY. 2009 AUDITED FINANCIAL STATEMENTS

Table 33 provides a comprehensive history of the revenues, expenditures and fund balances for the Debt Service Fund from 2012 projected through 2021. It should be noted that the City also has debt related to its Sewer Upgrade projects which is approximately $80 million but is not considered to be General Obligation debt because it is supported by Revenue Bonds that were issued through PENNVEST. This debt will be discussed as part of the Sewer Upgrade Fund section.

TABLE 33 – DEBT SERVICE FUND ACTIVITY 2013 – 2017 WITH PROJECTIONS THROUGH 2021

20. Debt Service Fund	Audited 2012	Audited 2013	Audited 2014	Audited 2015	Audited 2016	Actual 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Taxes	647,005	663,253	573,055	416,266	426,352	942,480	-	-	-	-
Fees						38,540	32,000	32,000	32,000	32,000
Liened	-	-	-	-	-	37,484	70,064	77,070	84,777	93,255
Interest		12	11	19	448	829	500	500	500	500
Revenue	**647,005**	**663,265**	**573,066**	**416,285**	**426,800**	**1,019,333**	**102,564**	**109,570**	**117,277**	**125,755**

Transfer In (PF)				-	1,048,416	-	250,000	250,000	250,000	250,000
Transfer In (GL)					-	156,468	858,640	858,000	1,039,000	1,030,000
LOC Proceeds		337,601	184,097	-	78,518					
Lease Proceeds					1,328,418					
Debt	(288,242)	(584,066)	(387,989)	(402,729)	(1,328,418)	(1,170,302)	(1,210,704)	(1,215,800)	(1,405,436)	(1,403,798)
Proceeds - Bonds		560,246			6,000,000					
Transfer Out (PF)		(1,118,774)	(184,169)			-	-	-	-	-
Refund Debt					(4,590,055)					
Transfer Out (GL)					(2,969,198)					
	-	-	-	-	-	-	-	-	-	
Excess/(Deficit)	**358,763**	**(141,728)**	**185,005**	**13,556**	**(5,519)**	**5,499**	**500**	**1,770**	**841**	**1,957**
Fund Balance:										
Beginning of Year	140,598	499,361	357,633	542,638	556,194	(5,499)	-	500	2,270	3,112
Fund Balance Restated					20					
End of Year	**499,361**	**357,633**	**542,638**	**556,194**	**(5,499)**	**-**	**500**	**2,270**	**3,112**	**5,069**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

RECREATION FUND

Revenue

Prior to 2009, recreation in the City was funded by a special levy on real estate and was shown in a special Recreation Fund. In fiscal year 2009, the City eliminated the special levy on real estate as a method to fund recreation activities.

By 2017, the total revenue identified exclusively as part of the Recreation Fund was only $70,106 and was related only to Point Stadium. This includes gate tickets, stadium rental, concessions, and advertising.

There continues to be considerable uncertainty about programming, cost recovery, and uses for Point Stadium. While the City has taken steps to promote and market as well as evaluate current programming, Point Stadium continues to be significantly underutilized. The City intends to develop a business plan that focuses on additional uses and revenue from Point Stadium.

Expenditures

Expenses at Point Stadium in 2017 were $173,640 mostly for employee compensation and benefits, utilities, equipment, and supplies. This made it necessary for the General Fund to transfer approximately $103,000 to cover expenses.

Expenditures in the Recreation Fund have exceeded revenue in every year since 2009 and the General Fund has subsidized these expenditures. Transfers have been required and will continue to be required to support the Point Stadium expenditures.

Because there is a social component to recreation that fulfills certain "quality of life" aspects for City residents, recreation will continue to be a vital part of the City's overall mission. It is recommended, however, that the Recreation Fund be consolidated with the General Fund because there are significant revenues and expenditures already included in the General Fund and there is very little revenue or activity in the Recreation Fund. The accounting for Point Stadium can be accommodated by setting up a separate accounting group within the General Fund.

Table 34 provides a comprehensive history of the revenues, expenditures and fund balances for the Recreation Fund from 2013 projected through 2021. The revenue includes the transfers from the General Fund as they are shown in the Audited Financial Statements.

