CITY OF JOHNSTOWN

SIXTH
AMENDED
RECOVERY PLAN
PURSUANT TO THE
MUNICIPALITIES FINANCIAL RECOVERY ACT

As Adopted By City Council
On October 28, 2013

ECKERT SEAMANS CHERIN & MELLOTT, LLC

600 Grant Street
Pittsburgh, Pennsylvania 15219

PITTSBURGH * HARRISBURG * PHILADELPHIA
BOSTON, MA * WASHINGTON, DC * CHARLESTON, WV
NEWARK, NJ * RICHMOND, VA * WHITE PLAINS, NY
TRENTON, NJ * WILMINGTON, DE * SOUTHPOINTE, PA

Table of Contents

CHAPTER I

Introduction

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

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

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.

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

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

Chapter II

Administration/Operations

The City continues its successful 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 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. Council currently provides funds for appropriate training for the Manager and other department directors.

Council and the Manager recognize the importance of reviewing the City's progress on current goals and objectives and in establishing new goals on at least a semi-annual basis through a Manager/Council retreat in the City. In addition, Council and the Manager have institutionalized quarterly financial reports to Council by the Director of Finance comparing actual revenues and expenditures to budget and to comparable periods of previous years.

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 have resulted from a reduction in maintenance and service provider fees. Obsolete parking enforcement software and servers were also replaced. A detailed description of the improvements to the City's financial software is contained in Chapter IV.

On January 1, 2011, the City adopted the Department's chart of accounts which has improved 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. Delinquent sanitation account collection continues to be the responsibility of a private collection agency.

In 2012, Berkheimer Associates began collecting the City's earned income tax as the county's Tax Collection Committee collector. Collections are showing a marked improvement over previous years.

As part of personnel reductions initiated by Council in 2010, 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 City continues to cooperate with the YMCA in providing recreation programming in Roxbury Park. While the City, through the Director of Public Works, organizes the baseball, softball and volleyball programs, the YMCA schedules and programs basketball, tennis, yoga and kickball at the park. One of this Plan's initiatives is to formalize an 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 continues 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, this Plan continues to encourage the preparation of a business and marketing plan for Point Stadium to include in-stadium advertising. City Council has also recently committed the City to funding and pursuing a Market Based Revenue Opportunities (MBRO) Program, an initiative from previous recovery plans. The City is in the process of issuing an RFP for that work.

Consistent with the emphasis in prior recovery plans on property maintenance and code enforcement, in 2010 the City hired three Code Enforcement Officers responsible for the enforcement of the Property Maintenance Code, the Rental Registration and Inspection Ordinance and inspection of properties that participate in the Home Owner Rehabilitation Program funded through the Federal Department of Housing and Urban Development. Each code officer is assigned to specific neighborhoods in the City for patrolling and issuing citations for code violations. According to current US Census Data, the City has 12,462 structures of which 2,387 are currently vacant. The Codes Department issued approximately 750 citations for code complaints in 2012.

In 2009, the Fire Department obtained a Single Application state grant for $100,000 to establish a fire training facility. The Johnstown Redevelopment Authority conveyed a small portion of the old Cambria Iron Works site for the facility, and the Authority completed required environmental remediation and site preparation. Construction of the facility was completed in May, 2011. The facility is 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 obviates 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). The City is currently applying for another round of Pennvest funding. The City is also currently applying for a Pennworks grant in the amount of $3 million for Moxham sewer improvements. 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 City recalled three Public Works employees in 2011 who are working with the engineer to complete the COA tasks. They are 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. Two School Resource Officers are provided to the School District at the District's cost. The Fire Department continues to offer services to surrounding communities, but no agreements have been reached. The Fire Department has generated modest revenue from surrounding fire departments using the new fire training facility. The City organizes Johnstown Community days in cooperation with the School District.

Chapter III (Community and Economic Development) discusses a renewed initiative to combine the efforts of the City, JARI, the Johnstown Redevelopment Authority (JRA) and private businesses to prioritize and carry out community and economic development projects, consistent with the City's Master Plan, already underway in the City. New intergovernmental initiatives include JRA's assistance of Cambria County's public transportation authority, CamTran, in the development of a new Maintenance and Operations Center and JRA's development of the Rosedale Business Park in cooperation with Cambria County and the Southern Alleghenies Planning and Development Commission.

Chapter III

Community and Economic Development

Johnstown's continuing struggle to reverse adverse economic and demographic trends should be discussed in the context of comparable Pennsylvania communities. The City's population loss, industry decline, unemployment, losses of core segments in the labor force and modest educational achievement are shared, to more or less extent by category, with other Pennsylvania third class cities. Based upon census information, these trends have not improved appreciably for Johnstown or its comparable communities.

To put Johnstown's economy in a broader context, we can compare the City with four Pennsylvania third class cities of comparable population and demographics – New Castle (also under Act 47 oversight), McKeesport, Hazleton and Lebanon. (all of which have participated in DCED's Early Intervention Program).

Johnstown Economic Statistics & Comparable Cities

Demographic	New Castle 2010	McKeesport 2010	Johnstown 2010	Hazleton 2010	Lebanon 2010	Pennsylvania 2010
Population	23,273	19,731	20,978	25,340	25,477	12,702,379
Per Capita Income	$16,553	$15,857	$16,074	$18,350	$17,496	$27,004
Median Household Income	$28,838	$26,756	$24,449	$32,950	$34,134	$50,289
Percent Increase from 2000 – HHI	12.66%	12.82%	18.71%	17.33%	25.22%	25.39%
Civilian Labor Force	10,108	8,274	9,214	11,632	12,795	6,466,192
Percent of Population in Labor Force (LF)	43.43%	41.93%	43.92%	45.90%	50.22%	50.91%
Manufacturing	1,527	824	792	2,610	2,142	758,329
Percent of LF in Manufacturing	15.11%	9.96%	8.60%	22.44%	16.74%	11.73%
Retail trade	1,321	766	1352	1462	1090	696,523
Percent of LF in Retail trade	13.07%	9.26%	14.67%	12.57%	8.52%	10.77%
Educational services, and health care and social assistance	2,246	2,231	2,006	1,882	2,525	1505726
Percent of LF in Education	22.22%	26.96%	21.77%	16.18%	19.73%	23.29%
Arts, entertainment, and recreation, and accommodation and food services	707	663	676	713	1,533	468,351
Percent of LF in the Arts,	6.99%	8.01%	7.34%	6.13%	11.98%	7.24%
Professional, scientific, and management, and administrative and waste management services	659	600	933	658	824	565,861
Percent of LF in Professional	6.52%	7.25%	10.13%	5.66%	6.44%	8.75%
Educational Achievement						
Population 25 years & over	15,975	13,456	15,025	16,746	15,950	8,604,107
Less than 9th grade	949	447	934	1,840	1,354	337,073
9th to 12th grade, no diploma	2,267	1,474	1,528	1,907	2,551	703,766
No HS Diploma	3,216	1,921	2,462	3,747	3,905	1,040,839
Percent No HS Diploma	20.13%	14.28%	16.39%	22.38%	24.48%	12.10%
High school graduate (includes equivalency)	7,437	6,586	6,984	7,641	7,433	3,219,749
Percent HS Diploma	46.55%	48.94%	46.48%	45.63%	46.60%	37.42%
Some college, no degree	2,274	2,699	2,368	2,466	1,907	1,418,751
Percent HS Diploma + Some College	14.23%	20.06%	15.76%	14.73%	11.96%	16.49%
Associate's degree	1,259	1,210	1,270	981	1,303	629,749
Bachelor's degree	1,310	643	1,442	1,371	916	1,415,386
Total Associate's +	2,569	1,853	2,712	2,352	2,219	2,045,135
Percent w/ Associates Degree or more	16.08%	13.77%	18.05%	14.05%	13.91%	23.77%
Graduate or professional degree	479	397	499	540	486	879,633

Source: U.S. Census Bureau

In this group of five cities, Johnstown's economy is not in the worst condition, but it is also rarely the best.

One encouraging statistic is that among the five cities, Johnstown is second only to Lebanon in its percent increase from 2000 in median household income (up 18.7% over 2000) but the City is still lowest among the cities at $24,449. Regarding employment, Johnstown has lost 500 jobs since 2000. Johnstown's percentage of its labor force in manufacturing is 8.6% as of 2010, the lowest percentage among the five cities and substantially below the state average of 11.73%.

Education and training beyond high school are important factors in economic development. Johnstown ranks fourth in the percentage of its adults with a high school diploma (46.48%), but it ranks second in those with a high school diploma plus some college (15.76%). It ranks first in those with an Associate's degree or more (18.05%).

Focusing on changes in the labor force, Johnstown's decrease of 10.13% since 2000 was the worst of the five cities except for McKeesport (-14.34%). Hazleton and Lebanon experienced increases in labor force since 2000. In the key 35-44 age group, Johnstown's loss was 25.81%, second only to McKeesport's decrease of over 34%. All five cities lost labor force in this core age 35-44 group. Unfortunately, the number of workers in the 55-59 age group has increased in all five cities, with Johnstown's increase reaching over 22%.

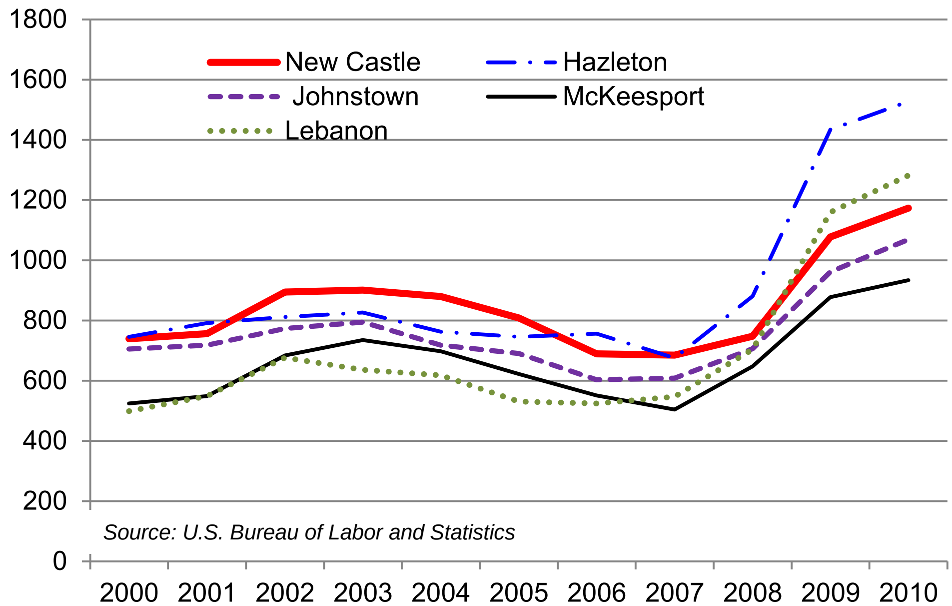
2010 Labor Force Breakdown – Johnstown and Comparable Cities

Demographic	New Castle	McKeesport	Johnstown	Hazleton	Lebanon
20 to 24 year olds	1368	1202	1267	1807	1702
25 to 34 year olds	2893	2053	2538	2927	3580
35 to 44 year olds	2691	2164	2377	3190	3192
45 to 54 year olds	3263	2899	3049	3398	3396
55 to 59 year olds	1609	1468	1513	1453	1555
Totals	11,824	9,786	10,744	12,775	13,425
Percent Change from 2000	-8.28%	-14.34%	-10.13%	10.13%	4.86%
Percent change from 2000 Age 20-24	-10.53%	-4.22%	-9.89%	39.54%	15.78%
Percent change from 2000 Age 25-34	-11.80%	-23.60%	-14.26%	-2.27%	0.42%
Percent change from 2000 Age 35-44	-24.90%	-34.14%	-25.81%	-1.63%	-12.40%
Percent change from 2000 Age 45-54	0.03%	-6.24%	-3.24%	19.69%	13.05%
Percent change from 2000 Age 55-59	30.07%	32.97%	22.61%	18.32%	38.84%

Source U.S. Census Bureau

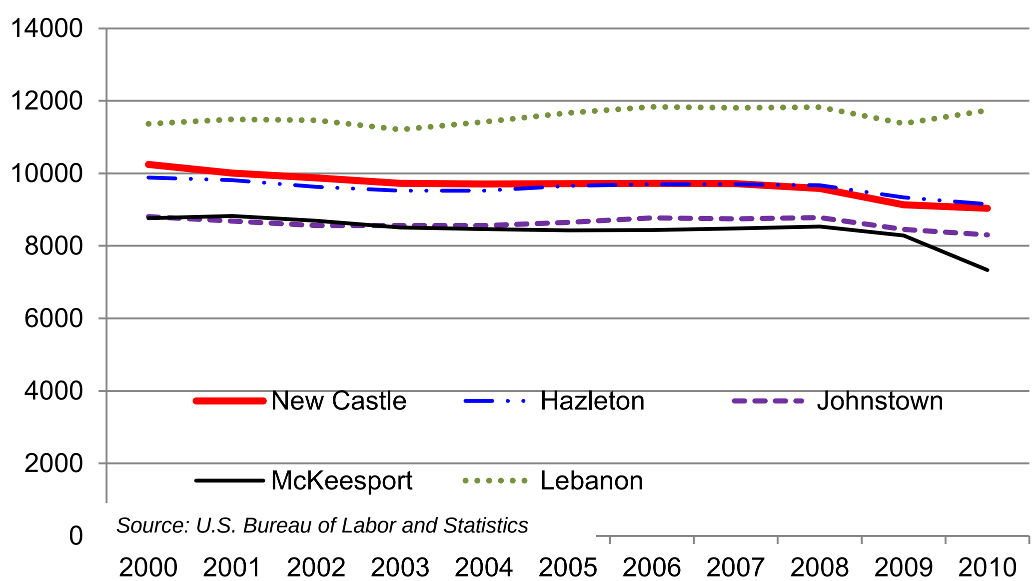
Taking a closer look at unemployment, Johnstown's experience has tracked the trends of the comparable cities. The number of unemployed individuals in the City varied between 600 and 800 between 2000 and 2008 but then increased to over 1000 by 2010 as the national economy went into recession.

Unemployment Trends – Johnstown and Comparable Cities



Reversing the perspective to review employment trends, Johnstown has consistently ranked with McKeesport at the bottom of the comparable cities for the entire 2000-2010 decade. None of the cities experienced employment growth during the decade, except Lebanon with a 2.6% increase.

Employment Trends – Johnstown and Comparable Cities



In the face of a 12.3% decline in population between 2000 and 2010 (20,978), Johnstown's housing vacancy rate has increased over 19% over that same period. Among the comparable cities, only New Castle's meteoric 36.2% increase is significantly worse. As of 2010, over 17% of the City's housing units were vacant and 87.7% of owner-occupied units were valued below $100,000, the highest percentage among the comparable communities.

Housing Statistics

	McKeesport		Johnstown		New Castle		Lebanon		Hazleton	
	2000	2010	2000	2010	2000	2000	2000	2010	2000	2010
Population	24,040	19,731	23,906	20,978	26,309	23,273	24,461	25,477	23,329	25,340
Population up/down by %	-17.9%		-12.3%		-11.5%		4.2%		8.6%	
Vacant Housing Units	1,469	1,735	1,668	2,061	982	1,539	954	1,097	1,275	1,611
Vacancy - Percent Increase	15.3%		19.1%		36.2%		13.0%		20.9%	
Total Housing Units	11,124	10,088	12,802	11,978	11,709	11,304	11,220	11,863	11,556	11,409
Percent of Total Housing Units - Vacant (City)	13.2%	17.2%	13.0%	17.2%	8.4%	13.6%	8.5%	9.2%	11.0%	14.1%
Percent of 1 unit - Housing units (single family)	71.8%	79.9%	64.2%	64.0%	72.8%	74.3%	61.8%	59.5%	69.7%	66.5%
Owner-occupied units below $100,000 in value	96.0%	86.5%	97.0%	87.7%	96.8%	86.5%	36.2%	57.6%	78.6%	55.8%

Source: U.S. Census Bureau

51.8% of Johnstown's housing units are renter-occupied, the highest percentage of the comparable cities. That rate has been consistent since 2000. The median rental rate in 2010 of $442 is the lowest of the five cities.

Rental Housing Demand

Demographic	McKeesport		Johnstown		New Castle		Lebanon		Hazleton	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Renter-occupied housing units	40.0%	46.4%	50.0%	51.8%	35.4%	39.2%	45.6%	47.4%	41.0%	46.7%
Change	6.4%		1.8%		3.8%		1.8%		5.7%	
Percent of Population in Rental Housing		43.2%		48.2%		35.4%		51.9%		46.4%
Median Rental Rate (MRR)	$383	$554	$318	$442	$365	$489	$411	$589	$410	$603
Percent increase in MRR	30.9%		28.2%		25.4%		30.2%		32.0%	

Source: U.S. Census Bureau

Despite these demographic and economic obstacles, the City made significant progress on the major community and economic development goals and projects contained in the Fifth Amended Recovery Plan and developed new initiatives to facilitate the growth of the City's existing businesses and to recruit new companies to the City.

- Progress Since the Fifth Amended Plan

  - Development and construction of improvements to Festival Park: In 2011, the Johnstown Area Heritage Association (JAHA) received a $500,000 donation from Peoples Natural Gas to finish the park, located across the river from Point Stadium, and build a new 600-seat pavilion. The donation helped to match a $2 million state grant from the Commonwealth of Pennsylvania Redevelopment Assistance Capital Project awarded in 2008. The 3.5 acre park is located at the junction of Conemaugh and Stonycreek Rivers and was renamed the Peoples Natural Gas Park. The Park is host to the annual AmeriServ Flood City Music Festival, which attracts thousands of people to the City every year with popular performers.

    Several other grants made the Festival Park project possible, including a $100,000 grant from the Katherine Mabis McKenna Foundation as well as matching EPA Brownfield Cleanup funds provided by the Johnstown Redevelopment Authority. In addition, the Authority assisted with the environmental assessment of the Park and in obtaining Pennsylvania Department of Environmental Protection Clearance. A grant for the design costs was obtained from the Community Conservation Program, Growing Greener Fund, administered by the Department of Conservation and Natural Resources, Bureau of Recreation and Conservation.

  - Marketing of the 2 acre Lietenberger Site. This site has been sold and developed by CJL Engineering Co. The building has been renovated and is now used for the company's offices.

  - City of Johnstown Master Plan and Revitalization Strategy.
    - The City unveiled a comprehensive initiative built around the detailed Master Plan called iCity Johnstown. The Master Plan was funded by a state LUPTAP Planning Grant and prepared by Kairos Design Group to address the City's central business district, Kernsville, Hornerstown, Minersville and Morrellville neighborhoods. iCity Johnstown focuses on the strategic revitalization of the City's urban core and was launched in May, 2011 with the deployment of a comprehensive web portal at www.iCityJohnstown.com.
    - The City received a $1.5 million Community Transportation Initiative grant to help with a project to connect Main Street – the primary route through the central business district – with Route 56 – the primary route travelling east and west through the City. This is the first large transportation grant received as part of the implementation process of the

City's Master Plan. The work will also include landscaping, tree-planting and pedestrian walkway improvements. The grant will fund engineering and construction to extend Main Street, which will curve slightly beyond the Point Stadium ticket booths. A new traffic light will allow access from both directions on Route 56.

  - Master Plan housing: Housing rehabilitation was identified as a high priority in the City's 2010-2014 HUD-approved Consolidated Plan. The City used a large percentage of its federal Community Development Block Grants (CDBG) for activities that addressed the housing needs of low and moderate income persons. For example, the City funded housing rehabilitation for both homeowners and renters, and funded activities for first time homebuyers that included rehabilitation. Since 2011, the City has demolished 66 blighted properties and focused efforts on inspections and code compliance of rental properties.

- <u>Johnstown 20/20 Regional Vision</u>: In November, 2008, a consultant was engaged to survey residents and nonresidents to define the region's assets, challenges and opportunities. One of the key findings of the survey was that approximately 38% of the nonresidents surveyed said they would consider returning to the area. The "Report and Recommendations for 2020 Regional Vision" concluded that jobs alone are not enough to keep young professionals in the area – but it is the affordability of the community as well as the family-friendliness and community mindedness of the area that bring people to the area.

- <u>Laurel Highlands Conservation Landscape Initiative</u>: This partnership between the Pennsylvania Department of Natural Resources and the Pennsylvania Environmental Council has resulted in the following accomplishments:
  - Path of the flood trail study funded;
  - Hornerstown-Moxham Trail extension;
  - Whitewater/Greenhouse park opened;
  - As described above, assistance with funding of construction of Festival Park/Peoples Natural Gas Park;
  - Conemaugh Gap Trail feasibility completed;
  - Grant funding application submitted for river access to Johnstown's inclined plane
  - Development of a regional trail network that includes the Path of the Flood, Conemaugh Gap and Jim Mayer Riverwalk trails stretching up and down the Stonycreek and Little Conemaugh rivers along with more river access and parks.

- New Developments/Initiatives:

  - The Cambria City neighborhood has emerged as the cultural center for the City and region in recent years. Building on the success of recent planning and design charrettes that elicited wide-ranging participation, several former houses of worship are finding new community-oriented and cultural roles via The Steeples Project. In addition, the Alternative Community Resource Program (ACRP) has stepped forward as a stabilizing force in the neighborhood by acquiring vacant former parochial school properties and finding educational and recreational reuses for them. Steeples and ACRP join several other heritage and arts groups already present in the neighborhood, including the Johnstown Area Heritage Association (JAHA), Bottleworks Ethnic Arts Center, Artworks in Johnstown, Venue of Merging Arts (VOMA) and the Johnstown Concert Ballet. Adding to the presence of non-profits, a winery, a flower and gift shop and a Bed and Breakfast recently began operations, reinforcing Cambria City as a unique destination and joining several other restaurants and entertainment venues already in the neighborhood.

