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9/06/2004 @ 12:00AM

Open for Business

Pennsylvania was a blue state in the 2000 election. But in politically divided Johnstown, it's the color of money that counts.

Johnstown, Pa. is a swing town in a swing state. Last time Al Gore edged out George W. Bush in surrounding Cambria County by 1,700 votes out of 60,000 cast. The same folks reelected Republican Senator Rick Santorum by 582 ballots. Today Johnstown, a hardscrabble blue-collar community, is still politically split down the middle, as is much of Pennsylvania, whose 21 electoral votes are very much up for grabs this November.

By The Numbers From Rust to Bust

Johnstown has a history of climbing out of adversity. Can it do so again?

\$23,885 Average per capita annual income.

41.2 years The median age of the city's population.

13.7% The percentage of Johnstownians who hold B.A. degrees.

\$62,700 The median price of a house in the area.

Sources: Johnstown Chamber of Commerce; U.S. Census Bureau.

Step into town—wedged between steep verdant hills and the Stony Creek and the Little Conemaugh rivers—and you get a very different picture. From its spotless streets and carefully hoed pansy beds on front lawns, you'd hardly suspect how much the city is hurting. Unemployment, while down from 8% in January, hangs stubbornly high at 7.4%, above the state's rate (5.6%), which is identical to that of the U.S. At \$28,000, median household income is one-third lower than that of the nation; houses sell for as little as \$18,000, and \$150,000 will get you a five-bedroom

mansion. Walk the neighborhoods and you won't find any gutted homes, graffiti or panhandlers. You also won't find any teenagers on skateboards or young moms. Since 1990 the number of Johnstownians between 18 and 35 has shrunk by a quarter.

It sounds like a perfect opportunity for political exploitation by one party or another. But Johnstown has survived by putting aside partisan politics. While it may have gone blue in 2000, it's the color of money that really counts here. Republican businessmen have bankrolled Democratic politicians who fetch government money and contracts, and solid Democrats behave in avowedly libertarian ways whenever that will benefit their enterprises.

People from opposite poles have had to find common cause, thanks to Johnstown's cursed history. A flood in 1889 killed 2,200 people, all but wiping the town off the map. A milder flood in 1977 ripped up sewers and roads, causing \$300 million in damage. Already hurting from cheap Japanese

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and Korean imports. Bethlehem Steel, the town's largest employer, slashed its production 13,000 by 40% and eventually shut down for good in 1992. Johnstown's jobless rate shot up to 24%, the highest in the nation. Its population dropped 48% between 1960 and 1990 to 28,000.

The demoralized city found help in John Murtha, a powerful dealmaker on the House Appropriations Committee. Murtha, a Democrat who used to run a car wash in Johnstown and was first elected to Congress in 1974, promised to bring money and jobs. That endeared him to many Republican businessmen. "You're damn right they switched," says Murtha of those who cross party lines to vote for him. "We take care of the base." Translation: Bring in the pork—as in hundreds of millions of dollars over the span of his political career in federal aid to fix roads, sewers and water pipes—to lure private enterprise, in this case defense contractors.

Republicans play a similar game. Donato Zucco, a Republican and mayor since 1994, works closely with Murtha and state politicians, mostly Democrats, to get funding. Every six weeks he meets with 35 chief executives from Johnstown's largest companies, then goes off lobbying to Harrisburg or Washington. In good GOP fashion he has revamped and trimmed the city's budget and contracted out the management of municipal parking garages. But he has also increased the tax base by going after three hospitals to challenge their tax-exempt status in court. The hospitals settled and now pay \$350,000 into the city coffers every year.

What holds Johnstown together? Let's answer that question by looking at four very different employers.

The Accidental Entrepreneur

William Polacek leaned on the government twice. Once to train unemployed veterans, welfare recipients and petty criminals. And once for a \$325,000 cleanup grant, part of Pennsylvania's brownfield program, to expand his Johnstown Welding & Fabrication Industries into a plant once owned by Bethlehem Steel. Fourteen years later Polacek, who started out welding leaky boilers and cracked car frames, employs 400 people and is on track to earn \$3 million on \$90 million in revenue. "This guy is something," says Representative Murtha. "He did this on his own."

"I had no other choice," says Polacek, 43. "It was either that or leave town."