TABLE 34 – RECREATION FUND ACTIVITY 2013 – 2017 WITH PROJECTIONS THROUGH 2021

22. Recreation Fund									
	Audited 2013	**Audited 2014**	**Audited 2015**	**Audited 2016**	**Actual 2017**	**Projected 2018**	**Projected 2019**	**Projected 2020**	**Projected 2021**
Taxes	-	-		-	-	-	-	-	-
Fees	72,711	53,550	62,635	64,419	70,106	75,500	76,633	77,399	78,173
Other	1,600	-	-	-					
Interest	107	49	17	84	85	-	-	-	-
Revenue	**74,418**	**53,599**	**62,652**	**64,503**	**70,191**	**75,500**	**76,633**	**77,399**	**78,173**
Expenses	(207,298)	(189,197)	(213,622)	(198,998)	(173,640)	(176,245)	(178,888)	(181,572)	(184,295)
Transfer In (GF)	133,867	138,489	133,459	21,000	-	101,000	103,000	105,000	107,000
Transfer Out									
Excess/(Deficit)	**987**	**2,891**	**(17,511)**	**(113,495)**	**(103,449)**	**255**	**744**	**827**	**878**
Fund Balance:									
Beginning of Year	(82,005)	(81,018)	(78,127)	(95,638)	(7,833)	(111,282)	(111,027)	(110,282)	(109,455)
Fund Balance Restated				105,662					
End of Year	**(81,018)**	**(78,127)**	**(95,638)**	**(7,833)**	**(111,282)**	**(111,027)**	**(110,282)**	**(109,455)**	**(108,577)**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

SANITATION FUND

Revenue

The user fee charged to all property owners for pick-up and disposal of refuse supported the Sanitation Fund until 2013 at which time the City executed a new contract that required the vendor to direct bill residents.

Sanitation Fund Revenues remained relatively constant through 2013 leveling off at about $1.5 million per year. However, after 2013, the City collected only delinquent accounts which resulted in revenue in 2017 in the amount of $37,522. These collections have become smaller in each fiscal year.

Expenditures

In 2012, the City finally realized an excess of revenue over expenditures in the amount of $28,459 in the Sanitation Fund. The City no longer bills the residents for this service and has no collection responsibilities. The City eliminated this fund for budget year 2018. **Table 35** provides a comprehensive history of the revenues, expenditures, and fund balances for the Sanitation Fund from 2013 projected through 2021.

TABLE 35 – SANITATION FUND ACTIVITY 2012-2016 WITH PROJECTIONS THROUGH 2021

21. Sanitation Fund										
	Audited 2012	**Audited 2013**	**Audited 2014**	**Audited 2015**	**Audited 2016**	**Actual 2017**	**Projected 2018**	**Projected 2019**	**Projected 2020**	**Projected 2021**
Grants	7,226	7,782	7,477	7,589	8,126	17,781	-	-	-	-
Fees	1,532,070	1,496,752	99,740	63,060	28,119	19,581	-	-	-	-
Interest	1,071	787	28	17	2	160	-	-	-	-
Fines	796	935	64	589	43	-	-	-	-	-
Revenue	**1,541,163**	**1,506,256**	**107,309**	**71,255**	**36,290**	**37,522**	**-**	**-**	**-**	**-**

Expenses	(1,493,354)	(1,498,864)	(24,461)	(24,242)	(27,322)	(15,154)	-	-	-	-
Transfers In										
Transfers Out (GF)		(332)			-	-	-	-	-	-
Excess/(Deficit)	**47,809**	**7,060**	**82,848**	**47,013**	**8,968**	**22,368**	**-**	**-**	**-**	**-**
Fund Balance:										
Beginning of Year	(212,180)	(164,371)	(157,311)	(74,463)	(27,450)	(3,093)	19,275	19,275	19,275	19,275
Fund Balance Restated:					(12,061)					
End of Year	**(164,371)**	**(157,311)**	**(74,463)**	**(27,450)**	**(3,093)**	**19,275**	**19,275**	**19,275**	**19,275**	**19,275**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

OTHER GOVERNMENTAL FUNDS

CAPITAL FUND

Revenue

For years, the City dedicated its non-resident earned income tax, authorized as a remedy under Act 47, directly to the Capital Fund. Equipment, facilities, and other capital projects were funded through this method. However, beginning in 2006, these funds were needed for the general operation of the City departments and were no longer dedicated to capital projects.