  - In 2013, the Johnstown Redevelopment Authority (JRA) is assisting Cambria County's public transportation authority (CamTran) in the development of a new Maintenance and Operations Center in the Woodvale neighborhood, via a grant in the amount of $321,048 from its Brownfields Remediation Program, funded via EPA funds administered by JRA. While only a small part of the multi-million dollar project, JRA's assistance is critical in addressing issues in a portion of the site due to contaminated soils on this former Bethlehem Steel Company property.

  - JRA has also acquired approximately 110 acres of former industrial land once owned by Bethlehem Steel Company in and around properties JRA presently owns and is developing the combined properties as the Rosedale Business Park. Several tenants are either in the Park or considering locating there. JRA will be pursuing the extension of KOZ status for the undeveloped properties during 2013, in concert with Cambria County and the Southern Alleghenies Planning and Development Commission.

  - <u>Lift Johnstown</u>: This is a partnership formed by business and civic organizations with a goal of "reinventing" Johnstown by implementing the three regional plans described above that support restoration of the City's economic viability and social fabric. The three plans are the **City of Johnstown Master Plan**, the **Johnstown 20/20 Regional Vision**, and the **Laurel Highlands Conservation Landscape Initiative**. Lift Johnstown includes both the City and surrounding areas and extends into Somerset County. The steering committee for Lift Johnstown has planned for a 10-year, five-phase effort. Initial core projects of Lift Johnstown include:
    - A multiuse district to help revitalize the downtown from Main to Washington Streets and from Johns to Walnut Streets. The area would include a strolling district as well as residential options, retail shops,

restaurants, a parking facility, green space, and "inviting" gateways. The district would include an Innovation Lab, which would be for "K through Gray" education focused on science, technology, engineering and math. There are also plans for a workforce development program designed to provide new training and certifications to workers in fast-changing fields.

- Community Projects
  - *Sandyvale Memorial Gardens/Dog Park*: Lift Johnstown facilitated the Sandyvale Cemetery Association cooperating with Natural Biodiversity and a community-driven plan was developed that includes public community gardens, a Veterans Memorial Event Lawn featuring eight Memorial War Trees in remembrance of the veterans of the eight major conflicts of the United States, a flower bed replicating the American flag, trail landscaping (supplemented with a $10,000 grant from REI's Regional Distribution Center in Bedford and support from Conemaugh Valley Conservancy), a Monument Garden displaying tombstones that had been displaced within the cemetery by years of flooding, the AmeriServ Angel sculpture dedicated on the 10th anniversary of 9/11 overlooking the Monument Garden, and a looped walking trail, part of the Jim Mayer Riverwalk Trail. In addition, with an $85,000 grant from the Community Foundation for the Alleghenies, a greenhouse donated by the Johnstown Career and Technology Center was re-built at Sandyvale. It will become in part the hub of the community gardens being developed throughout the city that will provide opportunities for disadvantaged neighborhoods to participate in the growing of fruits and vegetables.
  - *Green the Ravine:* Lift Johnstown is also championing a project called "Green the Ravine" working with the Army Corps of Engineers to plant non-invasive and non-damaging vines along and down the flood protection walls throughout major corridors and highly visible sections of river wall.

o iCityJohnstown: As discussed briefly above, the City announced a new economic development initiative in May, 2011 that provides information, resources and services centered on business development in the City's urban core. The City has identified six critical elements that differentiate Johnstown as potential business and investment locations. Those elements are:
- Independent: Representing a commitment to new ideas and entrepreneurship.
- Individual: Emphasizing Johnstown's small city advantages for investment.
- Inspired: Capitalizing on Johnstown's location and recreational amenities.
- Innovative: Demonstrating Johnstown's history of business innovation.
- Intellectual: Presenting the educational resources that Johnstown offers.

- Interconnected: Delivering on the benefits of the City's highway, rail, air and information infrastructure.

Along with introducing the iCity brand, the City also introduced the "iCity Johnstown Investor Prospectus," which organizes the City's central business district and Kernville neighborhoods into five distinct economic development districts. The districts were designed and implemented as a direct outgrowth of the Johnstown Master Plan, and include the following:

1. Stroll District: Encompassing Point Stadium and the future development of a pedestrian boulevard connecting with Festival/Peoples Natural Gas Park.
2. Central Business District: The core of the City's downtown from Walnut Street to the river, including Central Park and the Pasquerilla Conference Center.
3. Technology Corridor: In the heart of Kernville, connecting the Greater Johnstown Technology Park, currently occupied by Conemaugh Health Systems, and the Johnstown Lifescience Center with a planned urban park. These developments enhance the City's viability as a growing healthcare center.
4. Arts District: Emphasizing the planned Stonycreek River Park and Arts Walk.
5. West Hill: Establishing the vision for a renewed urban hillside community.

The iCity Johnstown initiative also produced a "Doing Business Guide" and an updated Downtown Parking Guide for distribution to potential businesses or investors. During the planning and development of the iCity Johnstown initiative, a new Program Management Plan was developed and implemented which included several strategic business development and recruitment programs/tools including a Business Retention & Expansion (BRE) Outreach Program, Events and Workshops Strategy, and a Communications & Technology Strategy.

As part of this new initiative is the city's new economic development web portal, www.icityjohnstown.com. This new web portal provides a range of tools and resources including investor information, online maps, district profiles, a searchable property database, and a community opportunities search tool.

- The Discover Downtown Johnstown Partnership (DDJP): This is a non-profit organization that implements redevelopment and revitalization initiatives as well as community based events and parades in the Johnstown Central Business District. The DDJP has a real-estate development entity that was specifically created for real-estate transactions, holdings and development resale called the *Johnstown Business District Development Corporation (JBDDC)*.

    - The JBDDC is also a non-profit organization that will manage real estate for the DDP with the goal of selling the real estate to private investors/owners.
    - The JBDDC has a seven-member board of directors made up of local business owners, banking interests/representatives, engineering firm representatives, economic development experts, restaurant owners and real-estate developers.
        - Proposed Conrad Building Project: The project involves the creation of the City's first Downtown Educational facility in the Central Business District. The proposal involves leasing the 3rd and 4th floors of the Conrad Building to the Cambria-Rowe Business College, using the 2nd floor as a regional educational and banquet/conference area, and developing the 1st floor as a coffee shop/restaurant use with streetscape curb appeal. The Conrad Building is located at 303 Franklin Street at the intersection of Franklin and Vine Streets.

- Johnstown Downtown Driving Force Committee: This committee was formed and chaired by Glenn Wilson, President and CEO of AmeriServ Financial, and is designed to focus civic and government leaders to select a "hallmark" redevelopment project to fast track. The group's focus is on the efforts of the DDJP and JBDDC and the development of the Conrad Building into an educational center in the Central Business District.

Successful implementation of these development plans and projects will depend upon renewed communication and cooperation among the City, the Johnstown Redevelopment Authority (JRA), Johnstown Area Regional Industries (JARI), Lift Johnstown, private business and neighborhood and civic organizations. The formation of the DDJP at the initiative of the business community, along with active participation by these public organizations, is a hopeful sign.

In addition, under the new JRA leadership of acting Executive Director Frank D'Ettorre, the authority is working to bring together all of these groups to identify and prioritize current development projects within the City, including divesting unneeded JRA properties and returning them to the tax rolls, redevelopment of already identified sites in each City neighborhood, completion of the City's Master Plan and brownfield remediation and reuse, to name just a few. These efforts to coordinate the City's regional development assets and to prioritize projects are critical to the City's long term viability and recovery. The major initiative related to community and economic development in this Sixth Amended Plan is to mandate that the City continue to participate in these renewal efforts to coordinate public agencies and private business energy, resources and ideas.

- In recognition of the City's aging housing stock and increasing vacancy rate and the importance of housing maintenance in improving neighborhood vitality, City Council has initiated, and this Sixth Amended Recovery Plan approves, the addition of one Code Enforcement Officer to the City's workforce.

CHAPTER IV

The City's Financial Condition

Introduction

The purpose of the Financial Condition Assessment is to evaluate, within the context of municipal government the City's ability to provide and finance services on a continuing basis. The International City/County Management Association (ICMA) and the Government Finance Officers Association (GFOA) utilize the following definitions and time frames when examining a local government's financial condition:

> Cash Solvency: *A government's ability to generate cash flow over a 60-day period to pay its bills*
>
> Budgetary Solvency: *A government's ability to generate revenues over its normal fiscal year to meet its expenditures and avoid deficits*
>
> Long-Run Solvency: *A government's ability, in the long-term, to pay all costs of doing business, as well as meeting all costs such as pension costs and accumulated accrued employee leave benefits, as they occur*
>
> Service-Level Solvency: *A government's ability to provide services at a certain level and quality that are required for the health, safety, and welfare of the community*

The four levels of solvency were applied to the evaluation of the City's ability to deliver quality services to its residents both in the short term and over the long term. As a part of this review, the issue of financial management of community resources is the primary focus and final objective of this Sixth Amended Plan. Sound financial management requires that local elected and appointed officials understand the financial condition of the City and that they make prudent decisions about the allocation of precious and limited community resources.

Update Since the Fifth Amended Plan

The Fifth Amended Plan assessing the City of Johnstown's Financial Condition was adopted on December 30, 2010. Between 2007 and 2010, the City had implemented many of the initiatives that were outlined in the Fourth Amended Plan and had aggressively worked on both revenue generation and cost containment. Since adopting the Fifth Amended Plan, the City pursued and continues to pursue delinquent tax collection enhancements; continues to derive revenue from the sale of tax liens to an outside agency; and continues to audit its sanitation fund accounts and return many of the accounts to the City rolls.

On the expenditure side, the City negotiated (or imposed upon reaching impasse) collective bargaining agreements (CBAs) in all departments with the exception of the police and fire departments which went to arbitration. The new CBAs achieved savings primarily from reductions in staffing and the restructuring of employee benefits. These changes included co-pays, increased deductibles, a 15% employee contribution towards the premium, and capping any increased cost to the City at 6% annually. (For additional information regarding the collective bargaining negotiations and arbitrations, see Chapter V Workforce.)

Since adopting the Fifth Amended Plan, the City has instituted new policies, adjusted staffing, improved financial reporting, and enhanced revenue. The City implemented an entirely new financial management system (Freedom Systems) that was structured to conform to the PA DCED Chart of Accounts and provides enhanced and timely financial reporting for City officials. The City pursued additional staffing reductions in all departments, lower costs for employee benefits, and authorized a study of the pension plans for future cost containment. The City completed a study of the parking garage facilities and will close on a $6.7 million General Obligation Bond Issue, Series of 2013 that will refund the 2006 General Obligation bonds and will provide approximately $320,000 for recommended capital improvements.

Based on the Fifth Amended Plan initiatives, the City conducted an audit of facilities lighting throughout the City in order achieve energy costs savings. The study included an audit of street lighting, parking lots and garages, Point Stadium, and recreation areas. This audit was used to develop a comprehensive energy lighting replacement plan that will reduce the overall costs for the City. The planned lighting improvements are being implemented during 2013.

Beginning in 2011, the countywide tax collection of Act 511 was transitioned to Berkheimer Associates and the City has seen some improvements in its collection of Act 511 taxes as a result. The Finance Department also reviewed its telecommunications and computer operations for the purpose of reducing costs in these areas and has recently signed an agreement with Verizon for a new system that will generate about $22,000 return on investment in the first year and at least $45,000 every year thereafter.

The City continues to review service agreements, contracts, and every conceivable service area in an attempt to obtain the lowest cost possible for its many expense areas such as insurances, professional services, and technical support contracts. In 2010, the City was able to renegotiate its sanitation contract for a savings and continued reductions over a three year period and is currently preparing an Request for Proposals (RFP) to secure additional savings in the Sanitation contract during 2013 that will be in effect for at least three (3) years.

However, even after having taken all of these measures, the City's financial position still resulted in deficit operating balances in 2010, 2011, and 2012 with 2008 and 2009 remaining the only years where a surplus was realized. The 2008 and 2009 surpluses were a direct result of bond proceeds that were used to reimburse the City for capital expenditures that were made at Point Stadium. One could argue that if the City had not taken positive proactive action in the past three (3) years, there would have been greater deficits and larger core operating imbalances. But the fact remains that the City continues to operate with a gap between its ability to produce revenue and its routine operating costs.

In most municipalities the largest expenditure is staffing. The City of Johnstown is no exception with about 80% of its expenditures being used to cover employee wages and benefits. For this reason, the City of Johnstown has continually examined and taken steps to "right size" the staffing levels for all departments in the City. In 2003 the City had a Full Time Equivalent (FTE) staffing level of 209 employees. At the last update of the Recovery Plan in 2010, the City of Johnstown had reduced this number to 165 FTE. At the end of 2012 the City of Johnstown had again reduced its staffing to 149 FTE, down 29% from 2003. The reduction in the number of employees by such a considerable amount over a ten (10) year period should have resulted in a significant decrease in expenditures. However this is not the case. Between 2003 and 2012 the City of Johnstown has experienced an increase of about 20% in General Fund operating expenditures largely due to benefit costs (both current employees health care and post retirement employees health care), workers compensation costs, and escalating pension liability payments.

In 2008, the City's revenues exceeded its expenditures for the first time in a decade. But this was a result of the deposit of bond proceeds into the general fund for reimbursement of expenditures that were made at Point Stadium. There was also a smaller deposit made to the general fund in 2009 resulting in a slight positive balance that year. Together these deposits provided the cash necessary for the City to address its negative fund balances for approximately two (2) years. Despite the fact that these deposits created a general fund surplus in 2008 and 2009, the City continued to experience gaps between operating revenue and operating expenses in 2010, 2011, and 2012 that eroded the reserves. This gap between routine operating revenues and routine operating expenditures is defined as a "Structural Deficit" and continues to be a problem for the City. The City does not routinely experience an increase in revenue through increased property values or through its Act 511 tax collections that is sufficient to support its escalating expenses. And because 46% of the revenue for the City of Johnstown in 2012 is derived from these tax sources, the ability to sustain the current spending levels is not possible.

Simply stated, the City's expenditures are increasing at a rate that is higher than the increase of revenues and the forecast for revenues is not encouraging. In order for the City to become financially stable in the future, new revenue generators and the enhancement of current revenue generators must be accomplished at the same time that the implementation of cost containment strategies are pursued.

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 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 and 2009 did the City realize a significant positive excess revenue over expenditures in its general fund 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 and 2009, 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 fund balance positions from 2007-2012 for the core operating funds and provides projections for 2013.

TABLE 1. CORE OPERATING FUNDS – COMBINED ACTIVITY

Fund	Audited	Audited	Audited	Audited	Audited	Actual	Projected
	2007	2008	2009	2010	2011	2012	2013
01.General	(888,655)	4,125,399	425,610	(132,393)	(997,202)	(510,386)	(356,612)
02 & 06.Parking	(286,716)	(546,963)	(464,131)	(625,063)	(487,447)	(359,931)	(363,273)
17.Pension	(263,073)	(378,550)	(217,238)	(98,744)	708,972	385,168	113,754
20.Debt	(18,683)	6,281	(61,920)	190,384	348,741	358,763	75,415
21.Sanitation	(91,509)	(385,673)		(150,707)	(61,473)	47,809	48,722
22.Recreation	677	(37,475)		(68,977)	(533)	(145,784)	(137,288)
Excess/(Deficit)	**(1,547,959)**	**2,783,019**	**(317,679)**	**(885,500)**	**(488,943)**	**(224,361)**	**(619,282)**

SOURCE: 2007-2011 WESSEL & COMPANY AUDITED FINANCIALS; 2012-2013 JOHNSTOWN FINANCIAL REPORT

With the exception of 2008 and 2009 when bond funds were deposited in the General Fund to reimburse it for expenses for Point Stadium, the combined general fund activity has not experienced a positive operating position during the review period (2007 through 2013).

The deficit operating position is trending in a positive direction down from ($885,500) in 2010 to ($488,943) in 2011 and to ($473,523) in 2012 and projected to be ($356,612) in 2013. Actions taken by the City over the past three (3) years are beginning to make a difference in addressing the difference between operating revenue and operating expenses.

Part of the issue is that City revenues have actually been decreasing over time from a high of $17,820,254 in 2004 to a low of $15,741,434 in 2012. This is partially due to the City's reduction of non-resident earned income tax to the current 1.1% rate. Even with the increase to some of the parking rates, recreation rates, and sanitation rates, the City revenues for the core operating funds have only increased by about 1.75% per year for the past 6 years through 2012 as demonstrated in **Table 2** below. The City revenues only increased in years when an increase in either the real estate tax rate or the Act 511 tax rate increased. Natural increases in revenue do not typically generate enough revenue to support the City operations.

Overall, the City revenues for the core operating funds are expected to increase to approximately $17.7 million by 2016 as demonstrated in **Table 2** below. This is an increase of only 17.5% over 10 years or 1.75% per year.

TABLE 2. TOTAL OPERATING REVENUES - CORE OPERATING FUNDS

Core Operating Revenues			
Year	**Status**	**Revenues**	**Increase/-Decrease**
2007	Audited	14,985,532	N/A
2008	Audited	15,837,374	5.68%
2009	Audited	16,117,580	1.77%
2010	Audited	16,317,669	1.24%
2011	Audited	15,993,330	-1.99%
2012	Unaudited	15,741,434	-1.58%
2013	Projected	16,517,519	4.93%
2014	Projected	16,534,775	0.10%
2015	Projected	16,943,231	1.31%
2016	Projected	17,040,706	1.58%
2017	Projected	17,517,266	1.80%
Average Increase Per Year			**1.75%**

SOURCE: 2007-2011 WESSEL & COMPANY AUDITED FINANCIALS; 2012 JOHNSTOWN FINANCIALS, 2013-2017 DELTA PROJECTIONS

Likewise, the City has experienced only slight increases to its core operating expenditures over the past 10 years largely due to staff reductions and benefit restructuring. **Table 3** provides a history of the City's expenses from 2007 through 2012 and projected through 2017.

TABLE 3 TOTAL OPERATING EXPENSES – CORE OPERATING FUNDS

Core Operating Expenses			
Year	**Status**	**Expenses**	**Increase/-Decrease**
2007	Audited	(16,533,490)	N/A
2008	Audited	(17,719,355)	7.17%
2009	Audited	(16,688,636)	-5.82%
2010	Audited	(17,203,169)	3.08%
2011	Audited	(16,482,272)	-4.19%
2012	Unaudited	(16,214,956)	-1.62%
2013	Projected	(16,727,713)	3.16%
2014	Projected	(17,146,656)	2.50%
2015	Projected	(17,511,642)	2.13%
2016	Projected	(17,715,800)	6.51%
2017	Projected	(18,993,482)	1.83%
Average Increase Per Year			**1.48%**

SOURCE: 2007-2011 WESSEL & COMPANY AUDITED FINANCIALS; 2012 JOHNSTOWN FINANCIALS, 2013-2017 DELTA PROJECTIONS

While, the overall expenses decreased in 2011 and 2012, slight increases are projected for 2013 through 2015 based on routine increases for personnel, benefits, and operating supplies and equipment. And in 2017, there will be a major increase to expenses due to the end of the amortization period for the pension obligation when it will increase from its current level of about $2.8 million to $3.9 million annually.

A summarized review of the difference between operating revenue and operating expenses for the period 2007 through 2017 is shown in **Table 4** below.

TABLE 4 CORE OPERATING FUNDS – EXCESS REVENUE OVER EXPENSES

Operating Revenues and Expenses				
Year	**Status**	**Revenue**	**Expenses**	**Difference**
2007	Audited	14,985,532	(16,533,490)	(1,547,958)
2008	Audited	15,837,374	(17,719,355)	(1,881,981)
2009	Audited	16,117,580	(16,688,636)	(571,056)
2010	Audited	16,317,669	(17,203,169)	(885,500)
2011	Audited	15,993,330	(16,482,272)	(488,942)
2012	Unaudited	15,741,434	(16,214,956)	(473,523)
2013	Projected	16,517,519	(16,727,713)	(210,194)
2014	Projected	16,534,775	(17,146,656)	(611,880)
2015	Projected	16,943,243	(17,511,642)	(568,411)
2016	Projected	17,040,706	(17,715,800)	(675,095)
2017	Projected	17,517,266	(18,993,482)	(1,476,215)

SOURCE: 2007-2011 WESSEL & COMPANY AUDITED FINANCIALS; 2012 JOHNSTOWN FINANCIALS, 2013-2017 DELTA PROJECTIONS

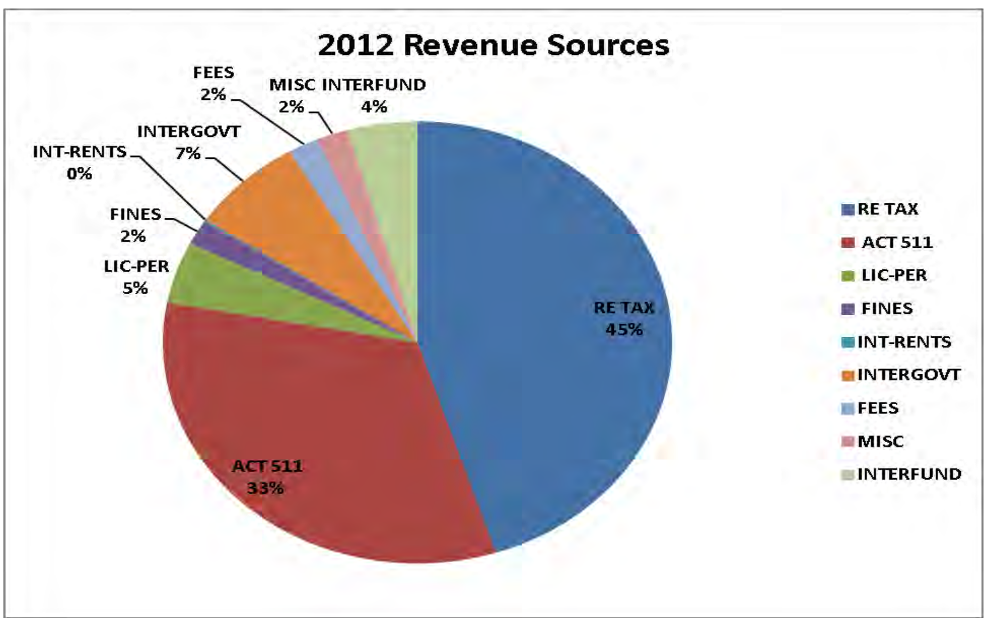
During the review period (2007 projected through 2017) the City will continue to exhibit a deficit in its core operating funds that ranges between $200,000 and $1.4 million per year. While the City continues to cut expenses and contain costs, the gap in operating revenue and operating expenses remains about the same as in previous years.

