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*Johnstown:
Portrait of an Act 47 Community*

*Eric Montarti, Senior Policy Analyst
Allegheny Institute for Public Policy*

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Key Findings

- Johnstown—a municipality of 21,802 located in Cambria County in southwestern Pennsylvania—began the year with laying off of four police officers, six public works employees, a records clerk, a tax compliance officer, and a recreation director. On top of those cuts, the City still raised its property tax rate by 10 mills.
- Based on 2007 data submitted to the state of Pennsylvania, Johnstown collected \$1,951 in per capita revenues, which was significantly more than the average for similarly-populated municipalities in the state.
- Much of that revenue was derived from Federal and state sources. Johnstown reported \$290 in per capita Federal revenues, an amount significantly in excess of other communities. This amount has likely grown in light of the recent stimulus packages.
- Johnstown reported per capita expenditures of \$1,889, much higher than the sample group.
- Those expenditures were comprised of the highest per capita expenditures for fire, debt service, and very high pension expenditures.
- In Act 47 status since 1992 and on its fourth amended recovery plan, elected officials in the City raised the possibility of Chapter 9 bankruptcy when enacting the layoffs and tax increase.

Introduction

It would be hard to imagine that for a city in Act 47 status, seemingly out of one time financial solutions, and under the specter of municipal bankruptcy that things could get much worse.

But for Johnstown—a municipality of 21,802 located in Cambria County in southwestern Pennsylvania—2010 is shaping up to be much worse as the year began with layoffs of four police officers, six public works employees, a records clerk, a tax compliance officer, and a recreation director. On top of those cuts, the City still raised its property tax rate by 10 mills¹.

Johnstown has been in Act 47 distressed status since 1992, some five years after the law was passed. It is currently operating under its fourth amended Recovery Plan and, as described by the Act 47 recovery team, Johnstown is still plagued by

Stagnant, and in some years, declining tax base and increasing personnel costs due primarily to higher compensation, health benefit premiums, workers' compensation, and pension liabilities².

That description does not sound very different from the City of Pittsburgh or many other municipalities in western Pennsylvania or around the entire state. So what can be done and where does Johnstown go from here?

The purpose of this analysis is to look at recent financial data for Johnstown and other similarly-sized municipalities in the state to see how this Act 47 community compares on important financial statistics to determine a course of action.

Methodology

Nine other municipalities in Johnstown's population range (roughly 24k to 18k) were selected. The table below details those municipalities, their population, whether they are home rule and if they are currently in Act 47 distressed status³.

¹ Mike Faher "Johnstown Options: Increase Taxes 37% or Eliminate 17 Jobs" [Johnstown Tribune-Democrat](#), December 2, 2009

² Eckert, Seamans, Cherin and Mellott, LLC "City of Johnstown, Fourth Amended Recovery Plan Pursuant to the Municipalities Financial Recovery Act" (<http://www.newpa.com/get-local-gov-support/technical-assistance/request-assistance/act-47/index.aspx>)

³ Population Count from U.S. Bureau of the Census "Annual Estimates of the Resident Population for Incorporated Places in Pennsylvania" (<http://www.census.gov/popest/cities/tables/SUB-EST2008-04-42.xls>) Home rule and Act 47 status obtained from Department of Community and Economic Development, Governor's Center for Local Government Services (<http://www.newpa.com/get-local-gov-support/publications/index.aspx>)

Sample Municipalities (Ranked by 2007 Population)

Municipality	County	2007 Population	Home Rule?	Act 47?
New Castle	Lawrence	24375	N	Y
Lebanon	Lebanon	24106	Y	N
McKeesport	Allegheny	22257	Y	N
Hazleton	Luzerne	21843	N	N
Johnstown	Cambria	21802	Y	Y
Pottstown	Montgomery	21315	N	N
West Mifflin	Allegheny	20792	N	N
Murrysville	Westmoreland	19417	Y	N
Baldwin Bor.	Allegheny	18551	N	N
Carlisle	Cumberland	18406	N	N

The financial information used in this analysis is 2007 audited data obtained from the Department of Community and Economic Development, Governor’s Center for Local Government Services, “Municipal Annual Audit and Financial Report”, a uniform system of reporting data available to all municipalities and accessible online at DCED’s website. All data contained in the report’s tables comes from this source for each municipality in the sample and is reported on a per capita basis. Using this sample of municipalities the DCED Annual Financial Report was obtained and the following variables were examined⁴:

Revenues	Expenditures
Total Revenues	Total Expenditures
Real Estate Tax	Police
Wage Tax	Fire
Total Taxes	Debt Service
Federal	Pension Benefits
State	Headcount

Revenues

Total Revenues

Using the DCED data and population counts, per capita levels for various indicators were obtained. We begin with looking at the “big picture” of total revenues—this includes taxes, fees, money obtained from Federal and state governments, etc.—and then working toward more specific categories.⁵

In terms of per capita total revenue, Johnstown ranked highest in the sample with \$1,951, which was 68 percent higher than the group average.