Since 2009, the Capital Fund has been supported by grant funds for special projects, transfers from the General Fund, and proceeds from the City's First Summit Bank line of credit. In 2015, the City received grant funds in the amount of $5,539,727 for the Haynes Street Bridge Replacement project. At the beginning of 2016, there was $675,929 in the Capital Fund and revenues from grant funds were deposited in the amount of $364,832. There was also a transfer from the General Fund in the amount of $444,931. In 2017, the City transferred $79,817 from the General Fund to the Capital Fund for the purchase of police vehicles. In 2018, there is a planned deposit of loan funds in the amount of $500,000 to undertake demolition projects. The City uses the Capital Fund primarily for infrastructure projects that are grant funded.

Expenditures

Most expenditures from the Capital Fund since 2009 have been for projects that are funded through grants or proceeds from borrowing. There were no planned expenditures from this fund in 2013 with the exception of parking garage repairs that were made from the proceeds of the General Obligation Bond – Series 2013.

In 2015, there were expenditures from PENNDOT grant funds in the Capital Fund in the amount of $6,133,746. These expenditures were primarily for the Haynes St. Bridge Replacement project and the Dellwood Street Bridge Replacement project. In 2016, there were expenditures for police, fire, and public works vehicles in the amount of $615,077 that were funded through a capital loan lease through Kansas State Bank. Because there are no available unrestricted assets, there were very few expenditures made from this fund in 2017 with the exception of police vehicles.

In the past, the City prepared a Capital Improvement Plan (CIP) each year that was reviewed and approved by the City Council along with the general operating budget. In fact, the City's Home Rule Charter requires that the CIP must be completed and adopted by Council by August 1 of each fiscal year. But in recent years, the City did not have capital funds to commit to projects and eliminated this practice.

In 2017 and 2018, the Finance Director completed a summary CIP that included the current planned and future projects for a five- year period. The City should enhance and maintain a five-year CIP that includes the identification of facility and infrastructure projects and a plan to replenish resources and funding sources to support the identified projects.

SEWER UPGRADE FUND

REVENUE

The City sold the sewage treatment plant to the Redevelopment Authority in 2005 and closed the Bureau of Sewage Fund as the funds were exhausted and activities were transferred.

In July 2010, the City executed a Consent Order and Agreement (COA) with the Pennsylvania Department of Environmental Protection. The COA is designed to address sanitary sewer overflows (SSO) in the region served by the Johnstown Redevelopment Authority's Dornick Point Sewage Treatment Plant in West Taylor Township, Cambria County. The COA obligates the City to a schedule of corrective actions related to its sanitary sewer system. As a result, the City raised its minimum monthly sewer usage charge to $55 up to 6,000 gallons effective January 2017. There are planned increases in future years to cover the cost of required improvements. These funds are collected in the Sewer Upgrade Fund. The fees are being used to support the required activities and associated debt service that must be completed as a result of the COA. By 2017, the sewer user fees were generating about $7 million per year to support the sewer projects. In addition, the City incurred loans in the amount of $88 million through the state's PENNVEST program. **Table 36** provides a history of the revenue by source for this fund over the past five (5) years.

TABLE 36 - SEWER UPGRADE FUND REVENUE BY SOURCE 2013-2017

Source	2013	2014	2015	2016	2017
Interest Earnings	$42,786	$32,598	$25,178	$9,159	$5,707
User Fees - Sewer Upgrade	$5,336,079	$4,826,120	$5,458,691	$6,461,656	$7,047,834
Dumping Fees					$167,242
PENNVEST Loan Proceeds	$7,144,050	$11,140,523	$22,038,058	$20,100,913	$17,861,590
TOTAL	**$12,522,915**	**$15,999,241**	**$27,521,927**	**$26,571,728**	**$25,082,373**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

Expenses

In 2010, the City began to design, engineer, and undertake projects to address the sanitary sewer overflow problem under a DEP consent order. The City has received nine (9) PENNVEST loans through the PA Department of Environmental Protection to continue capital projects that will bring the City into compliance with the consent order. Ultimately, the City will be required to expend $127,965,000 to design, engineer, and construct sewer projects that address the consent order. **Table 37** provides a 4-year history of the expenditures that have been supported by the Sewer Upgrade Fund.