General Fund

General Fund Revenues

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 2012 revenue that was generated for general operating purposes.

FIGURE 1. 2012 GENERAL FUND REVENUE BY SOURCE



CITY OF JOHNSTOWN 2012 FINANCIAL RECORDS AND DELTA ANALYSIS

About 78% of the City's general fund is derived from tax revenues making it extremely vulnerable to environmental and economic conditions. When values of housing and/or incomes are negatively affected, the general fund is impacted accordingly. A move from a primarily tax reliant revenue base to a revenue base that is more reliant on charges for services and fees would help to diversity the tax base.

Table 5 provides a history of the general fund operating revenues and expenses summarized from 2002 and projected through 2017.

TABLE 5 GENERAL FUND OPERATING REVENUES AND EXPENSES 2002-2017

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	$ 9,414,722	($10,303,376)	$(888,655)
2008	$10,119,838[1]	($10,659,439)	$(539,601)
2009	$12,785,390[2]	($12,613,157)	$172,233[3]
2010	$10,955,382	($11,087,775)	$ (132,393)[4]
2011	$10,117,017	($11,114,219)	$ (997,202)
2012	$ 9,793,556	($10,303,942)	$ (510,386)
2013	$ 9,835,962	($10,065,697)	$ (229,735)
2014	$ 9,981,626	($10,263,211)	$ (281,585)
2015	$10,129,476	($10,464,675)	$ (335,199)
2016	$10,279,543	($10,670,169)	$ (390,626)
2017	$10,431,861	($10,879,772)	$ (447,911)

SOURCE: 2007-2011 WESSEL & COMPANY AUDITED FINANCIALS; 2012 JOHNSTOWN FINANCIALS, 2013-2017 DELTA PROJECTIONS

As reviewed in previous Plans, 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 continued through 2007 and 2008. The continuing deficits were a result of a stagnant or declining revenue base as well as increasing

[1] Bond funds in the amount of $4,665,000 that were used to reimburse the General Operating fund were backed out of the revenue totals for 2008.

[2] Bond funds in the amount of $253,377 that were used to reimburse the General Operating fund were backed out of the revenue totals for 2009

[3] In 2009 the Sanitation Fund, Parking Fund, and Recreation Fund revenues and expenses were included in the General Operating Fund

[4] In 2010 the Sanitation Fund, Parking Fund, and Recreation Fund revenues and expenses were removed from the General Operating Fund and recorded in separate funds.

personnel costs driven primarily by higher compensation, health benefit premiums, workers compensation, and pension liabilities for both active and retired employees. The operating deficits were addressed by the City in 2008 and 2009 through transfers in the amount of $4.8 million and $253,377 respectively from the Point Stadium bond fund as reimbursements for expenses. 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.

Table 6 below provides a more detailed history of the gap continuing between general fund operating revenues and expenses.

TABLE 6. AUDITED HISTORY OF GENERAL FUND REVENUES, EXPENDITURES, AND EXCESS/DEFICIENCIES

Category	2007 Audited	2008 Audited	2009 Audited	2010 Audited	2011 Audited	2012 Audited
Taxes	5,375,496	6,333,412	8,073,447	7,585,544	7,466,910	7,600,587
PILOT	120,000	240,000	202,500	224,025	227,002	219,860
Licenses/Permits	532,351	474,887	470,181	471,184	484,198	474,650
Charges for Service				28,000	28,000	28,000
Fines/Forfeits	213,732	193,063	192,354	175,290	178,334	181,830
Grants/Joint Projects	572,674	607,508	623,272	653,448	653,663	485,575
Dept. Earnings	106,530	947,852	1,156,544	1,002,195	170,524	163,301
Sanitation Fees	------	------	1,375,214[5]	------	------	-----
Interfund Charges	1,081,641	1,166,888	571,112	559,357	126,000	116,000
Interest	112,051	74,627	39,196	41,539	26,814	27,437
Miscellaneous	211,469	81,601	81,570	79,800	654,359	374,503
TOTAL REVENUE	**9,284,722**	**10,119,838**	**12,785,390**	**10,820,382**	**10,015,804**	**9,671,643**
General Gov.	208,500	185,054	185,779	199,388	252,799	260,843
Finance	1,076,003	991,000	966,784	1,294,181	1,113,817	1,008,032
Fire	3,044,386	3,220,184	3,409,986	3,793,505	3,619,655	3,243,721
Police	3,534,213	3,696,554	3,610,189	3,317,459	3,334,337	3,364,850
Community Dev.	242,186	182,847	151,651	122,260	399,133	119,705
Sanitation	------	------	1,592,493[6]	------	------	-----
Public Works	2,198,088	2,383,800	2,161,663	1,933,941	1,847,442	1,841,192
Recreation	------	------	------	269,256	223,377	273,897
TOTAL EXPENSES	**10,303,376**	**10,659,439**	**12,613,157**	**10,929,990**	**10,810,560**	**10,112,240**
Transfer In	130,000	4,665,000[7]	253,377	135,000.00	101,213	121,913
Transfer Out				(157,785)	(303,659)	(191,702)
Excess/(Deficit)	**(888,655)**	**4,125,399**	**$425,610**	**(132,393)**	**(997,202)**	**(510,386)**

SOURCE: 2007-2012 WESSEL & COMPANY AUDITED FINANCIALS

[5] Sanitation, parking, and recreation revenues were removed from the General Fund and shown in a separate fund beginning in 2010

[6] Sanitation, parking, and recreation expenditures were removed from the General Fund and shown in a separate fund beginning in 2010

[7] Bond funds were deposited into the general operating fund in 2008 and 2009 to reimburse the General Fund for expenses made at Point Stadium.

The General Fund continues to generate less revenue than needed for operating expenses annually. Expenses are expected to exceed revenue in 2013 by ($227,467) and continue to exceed revenue through 2017. Although the gap between revenues and expenditures has been steadily decreasing, it has not been entirely addressed and continues through 2017. The continuing use of the sale of tax liens which has produced over $800,000 per year over the past 2 years, may somewhat mitigate the continuing operating deficit issue in future years. But this is a fluctuating revenue source that cannot be projected with certainty.

Detailed Review of Revenue Categories

Real Estate Taxes

At 45% of the overall general fund revenue, real estate taxes are the most significant portion 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 the increase in tax exempt properties. 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. In addition, the City used bond funds to reimburse the general fund for expenses that were made for Point Stadium out of that fund. 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 where it remains through 2013 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 7** below.

The City real estate tax collections have remained between $5 million and $6 million from 2002 – 2012, with exception of 2010 when taxes were increased by 10.04 mills. The collection is projected to remain at the same level moving forward. However, the amount of taxes collected per mill has steadily declined. In 2002, the City collected $152,623 for every mill that was levied. For the past three (3) years, the City has only collected about $111,000 for every mill that was levied. There are two reasons for this decline in collection: 1) the City property assessments have steadily declined and 2) the percentage of tax exempt property has steadily increased. Table 7 below provides a history of millage rates and collections from 2002 and projected through 2017.

TABLE 7. HISTORY REAL ESTATE MILLAGE RATES AND COLLECTIONS

Year	Total Mills	Total Collection	$ Per Mill
2002	36.44	$5,561,567	$152,623
2003	36.44	$5,109,193	$140,208
2004	36.44	$4,995,440	$137,087
2005	36.44	$4,908,153	$134,691
2006	39.44	$5,133,014	$130,147
2007	42.44	$5,215,411	$122,889
2008	42.44	$5,369,638	$126,523
2009	42.44	$5,482,802	$129,189
2010	52.48	$5,833,542	$111,155
2011	52.48	$5,875,717	$111,957
2012	52.48	$5,876,410	$111,974
2013	52.48	$5,842,335	$111,325
2014	52.48	$5,845,266	$111,381
2015	52.48	$5,854,670	$111,560
2016	52.48	$5,847,424	$111,422
2017	52.48	$5,850,250	$111,476

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

As shown in **Table 7**, real estate tax collection experienced slight decreases annually between 2002 and 2005 due to a number of successful assessment appeals. Beginning in 2007, real estate tax collections experienced slight annual increases and are projected to continue to increase moderately in future years. However, the City continues to collect less per mill than it did nearly 10 years ago.

During the same period, non-taxable property (tax exempt) 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. Since real estate tax revenue makes up over one-third of the City's total budget, the decline in taxable assessed value as a percentage of the whole has had a devastating impact on the City's ability to support operations without increasing tax rates over time. Table 8 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 8 below identifies the property assessment information for the City of Johnstown. The second column "Total Assessed Value" is the total assessed value of all properties within the City of Johnstown. The third and fourth columns indicate the amount of assessment that is taxable and non-taxable from the total assessed value. Over the twenty (20) years shown, the

Total Assessed Value has fallen from $348,740,700 in 1994 to $260,721,590 in 2012. This was a reduction of $88,019,110 of overall property values in a 20 year time frame. Over that same period of time, the taxable and non-taxable assessed values fell at similar rates with taxable assessments falling at an average of 1.7% per year and non-taxable assessments falling at an average of 0.97% per year. While the total values have dropped dramatically over this time frame the Non-Taxable as a percent of the total assessed value has remained relatively constant. The Non-Taxable percentage is at 49.80% for 2013.

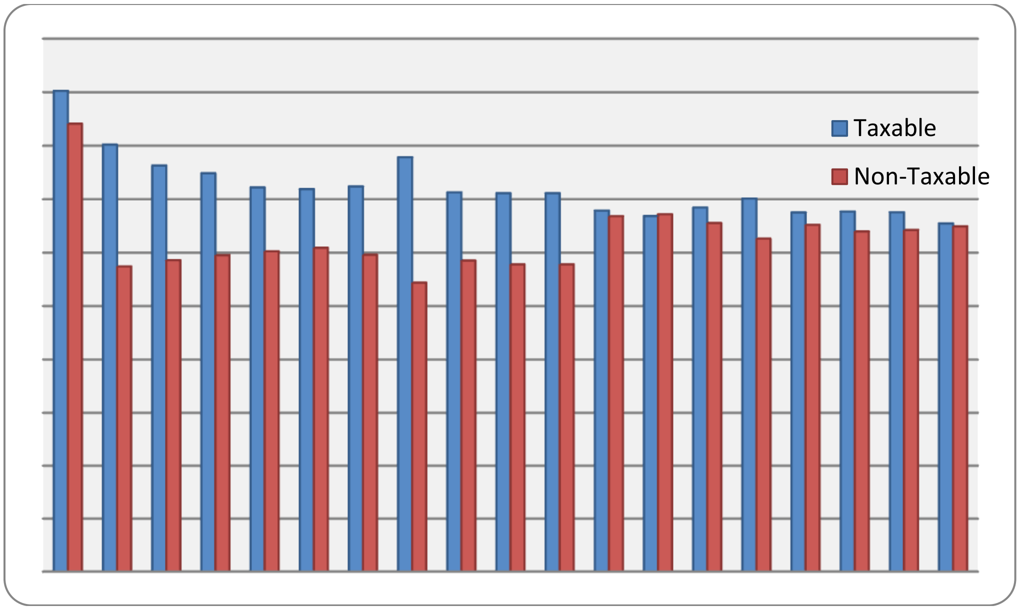
TABLE 8. HISTORY OF PROPERTY ASSESSMENTS 1994-2013

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%
2011	$263,557,240	$135,089,200	$128,468,040	48.74%
2012	$260,721,590	$132,940,270	$129,828,420	49.80%

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 20 Years.

FIGURE 2. TAXABLE AND NON-TAXABLE ASSESSED VALUE



SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

Another challenge for the City related to real estate tax collection has been the inability to collect current year real estate taxes that are levied. Since the tax millage rate was raised to 52.48 in 2010, the collection rate has been even lower than it was in prior years. The City has had only about an 84% collection rate over the past three years. This is lower than the collection rate from 2005 through 2009 when the rate was closer to 86%. **Table 9** below provides a historical analysis of the rate of delinquent collections over the past 8 years.

TABLE 9 HISTORY OF REAL ESTATE TAX COLLECTION AND UNCOLLECTED TAXES

Year	Assessed Value	Mills	Billed	2% Discount	Adjusted Billed	Current Year Collection	% Collection
2005	$135,738,910	36.44	$4,946,326	($98,927)	$4,847,399	$4,188,308	86.40%
2006	$133,698,720	39.44	$5,273,078	($105,462)	$5,167,616	$4,548,212	88.01%
2007	$136,891,020	42.44	$5,809,655	($116,193)	$5,693,462	$4,720,326	82.91%
2008	$140,221,710	42.44	$5,951,009	($119,020)	$5,831,989	$5,007,071	85.86%
2009	$135,020,470	42.44	$5,730,269	($114,605)	$5,615,663	$4,817,828	85.79%
2010	$135,371,560	52.48	$7,104,299	($142,086)	$6,962,213	$5,776,094	82.96%
2011	$135,089,200	52.48	$7,089,481	($141,790)	$6,947,692	$5,865,295	84.42%
2012	$132,940,270	52.48	$6,976,705	($139,534)	$6,837,171	$5,744,058	84.01%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

Act 511 Revenue

At 33% of the general fund 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 78% of the overall general fund revenues. **Figure 3** below provides a graphic depiction of the relationship of the various types of taxes that are included as part of the Act 511 collections and how much revenue was derived from each in 2012. Earned Income Tax, by far, makes up the largest part of the Act 511 collections. Local Services Tax makes up the second largest source of revenue. These collections have been transitioned to Berkheimer Associates who has been designated as the Tax Collection Committee's collector for Cambria County. **Table 10** provides a history of the City's collection of Act 511 taxes from 2004 through 2012 with projections through 2017.

FIGURE 3 2012 ACT 511 TAX COLLECTION BY SOURCE

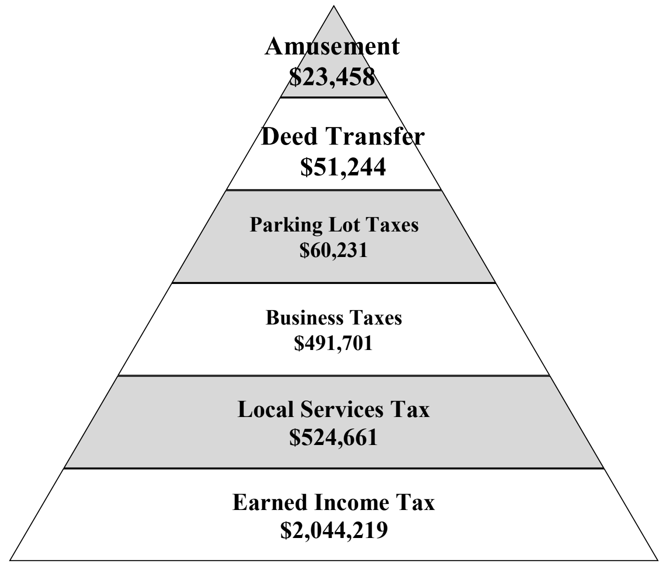


TABLE 10. HISTORY AND PROJECTIONS-ACT 511 TAX COLLECTION 2004-2017

Year	Act 511	% Increase/ Decrease (-)
2004	$3,293,056	N/A
2005	$3,432,277	4.23%
2006	$2,666,695	-22.31%
2007	$2,432,597	-8.78%
2008	$3,293,060	35.37%
2009	$3,922,405	19.11%
2010	$3,057,349	-22.05%
2011	$2,836,066	-7.24%
2012	$3,195,512	12.67%
2013	$3,239,610	1.38%
2014	$3,284,317	1.38%
2015	$3,329,640	1.38%
2016	$3,375,589	1.38%
2017	$3,422,172	1.38%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

The Act 511 Taxes have fluctuated from year to year. Part of this problem is that the City does not always recognize all of the income collected in the current year. Furthermore, when rates are changed (i.e. EIT and LST taxes), the new revenue is often partially realized in the following year.

About two-thirds of the Act 511 revenue is EIT. Over the years, the City has adjusted the resident and non-resident EIT to provide additional funding for 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 2007 Plan, the non-resident tax rate was reduced beginning in 2008 and 2009 to its current rate of 1.1 percent. In the 2010 Fifth Amended Plan, the City was permitted to continue to levy the non-resident income tax at the 1.1 percent rate. Overall, the City has experienced a steady increase in EIT collection with the exception of 2011 which was a transition year for Berkheimer to begin to collect the City's Act 511 taxes. Projections indicate that the EIT will experience a steady increase over the next several years. **Table 11** provides a history of this revenue source.

TABLE 11. HISTORY OF TOTAL EARNED INCOME TAX COLLECTION

Year	Earned Income Tax Collection	% Increase/ Decrease (-)
2003	$1,455,963	-9.63%
2004	$993,934[8]	-31.73%
2005	$1,225,140	23.26%
2006	$1,173,195	-4.24%
2007	$1,094,319	-6.72%
2008	$2,008,868[9]	83.57%
2009	$2,461,509	22.53%
2010	$1,884,577	-23.44%
2011	$1,769,390	-6.11%
2012	$2,044,219	15.53%
2013	$2,095,324	2.50%
2014	$2,147,708	2.50%
2015	$2,201,400	2.50%
2016	$2,256,435	2.50%
2017	$2,312,846	2.50%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

8 The City briefly lost the ability to enact a non-resident tax based on the Third Amended Plan initiatives.
9 In 2008, the City reinstated the non-resident tax at a rate of 1.2%. It was lowered to 1.1% in 2010.

Other Act 511 Taxes

Some sources of Act 511 tax revenue for the City have experienced increases over the last three years after a marked period of decline. In fact, only EIT and business taxes have exhibited steady increases. On the other hand, the Local Services Tax collection initially exhibited a drastic increase when the fee was raised from $5 to $52 in 2005 and then declined in future years because the regulations about how it could be collected were changed by the General Assembly. **Table 12** below provides the three (3) largest Act 511 revenue generators with the exception of the Earned Income Tax (EIT). The Local Service Tax (LST), formerly the Emergency and Municipal Service Tax (EMST), makes up the largest share in the chart below ranging from a high of $732,401 in 2006 to the current $524,660 in 2012. The LST Tax is assessed on all persons working in the City and is set to the maximum of $52 per citizen, with $47 going to the City and $5 going to the school district. The Business Privilege Tax (BPT) and Mercantile Tax are assessed on local businesses pursuant to the Act 511 enabling legislation and the rates cannot be increased. The highest collection for business taxes was in 2009 with BPT at $420,947 and Mercantile Tax at $339,408. Collectively these three sources fared the best in 2009 totaling $1,311,914. These revenue sources make up about one-third of the Act 511 revenue.

TABLE 12 OTHER ACT 511 TAXES - BUSINESS PRIVILEGE AND LOCAL SERVICES TAX

Source	2005	2006	2007	2008	2009	2010	2011	2012
Mercantile Taxes	$169,245	$175,278	$154,255	$185,425	$339,408	$150,408	$100,285	$174,386
Business Privilege Taxes	$373,088	$356,023	$356,513	$388,395	$420,947	$364,747	$257,567	$317,315
Local Services Tax (LST)	$659,603	$732,401	$688,101	$584,090	$551,559	$434,223	$545,325	$524,660

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

Other Revenue Sources

Up until 2009, the City was trending positively for intergovernmental revenue which was 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. A smaller portion is attributable to a PENNDOT reimbursement for a winter contract for snow removal. The Housing Authority contract was amended to ensure that the City is recouping the actual cost of providing police services. Since 2010, however, the City experienced over a $200,000 reduction in this revenue source. The hospital payment has decreased from $280,000 in 2009 to $202,500 in 2012 and the Housing Authority payment has decreased from $361,000 in 2009 to $325,000 in 2012.

TABLE 13. 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	$653,448	-25.55%
2011	$653,663	.03%
2012	$708,599	8.4%

Source: City of Johnstown financial records and Delta analysis

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

Summary of General Fund Revenue Observations

The following observations relative to general fund revenue are based on a June 2013 review of the City revenue stream:

1. The City generates about $10 million annually for its general fund activities derived primarily from taxes and supplemented by intergovernmental revenues, departmental earnings, and to a lesser degree, by fines, licenses, and permits. This will rise to approximately $11 million by 2017.

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.
3. Timely collection of real estate taxes continues to be a problem and the collection rate continues to hover at only about 85% of the taxes billed. The problem is exacerbated by the length of time that it takes for the Tax Claim Bureau to complete a tax sale of delinquent properties. The outstanding delinquent tax revenue was a significant factor in the City's decision to sell its tax liens in 2010.
4. The City continues to be overburdened with successful assessment appeals in the commercial district.
5. The City lost almost $2.1 million in taxable land value from 2011 to 2012, dropping to $132 million in assessed value. The 2012 assessed value is lower than in any year since 1994.
6. The City transitioned its Act 511 tax collection to Berkheimer Associates, who is the countywide Tax Collection Committee's EIT tax collector. Notwithstanding the transition period during 2010 and most of 2011, the collection for these taxes has shown a marked improvement over prior years and is projected to continue to steadily increase over the next five years.
7. The City increased its Local Services Tax (formerly the Emergency and Municipal Services Tax) to the statutory maximum of $47 in 2005. This source continues to generate an additional $525,000 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, due to changes by the General Assembly, 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. This revenue has leveled out at about $525,000 per year.

