CITY OF JOHNSTOWN

FIFTH
AMENDED
RECOVERY PLAN
PURSUANT TO THE
MUNICIPALITIES FINANCIAL RECOVERY ACT

As Adopted By City Council
On December 30, 2010

ECKERT SEAMANS CHERIN & MELLOTT, LLC

600 Grant Street
Pittsburgh, Pennsylvania 15219

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CHAPTER I

Introduction

In a petition executed on June 15, 1992, the City of Johnstown (the "City") requested that the Department of Community Affairs (now the Department of Community and Economic Development or "Department") determine the City's eligibility as a distressed municipality under Act 47 (the "Act"). On July 22, 1991, the Department issued its consultative evaluation which found that the City met three of the Act's criteria for distressed municipalities in that the City had maintained a deficit over a three-year period; expenditures had exceeded revenues for three years or more; and the City had experienced a decrease in a quantified level of municipal service from the preceding fiscal year.

Based upon these findings, and following a public hearing held on July 22, 1991, the Department found that the City was distressed pursuant to the criteria set forth in the Act. On September 18, 1992, Eckert Seamans Cherin & Mellott was appointed Coordinator for the City under the Act.

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.

On July 13, 1994, Council enacted Ordinance No. 4685 amending the Plan to incorporate the Point Stadium Study, dated April, 1994. The Study was prepared by Steven W. Mack through a Peer to Peer Technical Assistance Grant from the Department, as mandated by the Plan.

Over the initial 3 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 all been alleviated and the City should therefore continue to operate pursuant to the Act and an Amended Recovery Plan.

Pursuant to Ordinance No. 4766, enacted by Council on February 26, 1977, 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 all alleviated and the Coordinator recommended that the City should therefore continue to operate pursuant to the Act and a Second Amended Recovery Plan.

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

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

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

In the fall of 2005, the Department and the Coordinator again reviewed the City's progress in implementing plan recommendations and stabilizing the City's financial status. On December 8, 2005, the Department held a public hearing in Johnstown to review that progress and financial status. During 2006 and the fourth quarter of 2007, the Department and Coordinator 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 all been alleviated and that the City should therefore continue to operate pursuant to the Act and a Fourth Amended Recovery Plan.

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

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 all been alleviated and the City should therefore 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.

Chapter II

Administration/Operations

The City has successfully made the transition from its third City Manager under the Council-Manager form of government (Home Rule) to its fourth manager. Kristen Denne was appointed Manager on January 11, 2010, succeeding Curt Davis who was appointed in April, 2006. In addition, the City hired a new Director of Finance, Carlos Gunby, in October, 2009. As part of the preparation of the 2010 operating budget and the related personnel reductions, the City eliminated the Assistant Manager position.

In March of 2010, the City undertook a review of its information technology hardware and software, with an emphasis on the Department of Finance. Through the Department's peer-to-peer program funded by the state through Pittsburgh's Local Government Academy, John Staudacher interviewed City officials, reviewed the City's hardware and software resources and made substantial recommendations for an overhaul of the City's systems. Mr. Staudacher's scope of work included developing system and facility connectivity, including City Hall and the Public Safety Building, server consolidation and upgrade, workstation upgrades in the administration and finance offices, and accounting software upgrade.

Based on Mr. Staudacher's recommendations, in July, 2010 a fiber run was completed between City Hall and the Public Safety Building, allowing for a single network structure. Savings will be realized from the resulting reduction in maintenance and service provider fees. Obsolete parking enforcement software and servers are also being replaced.

Generally, eleven obsolete and malfunctioning servers have been replaced with five high capacity units housing all City programs and records. Fourteen workstations have been replaced in the administration and finance offices. The Director of Finance is also replacing obsolete software with an integrated Enterprise Resources Program (ERP) Solution. The new software will provide a sole source ERP solution, managing all business requirements including but not limited to accounting and finance, cash management, inventory, codes and permitting, government funding projects and maintenance.

On January 1, 2011, the City will have adopted the Department's chart of accounts which will improve functionality and ease of analysis.

During 2010, the City combined the billing for the real property tax and sanitation fee into one statement. In addition to savings in postage and staff time, the current sanitation fee collections have improved. Council has also enacted legislation to clarify that the property owner, and not tenants, is ultimately responsible for sanitation changes. The City anticipates that this change will simplify the collection of delinquent accounts. Finally, delinquent account collection has been privatized to a private collection agency.

In July, 2010, Council, the City Manager and the Act 47 Coordinator conducted a goals and objectives session. Under the City's Manager's leadership, the session focused on the City's previously adopted mission statement. Council graded the City's performance against the major components of the mission statement and proposed action items to address the deficiencies. As to the delivery of basic services, Council emphasized the need for regular staff training and cross-training, including basic computer skills, to improve both efficiency and staff morale. Council also concluded that improved delivery of basic services would encourage surrounding communities to engage in shared services provision and/or to contract for City service provision. In addition to a continued focus on economic development in the City, Council graded the City's efforts to improve its neighborhoods, including blight control and planning, very low and decided to invest CDBG eligible funds in additional personnel to enforce the City's zoning and property maintenance codes. This Fifth Amended Recovery Plan includes initiatives designed to improve code enforcement and, using the enforcement tools made available through Act 90 of 2010 (anti-blight legislation), to strengthen the City's codes and enforcement options. Finally, Council set as a priority the completion of the Act 47 recovery process and obtaining the Department's release from the Act 47 program.

As part of the 2010 personnel reductions, which included 4 police officers, 2 parking employees, 1 tax office employee, 5 public works employees and the Assistant Manager, the City eliminated the Recreation Director position. The Manager has negotiated an arrangement with the YMCA to program recreation services at Roxbury Park and to split the applicable program fees with the City. One of this Plan's initiatives is to formalize the arrangement with the YMCA, including a written agreement describing (and hopefully expanding) the services provided by the YMCA and the division of fees. The City's extensive recreational baseball program has continued with the assistance of the Public Works Director who has taken responsibility for scheduling the fields and resolving disputes. Building on past efforts to increase the sports related usage of the improved Point Stadium, including NCAA tournaments, PIAA playoffs and University of Pittsburgh, Johnstown baseball games, the City continues to focus on recruiting financially viable concerts and other entertainment to the stadium.

The Fire Department has successfully obtained a Single Application state grant for $100,000 to establish a fire training facility. The Johnstown Redevelopment Authority is conveying a small portion of the old Cambria Iron Works site for the facility and the Authority will complete any required environmental remediation and site preparation. The facility will be available to the City Fire Department, surrounding fire departments for a fee and the City's Police Department for special operations and K-9 training. The facility will obviate the Fire

Department's need to travel 30 miles to use Cambria County's Fire School site in Patton, Pennsylvania.

Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (DEP)

Following months of negotiation, 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, including flow monitoring, identification of SSO locations and sewer system assessment and repair (including smoke/dye testing, removing illegal connections, GIS mapping, televising the system, eliminating streams conveyed by the sewer system and repairing structural defects). The COA schedule of corrective action runs from December 31, 2011 through December 31, 2022 when the City is required to have eliminated all SSO's from the City's sewer system. Regular reporting of progress is required to DEP.

The COA includes the imposition of a civil penalty in the amount of $75,000, payable over a five (5) year period. The payments may be forgiven if the City is in compliance with the COA at the time the payment is due. Stipulated civil penalties for violation of the COA include $1,000 for each month in which SSO's occur (up to December 31, 2022) and $10,000 for each month in which SSO's occur from January 1, 2023 through termination of the COA.

In order to meet the rigorous schedule of corrective actions under the COA, the City has retained outside engineering services and has applied, and received approval, for an initial Pennvest loan in the amount of $3 million and has applied for an H_2O grant in the amount of $2,134,400, with a local match of $1,065,600 ($3,200,000 total project cost). At DEP's insistence and in order to meet the debt service requirements, the City has raised its minimum monthly sewer usage charge to $24.80, effective July, 2010, with another rate increase to $34.80 effective January 1, 2011. It is absolutely critical that the City continue to levy sewer user rates sufficient to meet debt service requirements and the COA's corrective action schedule. In addition, in order to assure that the City meets the COA's sewer assessment and correction schedule as inexpensively as possible, the 2011 budget includes the recall of three Public Works employees who will work with the engineer to complete the COA tasks. They will be paid out of the Sewer Fund.

Intergovernmental Cooperation

The City continues its efforts to increase intergovernmental cooperation and shared services. The Police Department continues to provide services to West Taylor Township, Middle Taylor Township, Lorain Borough and the Johnstown Housing Authority. A School Resource Officer is provided to the School District at the District's cost. Although recent staff reductions in the Public Works Department have limited its ability to provide services outside the City, limited vehicle repair/maintenance services are provided to the West End Ambulance Service. The Fire Department continues to offer services to surrounding communities, but no agreements have been reached. As discussed above, the Fire Department expects to generate some revenue from surrounding fire departments using the new fire training facility. With the elimination of the Recreation Director position, the City is cooperating with the YMCA to share programming responsibility and to utilize YMCA recreational facilities.

Chapter III

Community and Economic Development

The City's long term viability continues to depend upon community and economic development. Steady progress has been made on the initiatives set out in the Fourth Amended Recovery Plan.

The Discover Downtown Johnstown Partnership has developed a formal non-profit corporate structure with officers, active committees (including Economic Restructuring and Promotions) and regular admission of new board members representing downtown businesses and institutions. The Partnership has initiated an informative website, regularly published newsletter and several promotional publications, including a Downtown Walking Guide, Restaurant Guide, Wedding/Prom Directory and a brochure highlighting retail, tourism and heritage sites located downtown. Both the website and newsletter feature articles on local businesses and calendars for concerts and other entertainment opportunities.

Recently completed downtown projects include Point Stadium which has been entirely rebuilt as a stadium and multipurpose entertainment venue. New commercial and residential developments have been completed such as a new 1st Summit Bank branch at the top of Main Street, loft condominiums at Mock Towers on Clinton Street and the Morley Lofts on Main Street. Also on Main Street, Investar Redevelopment and partners are developing loft apartments in the former Moxham Bank Building next to City Hall. The Johnstown Technology Park has been completed on the old Sani-Dairy site. The Technology Park has five tenants, including Northrop Grumman, MTS Technologies, Inc., and the U.S. Department of Labor. Central Park is an internet wireless zone and home to over 37 events throughout the summer.

With the concurrence of, and financial support from, the Greater Johnstown Regional Partnership, regional cooperation in community and economic development is now under the umbrella of Lift Johnstown. In addition to the City, Discover Downtown Johnstown and the Greater Johnstown Regional Partnership, corporate members include:

- Greater Johnstown/Cambria County Chamber of Commerce
- Stonycreek/Quemahoning Initiative
- Johnstown Area Heritage Association
- Community Foundations of the Alleghenies
- Johnstown Redevelopment Authority
- Young Professionals of the Alleghenies
- Johnstown Area Regional Industries
- Greater Johnstown Convention and Visitors Bureau
- Cambria County
- Richland Township

Through working groups including Infrastructure, People, Perception, Recreation and Fundraising, Lift Johnstown's specific mission is to implement three existing plans affecting the Johnstown region:

- <u>City of Johnstown Master Plan and Revitalization</u> Strategy. This plan, funded with a state LUPTAP Planning Grant, was prepared by Kairos Design Group and addresses the Johnstown Central Business District and the Kernsville, Hornerstown, Minersville and Morrellville neighborhoods.

- Johnstown 20/20 Regional Vision. The plan addresses the specific demographic and economic challenges facing the Johnstown region, including aging population and limited employment opportunities.
- Laurel Highlands Conservation Landscape Initiative. This plan strives to increase opportunities for, and to connect, recreation and enjoyment of natural resources available in Cambria, Somerset, Westmoreland and Fayette counties.

With specific reference to the City's Master Plan, the plan has progressed to the implementation phase. The Plan currently focuses on the City's Neighborhood Revitalization Strategy Area (NRSA) which was originally approved by HUD in 2005. The strategy continues to emphasize the Kernsville and downtown neighborhoods and has been re-designated by HUD for another five year period from January 1, 2010 through December 31, 2014.

The City is also actively marketing for redevelopment the Planning Mill Site in Hornerstown (36,000 square feet), the Lietenberger Site in Hornerstown (2 acres) and a 15 acre site in the City's West End.

As to Master Plan housing, in addition to the new condo and apartment construction in the downtown area discussed above, the City has partnered with the Cambria County Redevelopment Authority and Johnstown Housing Authority to develop Low/Moderate Income and Affordable Housing throughout the City. In 2009, the City expended $451,000 in federal funds to assist 22 homeowners and 6 first time home buyers. Federal funds also supported a YMCA Midnight Basketball Program for City youth.

As to Master Plan economic development, in addition to the completion and occupancy of the Technology Park discussed above, the Master Plan continues to pursue the Life Sciences Corridor within the NRSA. The 10,000 square foot, $1.2 million ITSI Biosciences building has been completed with the addition of nine employees and plans for a 2011 expansion. Cambria Business Machine has expanded its business to Kernville with a new 10,000 square foot building and over 20 employees. The Johnstown Redevelopment Authority has purchased additional properties, and demolished structures as necessary, to permit further Life Sciences Corridor development.

The City's blight control program has been aided by the reorganization of the demolition process. A new committee has been formed consisting of the City's Public Works Director, Codes Director, Police and Fire Chiefs and Director of Community and Economic Development. The committee has continued development of a database of vacant and blighted properties and regularly prioritizes structures for demolition. Twenty blighted structures have been demolished in 2010.

Major community and economic development goals for 2010-2014 include continued implementation of the Master Plan within the NRSA, construction of additional affordable and middle income housing and strengthening of the City's anti-blight program. These goals are consistent with the City's FY 2011 Annual Action Plan as submitted to HUD. The HUD Plan goals also include improving public infrastructure, including streets and sidewalks, and encouraging continued acquisition and rehabilitation of commercial and industrial facilities.

Finally, the City is cooperating with the Johnstown Area Heritage Association (JAHA) to develop Festival Park, located across the river from Point Stadium, to support tourism and community revitalization. The Park is currently the venue for the Flood City Music Festival held annually in August. Utilizing Pennsylvania Department of Conservation and Natural Resources master planning funds, JAHA proposes the construction of a large, outdoor pavilion and related improvements to Walnut Street, including historic lighting, benches and landscaping. The City and JAHA have also applied for Pennsylvania Redevelopment Assistance Capital Project funding in the amount of $2 million to construct the improvements.

In view of the City's continuing struggle to raise sufficient revenue to provide a reasonable level of services to City residents (See Chapter IV), it is imperative that City management and Council pursue to completion the Master Plan, the Johnstown 20/20 Regional Vision, the Laurel Highlands Conservation Landscape Initiative and related projects. A favorable long term financial prognosis for the City requires increasing its tax base with permanent improvements to population, employment and real property value.

CHAPTER IV

The City's Financial Condition

Introduction

Since the last Plan amendment in 2007, the City has implemented many of the initiatives that were outlined in the Plan and assertively worked on both revenue generation and cost containment. In the area of revenue generation, the City pursued delinquent tax collection enhancements through its third party collector. The City also completed the sale of tax liens to an outside agency which provided about $1.8 million for the general fund operations over the past two years and is expected to provide additional funds in the future. The City conducted audits of the sanitation fund accounts and, as a result, returned many of the accounts to the City rolls and improved the collections to the extent that the fund is self-supporting for the first time in a decade. The finance department is also in the process of reviewing its telecommunications and computer operations for the purpose of reducing costs in these areas.