TABLE 37 - SEWER UPGRADE FUND EXPENSES BY USE 2014-2016

Use	2014	2015	2016	2017
Sewer Upgrade Projects	$5,633,557	$496,523	$4,727,617	$2,314,979
Personnel Expense	$31,360	$29,617	$25,120	$0
DEP Overflow Fines	$10,000	$10,000	$18,000	$8,000
Advertising Expense	$3,700	$3,525	$1,615	$777
Audit	$15,000	$18,000	$23,000	$30,500
RDM Contract Expense	$183,467	$178,387	$173,608	$164,778
Engineering Expense	$1,533,626	$15,374	$3,165,869	$683,482
Legal Expense	$14,812	$28,282	$7,000	$0
Easements	$24,604	$33,498	$19,266	$18,274
PENNWORKS Projects	$1,377	$2,140	$214,379	$0
PENNVEST Debt Service	$113,576	$126,124	$1,826,921	$3,473,913
PENNVEST Project Expenses	$8,980,646	$208,310	$20,812,950	$15,837,278
Depreciation Expense	$3,000	$380,702	0	$0
Dumping Fee	$0	$0	0	$111,005
Transfer to GL Fund	$533,908	$450,749	$450,000	$450,000
TOTAL Expenditures	**$17,082,633**	**$1,981,231**	**$31,465,345**	**$23,092,986**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND GRS PROJECTIONS

As of December 31, 2016, the audited fund balance for the Sewer Upgrade Fund was $34,499,762. It is estimated that the fund balance at December 31, 2017 was approximately $35 million. In the 2018 budget, the City planned for another $30 million in projects and a $450,000 transfer to the General Fund to reimburse it for expenses related to the sewer projects. These funds are restricted for sanitary sewer upgrades to address the DEP consent order.

The outstanding long-term debt from PENNVEST revenue bonds in the amount of $70.8 million for the sewer projects and consent order are shown in **Table 38.** It is expected that the City will incur another $39.7 million to complete the planned projects to address the COA. Currently, the City expends about $4.8 million annually for PennVest debt service payments.

TABLE 38 - SCHEDULE OF PENNVEST LOANS

Sewer Upgrade Fund Schedule of PENNVEST Loans			
Loan Identification	**Location**	**Outstanding December 31, 2016**	**Annual Debt Service**
Loan #79372	Hornerstown Part 1	1,622,650	110,736
Loan #71390	Hornerstown Part 2	6,745,124	519,600
Loan #71397	Roxbury	8,480,881	601,536
Loan #71406	Oakhurst	7,552,547	650,436
Loan #71412	Woodvale	9,558,185	617,256
Loan #71417	Moxham Part 1	4,799,928	601,536
	Morrellville	15,900,000	877,536
	8th Ward	5,090,300	280,920
	Moxham Part 2	11,082,200	611,592
Total Outstanding Loans		**70,831,815**	**4,871,148**

SOURCE: JOHNSTOWN FINANCIAL RECORDS, GRS ANALYSIS

ALL GOVERNMENTAL FUNDS

The audited financial statements include a statement of revenues, expenditures and changes in fund balance for all governmental funds (i.e. general, pension, debt service, parking, recreation, sanitation, capital, and special community development funds) as part of the normal course of the audit. The Sewer Upgrade Fund was re-categorized by the auditors as a proprietary business enterprise fund in 2013 and it is, therefore, not included as part of the Governmental Funds for any year. **Table 39** provides a detailed history of the audited financial statements for all Governmental Funds for the City for the most recent 5 years. The revenues, expenditures, and operating deficits or excesses are shown for each year from 2012 through 2016.

TABLE 39 - SUMMARY OF ALL GOVERNMENTAL FUNDS - AUDITED FINANCIAL STATEMENTS

SOURCES	2012	2013	2014	2015	2016
Taxes	9,780,441	9,825,298	10,333,489	11,441,355	12,439,547
PILOT	219,860	224,536	226,246	12,208	9,319
Licenses & Permits	474,650	547,605	445,904	444,403	423,181
Fines & Forfeit	181,830	128,157	112,207	110,889	250,877
Intergovernmental	116,000	131,000	50,000	60,000	0
Charges for Services	1,637,508	1,599,463	183,290	161,078	773,870
Departmental	163,301	157,098	173,593	158,652	150,184
Interest/Investments	49,391	61,592	50,426	46,983	44,545
Grants & Joint Projects	6,040,027	5,924,877	8,374,007	8,961,557	4,810,774
Other	474,792	768,141	945,508	287,620	339,179
TOTAL Revenue	**19,137,800**	**19,367,767**	**20,894,670**	**21,684,745**	**19,241,476**