8. The City relies heavily on the collection of EIT (at a rate of 1.3% since 2010) from City residents. The EIT rate for Johnstown residents is 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 the Fifth Amended Plan, in order to aid in balancing the City's budget. In order for the City to address its continuing structural deficits, it is critical that the non-resident EIT continue for the short term at its current rate of 1.1% in this Sixth Amended Plan.
9. Beginning in 2011 and 2012, the City made transfers from its Sewer Upgrade Fund to the General Fund for reimbursement for sewer project coordination, and maintenance expenses.
10. The City sold tax liens in 2013 for $879,259 which will be distributed on a pro rata basis to the General Fund, Debt Fund, and Pension Funds. The amount allocated to the General Fund for 2013 is $607,320. Together with the budgeted reimbursement of operating expenses from the Sewer Upgrade Fund, this will provided additional revenue for the City for fiscal year 2013.
11. When the non-recurring revenue (i.e. proceeds from the Point Stadium reimbursement) 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 2012 and that without corrective action it will continue into future years. Although, the gap between revenue generated and expenses has not been as great over the past three years as it was in the past, after 2013, it is expected that the gap will begin to exceed $500,000 again and will increase dramatically when the pension obligation can no longer be amortized over future years beginning in 2017. This issue will be discussed in the Expenditure section for the Pension Fund analysis.

Table 14 below is a complete summary of the General Fund Activity from 2007 through 2012 and projected through 2017

Table 14 - General Fund											
	Audited 2007	**Audited 2008**	**Audited 2009**	**Audited 2010**	**Audited 2011**	**Audited 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
Revenue	9,284,722	10,119,838	12,785,390	10,820,382	10,015,804	9,671,643	9,710,962	9,856,626	10,004,476	10,154,543	10,306,861
Expenditures	(10,303,376)	(10,659,439)	(12,613,157)	(10,929,990)	(10,810,560)	(10,112,240)	(9,875,697)	(10,073,211)	(10,274,675)	(10,480,169)	(10,689,772)
Difference	(1,018,654)	(539,601)	172,233	(109,608)	(794,756)	(440,597)	(164,735)	(216,585)	(270,199)	(325,626)	(382,911)
Transfers In	130,000	4,665,000	253,377	135,000	101,213	121,913	125,000	125,000	125,000	125,000	125,000
Transfers Out	-	-	-	(157,785)	(303,659)	(191,702)	(190,000)	(190,000)	(190,000)	(190,000)	(190,000)
		**	***		****						
Tax Lien Sale - Excess						-	-	-	-	-	-
Excess/(Deficit)	(888,655)	4,125,399	425,610	(132,393)	(997,202)	(510,386)	(229,735)	(281,585)	(335,199)	(390,626)	(447,911)
Fund Balance:					**Audited**						
Beginning of Year	381,326	(507,328)	3,618,071	3,284,250	3,151,857	2,154,655	1,644,269	1,414,534	1,132,949	797,750	407,124
Prior Period Adjustment			(759,431)								
End of Year	(507,328)	3,618,071	3,284,250	3,151,857	2,154,655	1,644,269	1,414,534	1,132,949	797,750	407,124	(40,786)

Transfer to Recreation Fund
Point Stadium Bond Proceeds
Transfer from Capital Fund
nsfer from Liquid Fuels Fund

Source: Wessel Audited Financial Statements and Delta Projections

General Fund Expenditures

The City's general fund expenditures have been between $10.3 and $11 million since 2005 with the exception of 2009 when the Sanitation Fund, Parking Fund, and Recreation Fund were briefly shown as General Fund revenues and expenditures. The General Fund captures the basic City 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. It also includes most of the compensation, benefits, and personnel related expenses for the City employees.

The City has done a remarkable job of containing expenses over the past 15 years to an average increase of just 1.24% per year, as **Table 15** demonstrates. This has been accomplished through a combination of reducing staff and achieving savings in the structure of employee benefits.

Table 15 provides a history of the general operating fund expenses summarized from 2002 and projected through 2017.

TABLE 15. GENERAL FUND OPERATING EXPENDITURES 2002-2017

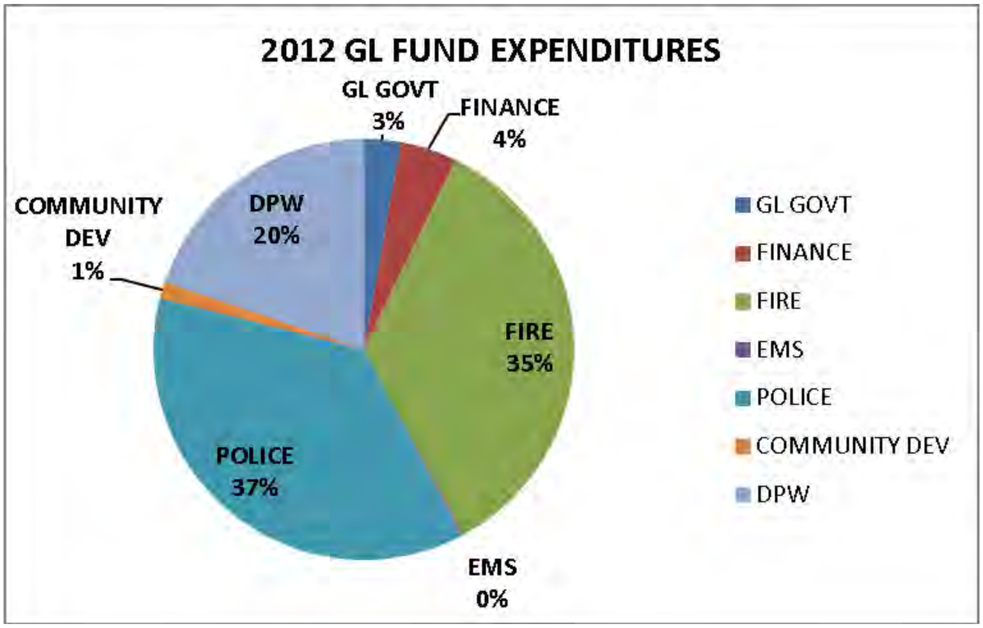
Fiscal Year	Total Expenditures	% Increase/ Decrease (-)
2002	$8,804,583	N/A
2003	$9,119,090	3.57%
2004	$9,907,617	8.65%
2005	$10,459,659	5.57%
2006	$10,613,058	1.47%
2007	$10,303,376	-2.91%
2008	$10,659,439	3.46%
2009	$12,613,157[10]	18.33%
2010	$11,087,775	-12.09%
2011	$11,114,219	0.24%
2012	$10,303,942	-3.72%
2013	$10,065,697	1.48%
2014	$10,263,211	1.48%
2015	$10,464,675	1.48%
2016	$10,670,169	1.48%
2017	$10,879,772	1.48%
Average Increase		**1.24%**

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND DELTA PROJECTIONS

[10] In 2009, the city included the Sanitation Fund, Parking Fund, and Recreation Fund revenues and expenditures in the General Fund.

Figure 4 below provides a breakdown of the general fund expenditure categories and their relative percentage of allocated resources from the 2012 actual expenditures.

FIGURE 4. 2012 EXPENDITURES BY USE



SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

The departments experiencing the highest increases in expenditures have historically been the Police Department, Fire Department, and Department of Public Works, due to escalating costs of wages and benefits and long term pension liabilities.[11] Public safety expenses make up 72% of the City's general operating budget – with the police department at 37% and the fire department at 35%. The Department of Public Works makes up another 20% of the budget. General government, finance and community development make up only 8% of the overall general fund budget. This analysis is somewhat skewed because the City does not show its pension obligations, sanitation, debt service, parking, or recreation expenses as part of its General Fund. In a typical local government operating budget, these operations would be a part of the General Fund expenditures and would lower the percentages for other individual department allocations.

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

Staffing

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

The City reported 149 full-time employees for budget year 2013. This is a decrease of 16 employees since the Fifth Amended Plan in 2010. The reductions and increases in Full Time Equivalent (FTE) employees since the Fifth Amended Plan have been in the following departments:

TABLE 16 STAFFING INCREASES AND DECREASES SINCE 2010

Department	Increase Since 2010	Decrease Since 2010
Council		2
Finance		1
Police	1	
Police Clerical		.5
Fire		8
Fire Clerical		.5
Community Development		2
PW Infrastructure		1
PW Building and Grounds		1
Sanitation		1
Sewer Upgrade	1	
Parking Meters		1
Total Change	2	18

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

The Police Department and the Sewer Upgrade Department were the only departments to experience increases in staffing. The Police Department increase is related to the appointment of two School Resource Officers that are partially paid for through federal grant funds and partially paid for by the School District.

The City has made a concerted effort to reduce the number of positions in the past 10 years precisely because it is the only way for the City to have a significant impact on containing expenditures. In fact, the City has gone from a complement of over 209 employees in 2003 to 149 at January 1, 2013. This is a 28.7% reduction in staffing over a 10 year period. The departments most affected by the reductions are the administration and finance at 50% reduction;

the public works department at 55%-60% reduction; and the recreation office which has been completely eliminated. During the same period, the police department experienced a 35.7% decrease and the fire department experienced a 16.7% reduction. **Table 17** provides a comprehensive staffing review for the past 15 years.

TABLE 17. STAFFING LEVELS BY DEPARTMENT 2003 – 2013

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

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

In 2008, the City hired an outside consulting firm 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 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 can continue the current staffing levels for the future.

As noted, the staffing levels are not currently at an unreasonable level but the City of Johnstown continues to struggle to support even the current complement of employees. While blanket cuts across all departments are not recommended, the City should consider the 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, are an important driver for 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 2012. The City has attempted to manage healthcare costs through the most recent collective bargaining and arbitration results that provide for increases to the required employee co-pay contribution, as well as limits to the City's premium contributions. The changes to the City's health insurance structure are outlined in greater detail in Chapter V (Work Force).

Pension obligations have also driven the benefit category and overall expenditures for the City. The MMO has increased from $2.4 million 2007 to over $3 million in 2013 and is projected to be $3.9 million by 2017. This impact is somewhat mitigated by the authority provided in Act 44 of 2009 that allows the City to reduce the amortized MMO amount by 25%. But these obligations are not canceled – they are deferred to future liabilities and payments. Pensions will be discussed in greater detail in the Pension Fund section of this Chapter.

Detailed Review of Expenditure Categories

General Government

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

Finance

The actual expenditures in this department decreased from $2.7 million in 2001 to about $415,000 in 2012 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 2 full-time and 1 part-time union employee dedicated to the real estate tax collection, cashiering, parking, and miscellaneous payment tasks. The administrative side of the department consists of 3 employees: the Finance Director, Accounting Assistant, and Payroll Clerk.

The Finance Department previously operated with an outdated version of ProSoft financial software supported by an outdated technology. The software did not allow for proper reporting, reconciliation, or fund structure. The financial management system did not meet Government Accounting Standards Board (GASB) standards, the DCED Chart of Accounts structure, or the American Institute of Certified Public Accounts (AICPA) guidelines. The former system technology was also inadequate resulting in multiple malfunctions, which placed the city in a vulnerable data integrity position that made the City susceptible to security weaknesses and information loss.

Beginning in January 2010, the City reconfigured its financial system to be consistent with the DCED chart of accounts in preparation of a new financial management system. As part of the Fifth Amended Plan initiatives, beginning in 2012, the City of Johnstown upgraded its technology and completely revamped its financial management system.

The installation of the Freedom Systems software in 2011 brought the City in line with GASB and AICPA accounting guidelines. The new system is built on a DCED fund structure and provides a cashiering ability for recording receipts that addressed a significant internal control deficiency by eliminating the need for manual manipulation to transfer data to the general ledger. This system upgrade coupled with the incorporation of the DCED chart of accounts provides for better functionality and provides the benefit of a complete Enterprise Resource Planning (ERP) system.

In 2013, the City also completed a fiber optic installation that improved the system connection between administration and the public safety operation forming one single Information Technology Network (ITN.) This connectivity saved the City $22,000 in the first year and will result in an annual savings of at least $45,000. The connection allowed the City to interface the financial management ERP software for all departments and eliminates redundant servers. In addition 14 new workstations were provided in various departments and locations in order to efficiently interconnect with the new system. As part of the workstation upgrades, older versions of Windows were upgraded and replaced with Windows 7 and the 2010 Office Suite.

Fire Department

The City's Fire Department, with a Fire Chief and 34 paid firefighters, makes up about 35% of the City's general fund expenditures at about $3.3 million in 2012. The Fire Department expenditures have increased at about 6% per year for the past 10 years. The reopened arbitration award of 2012 included wage increases of 2% for 2011, 3% for 2012, 3.5% for 2013, and 3.5% for 2014. The arbitration award also eliminated the overall minimum staffing requirement but retained a shift staffing of 3 personnel per apparatus and one Assistant Chief. As a result, the staffing level for this department is down 8 positions since the Fifth Amended Plan. Staffing is always a challenge for the City's ability to further control the cost of fire service.

Because the number of employees decreased, there was a decrease of 4.58% in fire expenditures in 2011 and an 8.48% drop in 2012. However, expenses are exacerbated by post retirement benefits that are almost as high as the current employee benefits. In 2012 the cost for health insurance benefits for active employees was $424,046, while the cost for post-retirement health care for retirees was $372,129. Although the original arbitration award in 2011 provided for firefighters to contribute 15% of the healthcare premium cost, capped the City's share of the cost of the annual premium to 6%, and eliminated retiree healthcare for new hires, all of which are consistent with the 2010 arbitration award for the police and non uniform bargaining units, the reopened arbitration award reduced the firefighter premium contribution to 5%, eliminated the 6% cap on the City's share of the premium increase and reinstituted retiree healthcare benefits. (This issue is discussed in greater detail in Chapter V – Workforce.)

Table 18 outlines the costs for fire services over the past ten years and projected through 2017.

TABLE 18 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	$3,793,505	12.12%
2011	$3,619,655[13]	-4.58%
2012	$3,243,721[14]	-8.48%
2013	$3,328,758	3.50%
2014	$3,531,621	3.00%
2015	$3,655,228	3.50%
2016	$3,801,437	4.00%
2017	$3,953,494	4.00%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

In addition to the expenditures shown for the fire department, an additional $986,205 will be paid into the Firemen's Pension Fund for the MMO in 2013. This expenditure is shown in a separate Pension Fund which will be reviewed in the Pension section of this Chapter. This brings the total cost for fire services to approximately $4.4 million in 2013.

Police Department

The City's Police Department, with the Police Chief and 37 police officers, makes up about 37% of the City's general fund expenditures, at about $3.4 million in 2012. The current staffing level is a reduction of 10 positions from the 48 active officers in 2003.

[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 from 2005 and in future years.
[13] The Fire Department staffing was decreased from 43 to 39 positions in 2011.
[14] The Fire Department staffing was decreased from 39 to 35 positions in 2012.

Table 19 outlines the cost of police services over the past ten years and projected through 2017.

TABLE 19. 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	[15]$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	$3,317,459	-10.12%[16]
2011	$3,334,337	0.51%
2012	$3,364,850	0.62%[17]
2013	$3,369,426	1.50%
2014	$3,470,508	3.00%
2015	$3,574,624	3.00%
2016	$3,681,862	3.00%
2017	$3,792,318	3.00%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

Despite the staffing reductions, the Police Department expenses have increased at about 3% per year for the past 10 years. The arbitration award of 2010 provided for a wage freeze in 2010, a 2% increase in 2011 and increases of 3% per year for 2012 and 2013. The favorable reductions in Police expenses for 2010 and 2011 and the leveling off of expenses for 2011 and 2012 reflect the staffing reductions as well as the Plan mandated healthcare contributions and salary freeze.

[15] 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.
[16] 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.
[17] In 2012, 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 resulted in a only a slight increase in overall costs for police operations.

The escalating costs of health benefits (for active and retired members), workers compensation, and pension liabilities drive the expenses for the police department. The arbitration award that was issued in April of 2010 enabled the City to better manage costs for health benefits by requiring a 15% contribution towards health care and an annual 6% limit on the City's premium increase. However, expenses are exacerbated by post retirement benefits that are almost as high as the current employee benefits. In 2012 the cost for health insurance benefits for active employees was $392,680 while the cost for post-retirement health care for retirees was $283,612. Other changes to benefit structures are outlined in greater detail in Chapter V (Work Force).

In addition to the expenditures shown for the police department, an additional $831,410 will be paid into the Police Pension Fund for the MMO in 2013. This expenditure is shown in a separate Pension Fund which will be reviewed in the Pension section of this Chapter. This brings the total cost for police services to approximately $4.2 million in 2013.

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

Community Development

As in the past, the City enjoys considerable savings through utilization of Community Development Block Grant (CDBG) funds to support City projects performed by City employees. This department oversees the planning, zoning, and code enforcement activities for the City.

Since 2009 the expenses of the community development department have been controlled by leaving some positions unfilled in order to obtain needed budget savings. In 2009, three positions were eliminated and the department has been reduced by one position a year in each of the subsequent years to its current complement of nine full time and 1 part-time beginning in 2013. Projected cost increases in this department due to the collective bargaining agreements are somewhat mitigated by the use of Housing and Urban Development (HUD) funding to support positions and activities.

Only about $121,665 was paid for community development from the general fund in 2012 which is only about 1% of the expenditures. Most of the program revenues and expenditures are captured in other City funds.

Public Works

The Public Works Department includes a Director and 19 employees and makes up about 20% of the City's operating budget, at about $1.9 million in 2012. The current workforce is a significant reduction from 43 employees in 2007. The City has controlled costs in this department primarily through leaving positions vacant and by managing benefit costs. In fact, the City's expenses for this department, because of the reductions in the workforce, are lower in 2012 than they were in 2005. However, the costs for wages, health benefits, workers compensation, and pension liabilities continue to drive expenses.

TABLE 20. 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	[18]$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	$1,933,941	-10.54%
2011	$1,847,442	-4.47%
2012	$1,841,192	-.51%[19]
2013	$1,922,237	2.50%
2014	$1,970,293	2.50%
2015	$2,019,551	2.50%
2016	$2,070,039	2.50%
2017	$2,121,790	2.50%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

[18] 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.

[19] Since 2007, the Community Development Department has been reduced from 15 to 9.5 positions.

The City has left positions vacant in this department every year since 2007 which has helped to control the expenses. In addition to the expenditures shown for the police department, approximately $450,000 will be paid into the Officers and Employees Pension Fund for the MMO in 2013. This expenditure is shown in a separate Pension Fund which will be reviewed in the Pension section of this Chapter. This brings the total cost for public works to $2.3 million in 2013.

Health Benefits

Health benefits for full-time employees in all departments escalated dramatically over a ten year period increasing from $1,579,109 in 2001 to $3,344,736 in 2010 or over a 100% increase. Since the adoption of the Fifth Amended Plan, the City has done an excellent job in reducing health care costs. In arbitration awards and negotiated settlements, the City was able to implement 15% contributions by employees towards the premiums, a cap of 6% increase to be absorbed by the City, and a restructuring of benefits. (These changes are more fully discussed in Chapter V Workforce.) By 2012 the City was able to reduce its overall costs to $2,089,762, a 23.35% reduction from 2011 and a 38% reduction from 2010. For 2013, the City was again able to restructure the benefits and to gain acceptance by some of the bargaining units for a lower cost plan.

Table 21 provides a history of total health care costs for City employees.

TABLE 21 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	$3,344,736.24	50.85%
2011	$2,726,374.44	18.49%
2012	$2,089,762.44	-23.35%
2013	$2,194,250.56	5.00%
2014	$2,325,905.59	6.00%
2015	$2,465,459.93	6.00%
2016	$2,613,387.52	6.00%
2017	$2,770,190.78	6.00%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

Health Care costs will continue to rise in the foreseeable future and the City must continue to negotiate with health care providers and the unions in order to keep costs manageable. In 2013, the health care benefits for employees are about 20% of the general fund budget. In addition, other post-retirement healthcare benefits (OPEB) have escalated to an annual expense of $1,127,738 that was paid in 2011. The total amount of OPEB liabilities incurred as of January 1, 2011, as calculated by the actuaries, is $20,112,107. Although these benefits have been eliminated for future hires with the exception of the Fire Department, current payments for the accrued liability have a substantial negative impact on the general operating budget. The annual OPEB payment will grow proportionate to retirements that take place with OPEB liability. The City should set up a trust fund to begin to move toward fully funding the OPEB obligation.

Workers Compensation

Workers compensation costs have become a significant problem for the City since the adoption of the Fifth Amended Plan in 2010. A combination of higher premiums and a deteriorating claims and loss record have resulted in a 40% increase to the City's premium. For this reason, the City is now enrolled in the State Workers Insurance Fund (SWIF) beginning in 2013 in an attempt to control costs and address claims. **Table 22** provides the recent history of the City's premium increases by department.

TABLE 22 WORKERS COMPENSATION PREMIUM BY DEPARTMENT

Department	2010	2011	2012	2013
Management	1,300	1,486	1,600	1,703
Finance	1,361	1,406	1,710	1,691
Community Development	158	199	245	255
Police	136,428	184,774	249,100	220,676
Fire	241,942	255,143	310,616	305,184
Public Works	46,280	53,803	79,079	61,057
Parks & Recreation	6,257	7,091	14,814	13,271
Total General Fund	**433,726**	**503,902**	**657,164**	**603,837**

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS AND DELTA ANALYSIS

The increases are driven by the City's claim history and experience which is reflected in a modification factor of 1.367 which is calculated over a 3 year period. This means that if the loss experience in the City were average, the factor would be 1. But because the City's loss history is extreme, the premium is multiplied by 1.367 resulting in a substantial increase in premium for 2012 and 2013. **Table 23** provides a 3 year history of the City's history for workers compensation claims.

