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Can Johnstown Regain its Financial Footing?

In Act 47 status since 1992 and on its fourth amended recovery plan, the City of Johnstown just started off the year with having to layoff thirteen employees and raising its property tax 10 mills. As if things could not get worse, the Council mentioned the possibility of pursuing Chapter 9 municipal bankruptcy, an option the members felt would have “far reaching and potentially devastating effects for every citizen”.

Johnstown (population of 21,802 and located in Cambria County) is now in negotiations with its major unions on new labor contracts that might decide whether the Council’s prognostication comes true. The Act 47 plan mentioned provisions to change pension and other post-retirement benefits in order to reduce legacy costs (the last financial valuation of the pension plans in 2007 showed that the plans had a 52% asset/liability ratio and had more employees collecting benefits than on the active payroll), that are fast-becoming the bane of many municipalities in the Commonwealth and across the country.

In order to get an idea of where Johnstown is headed it is important to get a clear understanding of its current situation. That’s what our most recent report—*Johnstown: Portrait of an Act 47 Community*—does. We examined the most recent audited DCED data (2007) for the city and nine others that fall in the same population range (from New Castle with 24,375 to Carlisle with 18,406) focusing on revenues and expenditures for each city.

On a per capita basis Johnstown topped the sample for total revenues (\$1,951), a category that includes taxes, licenses, fees, funds from other governments, etc. What is interesting is that Johnstown did not top the sample for either real estate tax or wage tax collections, but did far outpace the other communities for Federal revenues (\$290) and state revenues (\$190). Remember that the Federal number reflects pre-stimulus data. The ten city group averages for the two measures were \$69 and \$100, respectively.

A municipality that receives one-fourth of its total revenues from the Federal and state governments has less incentive to control expenditures—after all, money that comes from somewhere other than taxes or local fees is viewed as “free” and allows a community to embrace projects or programs that they might not otherwise choose to place on the local tax base.

Johnstown: Revenues and Expenditures

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

That's a big part of the reason Johnstown's per capita expenditure (\$1,889) topped the sample group. This spending was 72 percent higher than the average for the ten city sample (\$1,098 per capita). Amazingly, police spending (which is usually the most expensive function for municipalities) was near the bottom of the ten city sample while other expenditure categories—fire, debt service, and pensions—were near the top. Since the bulk of most local government's expense is tied to personnel, it is not surprising that the City's per 1,000 resident government employee headcount (8.6) far exceeded the other municipalities (5.3 for the group average) just as its per capita spending topped the group.

So that's the position Johnstown now occupies: compared to other Pennsylvania municipalities of similar population size, it collects a lot of revenue, much of it derived from Federal and state governments, and it spends much more than the typical municipality of its size. This holds true even some eighteen years in Act 47 distressed status.

Back to the ominous sounding statement of Council regarding whether or not the City would enter Chapter 9 bankruptcy. Though likely not as draconian as the members might think, a bankruptcy filing would result in a restructuring of debts and possibly a change in labor contracts, including the establishment of lower retiree health care benefits and higher retirement age sought by the Act 47 recovery plan. But a court would not go so far as to force the city to liquidate assets or interfere in daily affairs.

Something has to happen to right this financial ship, and soon.

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