USES	2012	2013	2014	2015	2016
General Government	1,651,183	2,031,499	1,968,762	2,125,551	1,959,891
Public Safety	8,338,813	8,938,439	9,562,632	9,577,746	9,657,411
Community Development	3,529,788	3,105,967	2,067,141	1,725,775	1,628,179
Parking					1,253,798
Public Works	2,202,278	2,302,170	2,279,623	2,553,429	2,340,473
Human Services	226,369	393,741	306,762	167,279	183,982
Culture & Recreation	504,000	500,438	428,519	510,118	475,863
Capital Expenditures	770,941	1,103,349	4,575,356	6,157,988	1,535,532
Debt Service	288,242	584,066	387,989	402,729	4,590,055
Sanitation Expenses	**1,493,354**	**1,498,864**	**-**	**43,529**	27,322
TOTAL EXPENSES	**19,004,968**	**20,458,533**	**21,576,784**	**23,264,144**	**23,652,506**
Difference	**132,832**	**(1,090,766)**	**(682,114)**	**(1,579,399)**	**(4,411,030)**
Operating Transfers In	313,615	1,055,198	650,640	1,219,681	5,794,106
Operating Transfers Out	(313,615)	(1,420,668)	(834,809)	(768,931)	(5,076,429)
	2012	**2013**	**2014**	**2015**	
Line of Credit Proceeds	0	337,601	184,097		78,518
Bond/Note Proceeds	0	6,710,000	0		6,000,000
Bond Discount	0	(94,754)	0		
Bonds Redeemed	0	(6,055,000)	0		
Excess/(Deficiency)	**132,832**	**(558,389)**	**(682,186)**	**(1,076,942)**	1,328,418
BEGINNING FUND BALANCE	**1,659,691**	**1,792,523**	**1,398,679**	**716,493**	**(360,446)**
RECLASSIFICATION OF UNRESTRICTED FUND BALANCE					**(2,838,405)**
ENDING FUND BALANCE	**1,792,523**	**1,398,678**	**716,493**	**(360,446)**	**514,732**

SOURCE: WESSEL & COMPANY AUDITED FINANCIAL STATEMENTS

PRELIMINARY FINDINGS

As part of this review, the financial condition of the City was evaluated based on the solvency standards that were set out in the Introduction of this Financial Condition Report. These standards are generally accepted by the International City Managers Association (ICMA), the Government Finance Officers Association (GFOA), and the PA Department of Community and Economic Development financial management guidelines. Comments related to each level of fiscal solvency are provided below.

CASH SOLVENCY: A GOVERNMENT'S ABILITY TO GENERATE CASH FLOW OVER A 60-DAY PERIOD TO PAY ITS BILLS

COMMENT: *In the past, the City had cash reserves or proceeds from a Tax Anticipation Note in the early part of the fiscal year that provided adequate cash flow for the payment of its current liabilities and obligations. However, in 2016 after several years of rolling forward structural deficits, the City faced an estimated $1.8 million deficit for year-end and was forced to seek an unfunded debt loan in the amount of $6 million to restructure outstanding debt and to meet current year obligations. This loan provides reserves for two years and will be paid over a 10- year period at $717,000 per year.*

The City currently requires a $1.5 million Tax Anticipation Note to provide cash flow for the first several months. Although cash reserves were available for 2017 and beginning year 2018, projections indicate that reserves will be exhausted by year end 2019.

BUDGETARY SOLVENCY: A GOVERNMENT'S ABILITY TO GENERATE REVENUES OVER ITS NORMAL FISCAL YEAR TO MEET ITS EXPENDITURES AND AVOID DEFICITS.

Comment: *Although, the City adopts a balanced budget annually, revenue has been overestimated and expenses underestimated in the past. As a result, the City experienced structural deficits for seven (7) of the past ten (10) years because it did not meet its revenue projections or expenditure limits. Although the budget process has improved tremendously over the past 3 years, the City must budget revenues and expenditures more accurately to avoid structural deficits in the future. In 2017, the City was able to achieve an excess of revenue over expenditures in the amount of $500,000 but beginning in 2019, the pension MMO will increase by $300,000 and in 2020 debt service will increase by $238,000. There are no known revenues that will support the increase for these future liabilities.*

LONG-RUN SOLVENCY: A GOVERNMENT'S ABILITY, IN THE LONG-TERM, TO PAY ALL COSTS OF DOING BUSINESS, AS WELL AS MEETING ALL COSTS SUCH AS PENSION COSTS AND ACCUMULATED ACCRUED EMPLOYEE LEAVE BENEFITS, AS THEY OCCUR.