TABLE 23 COST OF WORKER'S COMPENSATION CLAIMS

Claim Cost Analysis (All Claims)			
	Policy Year 2009	**Policy Year 2010**	**Policy Year 2011**
Total Incurred Losses	$278,240	$176,195	$161,831
Paid Losses	$169,682	$97,407	$103,650
Average Cost Per Claim	$12,097	$6,077	$6,743
# of Open Claims	6	9	2
Total # of Claims	23	29	24
		Valuation Date: As of 12/31 of each Policy Year	

SOURCE: TRAVELERS E-CARMA LOSS INFORMATION SYSTEMS

Energy Costs

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 highest potential for savings and the estimated investment that would be required to install the recommended lighting improvements. **Table 24** outlines the potential savings and the investment required to convert the current installations to high efficiency fixtures.

TABLE 24 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**	

SOURCE: IMBUTECH ANALYSIS COMPLETED FOR CITY OF JOHNSTOWN

Based on the calculations performed by Imbutec, the City could 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 if all locations were addressed in order to achieve the operational and energy savings.

In 2013, the City made a decision to address three locations that would achieve the best return on investment (ROA): ITC, Lincoln Street and Main Street. A contract has been secured for these installations and financing has been secured. The project is expected to be completed during the summer of 2013. The estimated cost of installation and return on investment are shown below. **Table 25** provides the costs for the 3 identified installations and the expected ROI.

TABLE 25. ESTIMATED ENERGY SAVINGS COSTS WITH LIGHTING IMPROVEMENTS

Location	Quantity	Fixture Cost	50% Down Payment	Labor Cost	Cost per Location	Annual Savings	CKG ROI Calculation (Yrs.)
ITC	260	$107,082	$53,541	$20,278	$127,360	$31,352	4.06
Lincoln St.	195	$77,937	$38,969	$19,792	$97,730	$40,053	2.44
Main St.	213	$87,492	$43,746	$25,018	$112,510	$22,698	4.96
Total	**668**	**$272,512**	**$136,256**	**$65,088**	**$337,601**	**$94,103**	**3.82**

SOURCE: CITY OF JOHNSTOWN CALCULATIONS AND ANALYSIS

Summary of Expenditures and Observations

The following observations regarding general fund expenditures are based on a June 2013 review of the City expenditures:

1. The City's general fund expenses are about $10.8 million per year for general fund activities. This is an obvious problem because the general fund revenues are projected to be only $10 million per year resulting in a large and growing funding gap.
2. City expenditures increased at a remarkably low 1.24% per year over the past 10 years. This demonstrates an exceptional effort at cost containment.
3. Because the City expenditures increased at a rate of only 1.24% per year and the City revenues increased at a rate of 1.75% per year over the past 3 years, the gap between operating revenues and expenditures shrunk during 2012 and 2013. The gap was partially addressed through the sale of tax liens and the deposit of over $600,000 to the General Fund in 2013. However, the gap has not been completely addressed and will continue to be a problem for the City in future years.
4. Most of the cost containment has been a result of lower staffing levels. The number of positions has decreased by 28.5 Full Time Equivalents (FTE) from 2009 to January 2013 lowering the total number of employees from 177.5 in 2009 to 149 in 2012. With such a large decrease in the number of employees there should have been a dramatic reduction in expenditures. Unfortunately, expenses for personnel related benefits including current and post-retirement health care and pension obligations have erased the gains achieved through reducing the number of positions.
5. Benefits and pension liabilities continue to escalate in spite of the best efforts of the City to address the escalating costs. Although the healthcare costs have leveled out in 2012

and 2013 due to cost containment efforts that were mandated in the Fourth Amended Plan and implemented through arbitrated and negotiated settlements in 2010, they continue to rise in future years. Workers compensation expenses have risen dramatically and pension liabilities continue to be a major problem.

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

Review of the 2011 General Fund Audited Financial Statements

As part of this Sixth 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 2011, the general fund experienced a deficiency of revenues over expenditures totaling ($997,202) at the close of the fiscal year. This negatively impacted the general fund balance by reducing it from $3,151,847 to $2,154,655. The City had achieved the positive fund balance in 2009 and 2010 by transferring funds in the amount of $4,665,000 in 2008 and $253,377 in 2009 from the Point Stadium Bond proceeds for the reimbursement of expenses made from the general fund.

When viewed together with other core operating funds (i.e. general, parking, pension, debt, sanitation, and recreation) the total audited deficiency of revenue over expenditures was ($488,943) because of excess revenues in pension and debt service funds. This is a decrease from 2010 when the core operating funds exhibited a deficiency of ($885,500).

Revenue

A review of the 2011 audited Actual Revenue to Budgeted Revenue indicates that the actual revenue fell short of the budget by $526,422 for the following reasons:

- Tax revenue was under budget by $426,274 due to the transition of Act 511 taxes to the countywide collector that caused a temporary reduction in several tax sources.
- Charges for Services met the budgeted amount.
- Payments in lieu of taxes exceed the budgeted amount by $12,002.

- Licenses and permits were under budget by $3,052.
- Fines and forfeits exceeded the budget by $17,584.
- Departmental earnings were under budget by $12,915.
- Interfund transfers and reimbursements were under budget by $200,484.
- Grants and joint projects exceeded the budget by $134,952.
- Interest earnings were under budget by $8,186.
- Miscellaneous revenue was under budget by $40,049.

Expenditures

General Government, Finance, Fire, and Police all exceeded budget categories in 2011. Community development, Parks and Recreation, and Public Works all achieved savings from the budgeted amounts. A review of the 2011 audited Actual Expenditures to Budgeted Expenditures indicates that the actual expenditures exceeded the budget by $253,402 for the following reasons:

- General government was over budget by $60,473.
- Finance Department was over budget by $150,250.
- Fire Department was over budget by $87,723.
- Police Department was over budget by $298,938.
- Public Works Department was under budget by $99,036.
- Community Development was under budget by $200,949.
- Parks and Recreation was under budget by $43,997.

The City should continue to refine its budget process and include better projections for both revenues and expenditures. The adopted 2013 budget is a much improved document that provides documentation and support for the budget projections and relies on revenue that is based on historical accuracy.

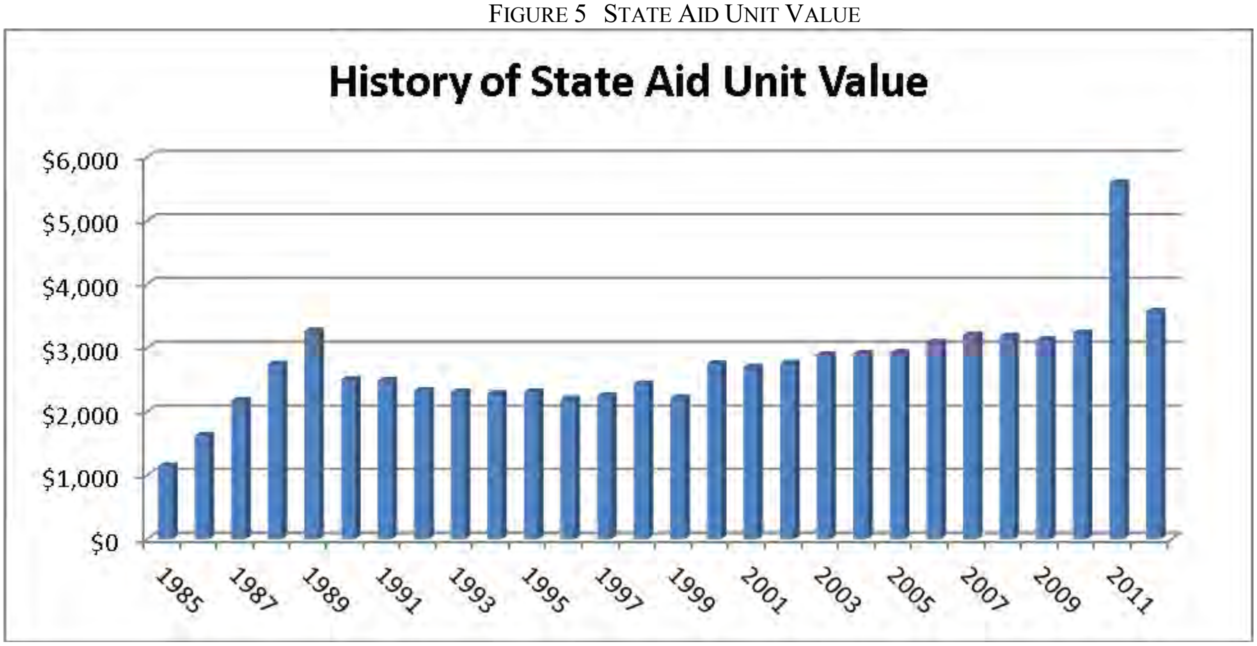
Pension Fund

Revenue

In 2013 the City levied 10.5961 per dollar of assessed valuation of property in the City to assist in addressing the unfunded actuarial accrued liability (UAAL) for the pension funds.   This levy generates approximately $1.5 million in current real estate taxes. Other revenue for the pension fund includes employee contributions, state aid, and investment returns.

State aid is an important factor in funding the plans and is based on the unit value derived from foreign casualty insurance premiums which are reported by the Commonwealth annually. The unit value is applied to the number of active employees that are reported by the City to the Auditor General's Office in March of each calendar year. Police and fire employees receive credit for two units while all other employees receive credit for one unit. Over the past 25 years, the unit value has increased from $1,146 in 1985 to $3,576 in 2012. In fact, in 2011, there was an exceptional "one-time only" payment of $5,596 per unit to all municipalities in the Commonwealth. This produced excess funds in the pension fund that can be used to offset pension expenses in future years. A history of the unit value over the past 25 years is shown in **Figure 5.**

FIGURE 5   STATE AID UNIT VALUE



SOURCE: PENNSYLVANIA EMPLOYEES RETIREMENT COMMISSION WEBSITE

Because the state aid units are awarded based on active employees and the City has had a reduction in the workforce, the City is actually receiving less state aid than in previous years despite the increase in unit value. In fact, there are more retired employees who are drawing pension payments from the pension plan than active employees to support it. The 2011 valuation of the pension plan reported the following active and retired employees.

TABLE 26 PENSION FUND PARTICIPANTS – ACTIVE AND RETIRED

Pension Fund Participants in 2011				
Participants	**Police**	**Fire**	**Non-Uniform**	**Sewage**
Retirees and Beneficiaries	89	79	71	13
Deferred-Vested	6	1	2	2
Active Employees	36	38	49	16
Total	131	118	122	31

SOURCE: 2011 ACTUARIAL VALUATION AND 2011 AUDITED FINANCIAL STATEMENTS

For this reason, with the exception of 2011 when the unit value was exceptionally high, the City's state aid allocation decreased from the 2007 allocation of $970,419 to $867,861 in 2012. Unfortunately, the City continues to require at least $2.5 million in revenue in order to support its pension obligation and must, therefore, look to other sources such as real estate tax levies for additional revenue..

Expenditures

Since the 2009 valuation, the City has experienced actuarial losses in each of the pension funds. The primary reason for these losses was two-year investment returns that were less than the assumed rate of 8 percent per annum. Losses are also a result of: 1) several participants in the police department retiring earlier than expected; 2) new disability retirees in the fire department; 3) several participants in the non-uniform plan retiring earlier than expected; 4) contributions that were less than actuarially required due to the 25% reduction in the amortized MMO payment. Partially offsetting these losses were wages that increased at a lower rate than the 5% actuarial assumption. The loss to each department is as follows: police ($474,233), fire ($1,017,209), officers and non-uniform employees ($416,531), and sewage ($94,828). The total actuarial loss experienced by the pension plans between 2009 and 2011 was ($2,002,801) on top of a loss between 2007 and 2009 of ($3,021,464). The actuarial losses have caused the UAAL for the plans to increase from $16 million in 2003 to over $24 million in 2011 as shown in **Table 27** below.

TABLE 27 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	$37,768,221	$16,068,342	57%
2005	$20,882,649	$40,008,680	$19,126,031	52%
2007	$21,605,207	$41,265,778	$19,660,571	52%
2009	$20,972,820	$41,877,580	$20,904,760	50%
2011	$21,914,312	$46,308,890	$24,394,578	47%

SOURCE: CITY OF JOHNSTOWN ANNUAL AUDITS

By 2011, the City's combined pension plans were only 47% funded with the fire pension plan in the worst position at only 34% funded. The 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 through 2016, the City is encouraged, as part of this Sixth Amended Plan, to elect the Act 44 option which provides for the ability to reduce the City's Minimum Municipal Obligation (MMO) by 25% for the Police Pension Fund and the Officers and Employee Fund and to amortize that amount over the next 20 years at the interest rate in the actuarial assumptions of the Plan. Because the status of the Firefighters Pension Fund is precarious at only 32% of its liabilities funded, it is required that the City pay the full MMO requirement for the Firefighters Fund. The City's obligations would have been $3 million in 2013, $3.5 million in 2014, and $3.7 million in 2015 without the "smoothing" provision. Instead the City's obligation will be $2.4 million in 2013, $2.9 million in 2014, $3.0 million in 2015, and $3.1 in 2016. However, in 2017, the reduced amortization payment provision will end and the City will be required to pay an MMO in the amount of $3.9 million. The projections are based on this scenario.

The relief provided in Act 44 does not eliminate the pension payment obligations. It merely postpones these payments to a later date. At the same time, pension costs continue to escalate because of more retirees and higher wages. These factors have contributed to an increase in the City's annual pension expense from $1,234,743 in 2001 to $2,451,289 in 2013 – an increase of almost 50% in 10 years. This history of pension expenses is shown in **Table 28** below.

TABLE 28 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	$2,661,152	18.74%
2011	$2,092,202	-21.38%
2012	$2,112,550	0.97%
2013	$2,451,289	16.03%
2014	$2,982,727	8.31%
2015	$3,057,295	5.51%
2016	$3,133,728	0.19%
2017	$3,882,000	38.32%

SOURCE: CITY OF JOHNSTOWN FINANCIAL RECORDS, MOCKENHAUPT PROJECTIONS, AND DELTA ANALYSIS

Although the City's required MMO decreased in 2011 and through 2013 because of the utilization of Act 44, the overall trend for the pension expense is a dramatic escalation in costs over time. In the absence of intervention by the City officials, the pension obligation will approach $4 million by 2017.

Investment performance has also long been a problem. In August of 2007, the City selected two new investment managers to manage the funds after a review of the most recent investment performance of the plans. C.S. McKee in Pittsburgh and State Street Global Advisors in Boston were selected as investment managers for the plans. To date, the plans continue to exhibit losses in valuation of assets through 2011.

The Johnstown pension plans received a determination from the Pennsylvania Employee Retirement Commission (PERC) in 2012 that the Plans have devolved to a Level III (severe) Distress under Act 205. As a Level III Distress pension plan, there are mandatory remedies that must be considered by the City including the establishment of a revised benefit plan for newly hired employees. The City commissioned its actuary, Mockenhaput Benefits Group, to undertake a study of the options that are mandatory and/or available to the City to address the unfunded actuarial liabilities of the Plan. This Sixth Amended Plan mandates that the City initiate several changes to its pension plans pursuant to its authority under Act 205 to address its unfunded pension liabilities.

Table 28 provides a comprehensive history of the revenues, expenditures and fund balances for the Pension Fund from 2007 projected through 2017.

Table 28 - Pension Fund											
	Audited 2007	**Audited 2008**	**Audited 2009**	**Audited 2010**	**Audited 2011**	**Audited 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
RE Taxes	1,209,583	1,425,214	1,267,045	1,613,655	1,349,810	1,532,849	1,555,842	1,579,179	1,602,867	1,626,910	1,651,314
State Aid	970,419	917,228	922,777	856,443	1,359,946	867,861	942,497	966,059	990,211	1,014,966	1,040,340
Contributions	-	-	-	-	-	-	-	-	-	-	-
Interest	4,130	1,446	1,985	161	161	315	1,500	1,500	1,500	1,500	1,500
Sewage Employ				92149	91,103	96,693	98,143	99,616	101,110	102,626	104,166
Revenue	2,184,132	2,343,888	2,191,807	2,562,408	2,801,020	2,497,718	2,597,982	2,646,354	2,695,688	2,746,003	2,797,320
MMO	(2,447,205)	(2,722,438)	(2,409,045)	(2,661,152)	(2,092,202)	(2,112,550)	(2,451,289)	(2,982,727)	(3,057,295)	(3,133,728)	(3,882,000)
Excess/(Deficit)	(263,073)	(378,550)	(217,238)	(98,744)	708,818	385,168	146,693	(336,373)	(361,607)	(387,725)	(1,084,680)

Fund Balance:					**Audited**						
Beginning of Year	(762,076)	(1,025,149)	(1,403,698)	(1,620,936)	(1,719,680)	(1,010,860)	(625,692)	(478,999)	(815,371)	(1,176,979)	(1,564,704)
End of Year	(1,025,149)	(1,403,698)	(1,620,936)	(1,719,680)	(1,010,860)	(625,692)	(478,999)	(815,371)	(1,176,979)	(1,564,704)	(2,649,384)

* State Aid was unusually high in 2011
* Includes 25% Reduction for Police and O&E
* Projection of Estimated MMO's without Amortization

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND DELTA PROJECTIONS

Parking Fund

Revenue

The Parking Fund is made up of two (2) funds, the Parking Fund – 02 and the Intermodal Parking Garage – 06. The total Parking Fund Revenues were $815,319 in 2010 and $791,191 in 2011 as denoted in the audit reports. Audited revenue for 2012 was $758,932. Revenues for the Parking Fund consists of meter revenue, parking garage revenue, parking space rentals, neighborhood passes, and unloading zone revenue. Although the trend has been a modest annual increase in revenues, projections are that in 2013 and in future years, the City will finally generate enough revenue to cover operating expenses and partially cover the debt service. Revenue for this fund is projected to be approximately $750,000 annually.

Expenditures

The parking fund has been operating at a deficit since 2006 and continued to operate at a deficit in 2010, 2011, and 2012. Currently, the $751,934 budget for 2013 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 $721,000. In 2012, this debt was moved to the Debt Service Fund and the Parking Fund provides a transfer of $345,470 to the Debt Service Fund to partially offset this payment. The total expenditures for 2012 were $1,118,863 including the transfer for the debt service payment. The 2012 financial reports indicate a deficit of $(496,326) and projections indicate that the fund will continue to experience deficits through 2017.

The City commissioned a structural engineering study of its parking facilities in 2012 and will use the savings from the 2013 refunding of the General Obligation Bond – Series 2006 to complete additional repairs that are necessary in order to continue the use of its parking facilities

Table 29 provides a comprehensive history of the revenues, expenditures and fund balances for the Parking Fund from 2007 projected through 2017.

Table 29 – Parking Intermodal and Parking Operations											
	Audited 2007	**Audited 2008**	**Audited 2009**	**Audited 2010**	**Audited 2011**	**Audited 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
Fees	855,986	805,926	685,994	815,019	791,191	758,865	770,248	781,802	793,529	805,432	817,513
Interest	6,225	2,630	582	300	-	67	600	600	600	600	600
Other	175	210	175	-	-		210	210	210	210	210
Revenue	862,386	808,766	686,751	815,319	791,191	758,932	771,058	782,612	794,339	806,242	818,323
Interest Expense				(138,689)							
Expenditures	(1,149,102)	(1,355,729)	(1,150,882)	(1,306,416)	(1,278,638)	(1,118,863)	(1,120,190)	(1,120,190)	(1,120,190)	(1,120,190)	(1,120,190)
Transfers In				4,723	-						
Interest Expense						(136,395)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)
Excess/(Deficit)	(286,716)	(546,963)	(464,131)	(625,063)	(487,447)	(496,326)	(484,132)	(472,578)	(460,851)	(448,948)	(436,867)

Fund Balance:					**Audited**						
Beginning of Year	(411,841)	(698,557)	(1,245,521)	(1,709,652)	(2,334,715)	(2,822,162)	(3,318,488)	(3,802,620)	(4,275,198)	(4,736,050)	(5,184,998)
End of Year	(698,557)	(1,245,521)	(1,709,652)	(2,334,715)	(2,822,162)	(3,318,488)	(3,802,620)	(4,275,198)	(4,736,050)	(5,184,998)	(5,621,865)

* Transfer of $345,470 expenditure to Debt Service Fund annually

Source: Wessel Audited Financial Statements and Delta Projections

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 2012 the millage was 5.3556 and generated $647,005 in real estate tax collections. There is also a transfer into the Debt Service Fund from the Parking Fund in the amount of $345,470 to offset parking facility debt. This brought the total revenue shown in the Debt Service Fund to $992,475. In 2013, there will be an additional $89,725 in tax lien sales that will raise the revenue in that fund to a projected $1,095,140.

Expenditures

The City's debt service obligation for 2012 was $968,449. This included the parking garage debt. In 2013, the City completed a refunding of the General Obligation Series of 2006 for an "up front" savings of $320,000. The refunding allowed for a level debt service payment in future years with the exception of the payoff of the Line of Credit which will be completed from the refunding in the current year. The City's debt service obligations for the next 5 years are shown in **Table 30** below. This expense is partially offset by the annual transfer to the Debt Service Fund in the amount of $345,470 from the Parking Fund to offset debt service that was undertaken for improvements to the parking garage.

TABLE 30. DEBT SERVICE PAYMENTS WITH PARKING BOND OBLIGATION

Year	Series of 2006	Series of 2009	Line of Credit	Series of 2013	Total
2013	135,261	677,395	112,438	139,419	1,064,513
2014		675,845	1,120,001	274,992	2,070,838
2015		676,845	-	273,592	950,437
2016		670,457	-	272,592	943,049
2017		672,332	-	276,592	948,924

SOURCE: CITY OF JOHNSTOWN GENERAL OBLIGATION SERIES 2013 SCHEDULE

Table 31 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 as of December 31, 2012.

TABLE 31. LONG TERM DEBT

Bond	Interest Rate	Issue Amount	Outstanding 12/31/12
2006 General Obligation Bond	4.14%	$6,085,000	$6,055,000
2009 General Obligation Bond	2.73%	$5,640,000	$4,155,000
Total Current Outstanding			**$10,210,000**

SOURCE: WESSEL & COMPANY. 2009 AUDITED FINANCIAL STATEMENTS

However, in 2013, the City closed on a General Obligation Bond – Series of 2013 that will refund the 2006 General Obligation Bonds and provide approximately $320,000 in savings that will be used for capital improvements for parking garages and facilities. This will have no impact on the future debt service payments.