In the area of cost containment, the City negotiated (or imposed upon reaching impasse) collective bargaining agreements in all departments, with the exception of the fire department which is scheduled for arbitration hearings in spring 2011, that include savings from the restructuring of employee benefits. Changes to the health care benefits include co-pays, increased deductibles, and a 15% employee contribution towards the premium while capping any increased cost to the City at 6% annually. (For a complete discussion of the changes to the healthcare benefits, see Chapter V, Workforce.) The City was also able to negotiate a new tier of pension benefits for new hires that will reduce the City's future liabilities and also freeze improvements to any existing benefits in accordance with the Fourth Amended Plan of 2007.

Another cost containment method employed by the City was a concerted effort to reduce staffing. The City did not fill vacancies for several years and actually undertook staff reductions in personnel through attrition and layoffs, including the police department, in 2010. The City reviewed service agreements, contracts, and every conceivable service area in an attempt to obtain the lowest cost possible for its many expense areas such as insurance, professional services, and service support contracts. In 2010, the City was able to renegotiate its sanitation contract for a savings and continued reductions over the next three years. Currently, an audit of the lighting throughout the City is being conducted at all of the City facilities, streets, parking lots and garages, Point Stadium, and recreation areas in order to develop a comprehensive energy lighting plan that will reduce the overall costs for the City for the long term.

In 2008, the City explored its options in the bond market and was able to issue a general obligation bond that was used to reimburse the City for capital improvements that were made previously for the Point Stadium. This transaction was used to raise approximately $4.8 million to support City operations in 2008, 2009, and 2010.

However, in spite of enhanced revenue collection methods, reductions in staff, and the transfer of reimbursed capital money into the general fund, the City's financial condition in its core operating funds continued to weaken in 2007, 2008, and 2009. The City operations were sustained through the transfer of funds from the capital fund accounts and also through the implementation of initiatives from the 2007 Amended Plan. However, the overall revenues derived from the tax base were stagnant and declining over the past three years, forcing the City to raise taxes by 10 mills and reduce headcount in 2010 and to continue to utilize the non-resident earned income tax through 2009 and 2010. There is no natural increase in revenue from year to year – the City derives additional revenue from its taxes only when there is an increase to the real estate millage rate or the earned income tax levy. Therefore, even a moderate increase in expenses causes the City to operate in a deficit position. In financial terms, the City continues to experience a "structural deficit" in its core operating funds because there is a consistent gap between its ability to raise revenue and the expenses that are incurred to support its core operations.

Core Operating Funds

In order to conduct a comprehensive review of the activity and transactions that impact the City's overall financial position, 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:

- general fund
- pension fund
- parking fund

- debt service fund
- recreation fund
- sanitation fund

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 must be paid from available resources and must therefore be supported by the appropriate level of tax levies and/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."

In most years, when considering combined fund activity, the core operating fund balances of the City of Johnstown have presented a negative overall position. Only in 2008 did the City realize a significant positive fund balance and this was a result of the transfer of funds from the Point Stadium bond reimbursement account and not from increases to actual core operating revenues. With the exception of 2008, the City's core operating funds were in a significant deficit position. The negative fund balances also became larger as they rolled forward from year to year. Table 1 summarizes the negative fund balance position for the core operating funds.

Table 1. Core Operating Funds – Combined Activity

Core Operating Funds- Revenue over Expenditure History				
Excess/(Deficit)				
Fund	**Actual**	**Actual**	**Actual**	**Projected**
	2007	**2008**	**2009**	**2010**
General	(888,654)	4,125,399	425,610	(19,566)
Pension	(263,073)	(378,550)	(217,238)	(280,264)
Parking	(286,716)	(546,963)	(464,131)	(513,801)
Debt	(18,683)	(270,732)	(61,920)	(20,021)
Recreation	677	(37,475)	* [1]	(140,943)
Sanitation	(91,509)	(385,673)	(96,952)	-
Excess/Deficit	**(1,547,958)**	**2,506,006**	**(414,631)**	**(974,595)**

Source: 2007-2009 Actual from Wessel & Company Audited Financials;
2010 Projections by Delta Development Group, Inc.

Although the general fund, when reviewed in isolation, demonstrated a positive fund balance at the end of 2008 and 2009, it is necessary to review the general fund in conjunction with all core operating funds for the City in order to understand the City's true operating position in any given year. The City revenues for the core operating funds have increased, on average, about 2.67% per year over the past six years (through 2009) as demonstrated in Table 2 below. The City revenues only increase 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 generate enough revenue to support the City operations.

[1] In 2009, recreation fund revenue and expenditures were incorporated in the General Fund.

Table 2. Actual Total Operating Revenues Core Operating Funds

Fiscal Year	Total Revenues	% Increase (Decrease)
2004	$17,820,254	N/A
2005	[2]$15,255,365	-14.39%
2006	$15,247,448	-0.05%
2007	[3]$16,105,933	5.63%
2008	[4] $16,626,647	3.23%
2009	[5]$16,938,955	1.87%
Average Increase		***2.67%***

Source: Wessel & Company Audited Financials 2004 - 2009

The following is a discussion of each of these core operating funds.

General Fund

According to the City's audited financial statements, the City went from a positive general fund balance in 2001 of over $752,000 to an operating deficit of ($1,032,208) by 2006. The core operating activity for fiscal year 2006 resulted in a deficit in spite of a tax increase and a carryover of sewer receipts from 2005. The negative operating deficits of approximately $1 million per year continued through 2007. The continuing deficits were a result of a stagnant and, in some years, declining revenue base as well as increasing personnel costs, which were due primarily to higher compensation, health benefit premiums, workers compensation, and pension liabilities for both active and retired employees. Table 3 is a review of the revenue and expenditure activity (excluding transfers) in the general fund over the past eight years.

[2] In 2005, the non-resident EIT was reduced in accordance with the requirements of the Third Amended Plan.
[3] In 2006, the real estate tax rate was increased by 3 mills. In 2007, the real estate tax rate was increased by an additional 3 mills.
[4] The 2008 total revenue was adjusted to back out the deposit of $4.65 million in bond funds that were deposited to the General Fund. In 2008, the City was again permitted to levy the non-resident EIT at a rate of 1.2%
[5] In 2009, total revenue was adjusted to back out $253,377 in bond funds. In 2009, the City was required to reduce the levy for non-resident EIT to a rate of 1.1%.

Table 3. General Fund Revenues and Expenditures

Fiscal Year	Total GL Fund Revenues	Total GL Fund Expenditures	Surplus (Deficit)
2002	$8,352,173	$8,804,583	$(452,410)
2003	$9,017,546	$9,119,090	$(101,544)
2004	$9,337,910	$9,907,617	$(569,707)
2005	$9,434,659	$10,459,659	$(1,025,000)
2006	$9,580,850	$10,613,058	$(1,032,208)
2007	$9,284,722	$10,303,376	($1,018,654)
2008	$10,119,838	$10,659,439	($539,601)
2009	$12,785,390	$12,613,157	$172,233

Source: Wessel & Company Audited Financial Statements 2002-2009

The operating deficits were addressed by the City in 2008 and 2009 through transfers in the amount of $4.8 million from the Point Stadium reimbursement fund, and, as a result, the City finished the year with a significant positive fund balance in 2008 and 2009 in the general fund. However, the 2008 and 2009 transfers were not enough to allow the City to sustain continued positive balances indefinitely. In fact, in 2010, the City is projected to finish the year in a deficit position and will exhaust all reserves for future periods. Table 4 below shows the deteriorating condition of the City's finances through 2007, and the effect of the transfers in 2008 and 2009.

Table 4. Three Year Recent History of Revenues, Expenses, and GL Fund Deficits

Category	*2007 Audited*	*2008 Audited*	*2009 Audited*
Taxes	5,375,496	6,333,412	8,073,447
Payments in Lieu of Taxes	120,000	240,000	202,500
Licenses & Permits	532,351	474,887	470,181
Fines & Forfeits	213,732	193,063	192,354
Grants and Joint Projects	572,674	607,508	623,272
Departmental Earnings	1,065,30	947,852	1,156,544
Sanitation Fees			1,375,214
Interfund Charges	1,081,641	1,166,888	571,112
Interest	112,051	74,627	39,196
Miscellaneous	211,469	81,601	81,570
TOTAL	**9,284,722**	**10,119,838**	**12,785,390**
General Government	208,500	185,054	185,779
Finance Department	1,076,003	991,000	966,784
Fire	3,044,386	3,220,184	3,409,986
Police	3,534,213	3,696,554	3,610,189
Community Development	242,186	182,847	151,651
Sanitation			[6]1,592,493
Public Works	2,198,088	2,383,800	2,161,663
Recreation			
Fringe Benefits			
TOTAL	**10,303,376**	**10,659,439**	**12,613,157**
Transfer In	130,000	4,665,000	253,377
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	**(1,018,654)**	**(539,601)**	**172,233**
Fund Balance 12/31	**(507,328)**	**3,618,071**	**3,284,250**

Source: Wessel & Company Audited Financial Statements 2007, 2008, and 2009

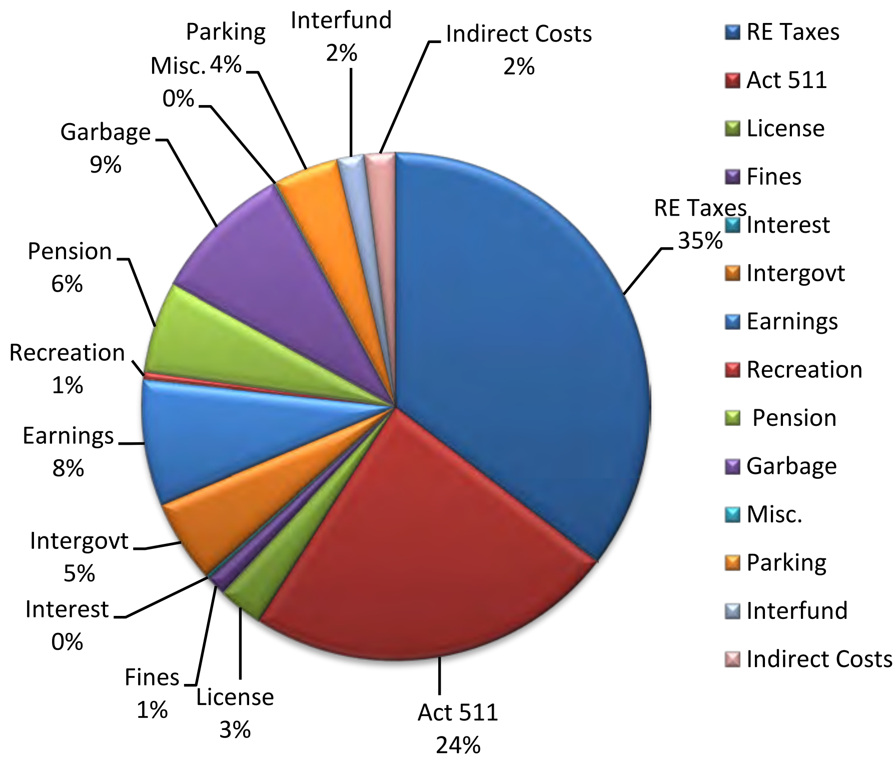
[6] In 2009, the City incorporated the Parking Fund, Recreation Fund, and Sanitation Fund as part of the General Fund. This increased the revenues and expenditures for the General Fund by approximately $2 million.

While the City's general fund generated sufficient revenue to support general fund expenses in 2009, expenses from other core operating funds continued to exhibit deficit fund balances that negatively impacted the overall core operating position.

Revenue

The City of Johnstown's general fund includes activities related to the general operation of the City government that are supported by the following major revenue categories: real estate tax, taxes authorized under Act 511, licenses and permits, fines and forfeits, departmental earnings, and intergovernmental revenue. Figure 1 below graphically depicts the various sources and relative percentages for 2009 revenue that were generated for general operating purposes.

Figure 1. 2009 Revenue by Source



Source: City of Johnstown financial records and Delta analysis

The City's flat revenue trends continue to strain its ability to pay for basic services, including infrastructure repairs, public safety, and other basic operations. While the recovery program initially was successful in helping Johnstown turn the corner, the City has not arrived at its destination of a strong, sustainable financial base. The residents' expectations for delivery of basic services will continue to exceed the City's resources until its business climate improves and its population stabilizes. Identifying and generating revenue from new sources and containing costs, especially personnel-related costs, continue to be absolute imperatives for addressing the continuing structural deficits in its operating budget.

Real Estate Taxes

At 35% of the overall revenue, real estate taxes are the most significant part of the City's financial base. From an historical perspective, one significant problem for the City was addressed in 2002. The City's Home Rule Charter was amended by referendum on November 5, 2002, to remove the Third Class City Code tax limitations. As a result, the real estate tax millage that was dedicated to debt service was made available for general purposes, thus averting a significant fiscal crisis in 2002. However, the City continued to suffer from decreases in its real estate tax base due to assessment appeals and increasing tax exemptions. In 2006, the City levied an additional 3 mills of real estate tax in order to produce enough revenue to maintain the City services at the same level as they were in 2005. In 2007, the City again raised real estate taxes by 3 mills and made a decision not to fill several vacant positions in order to maintain services for the City at the same level as 2006. The tax increases for 2006 and 2007 were the first real estate tax increases since 1994.

In 2008 because the City reenacted the non-resident earned income tax at a rate of 1.2 percent pursuant to initiatives contained in the Act 47 Plan amendment of 2007, it was not necessary to increase the real estate tax levy in 2008 or in 2009. Based on the initiatives outlined in the Plan amendment, the non-resident tax rate was reduced beginning in 2008 and 2009 to its current rate of 1.1 percent.

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 in order to address the structural deficits in its operating funds. This action was done in conjunction with a number of staff reductions including four police officers, two parking employees, one tax employee, five public works employees, the assistant manager position, and the recreation director for a total elimination of 14 positions citywide. The City also implemented a number of other cost-containment initiatives. Despite the considerable increase in the millage rate and a noted increase in total collection as a result, it is projected that the City will continue to collect less per mill than it did 10 years ago. The history of the tax increases and tax collection per mill is shown in Table 5 below.

Table 5. 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	$5,873,728	$138,401
2010*	52.48	$6,717,648	$128,004
2011*	52.48	$6,563,652	$125,070
2012*	52.48	$6,662,107	$126,946
2013*	52.48	$6,762,038	$128,850

Source: City of Johnstown financial records and Delta analysis

** Projected Collections*

As shown in Table 5, real estate tax collection, which makes up 35% of the City's overall revenue base and is the largest source of the City's revenue, experienced slight decreases annually between 2001 and 2005 due to a number of successful assessment appeals. Beginning in 2007, real estate tax collection experienced annual increases and is projected to continue to increase in future years. Although there was an increase in overall real estate tax collection beginning in 2007, the collected dollars per mill of real estate taxes decreased from about $152,000 per mill in 2002 to a projected $127,000 per mill in 2012 based on total tax collection. When re-calculated to include current collection only, the City is projected to derive only about $111,400 per mill in 2011. This decrease in current collection per mill of real estate tax is shown in Table 6 below.