Comment: *The City has significant challenges in its long-term ability to pay the costs of doing business as well as meeting its long-term accrued liabilities and obligations. Because the City is burdened with legacy costs such as pension ($24 million) and OPEB obligations ($20 million) that affect the current year operating budget, long-term expenses directly impact the City's ability to pay for current year operating expenses. Furthermore, the City residents are burdened with above average earned income tax rates and escalating sewer fees to support more than $80 million of capital improvements to the sanitary sewer system under the DEP consent order. The City is obligated to expend an additional $39 million for sewer upgrades over the next 3 years.*

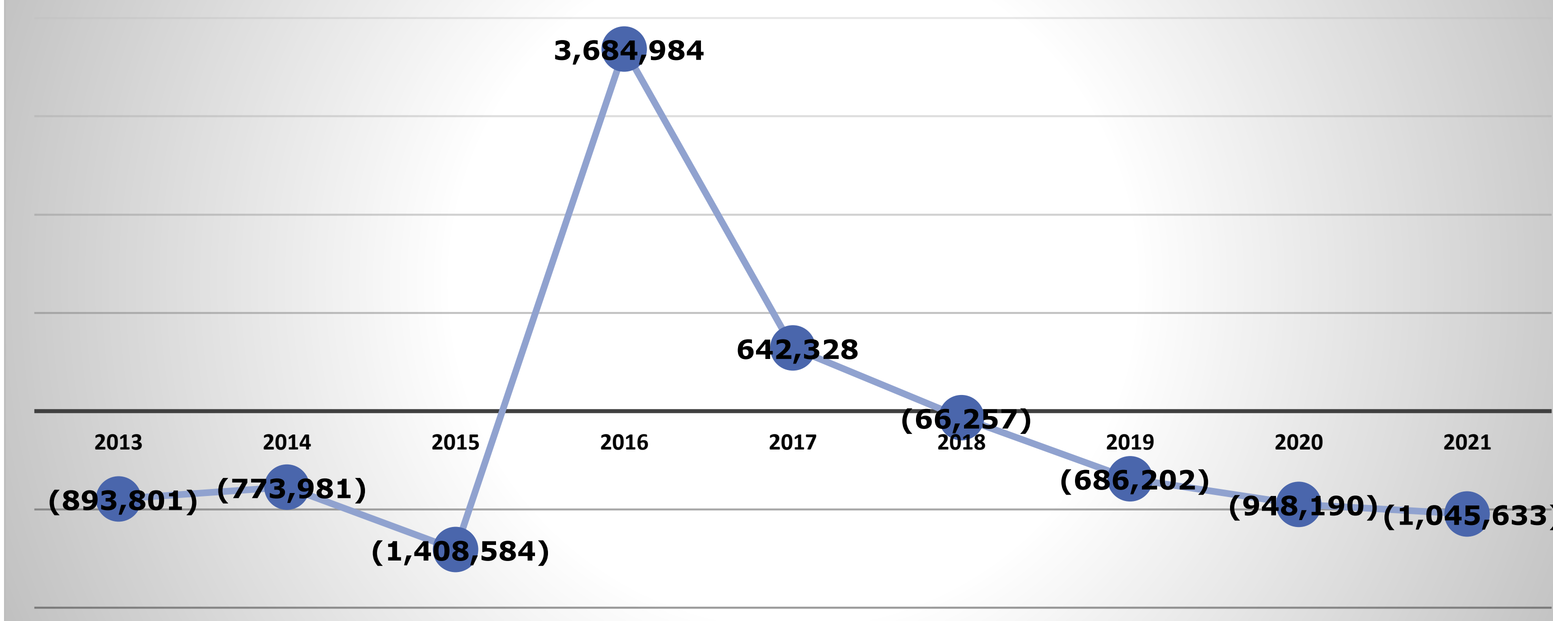
SERVICE-LEVEL SOLVENCY: A GOVERNMENT'S ABILITY TO PROVIDE SERVICES AT A CERTAIN LEVEL AND QUALITY THAT ARE REQUIRED FOR THE HEALTH, SAFETY, AND WELFARE OF THE COMMUNITY.