Table 32 provides a comprehensive history of the revenues, expenditures and fund balances for the Debt Service Fund from 2007 projected through 2017. It should be noted that the debt service that is related to the parking garage improvements (Series of 2009), approximately $675,000 is reclassified by the auditors to the Parking Funds for the purposes of the Audited Financial Statements because the Intermodal and Operational Funds are categorized as proprietary funds.

Table 32 - Debt Service Fund											
	Audited 2007	**Audited 2008**	**Audited 2009**	**Audited 2010**	**Audited 2011**	**Audited 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
Taxes	101,367	118,058	453,632	480,600	634,950	647,005	659,945	673,144	686,607	700,339	714,346
Liened				-	-	-	-	-	-	-	-
Interest					50						
Revenue	101,367	118,058	453,632	480,600	635,000	647,005	659,945	673,144	686,607	700,339	714,346
Debt	(120,050)	(388,790)	(515,552)	(290,216)	(286,259)	(288,242)	(290,000)	(290,000)	(290,000)	(290,000)	(290,000)
Transfer In (TAN)											
Transfer In (PF)		277,013									
Excess/(Deficit)	(18,683)	6,281	(61,920)	190,384	348,741	358,763	369,945	383,144	396,607	410,339	424,346

Fund Balance:											
Beginning of Year	(47,192)	(65,875)	(59,594)	(121,514)	68,870	417,611	776,374	1,146,319	1,529,463	1,926,070	2,336,409
End of Year	(65,875)	(59,594)	(121,514)	68,870	417,611	776,374	1,146,319	1,529,463	1,926,070	2,336,409	2,760,755

Source: Wessel Audited Financial Statements and Delta Projections

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.

Total revenues identified exclusively as part of the Recreation Fund were $169,786 in 2010 and $228,963 in 2011 according to the audited financial reports for those years. The 2012 financial statements indicate that there was only $70,440 in revenue deposited in the Recreation Fund making it necessary for the General Fund to transfer approximately $150,000 into this fund to cover expenses.

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. The City needs to focus on continuous efforts for additional uses and revenue from Point Stadium.

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 beginning in 2010. As a result, the Public Works Director took on significant recreation duties related to the use of the Point Stadium. There are currently no Recreation or Park employees associated with the Recreation Fund.

There are Public Works employees who work at the various City parks in maintenance and labor activities. Expenditures were $238,563 in 2010 and $229,496 in 2011, according to the audited financial statements for those years. The 2012 financial statements indicate expenditures of $273,897. The deficiency of revenues over expenditures for those years was as follows: for 2010 it was ($68,977); for 2011 it was ($533); and for 2012 it was ($146,811). In each of these years the expenditures exceeded revenue and the General Fund was required to subsidize the expenditures in the Recreation Fund. Furthermore, in 2012, funds in the amount of $138,437 were transferred from the General Fund to cover the deficit in the Recreation Fund. Transfers have been required and will continue to be required to support the recreation expenditures. It is recommended that the Recreation Fund be consolidated with the General Fund because there are significant revenues and expenditures already made from the General Fund and there is very little revenue or activity in the Recreation Fund. It would make more sense to consolidate the funds.

Table 33 provides a comprehensive history of the revenues, expenditures and fund balances for the Recreation Fund from 2007 projected through 2017.

The revenue includes the transfers from the General Fund as they are shown in the Audited Financial Statements

TABLE 33 -. RECREATION FUND	Audited 2007	Audited 2008	Audited 2009	Audited 2010	Audited 2011	Audited 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Taxes	727,960	667,707		-	-	-	-	-	-	-	-
Fees	91,362	128,324		71,359	82,231	77,438	78,212	78,995	79,784	80,582	81,388
Other				70	184	1,600					
Interest	1,754	1,748		57	267	103	-	-	-	-	-
Revenue	821,076	797,779		71,486	82,682	79,141	81,120	83,148	85,226	87,357	89,541
Expenses	(710,399)	(835,254)		(238,563)	(229,496)	(230,103)	(230,000)	(230,000)	(230,000)	(230,000)	(230,000)
Transfer In				98,100	146,281	138,467	150,000	150,000	150,000	150,000	150,000
Transfer Out	(110,000)										
Excess/(Deficit)	677	(37,475)	*	(68,977)	(533)	(12,495)	1,120	3,148	5,226	7,357	9,541

Fund Balance:					**Audited**						
Beginning of Year	(44,061)	(43,384)	(80,859)	*	(68,977)	(69,510)	(82,005)	(80,885)	(77,738)	(72,512)	(65,155)
End of Year	(43,384)	(80,859)	*	(68,977)	(69,510)	(82,005)	(80,885)	(77,738)	(72,512)	(65,155)	(55,614)

* Recreation Fund combined with General Fund in 2009

* Transfer from General Fund

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND DELTA PROJECTIONS

Sanitation Fund

Revenue

The user fee charged to all property owners for pick-up and disposal of refuse supports the Sanitation Fund. In 2010 the City added the refuse bill to the tax bill for one mailing to residents. The City also changed its ordinance to make homeowners responsible for the refuse bills rather than trying to locate transient renters of City units. The City also entered into an agreement with a third-party collector to collect delinquent refuse accounts.

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

Sanitation Fund Revenues have remained relatively constant over the last three (3) years leveling off at about $1.5 million per year. Collection adjustments and the policy implementation of aggressively pursuing delinquent fees have resulted in higher revenues since the last amended Plan. In 2012, the Sanitation Fund finally became self-sustaining for the first time ever.

Expenditures

For fiscal year 2009, the Sanitation Fund, with its deficit fund balance, was collapsed into the General Fund. Beginning in 2010 and subsequent years, the Sanitation Fund was re-established as a separate proprietary fund and currently is maintained with its own assets, liabilities, revenue, and expenditure activity. For most of its existence, the Sanitation Fund did not provide enough revenue to support the operating expenses which resulted in deficit operating positions each year that contributed to large deficit fund balances. While the Sanitation Fund continued to exhibit operating deficits of ($150,707) in 2010 and ($61,473) in 2011, it finally realized an excess of revenue over expenditures in the amount of $28,459 in 2012.

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 for the initial year was confirmed at $1.462 million with recycling and spring clean-up at no additional charge to the City. Total operating costs under this contract in 2011 were $1,481,458 and $1,493,354 in 2012. As a result, the Sanitation Fund became self sustaining for the first time in 2012 and it is estimated that the fund will continue to be self sustaining over the next 5 years.

The City’s bidding process for a new contract commenced in 2013 and will impact the 2014 budget. The City should take extra care to craft a “Request for Proposals” that will support and continue the current positive trend.

Table 34 provides a comprehensive history of the revenues, expenditures and fund balances for the Sanitation Fund from 2007 projected through 2017.

Table 34 - Sanitation Fund											
	Audited 2007	**Audited 2008**	**Audited 2009**	**Audited 2010**	**Audited 2011**	**Audited 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
Grants	12,344	6,663	-	-	-	7,226	7,225	7,224	7,223	7,222	7,221
Fees	1,585,113	1,362,814	-	1,413,378	1,414,165	1,532,070	1,570,372	1,609,631	1,649,872	1,691,119	1,733,396
Interest	4,392	2,555	-	-	1,600	1,071	1,200	1,200	1,200	1,200	1,200
Fines					4,220	796	1,000	1,000	1,000	1,000	5,000
Revenue	1,601,849	1,372,032	-	1,413,378	1,419,985	1,541,163	1,579,797	1,619,055	1,659,295	1,700,541	1,746,817
Expenses	(1,667,879)	(1,757,705)	-	(1,619,047)	(1,481,458)	(1,493,354)	(1,515,754)	(1,538,491)	(1,561,568)	(1,561,568)	(1,561,568)
Transfers In				54,962	-						
Transfers Out	(25,479)										
Excess/(Deficit)	(91,509)	(385,673)	*	(150,707)	(61,473)	47,809	64,043	80,564	97,727	138,973	185,249

Fund Balance:					**Audited**						
Beginning of Year	(139,898)	(231,407)	(617,079)	*	(150,707)	(212,180)	(164,371)	(100,328)	(19,764)	77,963	216,936
End of Year	(231,407)	(617,079)	*	(150,707)	(212,180)	(164,371)	(100,328)	(19,764)	77,963	216,936	402,185

*Sanitation Fund combined with General Fund in 2009

Source: Wessel Audited Financial Statements and Delta Projections

Other Governmental Funds

Capital Fund

Revenue

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

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 2009, 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.

Since 2009, the Capital Fund has been used to recognize grant funds for special projects. At the beginning of 2012, there was $379,975 in the Capital Fund and revenues from grant funds were deposited in the amount of $581,452. There was also a transfer from the General Fund in the amount of $48,193. The City will close on a bond issue in 2013 that will refund the General Obligation Bonds – Series 2006 and provide approximately $320,000 in funds to the City for capital purposes.

Expenditures

In 2012, there were expenditures from grant funds in the Capital Fund for special projects in the amount of $770,941. These expenditures included computer hardware and software, Oak Playground Program, Hick Street Bridge Replacement, Haynes St. Bridge Replacement, Main St.

East Garage Project, and the LED garage lighting project. Because there are no available unrestricted assets, there are no planned expenditures to be made from this fund in 2013 with the exception of parking garage repairs that will be made from the proceeds of the General Obligation Bond – Series 2013.. The available assets in this fund at January 1, 2013 are estimated to be $238,906.

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. But in recent years, the City did not have capital funds to commit to projects and eliminated this practice. 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.

Sewer Upgrade Fund

Revenue

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

In July, 2010, the City executed a Consent Order and Agreement (COA) with the Pennsylvania Department of Environmental Protection. The COA is designed to address sanitary sewer overflows (SSO) in the region served by the Johnstown Redevelopment Authority's Dornick Point Sewage Treatment Plant in West Taylor Township, Cambria County. The COA obligates the City to a schedule of corrective actions related to its sanitary sewer system. As a result, the City raised its minimum monthly sewer usage charge to $24.80, in July of 2010 and $34.80 in January 1, 2011. These funds are being collected in a new fund with the title Sewer Upgrade Fund. The fees are being used to support the required activities and associated debt service that must be undertaken as a result of the COA.

During the past three (3) years, the sewer user fee has generated significant revenue to support the sewer projects. **Table 35** provides a history of the revenue by source for this fund over the past 3 years.

TABLE 35 SEWER UPGRADE FUND REVENUE BY SOURCE 2010-2012

Source	2010	2011	2012
Interest Earnings	$2,925	$28,237	$43,189
State Grants – Flood		$9,750	$9,809
State Grants - 4th Avenue			$57,835
User Fees - Sewer Upgrades	$2,569,656	$4,936,609	$4,905,209
PENNVEST Loan Proceeds			$1,574,028
Transfers From- General Fund	0	0	0
TOTAL	$2,572,580	$4,974,596	$6,590,070

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND DELTA PROJECTIONS

Expenses

Beginning in 2010, the City began to design, engineer, and undertake projects to address the sanitary sewer overflow problem. The City has received two PENNVEST loans through the PA Department of Environmental Protection and is in the process of applying for a third round of funding in order to continue capital projects that will bring the City into compliance with the Consent Order. **Table 36** below provides a 3 year history of the expenditures that have been recognized by the Sewer Upgrade Fund.

TABLE 36 SEWER UPGRADE FUND EXPENSES BY USE 2010-2012

Use	2010	2011	2012
Sewer Upgrade Projects	$540,984	$2,664,367	$4,068,783
Wages	$21,372	$49,539	$33,753
Longevity	$1,600	$2,261	$552
Workers Compensation	$1,564	$5,242	$4,301
Life Insurance	$118	$305	$163
PA U/C	$317	$1,119	$751
Dental	$135	$2,596	$1,175
FICA	$1,584	$3,795	$2,580
Co-Pay		($1,987)	($576)
Health Insurance	$9,779	$19,886	$5,863
Vision	$428	$240	$153
DEP Overflow Fines	$0	$13,000	$11,000
RDM Contract Expense	$0	$0	$77,490
PENNVEST Project Expenses	$0	$0	$150,948
TOTAL Expenditures	$577,881	$2,760,363	$4,356,936

SOURCE: WESSEL AUDITED FINANCIAL STATEMENTS AND DELTA PROJECTIONS

As of January 1, 2012, the audited fund balance was $3,959,105. It is estimated that the fund balance at January 1, 2013 was approximately $6,192,250. In the 2013 budget, the City planned for $7.3 million in projects and a $391,000 transfer to the General Fund to reimburse it for expenses related to the sewer upgrade projects. These funds are restricted for the purpose of making sanitary sewer upgrades to address the DEP consent order.

All Governmental Funds

As part of this Sixth Amended Plan, a review was undertaken of all governmental funds based on the most recent audited financial statements and 4 years prior. **Table 37** is a detailed history of the audited financial statements for all governmental funds for the City of Johnstown for the most recent 5 years. This includes not only the core operating funds (general, parking, pension, debt, sanitation, and recreation) but also all special revenue and capital fund expenditures. The revenues, expenditures, and operating deficits or excesses are shown for each year.

TABLE 37 ALL GOVERNMENTAL FUNDS - AUDITED FINANCIAL STATEMENTS

Sources	2007	2008	2009	2010	2011	2012
Taxes	$7,666,945	$8,663,835	$9,794,124	$9,679,799	$9,451,670	$9,780,441
PILOT	$120,000	$240,000	$202,500	$224,025	$227,002	$219,860
Licenses & Permits	$532,351	$474,887	$470,181	$471,184	$484,198	$474,650
Fines & Forfeit	$213,732	$193,063	$192,354	$175,290	$178,334	$181,830
Intergovernmental	$1,081,641	$1,166,888	$571,112	$559,357	$126,000	$116,000
Charges for Services	$4,005,738	$2,830,837	$3,040,654	$3,894,852	$5,653,039	$6,580,012
Departmental	$1,065,308	$947,852	$990,741	$1,002,195	$170,524	$163,301
Interest/Inv	$469,717	$722,410	$92,826	$92,378	$90,870	$88,765
Grants & Joint Projects	$11,020,707	$7,010,623	$5,270,429	$4,236,106	$6,372,305	$6,107,665
Other	$216,293	$83,461	$186,870	$192,393	$783,976	$474,792
TOTAL Revenue	**$26,392,432**	**$22,333,856**	**$20,811,791**	**$20,527,579**	**$23,537,918**	**$24,187,316**
Uses	**2007**	**2008**	**2009**	**2010**	**2011**	
General Government	$3,830,603	$3,949,325	$1,625,788	$2,011,993	$1,719,019	$1,651,183
Public Safety	$6,578,599	$6,916,738	$8,955,995	$9,253,692	$8,713,791	$8,338,813
Community Development	$7,650,967	$4,654,479	$3,342,943	$2,141,710	$3,769,110	$3,529,788
Parking	$1,149,102	$1,355,729	$1,150,882	N/A	N/A	N/A
Public Works	$2,681,825	$2,911,528	$2,734,857	$2,390,361	$2,203,534	$2,202,278
Human Services	$1,686,006	$656,000	$507,819	$161,896	$451,420	$226,369
Culture & Recreation	$738,313	$861,455	$534,612	$507,819	$452,873	$504,000
Capital Expenditures	$1,516,493	$729,131	$221,302	$567,137	$3,005,190	$5,606,809
Debt Service	$3,309,203	$698,671	$515,552	$290,216	$286,259	$288,242
Sanitation Expenses	$1,667,879	$1,757,705	$1,592,493	$1,619,047	$1,481,458	$1,493,354
TOTAL Expenses	**$30,808,990**	**$24,490,761**	**$21,182,243**	**$18,943,871**	**$22,082,654**	**$23,840,836**
Difference	**($4,416,558)**	**($2,156,905)**	**($370,452)**	**$1,583,708**	**$1,455,264**	**$346,480**
Operating Transfers In	$155,479	$5,156,605	$712,722	$288,062	$505,569	$313,615
Operating Transfers Out	$(300,740)	$ (5,091,605)	$(673,461)	$(282,785)	$(505,569)	$(313,615)
Proceeds from PENNVEST					$512,755	$1,334,791
Excess/(Deficiency)	**$(4,561,819)**	**($2,091,905)**	**($331,191)**	**$1,588,985**	**$1,968,019**	**$1,681,271**
Beginning Fund Balance	**$7,957,128**	**$3,395,309**	**$1,303,404**	**$2,061,771**	**$3,650,756**	**$5,618,775**
Ending Fund Balance	**$3,395,309**	**$1,303,404**	**$1,634,595**	**$3,650,756**	**$5,618,775**	**$7,300,066**

SOURCE: WESSEL & COMPANY AUDITED FINANCIAL STATEMENTS

Projections 2013 through 2017 - Without Initiatives

Table 38 provides the future budgeted activity for the core operating funds (i.e. general, recreation, parking, debt, pension, and sanitation) without any intervention or action by the City Council and without the implementation of initiatives from this Sixth Amended Plan.

TABLE 38 PROJECTED OPERATING EXCESS/DEFICIENCY OF REVENUE OVER EXPENSES
WITHOUT IMPLEMENTATION OF INITIATIVES 2013 – 2017

REVENUES	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Real Estate (All Funds)	6,689,550	6,756,446	6,824,010	6,892,250	6,961,173
Act 511 Taxes	3,275,402	2,907,287	2,979,969	3,054,468	3,130,830
License/Permits	481,770	488,996	496,331	503,776	511,333
Fines/Forfeits	183,847	188,443	193,154	197,983	202,933
Interest/Rents	27,849	28,127	28,408	28,692	28,979
Intergovernmental/Grants	601,000	601,000	601,000	601,000	601,000
PILOT	225,000				
Dept. Earnings	190,000	190,000	190,000	190,000	190,000
Recreation Fund	231,120	233,148	235,226	237,357	239,541
Pension Fund	1,042,140	1,067,175	1,092,821	1,119,092	1,146,006
Sanitation Fund	1,579,797	1,619,055	1,659,295	1,700,541	1,746,817
Misc. Revenue	350,000	350,000	350,000	350,000	350,000
Bond Proceeds					
Parking Fund	771,058	782,612	794,339	806,242	818,323
Transfer from LFF	125,000	125,000	125,000	125,000	125,000
TOTAL	**15,773,532**	**15,337,289**	**15,569,554**	**15,806,402**	**16,051,935**
EXPENSES	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
Administration	245,000	249,900	254,898	259,996	265,196
Finance	575,000	586,500	598,230	610,195	622,398
Fire Dept	3,108,235	3,201,482	3,297,527	3,396,452	3,498,346
Emergency Mgt	28,960	29,424	29,894	30,373	30,859
Police Dept	3,394,727	3,479,595	3,566,585	3,655,750	3,747,143
Community Dev	122,099	124,541	127,032	129,573	132,164
Public Works	1,805,000	1,841,100	1,877,922	1,915,480	1,953,790
Buildings	419,345	429,829	440,574	451,589	462,879
Debt Service	290,000	290,000	290,000	290,000	290,000
Parking Expense	1,255,190	1,255,190	1,255,190	1,255,190	1,255,190
Recreation	505,000	505,000	505,000	505,000	505,000
Sanitation	1,515,754	1,538,491	1,561,568	1,561,568	1,561,568
Pension	2,451,289	3,325,794	3,408,939	3,494,162	3,882,000
Interfund/Intergovt.	190,000	190,000	190,000	190,000	190,000
TOTAL	**15,905,599**	**17,046,846**	**17,403,359**	**17,745,327**	**18,396,533**
Excess/ (Deficit)	**(132,067)**	**(1,709,557)**	**(1,833,805)**	**(1,938,925)**	**(2,344,598)**

SOURCE: CITY OF JOHNSTOWN FINANCIAL DATA AND DELTA ANALYSIS

As noted above, the City of Johnstown has experienced both successes and setbacks in its recovery effort over the past three years. The City has been able to move 3 of its funds to a self-sustaining status since the Fifth Amended Plan update: pension, debt, and sanitation. Furthermore, the Parking Fund generates enough revenue to support its operation and to partially fund the debt service for the bonds from the 2009 Series. Only the general fund and recreation fund continue to be in a deficit operating position where revenues do not support operational expenses.

The newly created Sewer Upgrade Fund has enough revenue from the user fees to support the projects designed to address the sanitary sewer overflows and bring the City into compliance with the DEP consent order. The 2013 General Obligation Bond that refunds the 2006 General Obligation Bonds will produce enough savings to provide funding for the parking garage repairs that have been identified in the structural engineering study.

Of continuing concern will be containing the escalating costs related to personnel, the rising costs of insurance (especially healthcare coverage and workers compensation), 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 will have to continually examine the staffing levels and benefit packages related to personnel in all departments.

Proposed initiatives that have a monetary impact on the projected revenues and expenditures for the City are outlined in **Table 39** below with expected achievable savings.