⁴ Department of Community and Economic Development, Governor’s Center for Local Government Services “Municipal Annual Audit and Financial Report” (<http://munstatspa.dced.state.pa.us/AFRFormView.aspx?M=0>)

⁵ This category includes Taxes, Licenses and Permits, Fines and Forfeits, Interest/Rents/Royalties, Federal, State, Local Government Units, Charges for Service, Unclassified Operating Revenues, Other Financial Services

Total Revenues (Ranked by Per Capita Amount)

Municipality	Total Revenues	Rank
Johnstown	\$ 1,951	1
Pottstown	\$ 1,444	2
McKeesport	\$ 1,322	3
Carlisle	\$ 1,251	4
New Castle	\$ 1,185	5
West Mifflin	\$ 1,081	6
Hazleton	\$ 1,076	7
Baldwin B	\$ 807	8
Lebanon	\$ 743	9
Murrysville	\$ 723	10
Average	\$ 1,158	

Taxes

Johnstown collected \$239 per capita in real estate taxes. This was fourth highest in the sample and 25 percent greater than the group average of \$192 per capita. The City has increased its real estate tax rate three times in the last five years according to the Act 47 report⁶. According to reports around the time of the passage of the budget the City would have had to increase millage by 15.44 mills in order to keep all employees on the payroll⁷.

Taxes (Ranked by Per Capita Total Taxes)

Municipality	Real Estate Tax	Rank	Wage Tax	Rank	Total Taxes	Rank
Johnstown	\$ 239	4	\$ 49	10	\$ 350	6
West Mifflin	\$ 318	1	\$ 72	8	\$ 544	1
Pottstown	\$ 286	2	\$ 85	7	\$ 427	2
Murrysville	\$ 192	6	\$ 162	1	\$ 393	3
Baldwin B	\$ 253	3	\$ 90	6	\$ 391	4
Carlisle	\$ 168	7	\$ 96	5	\$ 358	5
New Castle	\$ 201	5	\$ 53	9	\$ 317	7
Hazleton	\$ 79	10	\$ 141	2	\$ 283	8
McKeesport	\$ 103	8	\$ 101	4	\$ 281	9
Lebanon	\$ 82	9	\$ 137	3	\$ 252	10
Average	\$ 192		\$ 99		\$ 360	

The City collected \$49 per capita in wage taxes, lowest in the sample group. This is interesting due to the fact that, as an Act 47 community, Johnstown is permitted to levy a higher wage tax rate on its residents and non-residents working in the community. This increase was suspended for a time but then re-enacted with the revenues used for capital needs⁸.

⁶ From 2005 to 2006, the rate went from 36.44 mills to 39.44 mills; from 2006 to 2007, from 39.44 mills to 42.44 mills, and this year's increase from 42.44 mills to 52.44 mills. With every incremental increase the Act 47 report noted that it was done "in order to maintain services for the City at the same level"

⁷ Faher

⁸ There was a wage tax levied on non-residents that was used to support capital needs, but that was eliminated in 2005. Residents continued to pay a higher rate when the non-resident tax was reauthorized in 2007. It was just affirmed by Cambria County court for 2010. See Sandra Reabuck "Judges OK Levy"

Total taxes include real estate and wage taxes, along with the numerous local taxes collected under Act 511 (Local Services, gross receipts on businesses, amusements, mechanical devices, occupation, etc.) and, if the municipality is in Allegheny County, a share of the 1 percent Regional Asset District tax. Johnstown is in the middle of the pack on total taxes levied, roughly 3 percent below the average for the group.

Revenues from Other Governments

Johnstown far outpaces all of the other municipalities in the sample on the per capita level of Federal monies received by the city. Johnstown had received, on a per person basis, three times as much money as the average for the group⁹.

Federal and State Revenue (Ranked by Per Capita Federal Money)

Municipality	Federal Revenues	Rank	State Revenues	Rank
Johnstown	\$ 290	1	\$ 198	1
Pottstown	\$ 92	2	\$ 146	2
McKeesport	\$ 90	3	\$ 60	7
Hazelton	\$ 66	4	\$ 135	3
New Castle	\$ 55	5	\$ 108	5
Lebanon	\$ 53	6	\$ 128	4
Carlisle	\$ 39	7	\$ 62	6
West Mifflin	\$ 2	8	\$ 50	9
Baldwin B	\$ 1	9	\$ 49	10
Murrysville	\$ -	10	\$ 59	8
Average	\$ 69		\$ 100	

Much like its per capita level of Federal revenues, Johnstown tops the sample for the per capita state revenues. State money was 98 percent higher for Johnstown than the rest of the municipalities in the sample¹⁰.