Polacek's grandfather was a "hunky," an unskilled eastern European who stoked Bethlehem blast furnaces six days a week for \$1.50 a day. Bill's dad, a loyal union man, made \$10,000 a year welding iron for Bethlehem, not enough to support nine kids. So he started a small welding shop in his garage—which provided son Bill with a trade that would carry him through rough jobless patches in Johnstown (Bethlehem was a perpetual layoff machine after the 1977 flood—and the cascade of cheap imports) and three years knocking around the South.

By 1987 Bill Polacek had built up his welding business to the point of bidding on a job from Bethlehem. Then his dad died, soon after surgery to remove a tumor. The funeral was set for the day the bid was due. The night before, "I remember sitting at home, looking at the blueprints," says Polacek. "When he was gone, it felt sort of like a slap in the face to grow up."

Polacek got the job and enough new work to build a 3,600-square-foot shop. Within six months he outgrew it, sold it for \$100,000 and prepared to put down money for a bankrupt 60,000-square-foot factory. That's when the environmental police warned him that if he closed on the plant he could be liable for a costly cleanup of slag contamination from the long-idle blast furnaces. Polacek had everything riding on the deal—loans for the factory, new

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squatted the purchase transaction in favor of a \$1-a-month lease agreement with the property owner and used the \$100,000 in cash from his old shop to buy more presses, cutters and welding machines. After bagging the brownfield grant, he was able to pour a new concrete floor and, for \$30,000, take title to the place.

Five years ago Polacek bought the gutted shell of the original Bethlehem mill, spanning an area as large as nine football fields, for \$1.5 million and invested another \$4 million in new equipment. Today his workers weld bridge trusses, aluminum airplane loaders, deicer booms and heavy equipment parts for dozens of customers, including Ingersoll-Rand and FMC. Johnstown Welding also owns and operates businesses that do robotic welding, laser cutting, protective-powder coating, heavy machining and assembly.

His employees share in the bounty. A lifelong Democrat, Polacek pays non-union wages of \$10 to \$17 an hour, but shares a portion of any profits that exceed 3% of total sales. Big banners on the factory walls declare: "Zero defects. No exceptions. No excuses." If welders go for four weeks without a mistake, their hourly pay for the month goes up \$1. Polacek says that his best welders can earn as much as \$60,000 a year, including overtime. Four years ago, after a particularly grueling job for aerial platform maker JLG Industries, Polacek flew 100 employees, plus 50 spouses, to Miami and, from there, put them on a four-day cruise to the Bahamas. Says he: "Some of these people had never been on a plane."

The War Machine

When several defense contractors paid a visit to Johnstown in the late 1980s, they found garage-bound electronics operations that couldn't meet basic product standards. A frustrated Murtha brought in a Pentagon procurement expert (at government expense) and set up training programs. "I told our guys, You gotta do quality work," says Murtha. "If you don't, we're going to lose."

One potential loser was Kuchera Industries. A family business run out of a 1,000-square-foot space by William Kuchera and his brother, Ronald, it was barely squeezing out \$100,000 a year in sales by assembling circuit boards for PC monitors. Murtha hooked them up with a program run by Hughes Electronics with instructions on how to bid on military contracts; it also helped refocus the company on building missile guidance system parts and leasing robotic soldering machinery for assembly. Hughes even donated used equipment, like workbenches.

Most helpful of all: a suggestion to hire the disabled from a nearby rehab center—soldering is, after all, sedentary labor—who now make up 30% of Kuchera's work force. That decision put Hughes in a favorable spot when it came to winning Pentagon work, and it persuaded the government to pick up Kuchera's \$7 million training bill. The brothers have nabbed work from Raytheon, Northrop Grumman and L-3 Communications. Last year they earned \$4.5 million pretax on revenue of \$45 million. Half the business comes from assembling missile electronics, bomb-spotting robots and navigation circuits for the Bradley Fighting Vehicle and unmanned helicopter drones.