TABLE 39 PROJECTED IMPACT WITH IMPLEMENTATION OF INITIATIVES

Impact of Implementation of Initiatives					
INITIATIVES	**2014**	**2015**	**2016**	**2017**	**Comments/Explanations**
Act 44 Reduction in Pension MMO	$343,067	$351,644	$360,435	$0	25% Reduction for Police and O&E ONLY
Non-Resident EIT	$450,000	$461,250	$472,781	$484,601	Continue Current Levy of 1.1%
Increase Either the RE or EIT Tax Rate	$400,000	$400,000	$400,000	$400,000	Increase the RE Rate by 4 mills OR Increase the EIT Rate by .2%
PILOT Payments - Hospital	$227,500	$227,500	$227,500	$227,500	Hospital Continues Current Payment
1% Increase to RE Tax Collection	$67,564	$68,240	$68,923	$69,612	Better Collection Methods
Wage Containment	$111,495	$348,613	$528,279	$702,975	All Employees CBA - Freeze, 1%, 2%
Additional 2 Police Officers	($118,737)	($121,848)	($125,902)	($131,000)	Hire 2 Additional Police Officers Based on Calls for Service
Additional Code Enforcement Officer	($52,281)	($53,598)	($55,336)	($57,000)	Hire 1 Additional Code Enforcement Officer to Address Neighborhood Complaints
Fee Increases	$39,500	$42,050	$46,691	$51,245	Raise Department Fees for Services by 2% per Year
Energy Savings	$94,000	$94,000	$94,000	$94,000	Installation of LED Lighting
MBR Fees	$25,000	$50,000	$50,000	$50,000	Market Based Revenue Fees
OPEB Contributions	$0	$0	($50,000)	($50,000)	Contributions for Post-Retirement Health Care
WC Initiatives	$159,100	$162,500	$169,500	$179,200	(Implement Workers Compensation Recommendations)
TOTAL IMPACT	**$1,746,208**	**$2,030,351**	**$2,186,870**	**$2,021,133**	

SOURCE: CITY OF JOHNSTOWN FINANCIAL DATA AND DELTA ANALYSIS

Projections 2013 through 2017 - With Initiatives

If the Initiatives that are identified in Table 39 are fully implemented as scheduled, it is projected that the City will nearly close the gap between revenues and expenditures beginning in 2015 and 2016. However, the City will almost surely require a tax increase in 2014 in order to address a projected deficit of approximately $200,000 due to the decision to fully fund the MMO contribution to the Firefighter’s Pension Fund in 2014 before all of the other Initiatives are fully implemented. A cash flow study was conducted by Mockenhaupt for the Firefighter’s Fund in 2013 revealing that the pension fund liabilities are only 32% funded and could decrease to 25% in a worst case investment scenario. If this were to occur, there could be critical shortfalls for meeting pension obligations for retired employees in future years. For this reason, the City must fund the Firefighter’s Pension Fund at the full actuarially calculated MMO beginning in 2014 and continuing in 2015, 2016 and 2017. The identified $200,000 deficit could be addressed in 2014 by increasing the Real Estate millage rate by approximately 2 mills or by increasing the residents' Earned Income Tax by approximately .1% from 1.3% to 1.4%. The tax increase would allow the City to adopt a balanced budget and to begin to build reserves for future years.

However, in discussions with the City, it is clear that City Council wishes to increase the presence of police officers in order to address rising calls for service. Since 2007, the City has decreased the police complement from 47 to 36 officers, thus reducing the ability of the department to patrol and conduct investigations. The Manager and Council believe that it is important to demonstrate a higher level of police service and that City residents are willing to pay additional taxes to achieve those levels. Furthermore, the City Manager and Council believe that it is extremely important to also address increasing complaints in the neighborhoods related to code enforcement.

This Plan, therefore, provides for the addition of two (2) police officers at an initial cost of $59,368 each and a code enforcement officer at an initial cost of $52,281. In order to fund these additional positions, it will be necessary for the City to increase taxes in 2014 in order to generate sufficient revenue to address the projected $200,000 deficit and to support the new positions. This will require either:

a Real Estate Tax increase in the amount of 3.5 mills from 52.48 mills to 55.98 mills or an Earned Income Tax increase .2% to the resident rate increasing it from 1.3% to 1.5%.

In 2017, the City will again face large deficits due to the requirement to deposit the full MMO contributions into all of the pension funds. This is the year that the options under Act 44 will end, and the City will be required to pay 100% of the MMO's for all of the pension funds. This will result in a legally required payment estimated to be almost $4 million. Unless additional legislation is enacted by the PA General assembly, the City will be required to develop a strategy to address this shortfall in 2017 and future years.

Table 40 provides projections of revenue and expenditures based on a scenario where all of the Initiatives from Table 39 are implemented as scheduled and the full MMO contribution is made to the Firefighter's Pension Fund beginning in 2014.

TABLE 40 PROJECTED OPERATING EXCESS/(DEFICIENCY) OF REVENUE OVER EXPENSES WITH THE IMPLEMENTATION OF INITIATIVES 2013 – 2017

REVENUES	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Real Estate (All Funds)	6,689,550	6,824,010	6,892,250	6,961,173	7,030,784
Act 511 Taxes	3,275,402	3,757,287	3,851,219	3,947,500	4,046,187
License/Permits	481,770	488,996	496,331	503,776	511,333
Fines/Forfeits	183,847	188,443	193,154	197,983	202,933
Interest/Rents	27,849	28,127	28,408	28,692	28,979
Intergovernmental/Grants	601,000	600,000	600,000	600,000	600,000
PILOT	225,000	227,500	227,500	227,500	227,500
Dept. Earnings	190,000	254,500	282,050	337,691	394,445
Recreation Revenue	231,120	233,148	235,226	237,357	239,541
Pension Revenue	1,042,140	1,067,175	1,092,821	1,119,092	1,146,006
Sanitation Revenue	1,579,797	1,619,055	1,659,295	1,700,541	1,746,817
Misc. Revenue	350,000	350,000	350,000	350,000	350,000
Bond Proceeds	-	-	-	-	-
Parking Fund	771,058	782,612	794,339	806,242	818,323
Transfers/Reimburse	125,000	125,000	125,000	125,000	125,000
TOTAL	**15,773,532**	**16,545,853**	**16,827,594**	**17,142,547**	**17,467,848**
EXPENSES	**Projected 2013**	**Projected 2014**	**Projected 2015**	**Projected 2016**	**Projected 2017**
Administration	245,000	249,900	254,898	259,996	265,196
Finance	575,000	586,500	598,230	660,195	672,398
Fire Dept	3,108,235	3,086,814	3,094,926	3,116,364	3,135,137
Emergency Mgt	28,960	29,424	29,894	30,373	30,859
Police Dept	3,394,727	3,494,908	3,598,080	3,740,009	3,905,373
Community Dev	122,099	176,822	180,630	184,909	189,164
Public Works	1,805,000	1,788,597	1,779,687	1,786,041	1,789,416
Buildings	419,345	335,829	346,575	357,589	368,879
Debt Service	290,000	290,000	290,000	290,000	290,000
Parking Expense	1,255,190	1,255,190	1,255,190	1,255,190	1,255,190
Recreation	505,000	505,000	505,000	505,000	505,000
Sanitation	1,515,754	1,538,491	1,561,568	1,561,568	1,561,568
Pension	2,451,289	2,982,727	3,057,295	3,133,728	3,882,000
Interfund/Intergovt.	190,000	190,000	190,000	190,000	190,000
TOTAL	**15,905,599**	**16,510,202**	**16,741,973**	**17,070,961**	**18,040,180**
Excess/(Deficiency)	**(132,067)**	**35,651**	**85,621**	**71,586**	**(572,332)**

Source: City of Johnstown financial data and Delta analysis

Conclusion

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

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

Comment: The City has the ability to generate adequate cash flow over a 60-day period. The City has typically had cash reserves or the proceeds from a Tax Anticipation Note in the early part of the fiscal year that provide adequate cash flow for the payment of its current liabilities and obligations.

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

Comment: Although the City, in most years, has the ability to generate sufficient revenues over its normal fiscal year, it has typically resorted to onetime, non-recurring revenue strategies to address gaps between operational revenues and expenses. These have included the sale of assets, the proceeds from borrowings, and the sale of tax liens. The City typically adopts a balanced budget but in some instances the revenue is overestimated and the expenses are underestimated, as shown in the budget review. Although the budget process has improved tremendously over the past 3 years, in order to avoid deficits, the City should budget revenues and expenditures more accurately.

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

Comment: The City has significant challenges in its long-term ability to pay all of the costs of doing business as well as meeting its long term accrued liabilities and obligations. Because the City is burdened with legacy costs such as pension and post-retirement healthcare benefits that affect its current year operating budget, many of the expenses directly impact the City's attempts to avoid normal fiscal year deficits.

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

Comment: The City has made significant reductions in staffing over the past 3 years from 165 employees to 149 employees. The City has eliminated all of the employees in departments such as recreation, parking, sewer, and sanitation. In some cases, these services have been transitioned to outside contractors; in others, services have either been decreased or eliminated. Since 2007, the City has eliminated 10 positions in the police department, 8 positions in the fire department, 20 positions in the public works department, and 5 positions in the Finance Department. The City is currently still able to provide services at an adequate level for the health, safety, and welfare of the community. But it cannot continue to lose large segments of its staffing without having some impact on the quality of services provided to its residents.

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 and benefit costs, the City will be hard pressed to meet its current operating expenses over the next several years. The expectation is that benefit costs will continue to rise by at least 6% per year over the next three years and that the City will continue to carry substantial 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 over the next three years, as demonstrated in **Table 38,** that must be addressed through the implementation of revenue enhancement and cost containment strategies identified in Chapter VI of this Fifth Updated Plan.

CHAPTER V

Workforce

The operation of any city is labor intensive. Police, fire, public works and administrative services are provided by people and therefore personnel costs typically account for the vast majority of a City's spending. Johnstown is no exception. Of the expenditures budgeted for 2013 city operations, approximately 83 percent is related to employee compensation, including current and retired employee healthcare. The City budgeted an additional $2,451,289 in 2013 for its employee pension funds.

Since employee compensation and benefits account for such a major portion of the City's operating budget, any plan to achieve long-term financial stability and balanced budgets must address these expenses. The goal is to sustain critical public services in the face of the financial challenges outlined in this Plan.

The City's 2013 budget has 149 full time positions. 19 of these positions are City employees working at the sewage treatment plant owned and operated by the Johnstown Redevelopment Authority (JRA). JRA reimburses the City for the compensation expenses of these employees, including healthcare and pensions. This headcount reflects Council's action in 2010 to lay off four police officers, two parking employees, five public works employees and the Assistant Manager. Council also eliminated the Recreation Director position. The City's historic employee headcount, including the reimbursed sewage treatment plant employees, is set forth in Table 17 of Chapter III (The City's Financial Condition).

Virtually all of the City's employees are members of one of four collective bargaining units.

Unit	2013 Budgeted Employees	Contract Term
International Association of Firefighters, Local No. 463		January 1, 2011- December 31, 2014
Fraternal order of Police, Flood City Lodge 86		January 1, 2010 – December 31, 2013
American Federation of State, Local and Municipal Employees, AFL-CIO Local No. 630		January 1, 2010 – December 31, 2013
United Steelworkers, AFL-CIO, Local Union 2635-17		January 1, 2010 – December 31, 2013

As part of the preparation of the City's Fourth Amended Recovery Plan,[20] 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

[20] Based upon the expiration dates of the various collective bargaining agreements, the Fourth Amended Recovery Plan was applicable to the Police, AFSCME and Steelworker negotiations and the resulting contracts currently in effect. The Fifth Amended Recovery Plan, adopted on December 31, 2010 was applicable to the Firefighter negotiations and the resulting contract currently in effect. The workforce initiatives in the two plans were substantially the same.

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.

The cost of employee health benefits had escalated dramatically over the ten year period from 2001 to 2010, increasing by over 100%. Through implementation of initiatives in the Fifth Amended Plan, the City was able to introduce higher employee contributions to healthcare costs and a restructuring of benefits, as discussed below. Despite the achievement of resulting reductions in healthcare costs in 2011 and 2012, those costs are projected to continue to rise into the foreseeable future. These projected increases, including the cost of retiree healthcare, are discussed in more detail in Chapter IV. It is critical to the City's ability to balance its future budgets that employee healthcare expenditures be continuously monitored and moderated to the extent possible.

Current Status of the Police Contract

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 made specific reference to the City's operation under Act 47 and acknowledged that "[t] his award is a reflection of that fact." The award provided 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 would 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 would 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 constituted 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 remained 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.

In an opinion and order issued on February 22, 2012, the Commonwealth Court, over a dissenting opinion entered by Judge Pellegrini and joined by President Judge Leadbetter and Judge Cohn Jubelirer, affirmed the decision of the Court of Common Pleas. The City, the Department and the Coordinator filed a Petition For Allowance of Appeal with the Pennsylvania Supreme Court. By order dated December 11, 2012, the Supreme Court denied the Petition.

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

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 (PLRB) arguing that the parties were not at impasse.

The parties subsequently resolved the PLRB dispute, returned to negotiations and executed an agreement for the period January 1, 2010 through December 31, 2013. The agreement embodies several recovery plan initiatives including mandatory drug and alcohol testing following reportable on-the-job accidents or injuries, a restructured healthcare plan with increased co-pays and deductibles, a 6% cap on the City's annual share of increased premium costs, a 15% employee contribution to healthcare costs for the highest paid employees and 10% for the remainder, the initiation of a new pension plan for new hires that is twenty percent lower in cost than the plan applicable on or after January 1, 1988, and the elimination of retiree healthcare for new hires. The contract calls for wage increases of 0 for 2010, 2% for 2011 and 3% for 2012 and 2013.

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

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 PLRB, arguing that the parties were not at impasse and that the bargaining unit members were not employees of the City.

The parties subsequently resolved the PLRB dispute, returned to negotiations and executed an agreement for the period January 1, 2010 through December 31, 2013. The agreement includes several recovery plan initiatives including mandatory drug and alcohol testing following reportable on-the-job accidents or injuries, a restructured healthcare plan with increase co-pays and deductibles, a 6% cap on the City's annual share of increased premium costs and a 15% employee contribution to healthcare costs. The contract calls for wage increases of 0 for 2010, 2% for 2011 and 3% for 2012 and 2013.

Pursuant to the agreement between the City and the JRA under which treatment plant employees remained City employees, City Council recently initiated action to transfer those employees to the Johnstown Redevelopment Authority, effective January 1, 2014. That transfer could affect the City's financial obligations to treatment plant employees, as set forth in this Sixth Amended Plan, on and after January 1, 2014.

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

The City's firefighters comprise a bargaining unit represented by the International Association of Firefighters, Local 463. At the time of preparation of the Fourth and Fifth Amended Recovery Plans, 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 plans 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.

The City and the union initiated negotiations for a new contract, but reached impasse.

The parties initiated arbitration and on June 22, 2011, the neutral arbitrator issued an award. The award called for a contract term from January 1, 2011 through December 31, 2014. Wage increases of 2%, 3%, 3% and 3% were granted for years 2011, 2012, 2013 and 2014 respectively. Firefighters were required to contribute 15% of the premium cost of healthcare coverage and were moved to a less expensive Highmark PPO plan as provided to police officers. The City's share of annual healthcare cost increases was capped at 6%. Retiree healthcare was eliminated for new hires. Most significantly, the overall minimum manning requirement was eliminated and shift staffing was set at 3 personnel per apparatus and one Assistant Chief. This change allowed the City to eliminate 8 firefighters by 2012.

However, the award emphasized that some of the award provisions were "mandated" by the provisions of the Fifth Amended Recovery Plan and that the Pennsylvania Supreme Court, in litigation involving the City of Scranton's Act 47 Plan, was considering the legality of "the very limits that constrain this Board of Arbitrators." The award therefore provided that if the Supreme Court issued a decision in the Scranton litigation before December 31, 2014, the firefighters would be allowed to present to the arbitrators an argument as to what impact, if any, the court's decision should have on the collective bargaining agreement (a "reopener").

On October 11, 2011, the Supreme Court issued its decision in the Scranton litigation eliminating Act 47's limitations on arbitration awards. The firefighters invoked their right to a re-opener and following a hearing on December 20, 2011, Mr. Talarico issued a revised award on February 15, 2012. Although the revised award left in place the restructured healthcare plan and the reduced manning/staffing provisions of the original award, it reduced the employee healthcare contribution to 5% and eliminated the City's 6% annual cap on premium increases and the discontinuation of retiree healthcare for new hires.

Pension Funds

The Fourth and Fifth Amended Recovery Plans 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 plans 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 by 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 were 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 had not improved by the time of preparation of the Fifth Amended Recovery Plan. As of January 1, 2009, the aggregate UAAL had increased to almost $21 million, and the aggregate funded ratio hovered just above 50%.

By January 1, 2013, the aggregate UAAL had further deteriorated to over $25 million and the aggregate funded ratio had slipped below 50%. The funded ratios of the four plans, as of January 1, 2013 were as follows:

Fire: 31.6%
Police: 51.4%
Officers and Employees: 54.1%
Bureau of Sewage: 55.3%

A substantial portion of the increase in the aggregate UAAL can be attributed to two assumption changes – an updated mortality table and a reduction in the interest rate assumption from 8.0% to 7.5%.

Act 44 of 2009, signed by the Governor on September 18, 2009, made 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, made available several actuarial tools intended to provide short-term fiscal relief to municipalities operating pension plans. Pursuant to Act 44's 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 invoked the 75% payment for 2011 and 2012. As a consequence, the City's MMO's for 2011 and 2012 were $2,092,202 and $2,112,550 respectively.

Pursuant to the City's January 1, 2011 Actuarial Evaluation Reports, the City was assigned a distress Level III (Severe Distress) designation. This Sixth Amended Recovery Plan mandates the partial implementation of remedies made available under Act 205 pursuant to this distress level III designation. In particular, the Fire pension plan's extremely low funded ratio of 31.6% is of special concern, and the City cannot responsibly continue to fund that plan at the reduced level authorized by Act 44. Therefore, this Sixth Amended Recovery Plan mandates that, beginning in 2014, the City shall fund the Fire and Bureau of Sewage Plans at 100% of the amortization contribution requirement while continuing to fund the Police and Officers and Employees Plans at 75% of the amortization contribution requirement to Act 44.

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 provided, 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. The implementation of this new pension plan is an initiative of this Sixth Amended Recovery Plan.

As to Fire employees, neither of the arbitration awards discussed above provided for a new, less expensive pension plan for new hires. That mandatory, Act 205 Level III distress remedy is reemphasized and repeated as an initiative in this Sixth Amended Recovery Plan.

Although no major changes have been made to the Bureau of Sewage pension plan, the plan is the healthiest among the City's pension plans with a funded ratio of 55.3% and a cost of current benefits of approximately 3 ¼% of payroll.

As to the AFSCME employees, the current agreement discussed above provides for a new pension plan for hires after January 1, 2010 with a normal cost 20% lower than the pension plan applicable on and after January 1, 1988. The implementation of this new Officers and Employees Pension Plan is an initiative of this Sixth Amended Recovery Plan.

In addition, the initiation of maximum total member contributions is a remedy available to the City through Act 205's Level III distress provisions and this Sixth Amended Recovery Plan mandates the implementation of that remedy.

Finally, the Pennsylvania Auditor General's Compliance Audit Report for the period January 1, 2009 to December 31, 2010 issued three findings related to the City's provision of pension benefits in excess of the Third Class City Code. The first finding provides that the City's computation of the vested benefit in the Police Pension Plan exceeds the authorization in the Third Class City Code in violation of the Commonwealth Court's 2001 decision in Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee. The second finding provides that the City's survivor's benefit in the Firemen's Pension Plan exceeds the authorization in the Third Class City Code. The third finding provides that the City's computation of the vested benefit in the Firemen's Pension Plan exceeds the authorization in the Third Class City Code. The initiation of amendments to the Police and Firemen's Pension Plans to resolve the Auditor General's findings and comply with the Third Class City Code are mandated initiatives in the Sixth Amended Recovery Plan.

The Fifth 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. These pension plan revisions remain a priority initiative in this Sixth Amended Recovery Plan.

Worker Compensation

Worker compensation costs have increased significantly since adoption of the Fifth Amended Plan. A deteriorating claims and loss record has resulted in significant workers compensation premiums for the City and its decision to enroll in the State Workers Insurance Fund (SWIF) beginning in 2013. A more detailed discussion of worker compensation costs is contained in Chapter IV and initiatives to address the issue are set forth in Chapter VI.

Employee Compensation and Benefits

In June, 2012, Governor Corbett signed Act 133 into law, changing how Act 47 Recovery Plans impact employee compensation and collective bargaining negotiations and arbitrations. The Act provides that a Recovery Plan may provide "limits on projected expenditures for individual collective bargaining units that may not be exceeded by the distressed municipality . . ."

This Sixth Amended Plan is written to comply with Act 133. It contains "limits" in the form of maximum annual allocations for employee compensation and benefits for a three year period for each bargaining unit following the expiration of their current collective bargaining agreements. The plan provides the City and the unions with flexibility to negotiate a different pattern of compensation from the one suggested, provided that total employee compensation and benefit costs do not exceed the maximum annual allocation for that bargaining unit.

The limits set by this Sixth Amended Plan are established in the context of Johnstown's current and projected financial challenges and capabilities. As described in Chapter IV (The City's Financial Condition) the City faces difficult decisions as it tries to maintain a reasonable level of services for its residents while balancing its annual budgets in the face of expenditures which are increasing faster than revenues.

As discussed in detail in Chapter IV, the City already has the highest resident earned income tax rate in its region. The City has been forced to increase its real property tax millage by 3 mills each in 2006 and 2007 and again by 10 mills in 2010. These real property tax increases result in large part from the persistent and continuing deterioration of the City's real estate assessed valuation. At the same time, the City has taken advantage of authority under Act 47 to impose an increased non-resident earned income tax rate upon non-residents working in the City. The City has also improved its collections of the earned income tax and sanitation fees.

The City has made substantial efforts to control its expenditures with very substantial staffing reductions across all departments, restructuring its healthcare plans and aggressively and successfully pursuing energy and telecommunications savings. Nevertheless, as discussed in Chapter IV, expenditures are projected to increase faster than revenues, due for the most part to continuing escalating costs of employee health benefits (for both current and retired employees), worker compensation and pension liabilities.

Personnel related costs make up approximately 83% of the City's General Fund budget, not counting the City's contribution to employee pension funds. Although this Sixth Amended Plan mandates that the City complete cost reduction changes to its pension plans for new hires already provided in the most recent arbitration awards and negotiations or as authorized by Act 205's Level III distress provisions, and although retiree healthcare has been eliminated for all new employees except firefighters as the result of the most recent arbitration awards and negotiations, pension and healthcare obligations for current and retired employees are projected to grow into the foreseeable future. In an effort to mitigate, to the extent possible, further significant reductions in City staffing and to meet its growing pension and healthcare obligations to its employees and retirees, the City must control increases in employee compensation and benefit costs. The "limits" imposed for each bargaining unit in this Sixth Amended Plan are designed to accomplish these goals of addressing the City's structural deficit while providing reasonable wage growth to its employees under the circumstances. It must be noted that current labor agreements for all the unions resulting from the most recent negotiations or arbitrations provide for wage increases of at least 3% annually for the years 2012 and 2013 (3.5% in 2013 and 2014 for the firefighters), well above the CPI for that same period.