Table 6. Dollars Per Mill Based on Current Collections

GL Fund - Current Collections			
Year	**GL Fund Mills**	**Collection**	**$ Per Mill**
2006	25.59	$2,935,209	$114,701
2007	25.29	$2,782,872	$110,038
2008	25.28	$2,711,139	$107,244
2009	29.45	$3,257,680	$110,617
2010	35.82	$3,994,136	$111,406

Source: City of Johnstown financial records and Delta analysis

The City continues to collect less per mill than it did nearly 10 years ago.

During the same period, non-taxable property assessments in the City rose to a high of 49% of total assessed value. This is primarily a product of the overall decrease in the assessed value of property in the City. The actual dollar amount of non-taxable property remained at approximately $130 million over the past five years while total assessed value decreased from $269 million in 2005 to $263 million in 2010. Since real estate tax revenue makes up over one-third of the City's 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 over time. Table 7 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.

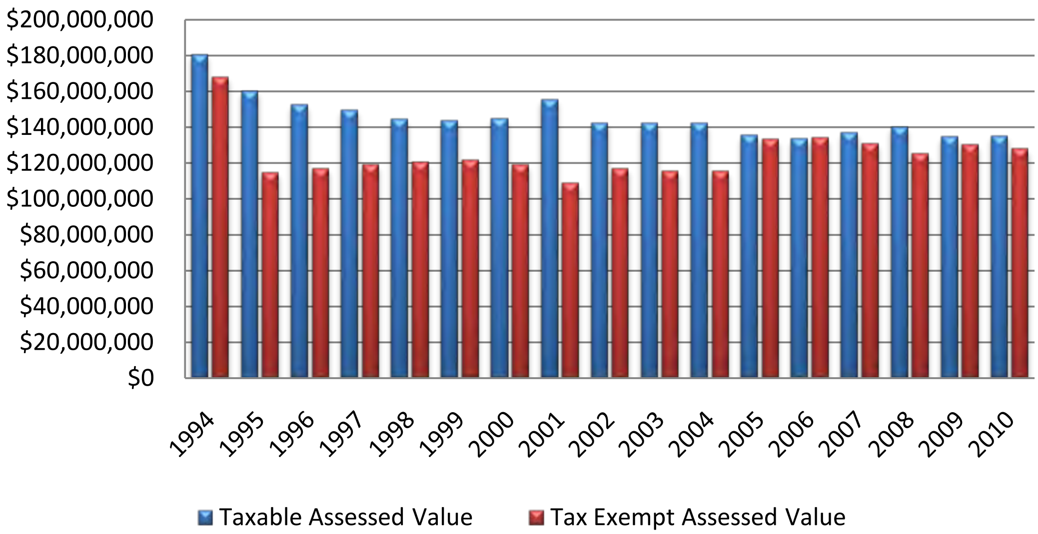
Table 7. History of Property Assessments 1994-2010

Years	Total Assessed Values	Taxable	Non-Taxable	Non-Taxable as a % of Total Assessed
1994	$348,740,700	$180,499,240	$168,241,460	48.24%
1995	$275,241,310	$160,403,640	$114,837,670	41.72%
1996	$269,763,410	$152,598,940	$117,164,470	43.43%
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%

Source: City of Johnstown financial records and Delta analysis

Figure 2 below graphically depicts the increasing presence of tax-exempt properties in the City of Johnstown over the past 16 years.

Figure 2. Taxable and Non-taxable Assessed Value



Another problem for the City related to real estate tax collection has been the inability to collect current real estate taxes that are levied. The City has had only about an 83% collection rate over the past several years. This is much lower than wealthier communities that average anywhere from 93% to 97% collection rates. Table 8 below provides an historical analysis of the rate of delinquent collections over the past seven years.

Table 8. History of Tax Collection and Uncollected Taxes

Year	Face	Less Discount	Plus Penalty	Net Collection	Uncollected Taxes	% Of Total Tax Levy Collected
2004	4,367,103	(70,490)	25,956	4,322,570	726,085	84%
2005	4,152,106	(63,944)	36,203	4,124,365	749,547	84%
2006	4,526,507	(71,964)	21,706	4,476,248	815,999	84%
2007	4,699,521	(76,135)	20,805	4,644,191	1,090,825	81%
2008	4,987,084	(78,538)	19,987	4,928,533	732,563	83%
2009	4,488,536	(75,668)	5,848	4,742,160	971,286	83%
2010*	4,790,790	(72,980)	10,000	4,742,810	968,347	83%

Source: City of Johnstown financial records and Delta analysis

**Projected Collection*

Act 511 Revenue

At 24% of overall revenue, the Act 511 taxes are the next highest source of the City's revenue and, when added to the real estate tax collection, make up almost 60% of the overall revenue base. By far, the earned income tax (EIT) makes up the largest part of the Act 511 collections. Over the years the City has adjusted the resident and non-resident earned income tax to provide additional revenue to support City services. For years the non-resident income tax was dedicated entirely to the capital fund for facilities, equipment, and capital projects. Beginning in 2004, the City briefly lost the ability to levy the non-resident EIT pursuant to initiatives contained in the Third Amended Plan. In 2008 the City reenacted the non-resident earned income tax at a rate of 1.2 percent pursuant to initiatives contained in the Fourth Amended Plan of 2007. Based on the initiatives outlined in the Plan, the non-resident tax rate was reduced beginning in 2008 and 2009 to its current rate of 1.1 percent. Table 9 provides a history of the City's collection of earned income tax from 1998 through 2009.

Table 9. History of Total Earned Income Tax Collection

Year	Earned Income Tax Collection	% Increase/Decrease (-)
1998	$ 1,575,954	
1999	$ 3,203,274	103.26%
2000	$ 2,430,597	-24.12%
2001	$ 1,899,734	-21.84%
2002	$ 1,611,185	-15.19%
2003	$ 1,455,963	-9.63%
2004	$ 993,934	-31.73%
2005	$ 880,000	-11.46%
2006	$ 935,627	6.32%
2007	$ 1,070,609	14.43%
2008	$ 1,519,239	41.90%
2009	$ 1,597,829	5.17%
2010*	$ 1,631,383	2.10%

Source: City of Johnstown financial records and Delta analysis

** Projected Collections*

Some sources of tax revenue for the City have experienced increases over the last three years after a marked period of decline. In fact, EIT and business tax revenue have exhibited solid increases. On the other hand, the Local Services Tax collection has exhibited a decline. Total Act 511 activity is shown in Table 10 below. The current collection for all Act 511 tax sources is about $4 million annually.

Table 10. History Act 511 Tax Collection 2004-2010

Year	Act 511	% Increase/Deccrease (-)
2004	$ 3,293,056	
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*	$ 4,020,465	2.50%

Source: City of Johnstown financial records and Delta analysis

** Projected Collections*

With the exception of one large collection in 2006, deed transfer tax, which is a part of the Act 511 collections, has continued to decline over the past several years.

Other Revenue

Another positive trend for major revenue sources for the City has been in the intergovernmental revenue category, which has been driven by revenue from Conemaugh Hospital's payment in lieu of taxes to the City, and the police security contracts with the Johnstown Housing Authority and the communities of West Taylor, Middle Taylor, and Lorain Borough. Although the police department recently faced significant reductions in staffing, the department has been able to continue to effectively maintain intergovernmental services. The Housing Authority contract was recently amended to ensure that the City is recouping the actual cost of providing police services.

Table 11. Six Year History of Intergovernmental Revenues.

Year	Intergovernmental Revenue	Increase/Decrease (-)
2004	$823,658	N/A
2005	$874,283	6.15%
2006	$789,560	-9.69%
2007	$820,837	3.96%
2008	$823,658	0.34%
2009	$877,650	6.56%
2010*	$825,000	-6.38%

Source: City of Johnstown financial records and Delta analysis
** Projected Revenue*

In contrast, departmental earnings are demonstrating negative revenue trends partly due to the transfer of the City's assets to outside ownership (i.e., the sewage treatment plant) or outside management (i.e., the golf course, Point Stadium concessions).

Summary of Revenue Observations

The following observations relative to general fund revenue are based on a November 2010 review of the City revenue stream:

1. The City generates about $10.5 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.
2. In 2008, the City transferred $4,665,000 from the Point Stadium reimbursement fund into the general fund. As a result, the fund balance for the City's general fund was reported as $3,618,071. In 2009, the City was able to achieve another positive operating position for the general fund activities by transferring the final $253,377 from the Point Stadium account into the general fund. Although this caused the general fund to be reported with a positive fund balance for 2009 in the amount of $3,284,4250, when all core operating funds are taken into consideration, revenue for general fund sources exceeded expenditures by only $172,233 in 2009 even after the transfer from the Point Stadium account.
3. Timely collection of real estate taxes continues to be a problem and the collection rate continues to hover at only about 83% of the taxes billed.. The delinquency problem persists, given the length of time before the Tax Claim Bureau is able to bring about tax sales. The tardy realization of delinquent tax revenue was a significant factor in the City's decision to sell its tax liens in 2010. The City continues to be overburdened with successful assessment appeals in the commercial district and with a high percentage of non-taxable properties (currently almost 50% of total assessed value).
4. In 2010, the City took the initiative to work with the School District to put additional pressure on its third-party collector, CENTAX, to pursue the collection of EIT, Business Privilege, and Mercantile Taxes in a more rigorous manner in order to address the delinquent collections. Pursuant to Act 32, in 2012 the City will move to a countywide earned income tax collection system administered through Berkheimer Associates. The

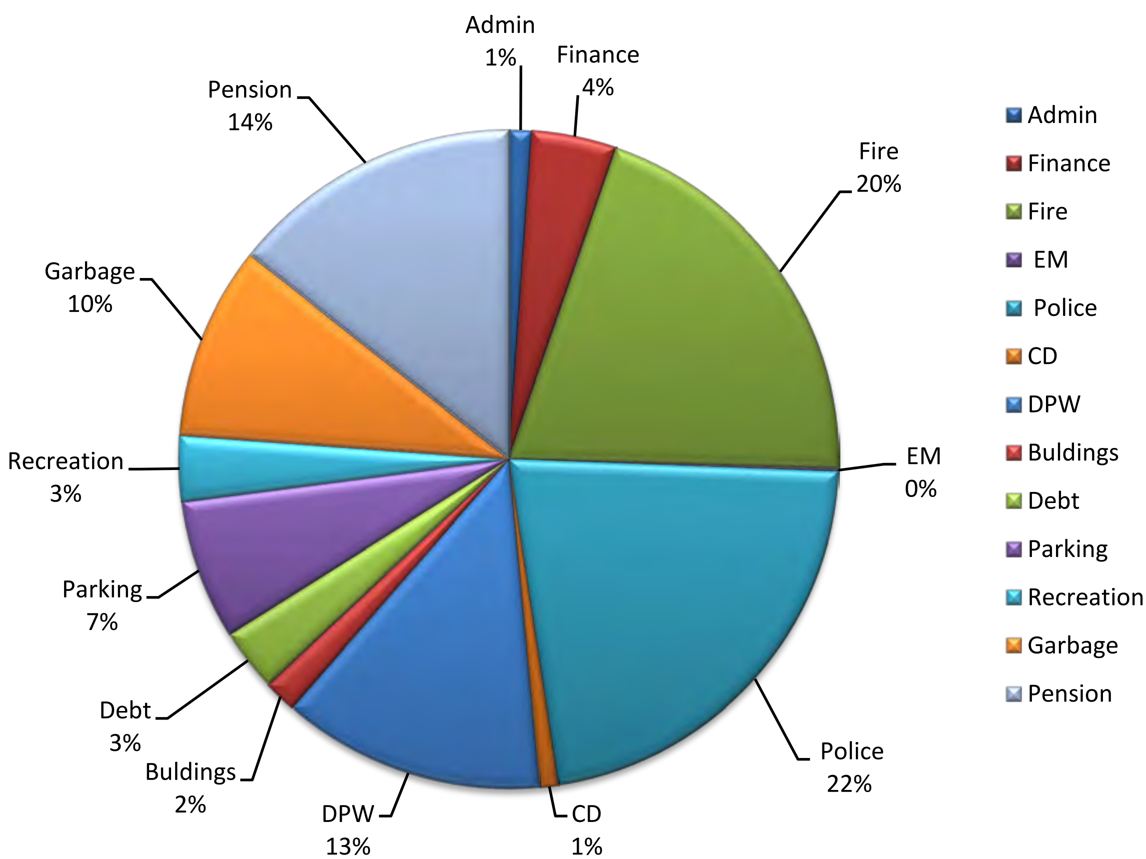
City should be vigilant about monitoring the collection activities and trends during the transition period. The City should negotiate with Berkheimer Associates to also collect business taxes and its Local Services Tax as a part of the transition.

5. The City increased its Local Services Tax (formerly the Emergency and Municipal Services Tax) to the statutory maximum of $47 in 2005. This source continues to generate an additional $550,000+ in revenue for the City on an annual basis. However, there was a significant negative impact for this revenue in 2008 when the collections remitted to the City were done on a quarterly basis and the fourth quarter was not deposited with the City until 2009. As a result, from 2008 to 2009 there was a $30,000 reduction in Local Services Tax collection. The statutorily mandated "upfront" low-income exemption continues to erode the revenue collected from persons who fall into this category.
6. The City also lost a court challenge related to the business license fees in 2005 and, as a result, issued refunds in 2005 in the amount of $30,000 and decreased the fees per license from $300 to $100 for 2006 and subsequent periods. This reduction in fees for business licenses was a budgeted decrease in the 2006, 2007, and subsequent budgets.
7. The City relies heavily on the collection of EIT (at a rate of 1.3% in 2010) from City residents. The EIT rate for Johnstown residents is significantly higher than for most residents across the Commonwealth. The City also currently relies on a 1.1% levy of EIT for non-residents, an initiative that was included in the Fourth Amended Plan and continued in this Fifth Amended Plan, in order to aid in balancing the City's budget. In order for the City to address its structural deficits, it is critical that the non-resident EIT continue for the short term at its current rate of 1.1%.
8. When the non-recurring revenue is backed out of the City's revenue stream for purposes of identifying the core operating revenue, it is evident that the City's operating position continues to exhibit a significant structural imbalance through 2010 and that it is increasing from year to year.

Expenditures

The City's general fund budget includes 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, and public works.

Figure 3. 2009 Expenditures by Use



Source: City of Johnstown financial records and Delta analysis

Overall, the City's general fund operating expenses increased by 19.9% between 2002 and 2008. The average increase during this period of time was 3.2% per year. In 2009, the sanitation fund, the recreation fund, and the parking fund were presented as a part of the general fund and it is therefore difficult to compare 2009 to previous years without backing out the revenues and expenditures for those funds. For purposes of this discussion, the total 2009 revenue and expenditures were not included for trending purposes.

The departments experiencing the highest increases in expenditures have historically been the Police Department, Fire Department, and Department of Public Works, due primarily to escalating costs of wages and benefits and long term pension liabilities. (NOTE: Capital projects are funded from a separate capital project fund budget.) Table 12 provides an eight year history of general fund operating expenditures for these activities.