Expenditures

Now we turn to the spending side of the ledger to compare Johnstown to the rest of the sample on several key categories.

Johnstown Tribune-Democrat, January 15, 2010. The opinion noted ‘an unfortunate need for the tax still exists’

⁹ This category includes Highways/Streets, Community Development, All Other Federal Capital and Operating Grants, National Forest and all other Federal Shared Revenue and Entitlements, and Federal payments in lieu of taxes

¹⁰ This category includes Highways/Streets, Community Development, Recycling Act 101, All Other State Capital and Operating Grants, PURTA, Liquid Fuels Tax, Alcoholic Beverage Licenses, Pension Aid, State Shared Revenue and Entitlements, State payments in lieu of taxes

Total Expenditures

The grand total for total expenditures—a sum that counts general government, police, fire, debt service, pensions, and other categories—comes to a per capita amount of \$1,889 for Johnstown. This tops the sample average by 72 percent¹¹.

Total Expenditures (Ranked by Per Capita Amount)

Municipality	Total Expenditures	Rank
Johnstown	\$ 1,889	1
Pottstown	\$ 1,434	2
McKeesport	\$ 1,364	3
Carlisle	\$ 1,169	4
Hazleton	\$ 1,046	5
West Mifflin	\$ 1,031	6
New Castle	\$ 978	7
Lebanon	\$ 724	8
Baldwin B	\$ 712	9
Murrysville	\$ 629	10
Average	\$ 1,098	

Public Safety—Police and Fire

Johnstown had relatively low per capita spending on the police function at \$126, nearly 30 percent below the average for the group. The 2010 budget included the termination of seven police officers, an action that is guaranteed to raise issues due to the police union’s contention that the “labor agreement permits staff reductions only through attrition, not furloughs”.¹²

The expenditure for the other important component of public safety spending was considerably higher at \$97 per capita, 67 percent above the group average. It ranked highest in the sample for fire expenditure.

¹¹ This category includes General Government, Public Safety, Health and Human Services, Public works, Culture and Recreation, Community Development, Debt Service, Employer Paid Benefits and Withholding Items, Insurance, Unclassified Operating Expenditures, and Other Financing Uses

¹² Mike Faher “Police Layoffs Opposed” *Johnstown Tribune-Democrat*, December 4, 2009. The article notes that the head of the City’s police union recalled a 1992 contract stalemate in which “an arbitrator ordered [Johnstown] to reinstate—with back pay—several Johnstown police officers whose jobs had been eliminated”.

Police and Fire Spending (Ranked by Per Capita Police Spending)

Municipality	Police	Rank	Fire	Rank
Johnstown	\$ 126	9	\$ 97	1
Pottstown	\$ 300	1	\$ 53	7
West Mifflin	\$ 210	2	\$ 31	8
McKeesport	\$ 178	3	\$ 83	2
Baldwin B	\$ 169	4	\$ 19	9
Lebanon	\$ 167	5	\$ 77	4
Carlisle	\$ 158	6	\$ 55	6
Hazleton	\$ 156	7	\$ 79	3
Murrysville	\$ 146	8	\$ 12	10
New Castle	\$ 110	10	\$ 73	5
Average	\$ 172		\$ 58	

Legacy Costs—Debt Service and Pensions

Johnstown carries the highest per capita level of debt service for the sample municipalities; at \$307, the number was double the group average¹³.

The Act 47 plan notes that “pension costs continue to escalate because of more retirees, higher wages, and additional benefits for employees in the plans”.¹⁴ At \$112 per capita for 2007 audited numbers, Johnstown recorded the second highest expense in the sample.

Legacy Costs (Ranked by Per Capita Debt Service)

Municipality	Debt Service	Rank	Pensions	Rank
Johnstown	\$ 307	1	\$ 112	2
West Mifflin	\$ 279	2	\$ 32	5
New Castle	\$ 258	3	\$ 26	9
McKeesport	\$ 200	4	\$ 40	3
Hazleton	\$ 91	5	\$ 186	1
Carlisle	\$ 64	6	\$ 31	6
Murrysville	\$ 42	7	\$ 33	4
Pottstown	\$ 38	8 (tie)	\$ 11	10
Baldwin B	\$ 38	8 (tie)	\$ 29	8
Lebanon	\$ 7	10	\$ 30	7
Average	\$ 132		\$ 53	

Headcount

Using the 2007 population and the most recent full-time employee counts from the Department of Community and Economic Development, the employee headcount per 1,000 people was obtained. Johnstown topped the sample.¹⁵