City Contribution to Active Employee Healthcare

Because health insurance costs are driven by external factors outside the City's control, this Sixth Amended Plan allocates a maximum amount that the City will contribute to each employee's health insurance. All employees are covered by a Highmark plan. The City's maximum contribution shall be equal to (1) 85% of the applicable 2013 (2014 for the firefighters) total budgeted premium cost and (2) the City's contribution is then allowed to grow by up to 6% each year. This City contribution rate and annual escalation cap is consistent with all current collective bargaining agreements with the exception of the firefighters whose contributions were reduced from 15% to 5%, and the 6% annual increase cap eliminated, in the reopened firefighter arbitration discussed above. The City's allocated monthly payments include each employee's medical, prescription drug, dental, vision, life and HRA coverage.

The maximum City healthcare contributions shall also include all payments toward any taxes, surcharges, penalties, assessments, and other charges and costs which the City may be required to pay under any federal health care legislation, and any amendments, regulations or other such State or federal statutes and regulations.

The contribution amounts shall apply to all employees, by bargaining unit, and non-represented employees, regardless of the health plan they choose. Employees may choose to keep the level of benefits they currently receive and pay any differences between the total premium cost and the City's maximum monthly premium contribution. Alternatively, employees may choose to reduce their monthly premium contributions through plan redesign including increased office visit and prescription drug copayments, coinsurance or other cost sharing mechanisms, or changing the kind of coverage. The employee's monthly contributions will also depend on the year-to-year growth in total premium costs. The City's share of any annual increase in total premium cost shall not exceed 6.0 percent. Therefore, if the total premium cost grows by less than six percent, then the City will cover a higher portion of the total premium costs than in the previous year.

The City's maximum monthly contributions to employee healthcare coverage for each bargaining unit, and for non-represented employees, are set forth in Chapter VI (Initiatives).

Total City Allocation to Bargaining Units

The total allocation limits assigned to non-represented employees and to each bargaining unit for compensation and benefits do not include compensation for positions outside the bargaining unit such as the Police and Fire Chiefs. The allocation does include, as applicable, the maximum amounts the City shall pay for any of the following:

- Salaries including step or tenure-based increases and any additional pay for overtime or court hearing compensation.
- Holiday pay, longevity and shift differential.
- Incentives related to sick leave usage, workers' compensation usage and tuition reimbursement.
- Health insurance coverage including medical, dental, vision, HRA and prescription drug coverage (as described above); any reimbursements for prescription drug cost and payments in lieu of hospitalization coverage.
- Life insurance and other kinds of insurance coverage.

- Uniform or special assignment allowances and all other new or existing forms of cash compensation.

The allocation does <u>not</u> include the City's costs for retired employee health insurance or pension payments for current, retired or future employees.

The allocation is based on the 2013 budget figure for non-represented employees and to each bargaining unit (except the IAFF which will be based on the 2014 budget) for the covered items. If the City and union make any changes to health insurance coverage through negotiation or an arbitration award, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

For any changes to the compensation provisions that are in place at the expiration of the current collective bargaining agreements or any authorized new compensation components, the City shall conduct a full cost analysis of those changes for each year of the next collective bargaining agreement to determine and assure that the resulting compensation does not exceed the maximum annual allocations. The City shall provide the full cost analysis information to the Act 47 Coordinator in form and content acceptable to the Coordinator as soon as possible for the Coordinator's review and approval. If the Act 47 Coordinator determines that the proposals exceed the maximum annual allocations, the proposals shall be returned to the City and bargaining unit for modification. The Act 47 Coordinator will not approve any cost analysis if the Coordinator determines that inadequate information is provided to verify that the costs do not exceed this Sixth Amended Recovery Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

The total allocated limits for employee compensation and benefits, by bargaining unit, as described herein are set forth in Chapter VI (Initiatives). Non-represented employee compensation is also addressed in Chapter VI.

CHAPTER VI

Initiatives

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

Administration/Operations

(1) Council and the Manager shall hold a Council/Manager retreat during the year 2013 to review the progress on current goals and objectives and to set future goals and objectives consistent with this Sixth Amended Recovery Plan for the Council and Manager and shall thereafter hold such sessions every other year facilitated by the Manager.

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

Budget and Finance

(3) Upgraded Software/Chart of Accounts Transition – The Finance Department shall continue and finally complete the upgrade to the City's financial management software to support the City's adoption of the DCED 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.

(4) 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.

(5) 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. The City shall annually review all fees for service with respect to the cost of that service and increase those fees accordingly in order to cover the full cost of that service. An annual fee resolution shall then be prepared and adopted as part of the budget process to reflect the ever-changing economic climate. At a minimum, fees shall be adjusted annually based on the CPI from the previous economic period.

(6) 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.

(7) Energy Efficiency and Sustainability – The City shall continue its sustainability plan and energy audits to determine the advisability of making additional 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. For example, the City of Pittsburgh and three municipal authorities have conducted reverse energy auctions and have successfully lowered electricity rates.

- Continue its current efforts to 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.

(8) 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 minus 2% discount).

(9) 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.

(10) The City, through Council and the Manager, and in cooperation with the Johnstown School District and Cambria County, shall continue discussions with Conemaugh Hospital with the goal of extending beyond December 31, 2013, 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.

(11) 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 and adjust fee schedules to assure that the City is recouping the actual cost of the service provided.

(12) Council and the Manager shall regularly review all fees charged for application and issuance of permits, such as building and zoning permits, and adjust fee schedules 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.

(13) 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.

(14) Pursuant to a Lease and License Agreement, the Cambria County War Memorial Authority operates the concession stands at Point Stadium. Upon the agreement's expiration, the City shall seek proposals for operation of the concession stands.

(15) The City is a party to a lease agreement, dated May 8, 2003, with Crown Conventions Center Company ("Crown"). Pursuant to the lease, Crown rents the City's Convention Center from the City but the City has realized no net rental payments under the terms of the lease. The City shall continue its review of Crown's performance under the lease and initiate negotiations to improve the City's receipt of revenue under the lease.

(16) The City Manager and Director of Finance shall review its fund and accounting structure and eliminate funds and accounts that are no longer in use and active. This will provide a more accurate reflection of the City operation and reduce the possibility of an error occurring

by the inadvertent use of an inactive fund or account. It will simplify reports and make the regular review and monitoring of cash flow more efficient.

(17) The City Manager and Director of Finance shall review and consider the elimination of special millage and special funds. The current structure creates unnecessary and redundant transactions and reporting. Reducing the special millage will allow for the elimination of accounting entries, transfers, bank accounts, reduce the number of reconciliations that must be made on a monthly basis and improve the general fund balance position.

(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 and with projections through year end.

(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, the City was not able to find the funds to retain a vendor. Using savings generated by the City's 2013 bond refunding, Council and the Manager shall issue a Request for Proposals 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
2014	1.30%	1.1%
2015	1.30%	1.1%
2016	1.30%	1.1%

In each of the years, 2014, 2015 and 2016, 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.

In addition, in order to address projected deficits for 2014 and 2015, to fund the addition of two police officers and one Code Enforcement Officer and to begin to generate positive operating balances going forward, the City shall levy the earned income tax upon residents at the rate of 1.5% for the years 2014, 2015 and 2016 or shall levy the real property tax for (general purposes) at the rate of 55.98 mils for the years 2014, 2015 and 2016 or shall levy a combination of the two taxes at combined rates sufficient to generate at least $400,000 in additional revenue for each of these years.

(22) The City shall continue to levy sanitary sewer user fees at rates sufficient to pay debt service on loans or bonds issued, operational costs 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.

(23) As of January 1, 2012, the City's other post-employment benefit (OPEB) liability for retiree healthcare is over $20 million. 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.

Beginning in 2016, the City shall establish and begin to fund an OPEB trust fund at the rate of at least $50,000 per year. If the Commonwealth of Pennsylvania has not created specific trust fund authority by 2014, 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.

(24) 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 $800,000 to $1,600,000 if revenues are $16 million).

(25) During the year 2014, 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 OBEB or long term debt obligations.

(26) In support of current efforts to balance the Parking Fund, the City shall review and evaluate the option of contracting out the management of the City's public parking system.

(27) At or before the time of preparation of the 2014, 2015, and 2016 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. The City shall provide some level of funding to the capital budget using the options discussed below. Beginning with the 2014 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.

(28) Beginning with the preparation of the 2014 operating budget, the Manager shall create an 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.

Intergovernmental Cooperation

(29) 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 continue discussions with the YMCA to formalize the arrangement in writing, including the services to be provided and the division of fees collected from users of the services and the City shall continue its efforts to cooperate with the School

District in organizing Johnstown Community Days and in the provision of recreation services and the sharing of facilities.

(30) The Manager has negotiated an amended contract for police services with the Johnstown Housing Authority calling for a decrease in the level of service and fees 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 consistent with the department's capacity, 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. In addition, the City shall actively participate in the COG's intergovernmental program and shall market the City's services such as public works and code inspection through the COG.

Work Force

(35) Pursuant to the criteria discussed in Chapter V (Workforce), the City shall make the following contributions to active employee health coverage for all non-represented employees and by bargaining unit.

	FOP	AFSCME	Steelworkers[21]	Non-represented
2014:	$473,751	$182,360	$191,334	$160,285
2015:	$502,176	$193,301	$202,814	$169,902
2016:	$532,306	$204,899	$214,983	$180,096

(36) Pursuant to criteria discussed in Chapter V (Workforce), the City shall allocate the following maximum amounts for employee compensation and healthcare for active members of the Fraternal Order of Police, Flood City Lodge 86. This allocation includes the City's maximum contribution to employee health coverage set forth in initiative 35 above.

[21] As discussed in Chapter V (Workforce), City Council recently initiated action to transfer the Steelworkers employees to the JRA, effective January 1, 2014. Unless that transfer is overturned by a final, unappealable order of court, this Sixth Amended Recovery Plan shall not apply to the Steelworkers, effective January 1, 2014; provided, however, that in the event litigation over the legal validity of the transfer is pending on January 1, 2014, this Sixth Amended Recovery Plan shall continue to apply to the Steelworkers until final resolution of the litigation.

2014: $2,501,487

2015: $2,555,051

2016: $2,627,893

The City's 2013 budget allocates $1,925,140 for active FOP members' compensation. Using the 2013 budget as a starting point, this Sixth Amended Plan applies the following wage pattern to generate the annual allocations for 2014 through 2016.

In 2014, compensation shall be frozen at the 2013 level.

In 2015, employees shall receive a 1.0 percent base wage increase.

In 2016, employees shall receive a 2.0 percent base wage increase.

The allocation in this initiative assumes the City will not increase other forms of cash compensation through 2016 other than those directly tied to base salary. The allocation also assumes the City will not enact new forms of cash compensation. While the allocations in this initiative are based on these assumptions, the City and FOP may negotiate a different pattern of wage increases or changes in compensation so long as the total cost of employee compensation does not exceed the maximum annual allocations shown above. Any arbitration award issued subsequent to the adoption of this Recovery Plan also shall not result in annual compensation in excess of the maximum annual allocations shown above. Any negotiated contract or arbitration award shall also comply with the specific limitations and requirements otherwise set forth in this Amended Recovery Plan.

(37) Pursuant to criteria discussed in Chapter V (Workforce), the City shall allocate maximum amounts for employee compensation and healthcare for active members of the International Association of Firefighters, Local No. 463 for the years 2015, 2016 and 2017. This

allocation will include the maximum contribution to employee health coverage set forth in Chapter V (Workforce).

The current firefighter contract expires December 31, 2014. Using the City's 2014 budget for active IAFF members' compensation as a starting point, this Sixth Amended Plan applies the following wage pattern to generate the annual allocations for 2015 through 2017.

In 2015, compensation shall be frozen of at the 2014 level.

In 2016, employees shall receive a 1.0 percent base wage increase.

In 2017, employees shall receive a 2.0 percent base wage increase.

The allocation in this initiative assumes the City will not increase other forms of cash compensation through 2016 other than those directly tied to base salary. The allocation also assumes the City will not enact new forms of cash compensation. While the allocations in this initiative are based on these assumptions, the City and IAFF may negotiate a different pattern of wage increases or changes in compensation so long as the total cost of employee compensation does not exceed the maximum annual allocations shown above. Any arbitration award issued subsequent to the adoption of this Recovery Plan also shall not result in annual compensation in excess of the maximum annual allocations shown above. Any negotiated contract or arbitration award shall also comply with the specific limitations and requirements otherwise set forth in this Amended Recovery Plan.

(38) Pursuant to criteria discussed in Chapter V (Workforce), the City shall allocate the following maximum amounts for employee compensation and healthcare for active members of the American Federation of State, Local and Municipal Employees, AFL-CIO, Local No. 630.

This allocation includes the maximum contribution to employee health coverage set forth in initiative 35 above.

2014: $1,163,503

2015: $1,194,054

2016: $1,226,447

The City's 2013 budget allocates $972,322 for active AFSCME members' compensation. Using the 2013 budget as a starting point, this Sixth Amended Plan applies the following wage pattern to generate the annual allocations for 2014 through 2016.

In 2014, compensation shall be frozen at the 2013 level.

In 2015, employees shall receive a 1.0 percent base wage increase.

In 2016, employees shall receive a 2.0 percent base wage increase.

The allocation in this initiative assumes the City will not increase other forms of cash compensation through 2016 other than those directly tied to base salary. The allocation also assumes the City will not enact new forms of cash compensation. While the allocations in this initiative are based on these assumptions, the City and AFSCME may negotiate a different pattern of wage increases or changes in compensation so long as the total cost of employee compensation does not exceed the maximum annual allocations shown above. Any negotiated contract award shall also comply with the specific limitations and requirements otherwise set forth in this Amended Recovery Plan.

(39) Pursuant to criteria discussed in Chapter V (Workforce), the City shall allocate the following maximum amounts for employee compensation and healthcare for active members of the United Steel Workers, AFL-CIO, Local No. 2635-17. This allocation includes the maximum contribution to employee health coverage set forth in initiative 35 above.

2014: $1,050,308

2015: $1,078,443

2016: $1,113,368

The City's 2013 budget allocates $852,324 for active United Steel Workers members' compensation. Using the 2013 budget as a starting point, this Sixth Amended Plan applies the following wage pattern to generate the annual allocations for 2014 through 2016.

In 2014, compensation shall be frozen at the 2013 level.

In 2015, employees shall receive a 1.0 percent base wage increase.

In 2016, employees shall receive a 2.0 percent base wage increase.

The allocation in this initiative assumes the City will not increase other forms of cash compensation through 2016 other than those directly tied to base salary. The allocation also assumes the City will not enact new forms of cash compensation. While the allocations in this initiative are based on these assumptions, the City and the Steelworkers may negotiate a different pattern of wage increases or changes in compensation so long as the total cost of employee compensation does not exceed the maximum annual allocations shown above. Any negotiated contract shall also comply with the specific limitations and requirements otherwise set forth in this Amended Recovery Plan.

(40) Pursuant to criteria discussed in Chapter V (Workforce), the City shall allocate the following maximum amounts for non-represented, non-management employee compensation and healthcare. This allocation includes the City's maximum contribution to all non-represented employee health coverage set forth in initiative 35 above.

2014: $659,301

2015: $679,169

2016: $705,348

The City's 2013 budget allocates $462,455 for non-management, non-represented employee compensation. Using the 2013 budget as a starting point, this Sixth Amended Plan applies the following wage pattern to generate the annual allocations for 2014 through 2016.

In 2014, compensation shall be frozen at the 2013 level. The City shall establish a pool for allocating a 1% wage increase across all non-management, non-represented employees in 2014 and a 2% wage increase in 2015. At management's discretion, the City may award the same percentage wage increase to all positions or adjust the percentages so that certain positions receive a higher percentage increase than others. The total amount of these increases may not exceed the previous year's base wage payment multiplied by 1.0 percent in 2015 and 2.0 percent in 2016.

(41) Additional initiatives for all City employees (union and non-union) are as follows.[22] 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.

[22] 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.

Limit New Contract Enhancement

The health care and compensation allocations to each bargaining unit set forth above are premised on the assumption that there will be no new benefits or increases in benefits applicable to the labor agreements covering calendar years 2014 and subsequent years. Therefore, 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 covering calendar years 2014 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); or retiree healthcare for employees hired subsequent to the expiration of applicable collective bargaining agreements in effect as of the date of adoption of this Sixth Amended Recovery plan;
k. any improvements in existing benefits for retirees or other inactive employees;
l. any improvements to terminal or severance pay;

m. any other term or provision which adds any new or additional restrictions on the City's Management Rights.[23]

(42) The City shall no longer provide retiree healthcare to employees represented by the International Association of Firefighters, Local No. 463, who are hired after the expiration of the current collective bargaining agreement.

(43) The discussion of the Fire Department in Chapter IV emphasizes the continuing increases in departmental cost, broken only by reductions in head count in 2011 and 2012. One of the main drivers of department cost is high overtime expenditures related to filling shifts. City and Fire management shall review the department's overtime expenditures, scheduling and related issues and implement practices to gradually reduce the department's overtime expenditures over the next three years to a maximum of $85,000 in 2017.

(44) The discussion of the City's worker compensation expenditures in Chapter IV emphasizes the City's increasing expenditures driven mostly by its high modification factor of 1.367. With a goal of reducing its modification factor to 1.0 by 2016, the City shall implement the following recommendations from the review performed by Travelers Insurance Co.:

- Prompt reporting of claims to the WC coordinator;
- Risk Management review and audit of all workplaces;
- Conducting regular safety meetings and participating in safety webinars;
- Monitoring open claims and contacting WC employees regularly for updates;
- Refining/reviewing the Panel of Physicians.

[23] 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.

Pensions

(45) With the assistance of Mockenhaupt Associates, the City shall complete implementation of a new Police pension plan for employees hired after April 12, 2010, the date of the arbitration award mandating the new plan, with a normal cost that is twenty percent (20%) lower than the pension applicable to employees hired on or after January 1, 1988.

(46) With the assistance of Mockenhaupt Associates, the City shall establish a revised pension plan for members of the Firemen's Pension Plan hired after December 31, 2014, the expiration date of the current collective bargaining agreement between the City and the International Association of Fire Fighters Local Union No. 463. The new plan shall have a normal cost which is at least 20% lower than the plan applicable to employees hired on or after January 1, 1988.

The new plan shall implement a combination of some or all of the following factors sufficient to meet the 20% reduction in normal cost set forth above:

- change normal retirement eligibility to age 55 with 25 years of service
- reduce cap on service increments to $100
- reduce survivor benefits by 50%

(47) With the assistance of Mockenhaupt Associates and pursuant to the current collective bargaining agreement between the City and the American Federation of State, County and Municipal Employees, AFL-CIO, Local No. 630, expiring December 31, 2013, a new pension plan for members of the Officers and Employees Pension Plan shall be created for employees hired after January 1, 2010 with a normal cost that is 20% lower than the pension plan applicable to employees hired on or after January 1, 1988. The City shall proceed to implement that new plan by combining some or all of the following factors sufficient to meet the 20% reduction in normal cost:

- increase age requirement for normal retirement from 55 to at least 60
- increase compensation averaging period from 2 to 3 years or 2 to 5 years
- eliminate overtime pay from covered compensation
- eliminate the service increment benefit
- eliminate disability retirement benefit

(48) With the assistance of Mockenhaupt Associates, the City shall establish and implement for all City pension plans the maximum total member contributions consistent with Act 205 of 1984, as amended.

(49) With the assistance of Mockenhaupt Associates, through and including the year 2016, the City shall elect to pay a reduced minimum municipal obligation (MMO) consisting of the normal cost and administrative expenses plus 75% of the amortization contribution requirement for its Police and Officers and Employees pension plans consistent with Act 205 of 1984, as amended. However, beginning in 2014, the City shall fund the Fire and Bureau of Sewage pension plans at 100% of the amortization contribution requirement.

(50) With the assistance of Mockenhaupt Associates, the City shall amend the Police and Firemen's Pension Plans to resolve the three findings in the Pennsylvania Auditor General's Compliance Audit Report for the period January 1, 2009 to December 31, 2010 related to the City's provision of pension benefits in excess of the Third Class City Code.

(51) 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.

(52) With the assistance of a qualified independent financial adviser, the City and its Pension Board shall annually 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.

Hiring Freeze

(53) 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

(54) The City shall cooperate in the renewed efforts, currently underway, initiated by the acting Executive Director of the JRA, to coordinate the resources and development priorities of the City, JRA, other public entities and private business to complete execution of the City's Master Plan and related projects.

(55) The City shall continue its initiatives to control blight in its neighborhoods through increased enforcement of its zoning, property maintenance and related codes and by revising, to the extent necessary, its existing codes to add anti-blight enforcement tools made available through Act 90 of 2010.

(56) The City shall review and consider the applicability to the City of the authority granted by Act 153 of 2012 to establish a land bank to acquire, demolish and return to productive use the City's abandoned and blighted properties.

(57) The City shall apply for a grant in the amount of $50,000 through the Municipal Assistance Program (MAP) for planning for Cambria County.

(58) The City shall continue to pursue its $50,000 grant application through the Keystone Communities Program for façade improvements.

(59) The City shall continue to pursue additional Pennvest and Pennworks funding for sewer improvements in compliance with the DEP Consent Order.

(60) The City shall apply to extend the term of the City's Enterprise Zone beyond July 1,2016.

(61) The City shall work with the JRA and JARI to update and restate the Memorandum of Understanding, dated April 17, 1995, including a list of new priority projects.