Table 12. Eight-Year History Total Operating Expenditures

Fiscal Year	Total Expenditures	% Increase/ Decrease (-)
2002	$8,804,583	N/A
2003	$9,119,090	3.57%
2004	$9,907,617	8.65%
2005	$10,459,659	5.57%
2006	$10,613,058	1.47%
2007	$10,103,378	-4.80%
2008	$10,659,439	5.50%
2009	[7]$12,613,157	18.32%
Average Increase		***3.32%***

Source: City of Johnstown financial records and Delta analysis

Public safety expenses make up almost 40% of the City's general operating budget – with the Police Department at 20% and the Fire Department at 19%. The Department of Public Works makes up another 12% of the budget. Typically in a City budget, between 85% and 90% of the costs are associated with personnel and Johnstown is no exception. The City reported 144 full-time employees for 2010.

Staffing

In 2008, the City hired consultants to conduct a comprehensive staffing level analysis. In this study the consultants concluded that they were "pleased to report that Johnstown's administrative agencies are among the very best we have reviewed and provide an exceptionally high level of service." The consultants noted, however, that providing such high levels of service

[7] In 2009, the Sanitation, Parking and Recreation funds were combined with the General Fund causing the General Fund to be much larger than in other years. In 2010, these funds were reported in separate funds again but remain part of the core operating funds of the City.

requires the City to maintain a relatively high staffing level in most departments. It is critical for the Council, the City Manager, and department heads to continually reevaluate whether the City is capable of providing services at the current levels into the future.

The City has made a concerted effort to reduce the number of positions in the past 10 years and has, in fact, gone from a complement of over 200 employees in 2001 to about 144 employees projected for 2011. Table 13 demonstrates the reductions in staffing over the past 8 years:

Table 13. Staffing Levels by Department 2003 - 2011

DEPARTMENT	2003	2004	2005	2006	2007	2008	2009	2010	2011
City Manager	3	3	3	3	3	3	2	2	2
Finance	11	11	11	10	9	9	8	6	[8]5.5
Police	48	49	50	49	47	45	41	36	[9]36
Police Office	7	7	7	7	6	6	6	4.5	4.5
Fire	42	43	43	43	43	43	42	42	42
Fire Office	1	1	1	1	1	1	1	0.5	0.5
Community Development	15	15	17	15	15	15	12	7.5	7.5
Public Works Office	3	3	3	3	3	2	2	2.5	2
Infrastructure	29	30	33	30	27	17	18	11.7	11
Building & Grounds	10	10	8	7	8	8	6	6	6
Repair Shop	4	4	4	3	3	3	3	1	1
Sewer Upgrade	0	0	0	0	0	0	0	3	[10]3
Sanitation	0	0	0	0	0	0	0	0.3	0
Parking/Meters	6	6	6	6	6	6	6	6.5	6
Sewage	17	17	17	17	16	16	16	15	16
Sewage Office	3	3	2	2	2	2	3	3	3
Recreation Office	1	1	1	1	1	1	1	[11]	0
Total Full Time	**200**	**203**	**206**	**197**	**190**	**177**	**167**	**147.5**	**146**

As noted, the staffing levels are not currently at an unreasonable level but the City of Johnstown continues to have more employees than any other Third-Class City of similar size. While blanket cuts across all departments are not recommended, the City should consider the

[8] The finance department has one part-time employee that is transitioning to full time status to replace a retirement that occurred in May 2010.
[9] One police officer is on military leave bringing the actual "head count" to 37.
[10] Three public works employees who had been furloughed were called back to work on a sewer upgrade project. The salaries will be paid from the sewer rental revenue.
[11] The part-time recreation director duties have currently been assigned to the public works director.

most effective use of all current employees before hiring decisions of any kind are made. The City should also develop an analytical process in the finance department for evaluating the "fully loaded" cost of an employee for each and every hire.

Benefits

Benefits, as a part of the overall personnel costs, drove up the cost of the City operations. Many of the costs of benefits are outside of the City's control, with healthcare expenses alone increasing from $1.6 million in 2001 to $2.6 million in 2011. The City has managed to somewhat control healthcare costs through the 2010 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. The changes to the City's health insurance structure are outlined in greater detail in Chapter V (Work Force).

Annual pension contributions to the respective plans have also increased significantly, from $1.2 million in 2001 to $2.8 million in 2010, due to the deteriorating equity position of the plans and the increasing liabilities. Table 14 provides a detailed history of the assets available to support the pension plans and the rising unfunded actuarial liabilities.

Table 14. Pension Unfunded Liability

Year	Total Actuarial Value of Assets	Total Actuarial Accrued Liability (AAL)	Total Unfunded AAL (UAAL)	Total Funded Ratio
2003	$21,699,879.00	$37,768,221	$16,068,342	57%
2005	$20,882,649.00	$40,008,680	$19,126,031	52%
2007	$21,605,207.00	$41,265,778	$19,660,571	52%
2009	$20,972,820.00	$41,877,580	$20,904,760	50%

Source: City of Johnstown 2009 Valuation Reports Funding Progress

By 2009, the City's combined pension plans were only 50% funded with the fire pension plan in the worst position at only 34% funded. 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. For 2011 and 2012 the City elected to take advantage of the Act 44 option which provides for the ability to reduce the City's Minimum Municipal Obligation (MMO) by 25% and to amortize that amount over the next 20 years at the interest rate in the actuarial assumptions of the Plan.

In conclusion, because personnel costs for City employees are substantial and inevitably increasing, there are fewer resources available for areas such as planning, community development, building and code enforcement, recreation, libraries, and other quality-of-life support services for the community.

Detailed Review of Expenditure Categories

The following is a detailed review of each of the expenditure areas for the general fund operation.

General Government

Expenses in this area are relatively stable, increasing at a rate of 2% per year. The position of Assistant Manager was eliminated in the 2010 budget.

Finance

The actual expenditures in this department decreased from $2.7 million in 2001 to about $700,000 projected for 2010 due to the fact that all of the insurance, benefits and personnel-related costs that were formerly captured in this category have been distributed to the respective departments. Currently, the finance department is divided into two distinct functions: payments and administration. The payments division consists of four union employees dedicated to the parking fund, reconciliations, cashiering, and miscellaneous payment tasks. The administrative side of the department consists of four employees: the Finance Director, Accounting Assistant, Parking Administrator, and Payments and Benefits Coordinator.

The Finance Department is currently operating with an outdated version of ProSoft Financial software. The current software could not be updated in the past because the City financial system was not built on the DCED chart of accounts. For January 2011, the City reconfigured its financial system to be consistent with the DCED chart of accounts. This will allow for better functionality, ease of analysis, and reconciliation in future years. The City will also acquire and implement new, comprehensive enterprise wide financial software in 2011. The new system will seamlessly integrate the new chart of accounts, will improve functionality, and will provide better financial reporting capability.

Fire Department

The City's Fire Department, with a chief and 41 paid firefighters, makes up about 19% of the City's operating budget, at about $3.3 million in 2010. The escalating costs of health benefits, workers compensation, and pension liabilities are driving the expenses for the delivery of fire service. The current collective bargaining agreement includes a provision that requires not only minimum staffing for shifts, but also an overall minimum complement requirement. This is the most significant impediment to the City's ability to further control the cost of fire service. Table 15 demonstrates the escalating costs for the fire department.

Table 15. Fire Department Expenses with Projections

Year	Fire Dept Expenses	Increase/Decrease (-)
2002	$1,885,622	N/A
2003	$1,921,116	1.88%
2004	$1,962,864	2.17%
2005	[12]$2,714,499	38.29%
2006	$2,790,437	2.80%
2007	$3,003,846	7.65%
2008	$3,186,748	6.09%
2009	$3,383,474	6.17%
2010*	$3,383,860	0.01%
2011*	$3,480,315	2.85%
2012*	$3,851,693	10.67%
2013*	$3,967,243	3.00%

Source: City of Johnstown financial records and Delta analysis

**Projected Expenses*

Police Department

The City's Police Department, with 36 paid police officers including the chief, makes up about 20% of the City's operating budget, at about $3.4 million in 2010. The current staffing level is a significant reduction from the 48 active officers in 2003. The current police collective bargaining agreement includes the ability for the City to manage and control costs for health benefits, pension liabilities, and overall compensation. In the past, these escalating personnel costs have driven the annual increase in the cost of police services.

Under the 2010 arbitration award, members of the bargaining unit will contribute 15 percent of the cost of the annual health insurance premium, in addition to higher co-pays and

[12] In 2005, the City changed its accounting practices by distributing the cost of healthcare benefits to individual departments. This significantly increased the expenses attributed to the fire department.

other changes outlined in more detail in Chapter V (Work Force). Furthermore, a separate pension plan will be created for officers based on the employee's date of hire. This change to the pension plan will have a normal cost that is 20% lower than the plan applicable to employees hired prior to January 1, 2011.

Table 16. Police Expenses with Projections

Year	Police Dept Expenses	Increase/Decrease (-)
2002	$2,578,905	N/A
2003	$2,482,595	-3.73%
2004	$2,696,657	8.62%
2005	[13]$3,673,521	36.23%
2006	$3,737,651	1.75%
2007	$3,649,147	-2.37%
2008	$3,736,606	2.40%
2009	$3,690,988	-1.22%
2010**	$3,401,911	-7.83%[14]
2011**	$3,128,925	-8.02%[15]
2012**	$3,246,956	3.77%
2013**	$3,344,364	3.00%

Source: City of Johnstown financial records and Delta analysis

**Projected Expenses*

Wages have also been controlled through the negotiation of a freeze in 2010, a 2% increase in 2011, and a 3% increase in 2012. Even with these implemented cost controls, the cost of police service is projected to continue to rise at a moderate level. Table 16 demonstrates the cost of this service over the past eight years.

The favorable reductions in Police expense for 2010 and 2011 reflect the staffing reduction in FY 2010 as well as the Act 47 plan mandated healthcare contributions and salary

[13] In 2005, the City changed its accounting practices by distributing the cost of healthcare benefits to individual departments. This significantly increased the expenses attributed to the police department.

[14] In 2010, there were staff reductions in the police department in addition to a new health care plan that created additional savings for the last 6 months of the fiscal year. The combination of these two actions resulted in a 7.83% reduction in costs in the police department during 2010.

[15] In 2011, it is projected that the full year of lower staffing levels, the replacement of senior staff with employees at starting salaries, the full year of lower premium costs for health care, and the full year of contributions to healthcare will result in another decrease in overall costs for police operations.

freeze. In contrast, the Fire Department expenses continue to increase in the same period as reflected in Table 15 due largely to the minimum manning requirements dictated by the current collective bargaining agreement.

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 covers the actual cost of providing these services, including wages, benefits, equipment, and fuel.

Community Development

As in the past, the City enjoys considerable savings through utilization of Community Development Block Grant (CDBG) funds to fund City projects performed by City employees. Since 2007 the expenses of the community development department have been controlled by leaving some positions unfilled in order to obtain needed budget savings, and are projected to remain flat in the next three years. This department oversees the planning, zoning, and code enforcement activities for the City. 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. In 2011 the City developed an initiative to fill additional positions in Code Enforcement to address the City's effort to control blight. These additional positions will be funded through CDBG funds.

Public Works

The Public Works Department includes a director and 23 employees and makes up about 12% of the City's operating budget, at $2.1 million in 2010. The current workforce is a significant reduction from 41 employees in 2007. The City has controlled costs in this department primarily through leaving positions vacant and by negotiating cost controls for health care. In fact, the City's expenses for this department, because of the reductions in the workforce, are lower in 2010 than they were in 2005. However, the costs for wages, health benefits, workers compensation, and pension liabilities continue to drive expenses.

Table 16. Public Works Expenses with Projections

Year	Public Works Expenses	Increase/Decrease (-)
2002	$1,967,540	N/A
2003	$2,801,904	42.41%
2004	$1,728,362	-38.31%
2005	[16]$2,576,105	49.05%
2006	$2,522,251	-2.09%
2007	$2,194,542	-12.99%
2008	$2,383,269	8.60%
2009	$2,161,663	-9.30%
2010*	$2,122,982	-1.79%
2011*	$2,046,153	-3.62%
2012*	$2,149,498	5.05%
2013*	$2,213,983	3.00%

Source: City of Johnstown financial records and Delta analysis

Projected Expenses

The City has left positions vacant in this department through 2010, and unfilled positions may need to be carried forward in order to stay within the budget in 2011.

Health Benefits

Health benefits for full-time employees in all departments have escalated dramatically over the past decade. This expense increased from $1,579,109 in 2001 to $2,675,172 (projected) in 2010 – an increase of 61% in 10 years. Table 17 provides a complete history of the cost of healthcare since 2001.

[16] In 2005, the City changed its accounting practices by distributing the cost of healthcare benefits to individual departments. This significantly increased the expenses attributed to the public works department.

Table 17. Cost of Health Care Benefits with Projections

Year	Health Insurance Expenses	Increase/Decrease (-)
2001	$1,579,109.00	N/A
2002	$1,762,376.00	11.61%
2003	$2,111,105.00	19.79%
2004	$2,252,539.00	6.70%
2005	$2,478,310.00	10.02%
2006	$2,513,032.00	1.40%
2007	$2,408,630.00	-.90%
2008	$2,405,284.00	-.001%
2009	$2,217,248.00	-7.82%
2010*	$2,675,172.00	20.65%
2011*	$2,204,761.00	-17.58%
2012*	$2,604,108.00	18.11%
2013*	$2,681,906.00	2.99%

Source: City of Johnstown financial records and Delta analysis

** Projected Expenses*

In addition, other post-retirement healthcare benefits (OPEB) have escalated to an annual expense of $866,518 in 2009. The total amount of OPEB liabilities incurred as of January 1, 2009 as calculated by the actuaries, is $20,112,107. Although these benefits were eliminated for future hires, current payments for the accrued liability have a substantial negative impact on the general operating budget. The annual OPEB payment is expected to increase to over $1 million per year beginning in 2011 and will grow proportionate to retirements that take place with OPEB liability. The City should set up a trust fund to begin to move toward fully funding the OPEB obligation.

Recently, as a result of initiatives in the Fourth Amended Plan, and through the collective bargaining process, the City was able to eliminate post retirement healthcare for newly hired employees and to restructure the healthcare plan, which significantly reduces the City's health insurance obligation. The City employees contribute 15% of the cost of the premium and the City's obligation for annual increases in premiums is capped at no more than 6% per year. Some of these cost containment provisions are currently under appeal by the Police union before the Commonwealth Court. This case is discussed in greater detail in Chapter V (Workforce).

Workers Compensation

Previous workers compensation claims under the City's self-insurance fund are valued at $64,797, and the City's self-insurance fund has assets of $102,310 at year end 2009. The City became fully insured for workers compensation in 1999 through a contract with Penn Prime for an annual premium amount but has since transferred to Travelers Insurance.

Energy Costs

Overall energy costs for the City have escalated over the past three years and the City has developed strong initiatives in order to take advantage of energy efficiencies, alternative energy, and sustainable practices. The City is committed to conducting the proper analysis and to making improvements that result in permanent savings to the City in all areas of energy utilization. As part of the energy initiatives strategy, the City worked with Imbutech, Inc., a lighting consultant, in December 2010, to conduct a lighting audit of all City facilities in order to determine the most potential for savings and the estimated investment that would be required to install the recommended lighting improvements. Table 18 outlines the potential savings and the investment required to convert the current installations to high efficiency fixtures.