¹³ This category includes Debt Principal, Debt Interest, and Fiscal Agent Fees

¹⁴ Act 47 plan

¹⁵ Census population count and employee headcount of full time employees, Department of Community and Economic Development, County/Municipal Demographic Report (<http://munstats.dced.state.pa.us/EAORports.aspx?M=D>)

Headcount (Ranked by FTE per 1,000)

Municipality	FTE per 1,000 People	Rank
Johnstown	8.6	1
Pottstown	7.3	2
Carlisle	6.5	3
McKeesport	6.3	4
New Castle	5.4	5
West Mifflin	4.8	6
Hazleton	4.5	7
Lebanon	4.2	8
Murrysville	3.3	9
Baldwin B	2.4	10
Average	5.3	

According to City numbers provided by the Act 47 coordinator, Johnstown’s headcount fell 13 percent from 2005 to 2008 (215 to 188) and stands at 162 this year. If population had remained constant for Johnstown (21,802) today’s headcount would be 7.4 per 1,000.¹⁶

Summary and Future Directions

This table summarizes how Johnstown stacks up in the sample on the variables examined from the DCED audits. Note that on a per capita basis the City topped the sample in terms of total revenues and total expenditures.

Variable	Per Capita	Rank
Total Revenues	\$ 1,951	1
Real Estate Tax	\$ 239	4
Wage Tax	\$ 49	10
Total Taxes	\$ 350	6
Federal Revenues	\$ 290	1
State Revenues	\$ 198	1
Total Expenditures	\$ 1,889	1
Police	\$ 126	9
Fire	\$ 97	1
Debt Service	\$ 307	1
Pension	\$ 112	2
Headcount	8.6 per 1000	1

The items that stand out are the level of commitment of Federal and state dollars to the City of Johnstown and the fact that the City ranked either first or second on all but one expenditure category (police).

So what can be done for the City? Recall from the opening of the report that the Act 47 team views Johnstown as plagued with stagnant revenues and escalating costs, especially legacy costs like pensions. The City has tried the one time fixes, like inter-fund transfers,

¹⁶ E-mail from Jim Roberts, Johnstown’s Act 47 Coordinator

the sale of a sewage plant, refunding bond issues, etc. according to the Act 47 report. That report noted that “the City intends to control its workforce costs through attrition in some departments but minimum manning clauses in the public safety contracts continue to make it difficult to make adjustments to many of these areas”¹⁷.

The fourth amended plan made recommendations to limit new contract enhancement (no additional benefits not already in existing contracts), a redesign of health care benefits to “achieve consistency, minimize administrative overhead, and maximize buying power” and to contain the cost of post-retirement health care by eliminating it for those hired after the effective date of the plan and shifting the cost of premium increases to the retiree. There would be a hiring freeze and police and fire departments could not have minimum manning levels.

Noting that the pension plans (police, fire, and non-uniformed) had an aggregate funding ratio (assets/liabilities) of 52 percent and that there were more people collecting pension benefits (243) than active employees on the payroll (186), the report came up with both broad pension initiatives as well as some applying to specific plans (such as increases in retirement age for police and fire plans). According to the City’s Act 47 coordinator there are ongoing negotiations with the police, AFSCME, and other unions: the firefighters’ contract expires at the end of 2010, so it is yet unclear how many of the recommendations on contract amendments will become effective.¹⁸

In enacting this year’s tax increase and implementing layoffs—a decision that council members characterized as a “painful, difficult decision [arrived at] after much deliberation”—the specter of Chapter 9 bankruptcy was raised. “The ramifications of a bankruptcy are far reaching and have potentially devastating effects for every citizen” was the language contained in a joint statement released by the Council¹⁹.

In that regard, the Allegheny Institute’s work last year on Chapter 9 bankruptcy showed that the effects of a Chapter 9 filing may not be as devastating as one might be inclined to believe. A bankruptcy court cannot force a municipality to liquidate its assets or interfere with the day to day affairs of the municipality. In addition, Johnstown could not be dragged into Chapter 9 against its will: it would go in on the recommendation of the Act 47 coordinator after a decision that a Federal debt adjustment is likely the best remedy for fixing the municipality’s problems²⁰.

However, in light of the fact that the City of Johnstown has been under Act 47 for quite a long time and that the state’s attempt at a small step toward municipal pension reform was scuttled by public sector unions, a Chapter 9 filing might be the only option left for the City.

¹⁷ Act 47 report

¹⁸ E-mail conversation with Jim Roberts, Johnstown’s Act 47 Coordinator

¹⁹ Mike Faher “City to Lay Off 14” *Johnstown Tribune-Democrat* December 18, 2009

²⁰ Allegheny Institute for Public Policy “Chapter 9 Bankruptcy: What It Means for Pennsylvania's Municipalities” (http://www.alleghenyinstitute.org/administrator/components/com_reports/uploads/09-05.pdf)