Honest Graft

If you want to be in real estate, it helps to be able to get the attention of politicians. Mark Pasquerilla has connections. He's a fundraiser for John Murtha. He's chairman of the Greater Johnstown Regional Partnership. He's

a civic booster and philanthropist. And he's got the mayor of Johnstown on

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Pasquerilla, 46, is heir to the Crown American Corp. mall and hotel fortune. In the 1980s he was flying around the country with his father, Frank, Crown's founder, in a sleek white Challenger jet, visiting groundbreaking and mall openings. At his peak, his dad ran 28 malls, 73 Hess's department stores and 20 Holiday Inns, Comfort Inns and Super 8 Motels. With a net wealth of \$350 million, Frank was on The Forbes 400 list of the richest Americans and considered buying Bloomingdale's. Frank died in 1999 and the family fortune has dwindled since, but it still makes Mark the richest man in Johnstown.

"I'm a big Republican here," says Mark on a recent afternoon, sipping a gin and tonic at the Holiday Inn, which he owns. But that doesn't stop him from bankrolling Democrats like John Murtha, for whose reelection in 2002 Pasquerilla helped raise \$300,000 and wrote endorsements published in the Johnstown and Pittsburgh papers. "I'm a fiscal conservative, but I'm also too practical to think that government money is going to be distributed around the country fairly," he says. "We've got to fight for our share."

"The trick is to find out what's going on before it goes on," says Donato Zucco, who works part time as Johnstown's \$3,500-a-year mayor and full time at Crown as executive vice president (salary undisclosed). So far the partnership Pasquerilla presides over has snared \$45 million in state and federal funding, paying for a highway bypass as well as a children's museum. "I wish that Michael Dell would come to Johnstown and open a factory," says Pasquerilla. "But we have to work with the cards we're dealt."

Pasquerilla sold Crown's mall business to the Pennsylvania Real Estate Investment Trust for \$380 million in stock and \$758 million in assumed debt last year. Of the resulting layoffs, says Pasquerilla, "not everybody has gotten a new job." Now he is trying to sell 22 of his 27 hotels, Crown's remaining real estate assets.

Pasquerilla has donated more than \$10 million toward three civic projects (a theater, a conference center and a museum; ground breaking takes place in a year or so). The goal was to make Johnstown attractive enough to lure new businesses. But so far this year Wynton Marsalis and the Vienna Boys' Choir have been the only luminaries to show. Says Pasquerilla: "This picture isn't finished."

A Biotech Boomlet

The Windber Research Institute is in a handful of buildings 10 miles outside of Johnstown, built in 1906 as a hospital for a coal mining company. The center is still mining—reams of tissue samples, put into sequencers that break them down to identify cancer-causing mutations in genes and proteins. Some of the data have produced a breast cancer vaccine now in Phase II clinical trials at Windber and the Walter Reed Army Medical Center in Washington.

This came about through happenstance. In 1997 Windber's chief executive, Nicholas Jacobs, found himself at a dinner party seated next to Representative Murtha. Jacobs, who holds master's degrees in trumpet and hospital administration, had just commissioned an audit of the Windber hospital; the prognosis was grim. Murtha had recently appropriated \$25 million for mammography and breast cancer research at Walter Reed.

Murtha scrounged for another \$7.5 million in federal funding. Jacobs went shopping: liquid-nitrogen freezers for banking biopsy tissues; microlasers for dissecting tumor samples; and a mass spectrometer for protein analysis. He hired 40 physicians and Ph.D.s to create a database of 10,000 tissue samples

from Walter Reed and other military hospitals, paired with data about (he) sonor smoked, lived under high-tension wires, used an electric blanket, grew up on a farm, etc. Jacobs also worked out a deal with the Nigerian Army to receive rare Stage IV breast tumors, unavailable in the U.S. since growths here tend to be diagnosed and excised early. Data mining identified cancers that respond well to vaccines and targeted genetic drugs. "It's truly individualized medicine," says Jacobs.

In five years Jacobs has won \$75 million in research contracts, the majority from the government. Walter Reed ran its first breast cancer vaccine trial on 14 patients in remission last year. (Only one had a relapse after the trial ended.) Windber research has yielded three patent applications for exploiting the data in gene mutations causing breast cancer. It's a far cry from the hospital's work of yore—treating black lung disease and limbs severed in mine accidents.

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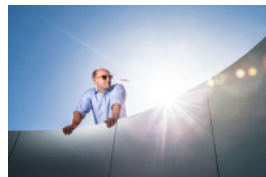
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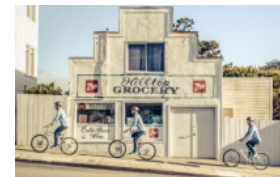


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