Table 18. Estimated Energy Savings Costs with Lighting Improvements

Facility	Current Annual Energy & Operational Cost ($)	Annual Energy & Operational Cost with Improvements ($)	Total Annual Savings ($)	Investment Required ($)	Return on Investment (ROI) In Years
ITC Garage	49,789	7,002	42,787	220,575	5.16
Main Street East Garage	36,270	4,422	31,847	174,164	5.47
Public Safety Building	16,839	11,683	5,156	45,750	8.87
Roxbury Park	23,388	2,929	20,459	192,046.	9.39
Point Area Ball Park	16,840	2,912	13,928	154,560	11.10
Public Works Garage	11,577	2,149	9,428	74,254	7.88
Lincoln Street Garage	60,094	8,369	51,726	237,685	4.60
Total	**214,797**	**39,466**	**175,331**	**1,099,034**	

Based on the calculations performed by Imbutec, the City stands to achieve an annual savings of approximately $175,000 out of a current expense of $215,000 or an 82% reduction in its lighting bills. This is a substantial savings that would be ongoing for the next 25 years which is the average life of the installation. In fact, if the cost of electricity escalates, the savings would increase proportionately. However, there is a required investment of approximately $1 million in order to achieve the operational and energy savings. The funding for these projects can be accomplished by the City in a number of ways:

1. The City should explore the PENELEC Act 129 rebate program to identify potential rebates that may be available for the estimated reduction in electric load. As a result of PA Act 129 which was signed into law in 2008, all public utilities that provide service to populations of more than 100,000 in Pennsylvania must reduce energy consumption and demand. These Electric Distribution Companies (EDCs) are required to reduce overall consumption of electricity by at least one percent by May 31, 2011, and by a minimum of three percent by May 31, 2013. In addition, peak demand must be reduced by a minimum of 4.5 percent by May 31, 2013. The act requires that at least 10% of the reduction must be obtained from federal, state and local loads. For information about the rebates that may be available from PENELEC for lighting installations the City should visit the PENELEC website at http://www.energysavepa-business.com/ If a portion of the improvements can be financed through rebates, the City's return on investment would be greatly enhanced.
2. The City should explore the Commonwealth's Alternative Energy Investment Fund for financing the lighting improvements at www.newpa.com/find-and-apply-for-funding/funding-and-program-finder/funding-detail/index.aspx?progId=212 - Grants and loans are provided through this DCED program for the installation of alternative energy systems and the construction or development of alternative energy production projects. Loans of up to $5 million or 50% of the total project cost are offered with an amortization of 25 years and a 10-year term. Grants of up to $2 million are available. The current interest rate for the program is 1% for energy efficient and conservation projects, and 5% for all other projects. The amount of the matching investment must be at least $1 for every $1 of program funds. Municipalities may apply for grants or loans under this program. Applications for this program are accepted on a rolling basis.
3. The vendors for the lighting installation can supply additional information about the options and financing instruments that may be available to the City for the installation of the lighting improvements.

Summary of Expenditures Observations

The following observations regarding general fund expenditures are based on a November 2010 review of the City expenditures:

1. The City's general fund expenses are about $11 million per year for its general fund activities. This is an obvious problem because the general fund revenues are projected to be about only $10.5 million per year resulting in a large and growing funding gap.
2. Because the City expenditures increase at a rate of about 3.32% per year and the City revenues increase at only about 2.67% per year, there continues to be a structural deficit that will continue to increase over time. Tax increases and revenue adjustments cannot adequately provide enough revenue to support all general fund operations for the long run.
3. The general fund in isolation, without the other core operating funds that reflect the City activities, is close to being balanced by enough revenue to support general fund operations. However, the pension fund, debt service fund, recreation fund and parking fund continue to negatively impact the stability of the City's financial condition.
4. Staffing levels continue to be problematic for the City especially in the fire department. As the City's population and tax base have diminished, the City is unable to support even the reduced number of employees currently in the City complement.
5. Personnel costs along with benefits and pension liabilities continue to escalate in spite of the best efforts of the City to address the higher rates and mandatory employee contributions toward healthcare expenses.

Review of the 2009 General Fund Audited Financial Statements

As part of this Fifth Amended Plan, a review of the most recent 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 2009, the general fund experienced an excess of revenues over expenditures totaling $172,233 at the close of the fiscal year. However, the City was only able to achieve a positive operating position through the transfer of $253,777 from the 2006 Point Stadium Bond proceeds. The audited financial statements, after adjustments and transfers, report a positive fund balance for 2009 in the amount of $3,284,250. However, this positive fund balance must be viewed in conjunction with the other operating funds, which all experienced deficit fund balances in 2009.

Revenue

Revenue fell short of the budget by $506,987 for the following reasons:

- Tax revenue exceeded the budget by $206,434.
- Payments in lieu of taxes met the $202,500 budgeted amount.
- Sanitation revenue was under budget by $271,600.
- Licenses and permits were under budget by $71,739.
- Fines and forfeits exceeded the budget by $27,654.
- Departmental earnings exceeded the budget by $21,178.
- Interfund transfers and reimbursements were under budget by $310,997.
- Grants and joint projects were under budget by $16,809.
- Interest earnings were under budget by $28,429
- Miscellaneous revenue was under budget by $45,982.

Expenditures

Expenditures were under budget by $924,220. All departments achieved savings within individual categories, with the most significant savings in the Finance, Public Works, and Police Departments

- General government was over budget by $9,388.
- Fire Department was over budget by $16,091.
- Police Department was under budget by $173,063.

- Public Works Department was under budget by $119,921.
- Finance Department was under budget by $779,778.[17]

Based on the review conducted relative to "budget to actual" accuracy, it is obvious that the City should refine its budget process and include better projections for both revenues and expenditures. The proposed 2011 budget is a much better document that provides documentation and support for the budget projections and relies on revenue that is based on historical accuracy.

Pension Fund

<u>Revenue</u>

In 2010 the City levied 12.801 mills per dollar of assessed valuation in the City to assist in addressing the unfunded actuarial accrued liability (UAAL) for the pension funds. This levy generated approximately $1.42 million in current real estate taxes. Other revenue for the pension fund includes employee contributions, state aid, and investment returns. Since 2007, the City experienced actuarial losses in each of the pension funds. The primary reason for these losses was the poor two-year investment return, which was less than the assumed rate of 8 percent per annum. Additional factors include contributions that were less than actuarially required, and fewer deaths among retirees and survivors than actuarially expected. The loss to each department is as follows: police ($905,632), fire ($1,198,770), officers and non-uniform employees ($742,517), and sewage ($174,545). The total actuarial loss experienced by the pension plans was ($3,021,464), which has caused the UAAL for the plans to increase from $8.7 million in 2000 to over $20 million in 2009.

The City continues to work with its actuaries, the Combined Pension Committee, and the City officials to address investment policy, actuarial assumptions, and investment performance for the four respective pension funds. In August of 2007, the City selected two new investment managers to manage the funds: C.S. McKee in Pittsburgh and State Street Global Advisors in Boston.

[17] The finance department was significantly under budget in fiscal year 2009 because the expenses related to insurance, workers compensation and retiree benefits were distributed to the departments. These had previously been reported as a part of the finance department budget.

Expenditures

Pension costs continue to escalate because of more retirees and higher wages. These factors, together with poor investment performance in the funds, has resulted in an increase in the City's annual pension expense from $1,234,743 in 2001 to $2,858,523 in 2010 – an increase of over 50% in eight years. Although the City's required minimum municipal obligation is projected to decrease in 2011 and in 2012 through the utilization of Act 44, the overall trend for the pension expense is a dramatic escalation in costs over time.

Table 19. Pension Expenses with Projections

Year	Pension Expense	Increase/Decrease (-)
2001	$1,234,743	N/A
2002	$1,435,988	16.30%
2003	$1,406,899	-2.03%
2004	$1,856,282	31.94%
2005	$1,977,837	6.55%
2006	$2,135,177	7.96%
2007	$2,447,203	14.61%
2008	$2,722,437	11.25%
2009	$2,407,340	-11.57%
2010	$2,858,523	18.74%
2011*	[18]$2,079,131	-27.27%
2012*	$2,150,000	3.41%
2013*	$2,257,500	5.00%

Source: City of Johnstown financial records and Delta analysis

The Johnstown pension plans received a determination from the Pennsylvania Employee Retirement Commission (PERC) in 2010 that the Plans continue to be in Level II (moderate) Distress under Act 205. The City has the option under Act 44 of 2008 to elect a 25% reduction in its minimum municipal obligation for 2011 and 2012. The City

[18] For 2011, due to severe budget constraints, the City elected to take a 25% reduction in its minimum municipal obligation (MMO) pursuant to Act 44. The amount that is not paid into the plans will be amortized over a period of 20 years at the actuarial rate of the plans. The City has the ability to elect this option for 2011 and 2012.

has elected to take the Act 44 reductions which will reduce the City's MMO for 2011 by $507,000. This amount will be amortized over a twenty year period at a rate of 8% per annum. This option does not eliminate the obligation to the funds – it merely extends the timeframe in which the City can make the required payments to the plans on the assumption that better investment returns and adjusted benefits will reduce the payment requirements over time.

Parking Fund

<u>Revenue</u>

The City continues to pursue its options to increase collections for its on- and off-street facilities through modifications to its rate structure. The total revenue generated for 2009 was $686,752 and is estimated to be $694,285 for 2010.

<u>Expenditures</u>

The 2009 audited financial statements indicate that there was $1,150,882 in expenditures including support of debt service on parking bonds, driving the deficit in the parking fund to ($411,841). In 2005, there was a surplus in this fund due to the refunding of the parking bonds in 2004, which included a lower debt service payment for 2005. However, beginning in 2006, the bond payment that had been reduced returned to its original higher level. The parking fund has been operating at a deficit since 2006 and is projected to continue to operate at a deficit in 2010 and 2011. Currently, the $953,962 budget for 2011 includes one parking meter serviceman, one clerk, one senior meter person, two parking enforcement personnel, one laborer (public works support), and a part-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 entire annual debt service payment on the parking garage bond in the amount of $530,000. The City's general fund accounts are therefore used annually to subsidize the payment of the debt service obligation. For budget year 2011, the debt service on the parking bonds is included in the debt service fund.

Debt Service Fund

Revenue

The City's debt service fund is entirely supported through an annual real estate tax levy and the interest earnings associated with these deposited funds. In 2010, the debt service levy was 3.583 mills and is expected to generate approximately $400,000 for the payment of debt obligations. An additional $20,000 will be generated through the sale of tax liens.

Expenditures

The City's debt service obligation for 2010 is estimated to be approximately $440,465 contributing to a deficit of about ($20,000) *excluding* the parking fund general obligation debt. However, when the parking bond (which cannot be supported by the parking fund) is added to the debt obligation, the 2011 debt obligation rises to $954,713.

Table 20. Debt Service Payments with Parking Bond Obligation

Bond	2010	2011	2012	2013
2006 General Obligation Bond	276,105	275,918	275,728	275,522
2009 General Obligation Bond	539,803	678,795	678,195	677,395
Total	815,908	954,713	953,923	952,917

Source: Wessel & Company 2009 Audited Financial Statements

In order for the debt service fund to generate enough revenue to support the parking debt service obligation, an additional 2.5 mills of real estate tax levy would have to be allocated by the City.

Table 20 below illustrates the City's long term debt obligations from the 2006 General Obligation Bond series (the parking bond) and the 2009 General Obligation Bond series.

Table 21. Long Term Debt

Bond	Interest Rate	Issue Amount	Outstanding 12/31/09
2006 General Obligation Bond	4.14%	$6,085,000	$6,070,000
2009 General Obligation Bond	2.73%	$5,640,000	$5,640,000
Total Current Outstanding			**$11,710,000**

Source: Wessel & Company. 2009 Audited Financial Statements

Recreation Fund

Revenue

Prior to 2009, recreation in the City was funded by a special levy on real estate. This levy, which was 4.494 mills in 2006 generated $599,688. This levy was increased in 2007 to 5.9555 mills and the levy generated $591,920 in 2008. In 2009 the City eliminated the recreation fund and showed all revenue in the "Departmental Earnings" portion of the general fund budget and accounting system. In fiscal year 2009, the City eliminated the special levy on real estate as a way to fund recreation activities.

Revenue generated specifically for recreation in 2009 totaled $120,326 derived primarily from gate tickets at the Point Stadium as well as franchise fees. For 2010 and subsequent budget years, the recreation revenue was returned to its own fund and is accounted for separately from the general fund. However, some of the routine recreation activities remain in the general fund including, Roxbury Park rental, Roxbury Park concessions, Roxbury Park franchise fees, and Roxbury Park activity fees. Only activities specifically related to the Point Stadium are now included in the recreation fund.

There continues to be considerable uncertainty about fees for programming, cost recovery, and uses for Point Stadium. While the City has taken steps to partner with the YMCA to create additional activities that were not offered in the past, as well as evaluating current programming, the Point Stadium continues to be significantly underutilized.

There is a social component of recreation that fulfills certain quality-of-life aspects for residents. Recreation will, therefore, continue to be a vital part of the City's overall mission. A detailed study should be conducted to determine potential usage for the Point Stadium, as well as future joint recreation programs among the School District, YMCA, and the City.

Expenditures

The position of Recreation Director was eliminated from the 2010 budget. The budgeted part-time Recreation Director position for 2010 was filled by the Public Works Director. As a result, the Public Works Director took on significant recreation duties related to the use of the Point Stadium. In 2011 the part-time position of Recreation Director will again be filled by the Public Works Director.

In addition to the Director, the Recreation Department utilizes two full-time positions at Point Stadium. There are also two full time equivalent Public Works employees who work at the various City parks in maintenance and labor activities. Expenditures are estimated to be $195,000 for 2010 and are expected to be covered by gate receipts at Point Stadium and a transfer from the general fund in the amount of $120,344 to subsidize the operation.

Sanitation Fund

Revenue

The user fee charged to all property owners for pick-up and disposal of refuse supports the Sanitation fund. With the exception of one large collection in 2007, collection totals have continued to decline over the past three years therefore aggressive oversight and monitoring of the collections is critical. In 2010 the City combined the refuse bill and tax bill into one bill and one mailing. The City also changed its ordinance to make homeowners responsible for the refuse bills, making payment easier to obtain rather than trying to locate transient renters of City units. The City also entered into an agreement with a third-party collector to collect any delinquent refuse accounts.

In 2010, the Finance Department conducted an assessment of multi-unit facilities within the City to identify potential users who were not on the City records. The assessment identified approximately 800 users who owed delinquent refuse fees, which are estimated to generate an additional $50,000 annually.

The City also annually receives a performance grant from the Department of Environmental Protection (DEP) related to recycling activities. The grant proceeds for 2009 were $11,456.

Expenditures

For fiscal year 2009, the sanitation fund, with its deficit fund balance, was collapsed into the general fund. However, for 2010 and subsequent years, the sanitation fund was reestablished as a separate enterprise fund and currently maintains its own assets, liabilities, revenue, and expenditure activity.