Comment: *The City has made significant reductions in staffing over the past decade from 209 employees in 2007 to 120 employees in 2018. The City has eliminated entire departments such as recreation, sewer, and sanitation. In some cases, these services have been transitioned to outside contractors; in others, services have either been decreased or eliminated. Since 2007, the City eliminated 10 positions in the police department, 10 positions in the fire department, 20 positions in the public works department, and 6 positions in the Finance Department. The City is currently still able to provide services at an adequate level for the health, safety, and welfare of the community. But it cannot continue to lose large segments of its staffing without having a negative impact on the quality of services provided to its residents.*

COORDINATOR'S RECOMMENDATION

The City has taken positive steps to increase revenue collection, reduce staff where possible, limit costs for benefits, and adjust the benefit structure for legacy costs in the future. But, unless there are major improvements to the City's tax base or major cuts in personnel and benefit costs, the City will be hard pressed to meet its current operating expenses over the next several years. The expectation is that benefit costs will continue to rise by at least 6% per year over the next three years and that the City will continue to carry substantial and increasing liabilities for pensions and OPEB obligations as noted. Debt related to the consent order is mounting and must be supported by user fees. The City is years away from any significant revenue enhancement that will have an appreciable impact on its ability to support the City operations at its current levels. Without significant intervention, there will certainly be continuing structural deficits in the core funds over the next three years**. Figure 14** provides the history for the past five (5) years and the projections through 2021.

FIGURE 14 - EXCESS REVENUE OVER EXPENDITURES 2013 PROJECTED THROUGH 2021



Although the City has implemented initiatives consistent with the Recovery Plan and made a concerted effort to contain costs, there is considerable uncertainty about whether the City can achieve:

- Cash Solvency
- Budgetary Solvency
- Long-Term Solvency; or
- Service-Level Solvency

It is the Coordinator's recommendation that pursuant to Act 47, Section 255, (a) (4) "conditions are such that a three-year exit plan in accordance with Section 256 is warranted."

EXIT PLAN

Section 256 of Act 47 sets forth the requirements for an Exit Plan should the Coordinator recommend such a Plan as part of the Financial Condition Evaluation. The Coordinator must prepare the Exit Plan within 90 days of the public meeting which is scheduled for Wednesday, June 13, 2018. Contents of the Exit Plan must include those elements that may be necessary to "ensure termination of distressed status after three years, including, but not limited to:

1) The sale, lease, conveyance, assignment or other use or disposition of the assets of the distressed municipality
2) Functional consolidation of or privatization of existing municipal services.
3) The execution, approval, modification, rejection, renegotiation or termination of contracts or agreements of the distressed municipality, provided, however, that the provisions of Section 252 shall apply to any Exit Plan adopted in accordance with this subchapter.[8]
4) Changes in the form of municipal government or the configuration of elected or appointed municipal officials and employees as permitted by law.

The Exit Plan is subject to the same public notice, public meeting, and public comment as the Financial Condition Report. The Exit Plan must be adopted by the governing body within 45 days of the Coordinator's meeting to accept public comment relative to the Exit Plan.

Preliminary recommendations in the Exit Plan include but are not limited to the following strategies:

- Stabilize the management team – develop strategies that limit transition in management positions.
- Delivery and review of the asset valuation reports and development of a disposition strategy for City assets.

[8] Section 252 provides limitations on the ability of the Plan to affect certain collective bargaining agreements or settlements.

- Completion of a Comprehensive Plan with a focus on the Resiliency Framework from Vision 2025 supplemented by:
    - Blight Strategy
    - Market Rate Housing Strategy
    - Livability – Place Making Strategy
    - Access to City Services Strategy
- Analysis and Implementation of the Payroll Preparation Tax under Act 199
- Development of a legislative strategy to address pension liabilities with dedicated revenue resources
- Development of a capital improvement plan with funding mechanisms

After the Coordinator's Exit Plan is adopted by the governing body, the Secretary of the Department of Community and Economic Development will issue a determination consistent with Section 257 of Act 47 and based on the recommendation of the Recovery Coordinator and the adopted Exit Plan.