The total expenses for sanitation in 2009 were $1,592,493, while revenue generated only $1,495,541. The City experienced operating losses in this fund in the amounts of ($385,673) in 2008 and ($96,952) in 2009.

The City exercised its option to extend the solid waste and recycling contract for 2010 through 2013 with the current vendor, and the new contract was confirmed at $1.462 million, with recycling and spring clean-up at no additional charge to the City. Total costs for this operation are estimated to be approximately $1.5 million for fiscal year 2011. At this time, it is estimated that the fund will be self supporting beginning in 2011 and will continue to be self supporting over the next three years..

Other Governmental Funds

Capital Fund

Revenue

Until recently, the City maintained a significant balance in its capital fund. The City received approximately $10 million from the sale of the sewage treatment plant to the Redevelopment Authority in 2005. This was transferred to the capital project fund where approximately $6 million remained for future capital projects. Until, 2005, the City also used the proceeds from the non-resident earned income tax to finance its capital fund expenditures. The 2006 audited financial statements reported $9,610,845 in assets in the capital fund at year end.

In 2006, the City completed a $6 million general obligation bond issue for improvements to the Point Stadium, payoff of the Washington County loan for the Renaissance project, improvements to City Hall, improvements to the Public Safety Building, and improvements to the Washington Street Garage.

In 2008, the City issued additional general obligation bonds in order to reimburse itself for expenses that were previously made to the Point Stadium from the proceeds from the sale of the sewage treatment plant. These proceeds were transferred to the general fund in the amount of $4,665,000 in 2008 and in the amount of $253,377 in 2009 and used to make payments on current liabilities such as the pension obligation, the tax and revenue anticipation note payoff, and the parking bond debt service payment. The assets in the capital fund at the end of fiscal year 2009 were $375,811. By the end of 2010, the funds will be substantially depleted.

Expenditures

In the past, the City prepared a capital project budget each year that was reviewed and approved by the City Council along with the general operating budget. At this time, there are no assets and therefore no expenditures that are expected to be made from this fund in 2011. The City should develop a five year capital plan that includes the identification of necessary capital facility and infrastructure projects and also a plan to replenish resources and identify funding sources to support the capital projects.

Sewage Fund

Revenue and Expenditures

The City sold the sewage treatment plant to the Redevelopment Authority in 2005 but retained ownership and control of the sewer conveyance system. The City received approximately $10 million from this sale, and the funds were transferred to the capital project fund. Residual receipts of $1.5 million were transferred to the general fund in 2005 to offset an operating deficit.

Over the past five years, the proceeds from this sale were used for capital projects, most notably for the Point Stadium improvements at approximately $5 million. The proceeds from this sale have since been exhausted.

In prior years, the City levied a sewer user fee and transferred approximately $850,000 from this fund to the General Fund as a routine transfer to support maintenance and operation of the sewer lines. However, 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 has raised its minimum monthly sewer usage charge to $24.80, effective July, 2010, with another rate increase to $34.80 effective January 1, 2011. In the future, none of the proceeds will be directed to the general fund operation. The fees will be used to support the required activities and associated debt service that must be undertaken as a result of the COA.

A complete description of the City's current Consent Order with the DEP and new related sewage rates can be found in Chapter II.

All Governmental Funds

Table 22 is a review of the audited financial statements for all governmental funds for the City of Johnstown for the most recent 4 years. This includes not only the core operating funds but also all special revenue and capital fund expenditures.

Table 22. All Governmental Funds Audited Financial Statements

Category	2006	2007	2008	2009
Taxes	$7,808,060	$7,666,945	$8,663,835	$9,794,124
PILOT	$160,000	$120,000	$240,000	$202,500
Licenses & Permits	$514,893	$532,351	$474,887	$470,181
Fines & Forfeit	$180,993	$213,732	$193,063	$192,354
Intergovernmental	$969,336	$1,081,641	$1,166,888	$571,112
Charges for Services	$2,714,734	$4,005,738	$2,830,837	$1,665,440
Departmental	$1,096,880	$1,065,308	$947,852	$990,741
Interest/Inv	$348,786	$469,717	$722,410	$ 92,826
Grants & Joint Projects	$9,427,080	$11,020,707	$7,010,623	$5,270,429
Sanitation Revenue				$1,375,214
Other	$232,075	$216,293	$83,461	$186,870
TOTAL Revenue	**$23,452,837**	**$26,392,432**	**$22,333,856**	**$ 20,811,791**
General Government	$3,323,640	$ 3,548,070	$ 4,479,000	$1,605,342
Public Safety	$6,533,200	$ 6,651,335	$8,337,270	$9,463,743
Community Development	$4,727,596	$7,004,568	$ 4,654,479	$3,342,943
Parking	$1,176,711	$1,149,102	$ 1,355,729	$1,150,882
Public Works	$2,965,067	$2,681,825	$2,911,528	$2,567,890
Human Services	$ 827,877	$1,686,006	$656,000	$ 507,819
Culture & Recreation	$613,084	$738,313	$861,455	$534,612
Capital Expenditures	$198,800	$132,769	$137,331	$125,209
Debt Service	$53,068	$405,824	$397,910	$295,761
Sanitation Expenses	$1,390,941	$1,667,879	$1,757,705	$1,592,493
TOTAL Expenses	**$22,429,338**	**$27,007,144**	**$26,885,852**	**$ 22,389,287**
Difference	**$1,023,499**	**($614,712)**	**($4,551,996)**	**($1,577,496)**

Source: Wessel & Company Audited Financial Statements

Budget Challenges (FY 2011-2013)

As noted above, the City of Johnstown has experienced both successes and setbacks in its recovery effort over the past three years. Of paramount concern will be containing the escalating costs related to personnel, the rising costs of insurance (especially healthcare coverage), the rising costs of pension and post-retirement healthcare liability, and the erosion of the real estate tax base. While the creation of new jobs and businesses will continue to top the City's agenda, the City Council should strive to maintain at least the tax rates at the current levels because the absence of growth and updated property assessments will reduce the value of a mill, resulting in property tax revenue decreases which the City cannot afford.

Without any intervention or remediation from City officials, the results for the core operating funds (i.e. general, recreation, parking, debt, pension, and sanitation) are projected in Table 23 as follows:

Table 23. Projected Core Fund Activity 2010 – 2013

Without Implementation of Initiatives

	Projected	Projected	Projected	Projected
REVENUES	***2010***	***2011***	***2012***	***2013***
Real Estate (All Funds)	6,717,648	6,728,426	6,829,352	6,931,793
Act 511 Taxes	3,196,522	2,736,649	2,790,982	2,846,802
License/Permits	454,311	467,250	475,475	484,985
Fines/Forfeits	167,525	160,750	167,165	170,308
Interest/Rents	36,284	37,010	38,484	39,254
Intergovernmental	768,393	741,711	741,921	539,635
Dept. Earnings	1,252,251	366,739	366,739	366,739
Recreation Fees	91,725	78,725	78,000	78,000
Pension Revenue	857,500	738,500	764,295	790,993
Sanitation Revenue	1,507,084	1,537,093	1,537,093	1,537,093
Misc. Revenue	20,500	20,950	20,950	20,950
Parking Fund	694,625	694,885	696,025	725,425
Transfers/Reimburse	1,009,105	1,009,105	1,009,905	1,010,721
Indirect Costs	265,000	252,484	253,284	254,100
TOTAL	**17,038,474**	**15,570,277**	**15,769,670**	**15,796,797**

EXPENSES	Projected 2010	Projected 2011	Projected 2012	Projected 2013
Administration	183,201	192,326	196,912	201,549
Finance	679,793	604,565	622,702	641,383
Fire Dept	3,383,860	3,504,258	3,623,326	3,753,028
Emergency Mgt	26,919	27,674	28,504	29,359
Police Dept	3,401,911	3,015,399	3,109,471	3,202,755
Community Dev	112,309	600,082	618,012	635,757
Public Works	2,122,982	1,941,928	2,000,700	2,060,720
Buildings	297,987	250,356	256,346	264,035
Debt Service	440,465	467,361	460,362	474,173
Parking Expense	1,208,426	1,268,847	1,332,290	1,398,904
Recreation	232,668	211,828	215,000	220,375
Sanitation	1,507,084	1,537,093	1,537,093	1,537,093
Pension	2,858,523	2,586,770	2,610,000	2,740,500
Misc Non-Distributed	794,003	512,105	560,847	565,284
TOTAL	**17,250,131**	**16,720,593**	**17,171,564**	**17,724,915**
Excess (Deficit)	**(211,657)**	**(1,150,316)**	**(1,401,894)**	**(1,928,118)**

Source: City of Johnstown financial data and Delta analysis

Conclusion

The City has taken positive steps to increase its revenue collection, reduce staff where possible, to limit its costs for healthcare, and to adjust the benefit structure for pension liability in the future. Nevertheless, unless there are major improvements to the City's tax base or major cuts in personnel costs, the City will be hard pressed to meet its current operating expenses over the next several years. The minimum staffing requirement in the Fire contract has made it impossible to make necessary adjustments to this area. 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 liabilities for pensions and OPEB obligations as noted. 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 intervention, there will most certainly be continuing structural deficits in the core operating funds as demonstrated in Table 23 over the next three years that must be addressed through the implementation of revenue enhancement and cost containment strategies identified in Chapter VI of this Fifth Updated Plan. However, if the City adequately implements the initiatives in Chapter VI of this Plan, it is estimated that the City can achieve positive fund balances over the next 3 years as indicated in Table 24 below.

Table 24. Projected Core Fund Activity 2010 – 2013

With the Implementation of Initiatives

REVENUES	Projected 2010	Projected 2011	Projected 2012	Projected 2013
Real Estate (All Funds)	6,717,648	6,784,824	6,920,521	7,128,137
Act 511 Taxes	3,196,522	3,236,649	3,286,698	3,342,392
License/Permits	454,311	467,250	478,176	487,740
Fines/Forfeits	167,525	166,614	173,146	176,409
Interest/Rents	36,284	37,010	38,484	39,254
Intergovernmental	768,393	742,420	742,998	743,233
Dept. Earnings	1,252,251	366,739	375,907	385,305
Recreation Fees	91,725	225,006	215,000	220,375
Pension Revenue	857,500	737,000	764,295	790,993
Sanitation Revenue	1,507,084	1,537,093	1,537,093	1,537,093
Misc. Revenue	20,500	20,950	20,950	20,950
Parking Fund	694,625	768,531	696,025	725,425
Transfers/Reimburse	1,009,105	1,009,105	1,009,905	1,010,721
Indirect Costs	265,000	252,484	253,284	254,100
TOTAL	**17,038,473**	**16,351,675**	**16,512,484**	**16,862,128**

EXPENSES	Projected 2010	Projected 2011	Projected 2012	Projected 2013
Administration	183,201	192,326	196,912	201,549
Finance	679,793	604,565	622,702	641,383
Fire Dept	3,383,860	3,504,258	3,623,326	3,753,028
Emergency Mgt	26,919	27,674	28,504	29,359
Police Dept	3,401,911	3,015,399	3,109,471	3,202,755
Community Dev	112,309	600,082	619,777	637,574
Public Works	2,122,982	1,949,971	1,947,846	2,008,108
Buildings	297,987	252,205	197,239	204,984
Debt Service	440,465	467,361	460,362	474,173
Parking Expense	1,208,426	768,531	806,958	847,305
Recreation	232,668	225,006	215,000	220,375
Sanitation	1,507,084	1,537,093	1,537,093	1,537,093
Pension	2,858,523	2,079,131	2,150,000	2,257,500
Misc Non-Distributed	794,003	525,283	629,633	634,070
TOTAL	**17,250,131**	**15,748,884**	**16,144,822**	**16,680,471**
Excess/ (Deficit)	**(211,658)**	**602,791**	**367,661**	**181,657**

Source: City of Johnstown financial data and Delta analysis

The initiatives outlined in Chapter VI that have a financial impact and that are included in the impact analysis for purposes of this calculation are:

Act 47 Plan Initiative Implementation:
• Self sustaining funds • Reduced Act 44 Pension Expense in 2011 and 2012 (Pension Expense) • Utilization of the Commuter Tax in 2011, 2012, and 2013 (Act 511 Taxes) • Extension of Conemaugh Hospital Payment in Lieu of Taxes (PILOT) at current levels in 2013, or initiate appeal pursuant to the 5th Amended Plan (Intergovernmental) • Annual 1% increase in Real Estate Tax collection beginning in 2011 (Real Estate-Current) • $100,000 dollar annual contribution to OPEB beginning in 2012 (Misc. Non-Distributed) • Annual lighting energy savings beginning in 2012 (Public Works-Buildings) • Annual 2.5% fee increases beginning in 2012 (Departmental Earnings)

CHAPTER V

Work Force

As part of the preparation of the City's Fourth Amended Recovery Plan, the Coordinator reviewed and analyzed key costs associated with each of the City's collective bargaining agreements and with its non-represented employees. It was apparent that the City's ability to attain fiscal soundness required that these costs and their future rates of growth be contained.

The Fourth Amended Recovery Plan therefore contained two major sets of initiatives applicable to all of the City's represented and non-represented employees. The first set of general initiatives prohibited any benefit enhancements to the existing collective bargaining agreements or to benefits applicable to non-represented employees. These limitations included prohibition of new overtime or premium pay requirements, new benefits or increased costs for existing benefits, new paid or unpaid leave, any additional pay for time not worked, any new or improved benefits for retirees or other inactive employees and any other provision adding new or additional restrictions on the City's management rights.

The second set of general initiatives addressed the City's skyrocketing costs for employee and retiree healthcare. Pointing to national surveys confirming growth in healthcare costs vastly outpacing the rate of inflation or wage growth, the Fourth Amended Recovery Plan emphasized the national trend for employers to increase the level of employee premium contributions and to restructure healthcare plans to increase plan deductibles, increase copayments or coinsurance for office visits and increase employee payments for prescription drugs.

As of January, 2007, the City's healthcare plan, in stark contrast to the national trends, called for City payment of 100% of the cost for represented employees while non-represented employees, depending on date of hire, paid modest portions of the premium cost. The plans contained no deductibles or coinsurance and only modest copayments.

The Fourth Amended Recovery Plan therefore required a major restructuring of the healthcare plan and employee contribution structure such that the average cost per participant would be reduced by 5% in year one and that the City's future growth in annual cost would be held at or below 6%. The Plan also specifically required an employee contribution toward the most affordable coverage option of 15% of premium cost, with employees paying the full incremental cost of any more expensive options. Increased office visit and prescription drug copayments were also required.

In an effort to contain the cost of post-retirement healthcare, the Plan provided that the City would no longer provide retiree healthcare to newly hired employees or their dependents and that all employees retiring after the date of adoption of the Plan (or the expiration of an existing collective bargaining agreement, if later) would be required to pay any increases in healthcare premiums after the date of retirement. Healthcare, pension or other benefits provided to retirees and vested employees could not be increased.

Additional, specific requirements were imposed on individual bargaining units and their respective collective bargaining agreements.

<u>Current Status of the Police Contract</u>

At the time of adoption of the Fourth Amended Recovery Plan, the City's police officers, represented by Flood City Lodge No. 86, Fraternal Order of Police (FOP), were operating under an agreement with an expiration date of December 31, 2009.

The City and the union initiated negotiations for a new contract in 2009. The City's proposal to the union, consistent with the Fourth Amended Recovery Plan, included the restructuring of both employee and retiree healthcare plans as described above, a wage freeze for 2010 with any wage increases in subsequent years required to comply with the Plan, a reduction in the number of sick days per year to twelve (12) and changes to the police pension plan discussed below. Unable to negotiate an agreement, the parties proceeded to interest arbitration on February 1, 2010. Following an executive session of the arbitration panel on March 10, 2010, the neutral arbitrator, Richard W. Dissen, issued a final award on April 12, 2010.

The Arbitration Award makes specific reference to the City's operation under Act 47 and acknowledges that "[t] his award is a reflection of that fact." The award provides for the required employee contribution of 15% of the healthcare premium; substantial in and out-of-network deductibles with a Health Reimbursement Account contribution by the City; office visit, therapist and emergency room co-pay increases; prescription drug co-pays; a limitation on the City's share of annual premium increases to 6%; a reduction in the number of sick days to twelve (12); and changes in the police pension plan discussed below. The award provided for a contract term from January 1, 2010 until December 31, 2013 with a wage freeze for 2010, a 2% increase for 2011 and 3% increase for the years 2012 and 2013.

As to retiree health insurance, the award, consistent with the Plan, required increases in premium cost after the date of retirement to be paid by the retiree and provided that retiree healthcare will not be provided to officers hired after the date of the award. In addition, the award, again consistent with the Plan, provided that employees hired on or before October 11, 2007 shall retain healthcare coverage for the employee only but not any coverage above employee only (effective January 1, 2011).

On May 7, 2010, the FOP filed a Petition to Partially Vacate the arbitration award in the Court of Common Pleas of Cambria County. The FOP sought vacation only of that portion of the award addressing retiree healthcare for employees hired on or before October 11, 2007 as set forth above, arguing that the provision constitutes an unlawful diminishment of the officers' contractually protected retirement system rights and privileges. The City opposed the FOP's petition but in an opinion issued on August 24, 2010, the Court of Common Pleas granted the FOP's petition and entered an order vacating the subject provision of the award. The remainder of the award remains in full force and effect. On September 8, 2010, the City appealed the Court of Common Pleas' decision to the Commonwealth Court of Pennsylvania, and on September 24, the Department and the Coordinator filed an Application for Intervention in the Commonwealth Court. Although the Court denied the application for intervention, the Department and Coordinator will be permitted to file an amicus brief in support of the City's position that the award provision at issue is lawful and that the award should be reinstated.

Current Status of the AFSCME Contract

The City's bargaining unit employees, other than public safety and sewage treatment plant employees, comprise a bargaining unit represented by the American Federation of State, County and Municipal Employees, AFL-CIO, Local No. 630. At the time of preparation of the Fourth Amended Recovery Plan, the City and AFSCME were parties to an agreement with a term from January 1, 2007 through December 31, 2009.

In addition to the general workforce initiatives prohibiting benefit enhancement and restructuring the healthcare plans, the Plan also required certain changes to the AFSCME collective bargaining agreement related to health insurance on illness or disability or layoff and retiree healthcare changes for some employees.

The parties initiated negotiations for a new contract in 2009, but were unable to reach agreement. Finally, in November, 2009, the City declared impasse in the negotiations and, effective July 1, 2010, the City proceeded with implementation of its final offer, the provisions of which were consistent with the Plan. The final offer included a three year term for the agreement with a wage freeze for 2010, a 2% increase for 2011 and a 3% increase for 2012. On July 23, 2010, AFSCME filed a Charge of Unfair Practices with the Pennsylvania Labor Relations Board arguing that the parties were not at impasse. The City is defending its position before the Board.

Current Status of the Steelworkers Contract

The City's employees working at the Johnstown Redevelopment Authority's sewage treatment plant are represented by the United Steelworkers of America, AFL-CIO-CLC, Local 2635-17. At the time of preparation of the Fourth Amended Recovery Plan, the City and plant employees were parties to an agreement with a term from January 1, 2007 through December 31, 2009. Treatment Plant City employee wages and benefit costs are reimbursed to the City by the Johnstown Redevelopment Authority.

Pursuant to the terms of the Plan, the parties initiated negotiations in 2009. They were unable to reach agreement and, effective July 1, 2010, the City proceeded with implementation of its final offer, the provisions of which were consistent with the Plan. The final offer included a three year term for the agreement with a wage freeze for 2010, a 2% increase for 2011 and a 3% increase for 2012. On July 8, 2010, the union filed a Charge of Unfair Practices with the Pennsylvania Labor Relations Board, arguing that the parties were not at impasse and that the bargaining unit members were not employees of the City. The City is defending its position before the Board.

Current Status of the Fire Fighters Contract

The City's fire fighters comprise a bargaining unit represented by the International Association of Fire Fighters, Local 463. At the time of preparation of the Fourth Amended Recovery Plan, the City and union were parties to a contract with a term from January 1, 2007 through December 31, 2010. In addition to the general Plan initiatives prohibiting benefit enhancements and requiring restructuring of the healthcare plan, the Plan also set forth specific requirements applicable to the contract relating to retiree healthcare, seniority and the elimination of minimum staffing levels per station or per shift or on an aggregate basis. This latter requirement eliminating minimum staffing levels is absolutely essential to the City's ability to reduce its service and staffing levels to match available revenues and to avoid deficit spending.

The City and the union initiated negotiations for a new contract, but reached impasse. The arbitration hearing has been set for March 22 and 23, 2011.

Pension Funds

The Fourth Amended Recovery Plan emphasized a trend in Johnstown common to virtually all of Pennsylvania's third class cities – pension costs increasing at a rapid pace as a result of dramatic increases in the pension funds' unfunded actuarial accrued liability (UAAL). The Plan pointed out that Johnstown's aggregate UAAL for its four pension plans had increased from approximately $8.5 million in 2000 to approximately $19.7 million in 2007. As a result, the City's Minimum Municipal Obligation (MMO) to fund the plans annually had increased from $1.4 million in 2000 to $1.9 million in 2007. The 2007 aggregate UAAL for all four plans of $19.7 million translated into an aggregate funded ratio of only 52% (actuarial value of assets divided by actuarial accrued liability). The funded ratio for the four plans, as of January 1, 2007 was as follow:

Fire: 39%
Police: 52%
Officers and Employees: 66%
Bureau of Sewage: 71%

As the Fourth Amended Plan stated, an aggregate funded ratio of 52% is very low. The credit rating agency, Fitch Ratings, has cited a funded ratio below 60% as among a set of practices that raise analysts' concerns about an issuer's fiscal future.

Unfortunately, these standard measures of Johnstown's pension plan fiscal health have not improved. As of January 1, 2009, the aggregate UAAL has increased to almost $21 million, and the aggregate funded ratio hovers just above 50%.

Act 44 of 2009, signed by the Governor on September 18, 2009, makes significant changes to Act 205 of 1984 (the Municipal Pension Plan Funding Standard and Recovery Act) and, acknowledging the difficult economic and financial climate facing municipal governments, makes available several actuarial tools intended to provide short-term fiscal relief to municipalities operating pension plans. Pursuant to Act 44's new municipal distress determination method, Johnstown qualified as a Level II (Moderate) Distress Level (funded ratio between 50% and 69%). At a Level II Distress Level, the Act offered to Johnstown several temporary voluntary remedies, including paying only 75% of the amortization contribution requirement for up to four years. Although the City decided to pay the entire, unreduced MMO in 2010 of $2,858,523, it must invoke the 75% payment for 2011 and 2012. As a consequence, the City's MMO's for 2011 and 2012 will be $2,079,131 and $2,150,000 respectively. .

The Fourth Amended Recovery Plan noted that although the nation's financial markets had performed well in the middle years of the decade, the City's pension investment performance had been weak. The Plan acknowledged that the City had made significant progress in addressing the pension funds' investment performance by retaining fiduciary advisors to review the investment strategy and plan administration and to make recommendations to improve the overall funded status and administration of the pension plans. The Plan referred specifically to the following accomplishments:

The City:

- reviewed the current actuarial valuation reports and, in cooperation with the City's Plan actuary, assessed the actuarial and investment return assumptions to assure they were prudent and properly reflected the City's unique circumstances;

- reviewed the Investment Policy Statement and revised as necessary to assure sound fiduciary practices;

- evaluated the current strategic asset allocation to assure compliance with the Investment Policy Statement and sound fiduciary practices;

- reviewed and evaluated the investment performance of the Plan investment managers and brokers executing investment transactions relative to market and peer group benchmarks;

- evaluated the costs of current investment management services, including commissions, fees, and other cost components and negotiated fee schedules that achieve cost savings to ensure that Plan expenses are cost effective;

- retained new investment managers, including the negotiation of a less expensive commission and fee structure, with the goal of substantially improving Plan investment performance and lowering costs;

- to the extent not already completed, combined the investment assets of all City pension funds into one comprehensive investment account to allow for investment economies of scale while assuring that proper account balances are maintained separately for each fund.

Turning to a review of pension plan benefits, the Fourth Amended Recovery Plan contained initiatives for each of the four pension plans designed to reduce the cost of benefits to the City.

As to Police employees, the arbitration award dated April 12, 2010 provides, consistent with the Plan, that a new pension plan will be created for new hires after the date of the award which will have a normal cost that is twenty percent (20%) lower than the pension applicable to employees hired on or after January 1, 1988.

As to Fire employees, the Plan also calls for the new, less expensive pension plan for new employees, along with other specific changes to plan benefits which will be part of the arbitration proceedings on the new collective bargaining agreement.

As to the sewage treatment plant employees, the City's final proposal, which is being implemented by the City due to impasse in the negotiations, includes a revision to the definition of eligible compensation to include only the fixed amount of compensation paid at regular intervals in accordance with the Third Class City Code and implementation of a 40% Social Security offset pursuant to the Third Class City Code.

Finally, as to the AFSCME employees, the City's final proposal, which is being implemented by the City due to impasse in the negotiations, includes the new, less expensive plan for new employees.

The Fourth Amended Recovery Plan required the City to revise and have adopted by Council the City's pension plan documents to assure consistency with the City's pension ordinances and applicable law. Although the City has made some progress in preparing these plan documents, substantial additional work needs to be done to complete this important task.

CHAPTER VI

Initiatives

Based upon the above review of the City's progress under the Fourth Amended Recovery Plan, the following initiatives are mandated as part of this Fifth Amended Recovery Plan.

Administration/Operations

(1) Council and the Manager shall hold a Council/Manager retreat during the year 2012 to review the progress on current goals and objectives and to set future goals and objectives for the Council and Manager and shall thereafter hold such sessions every other year facilitated by the Manager.

(2) Following the City's elimination of the Recreation Director position, the City entered into an informal arrangement for the YMCA to provide programming services in Roxbury Park. The Manager shall initiate discussions with the YMCA to formalize the arrangement in writing, including the services (current and, hopefully, new) to be provided and the division of fees collected from users of the services and the City shall renew its efforts to cooperate with the School District in the provision of recreation services and the sharing of facilities.

(3) The City shall fund annually appropriate training for its Manager and senior management employees.

Budget and Finance

(4) Upgraded Software/Chart of Accounts Transition – The Finance Department shall continue and finally complete the transition of the City's financial system to the DCED chart of accounts and initiate the upgrade to the City's financial management software to support the newly structured chart of accounts. The system installed shall accommodate all of the City

funds, provide point of service capability for the payroll processing, purchase order processing, and budget query functions. It should also have the capability of producing, at a minimum, general ledger reports and monthly budget to actual reports.

(5) Self Sustaining Funds – The city must regularly examine and analyze the core operating funds (i.e. general, pension, debt service, parking, recreation and sanitation) to ensure that each fund is self supporting through a combination of taxes, fees and state aid. Any fund that begins to exhibit a deficit position shall be balanced in order to avoid a negative impact on general fund operations.

(6) Diversification of Revenue Base – Currently, the City is overly dependent on tax revenue. This dependence on tax revenue not only places a burden on residents but is exceedingly vulnerable to changes in the external economic conditions. The City shall continually pursue strategies that provide for a diversification of the revenue base through the use of fees and special assessments for services that are provided by the City for specific activities. An annual fee resolution shall be prepared and adopted as part of the budget process at which time every fee shall be examined and increased to reflect the ever-changing economic climate. At a minimum, fees shall be adjusted annually based on the CPI from the previous economic period.

(7) Direct Billing of Sanitation Fees – In the next procurement for solid waste collection and recycling services, the City shall include an alternate that requires the vendor to direct bill the residents and to take on the responsibility for collection of sanitation fees. This will relieve the City of the billing and collection function and may reduce the number of staff needed in the Finance Department.

(8) Staffing Levels – the City must consider reductions to staffing levels as positions become vacant. Although the staffing study that was completed in 2008 does not indicate that any City department has more staff than necessary, the City, at 144 employees, still employs about 10-15 more employees than other cities of the 3rd Class in the Commonwealth of similar population and demographics. It is important that the City conduct a comprehensive analysis of the "fully loaded" cost of a new hire and to decide, when possible, to delay the hiring process or completely eliminate the position. It is much easier to avoid the initial hire of an employee than to contemplate furloughs and staff reduction in the future.

(9) Energy Efficiency and Sustainability – The City shall consider a sustainability plan and energy audit to determine the advisability of making short term improvements that will reap long term benefits. Once energy saving methods are identified, priced and prioritized, the City shall consider funding mechanisms such as ESCO providers and the Commonwealth's Alternative Energy Investment Fund as a way to finance improvements that can be supported through the energy savings derived from the installations.

The City shall also take the following steps to improve its management of utility costs:

- Monitor utility usage and billing for all facilities to track trends and exceptions, including electricity, gas and water.

- Review billing to ensure that the City pays only for those charges that are properly allocable to the City. The City shall also ensure that any utility services to be paid by other parties using City facilities are billed promptly.

- Managing turn-on and turn-offs of facility meters, and ensuring that changes are enacted as requested; final meter readings are taken, where appropriate; and generally, that the City has no more services than it needs.

- Pursue lower rates through direct negotiation, aggregation of usage with other entities or a reverse energy auction. In January of 2008, the City of Pittsburgh, Allegheny County and three municipal authorities conducted a reverse energy auction and successfully lowered electricity rates.

- Reduce utility usage by investing in energy efficiency improvements. As energy conservation emerges as a national priority, the City should be alert for federal, Commonwealth and other external grant opportunities. In some cases the improvements can be funded directly from the savings they generate.

(10) The City Manager and Director of Finance shall continue to work to improve the annual collection of the City's real property tax with the goal of increasing current tax collections to at least 90% of the current tax levy (current assessed value x current millage).

(11) The City Manager and Director of Finance shall continue to work to improve the collection of resident sanitation fees through review and analysis of the City's sewage rolls and other applicable databases.

(12) The City, through Council and the Manager, shall initiate discussions with Conemaugh Hospital with the goal of extending beyond December 31, 2012, an agreement by which the hospital continues to pay to the City substantial payments in consideration of services provided by the City. If the City cannot negotiate such an agreement, it shall review with legal counsel its ability to challenge the tax exemption for specific hospital facilities.

(13) Council and the Manager annually shall review all the fees charged for all non-forensic police services, such as special events, security details, background checks and fingerprinting for private businesses, to assure that the City is recouping the actual cost of the service provided.

(14) Council and the Manager shall regularly review all fees charged for application and issuance of permits, such as building and zoning permits, to assure that the City recoups the actual cost of such processing of permit applications.

That review shall include research as to the fees charged by surrounding municipalities.

(15) Council and the Manager shall prepare and implement a business and marketing plan for the use of Point Stadium as a multi-use venue for sports, the performing arts and other appropriate uses.

(16) The City's Lease and License Agreement with the Cambria County War Memorial Authority to operate the concession stands at Point Stadium expires July 31, 2011. The City shall not renew or otherwise extend the term of the agreement and upon its expiration, the City shall seek new proposals for operation of the concession stands.

(17) The City Manager and Director of Finance shall continue to review the City's funds with the goal of eliminating unnecessary funds.

(18) The City Manager and Director of Finance shall continue to provide to Council, at least quarterly, financial reports comparing actual revenues and expenditures to budget and to comparable periods of previous years.

(19) Although the City has periodically reviewed the City's tax exempt property rolls, in cooperation with the School District, the Manager, Finance Director and Solicitor shall review, at least annually, all tax exempt properties coming onto the tax exempt rolls on or after January 1 of each year to determine whether they qualify under applicable law for exemption from real property taxation and to challenge the exemption of those properties which do not so qualify.

(20) Although the Fourth Amended Recovery Plan recommended the initiation of a Market Based Revenue Opportunity (MBRO) program and initial contact with a potential vendor was made by the Coordinator, the City has not been able to find the funds to retain a vendor. Council and the Manager shall continue to attempt the identification of necessary funds to implement an active and structured MBRO program to maximize the revenue generating

capacity of the City's municipal assets. The program shall consider such initiatives as bus shelter advertising, general outdoor advertising, street furniture, advertising on such facilities as recreation venues (Point Stadium), public benches, public restrooms, newsstands, trash receptacles, information kiosks and bicycle racks; indoor advertising such as restrooms, libraries, parking garages, convention center recreation venues; and other miscellaneous advertising on such items as garage receipts, tax and utility bill inserts, banners on the City's website and vehicle advertising. The program shall also consider City/Corporate marketing partnerships and sponsorships.

(21) The City shall levy the earned income tax upon residents and non-residents for the years and at the rates as follows:

Year	Resident Rate (Minimum)	Non-Resident Rate
2011	1.30%	1.10%
2012	1.30%	1.10%
2013	1.30%	1.10%

In each of the years, 2011, 2012 and 2013, the City shall petition the Court of Common Pleas of Cambria County, pursuant to Section 141 of the Act, to increase the rate of earned income taxation upon non-residents beyond the 1% maximum imposed by Act 511 as set forth above.

(22) At or before the time of preparation of the 2012 and 2013 operating budgets, Council, the Manager and the Coordinator shall review the state of the City's finances, including anticipated revenues, expenditures and fund balances, in order to determine whether any revenue can be allocated to the City's capital budget.

(23) Pursuant to Act 32, Berkheimer Associates will be collecting the City's earned income tax beginning in 2012. The city shall enter into negotiations with Berkheimer with the

goal of entering into a contract, acceptable to the Manager and Council, for Berkheimer to collect all of the City's Act 511 taxes beginning in 2012 or thereafter.

(24) The City shall continue to levy sanitary sewer user fees at rates sufficient to pay debt service on loans or bonds issued, and the cost of projects undertaken, to complete corrective action requirements of the Consent Order and Agreement, dated July, 2010, between the City and DEP.

(25) As of January 1, 2009, the City's other post-employment benefit (OPEB) liability for retiree healthcare is $20,112,107. The City has funded these benefits only on an annual basis when the payments to retirees are actually due. Similar to the City's underfunded pensions, OPEB liability threatens the City's long term financial health by committing the City to pay increasing amounts into the future for services rendered in the past. Those costs can grow rapidly with the rising cost of healthcare. The City's Fourth Amended Recovery Plan eliminated retiree healthcare for new hires and required employees retiring after the date of adoption of the Plan (or following the expiration of an existing collective bargaining agreement, if later) to pay any increases in retiree healthcare premiums after the date of retirement. These changes will provide long term relief by limiting the City's future liability, but they do not impact the larger number of employees who retired before the effective dates of these changes.

Beginning in 2013, the City shall establish and begin to fund an OPEB trust fund at the rate of $100,000 per year. If the Commonwealth of Pennsylvania has not created specific trust fund authority by 2012, the City shall create an appropriate structure under its home rule powers to segregate funding for OPEB until such time as a trust structure is available.

(26) While this Recovery Plan projects that the City will struggle to balance its operating budget in upcoming years , it is possible that the City could outperform projections

through better-than-expected revenue performance, additional cost savings achieved or an unanticipated “windfall” financial benefit. The Government Finance Officers Association (GFOA) recommends at a minimum, that general-purpose governments, regardless of size, maintain an unreserved fund balance in their general fund of no less than five to 10 percent of regular general fund operating revenues. In addition, the city has clear infrastructure and related capital needs that must be funded. To the extent that the City outperforms projections, the City shall seek to build and maintain an undesignated fund balance equal to 5 to 10 percent of annual recurring General Fund revenues (approximately $650,000 to $1,300,000 if revenues are $13 million).

(27) During the year 2011, the City shall investigate the use of the golf course for the extraction of Marcellus Shale natural gas. The City shall also explore the sale of the golf course with the goal of maximizing potential revenue derived from gas extraction and/or sale of the course. The proceeds of any sale of the golf course shall be dedicated to the City’s pension or long term debt obligations.

(28) Beginning with the 2012 budget, Council, the Manager and Finance Director shall prepare a comprehensive, five year Capital Improvement Plan (CIP) during the summer of each year in advance of the preparation of the operating budget for the succeeding year.

An annual CIP document will provide information on capital projects to City officials and other community stakeholders. The CIP must include maintenance and major repairs required for the City’s public parking garages. The CIP document shall include without limitation:

- An overall narrative review that details priorities and issues for the upcoming budget year.

- Discussion of the funding options available for the CIP and the City's ability to make capital investments. These funding options may include the use of community development block grant funding, other federal and state grants, pay-as-you-go financing from the operating budget, proceeds from the sale of assets and debt.

- A description of the CIP development process including how CIP projects were selected and opportunities for public comment on the CIP.

- Summaries of CIP projects by project type and department.

- Individual descriptions for at least major capital projects. The descriptions will detail the project's location, project summary, estimated costs, estimated completion date, and the project's expected operational costs or savings.

The creation of an annual document that summarizes the CIP will help the City formalize aspects of its current CIP process and detail its efforts to make targeted investments in citywide infrastructure and facilities to support the City's recovery. The CIP document will also provide an opportunity to discuss basic CIP performance metrics from the previous year(s), including: original project budget compared to final cost, projected project completion date versus actual completion date, and cumulative CIP expenditures compared to previous year estimates.

(29) Beginning with the preparation of the 2012 operating budget, the Manager shall create and Annual Vehicle Purchasing Plan (AVPP). The AVPP shall consider the City's entire range of vehicles from fire equipment and police cruisers to public works trucks. The AVPP shall consider such factors as the required fleet size, the life cycle of the various types of vehicles and the per unit acquisition costs.

<u>Intergovernmental Cooperation</u>

(30) The Manager has negotiated an amended contract for police services with the Johnstown Housing Authority calling for an increase in payment to the City and has confirmed that the current contract with the School District reimburses the City for the full cost of police services, including benefits. Council and the Manager shall regularly review the contracts for

police services with the Johnstown Housing Authority, the School District and other communities to assure that the City is recouping the actual cost of providing the services including wages, benefits, equipment and fuel.

(31) The City Manager and Fire Chief shall continue the effort to market the services of the Fire Department to surrounding communities. These efforts shall include discussion of written agreements pursuant to which the City, for a fee, makes available for use as required the City's Fire Training facility and specialized fire equipment such as ladder trucks.

(32) Council and the Manager shall review all services such as training, including use of the Department's training facility in the City, provided by the Fire Department to other fire companies to assure that adequate charges are imposed to recoup the City's total actual cost of providing such services.

(33) The City Manager and the Director of Public Works shall continue to market the services of the department to other municipalities, including the continuation of shared use of equipment and maintenance services. The City Manager shall work with the Coordinator to obtain applicable state grant funds to support these joint efforts.

(34) The City Manager, The Fire Chief and the Police chief shall initiate discussions with the members of the Cambria-Somerset Council of Governments (COG) to propose the formation of both a Police Advisory Committee and a Fire Advisory Committee for the purpose of discussing and resolving police, fire and other public safety issues of mutual concern to the members. Although this initiative has appeared in prior recovery plans, the City has not initiated these discussions.

Work Force

Pursuant to the Fourth Amended Recovery Plan, the City has substantially reduced its employee healthcare costs by restructuring its healthcare plan as described herein. Healthcare benefits for retirees have been eliminated for new employees. Reduced pension benefits for new hires, although slower to impact the City's operating budget, have been effected. The City's ability to attain financial stability requires that these positive reforms be extended. In consideration of the City's continuing fiscal distress, this Fifth Amended Recovery Plan mandates the following initiatives which shall become binding upon the date of adoption of the Plan.

The Coordinator's initiatives for all City employees (union and nonunion) are as follows.[19] Wherever reference is made to parameters for bargaining units and collective bargaining agreements in the following initiatives (*e.g.*, limitations on new benefits, healthcare cost containment), such provision shall also apply fully to non-represented personnel. It may also be noted that some initiatives in this section may not apply to all bargaining units, and that changes for certain groups may not be implemented until the end of current collective bargaining agreements.

Limit New Contact Enhancement

(35) Unless, and only to the extent that, applicable law requires a change in any of the wages, benefits, terms, provisions or conditions enumerated herein, all new labor agreements between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or

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

otherwise) covering calendar years 2011 and subsequent years (or any portion thereof) shall not contain, require or provide for any of the following:

a. new overtime or premium pay requirements;
b. any increase in overtime or premium pay requirements;
c. new benefits;
d. any improvements in existing benefits;
e. any new paid or unpaid leave;
f. any improvements to existing paid or unpaid leaves;
g. any additional pay for time not worked;
h. any improvements in existing pay for time not worked;
i. any new designations that time not worked counts as time worked for the purpose of computing overtime or premium pay or increases in existing designation of same;
j. any new benefits for retirees or other inactive employees (*e.g.*, those in layoff or disability status);
k. any improvements in existing benefits for retirees or other inactive employees;
l. any other term or provision which adds any new or additional restrictions on the City's Management Rights.[20]

Health Insurance Contribution and City Cost Limitation

(36) Active employees shall contribute at least 15 percent towards the cost of health insurance. The employee contribution shall continue to be toward the most affordable coverage option and set at a minimum of 15 percent of the lowest tier cost, with employees further paying the full incremental cost of any more expensive options.

The City shall maintain its wellness program, and expand it to include a health management component. Participation in the program will be voluntary, however, employees who choose not to participate in the health management program will be required to pay 20

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

percent of the lowest tier premium costs with employees paying the full incremental costs of any more expensive coverage options. Their higher contributions will fund the City's existing health screening and health management programs.

(37) In addition to the 15/20 percent contribution structure outlined above, the City's contribution to active employee health insurance (including medical, dental and vision benefits in the aggregate) for each bargaining unit shall not increase by more than 6.0 percent in any year. Any annual increase in excess of 6.0 percent shall be paid by the employees through higher premium contributions and/or adjustments to plan design as necessary. As soon as the City receives notice in any year that its healthcare insurance will increase more than 6% for the following year, the City will notify its bargaining units and the City and bargaining units shall have sixty (60) days from the date of the City's notification to agree on adjustments required to reduce the cost increase to 6% or less. If no agreement can be reached within that time period, the City will implement adjustments to reduce the cost to 6% or less. In the absence of a fully insured plan, the cost of healthcare shall be determined pursuant to the methodology selected by City management.

(38) Consistent with, and with the intent to continue, the mandatory initiatives of the Fourth Amended Recovery Plan, the following mandatory provisions shall apply to post-retirement health benefits.

FOP Contract

(1) The City shall not provide retiree healthcare to employees (or dependents) hired subsequent to April 12, 2010, the date of issuance of the arbitration award.

(2) For all employees retiring on or after January 1, 2011, increases in healthcare premiums after the date of retirement shall be paid by the retiree.

AFSCME Contract

(1) The City shall not provide retiree healthcare to employees (or dependents) hired subsequent to January 1, 2010.

(2) For all employees retiring on or after January 1, 2010, increases in healthcare premiums after the date of retirement shall be paid by the retiree.

Firefighters Contract

(1) The City shall not provide retiree healthcare to employees (or dependents) hired subsequent to January 1, 2011.

(2) For all employees retiring on or after January 1, 2011, increases in healthcare premiums after the date of retirement shall be paid by the retiree

Compensation

(39) The labor agreements between the City and its collective bargaining units (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 or otherwise) covering calendar years 2011 and thereafter shall not result in a Total Average Cost Per Hour Worked in any such year (when calculated using the same methodology and formula used in the applicable provisions of the Recovery Plan dated July, 1994 as modified by Exhibit A to Chapter IV of the City's Fourth Amended Recovery Plan) that is greater than the Total Average Cost Per hour Worked for the preceding year plus the lesser of 3% or the percentage increase in the cost of living (CPI-W National) for the most recent twelve month period measured from August 1 to July 30 of the year preceding the effective date of any such increase. In the Event CPI-W National data is not available, the CPI-U National figures shall be used for purposes of this section. In the event CPI-U National data is not available, the parties shall mutually agree on an alternative index

Pensions

(40) The City, through its Pension Board, shall retain an attorney with expertise in Pennsylvania public pension plans and in compliance with Pennsylvania Act 205 of 1984 to complete the task of preparing pension plan documents consistent with City ordinances and applicable law.

(41) With the assistance of a qualified independent financial adviser, the City and its Pension Board shall regularly review the City's Investment Policy Statement and shall evaluate the investment performance of the pension plan investment managers and brokers executing investment transactions relative to market and peer group benchmarks, including the costs of such services.

(42) The City Shall make the reduced MMO payments for years 2011 and 2012 authorized pursuant to Act 44 of 2009.

Hiring Freeze

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

Community and Economic Development

(44) The City shall continue to cooperate with the Discover Downtown Johnstown Partnership and Life Johnstown and member organizations to implement the city's Master Plan and Revitalization Strategy, the Johnstown 20/20 Regional Vision and the Laurel Highlands Conservation Landscape Initiative and to fund and hire a Main Street Manager to design and implement business retention, marketing and other strategies to revitalize the downtown area of the City.

(45) The City shall continue to cooperate with JAHA to develop Festival Park and related improvements.

(46) In order to implement Council's goal of improving the City's control of blight in its neighborhoods, the City shall utilize eligible CDBG funds, beginning in 2011, to hire additional personnel to inspect properties and to enforce the City's zoning, property maintenance and related codes. In addition, the City shall revise its existing codes to add enforcement tools made available through Act 90 of 2010 (anti-blight) legislation).