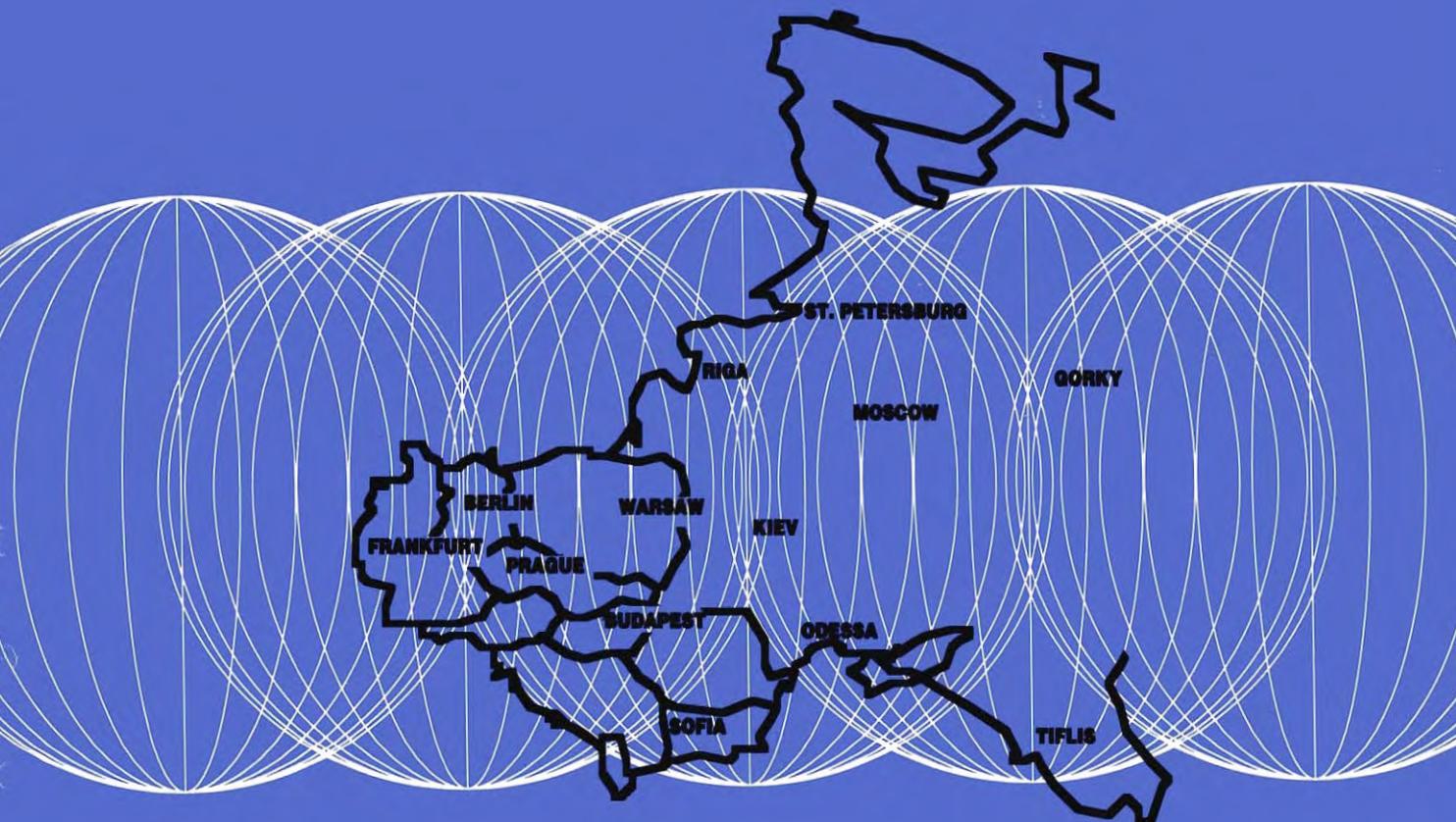


AN INTERNATIONAL ACTIVITIES PROJECT

**FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE**

**OPTIONS
FOR ADMINISTERING
HOUSING ALLOWANCES
IN RUSSIA**



THE URBAN INSTITUTE

Prepared for the Office of Housing and Urban Programs (USAID)

**OPTIONS
FOR ADMINISTERING
HOUSING ALLOWANCES
IN RUSSIA**

Prepared by

Jill Khadduri*
Raymond Struyk

The Urban Institute

Prepared for
USAID Shelter Cooperation Program
for the City of Moscow and the Russian Federation

March 1993

*Jill Khadduri is Director of the Policy Development Division at the US Department of Housing and Urban Development and prepared this report while on assignment to the USAID Office of Housing and Urban Programs. This report is a complement to USAID's program of technical assistance in the Russian Federation being implemented by the Urban Institute.

ADMINISTERING HOUSING ALLOWANCES IN MOSCOW

TABLE OF CONTENTS

INTRODUCTION	1
I. WHAT IS A HOUSING ALLOWANCE?	2
II. OVERVIEW OF THE ADMINISTRATIVE SYSTEM	9
A. Centralization of the Use of Residential Rents for Subsidizing Municipal Housing	9
Option A: Centralized System	13
Option B: Decentralized System	14
B. The Housing Allowance Office	14
Recommended Functions	17
Options	19
C. Residential Buildings that are Not Municipal Housing	20
1. Departmental Housing	21
2. Cooperative Housing	23
Coops Members Treated as Municipal Renters	24
Coops as Self-Supporting	25
3. Condominiums (privatized buildings that were formerly municipal housing)	26
4. Private renters	28
D. Transition to Market Rents for Municipal Housing	29
III. PLANNING AND START-UP	30
A. Planning and Development	31
B. Managing the Intake Process	35
IV. THE ADMINISTRATIVE PROCESS: HOW FAMILIES QUALIFY FOR HOUSING ALLOWANCES	38
A. Step 1: The Intake Interview	51
B. Steps 2 and 3: Documentation of Income and Payment Calculations	32

C.	Steps 4 and 5: Rent Payments and Rent Verification	56
V.	SUBSIDIES TO BUILDINGS IN THE MUNICIPAL HOUSING SYSTEM	59
A.	Communal Services Charges and Subsidies under the New System	59
B.	Simplifications to Flows of Funds as Part of the New System	62
1.	Payments for Unsubsidized Commercial Services	63
2.	Commercial Rents and Commercial Services Payments	64
3.	Fees for Various Services performed by RAIUS	66
C.	Estimating Budgets for Housing Management Organizations	67
VI.	ONGOING ADMINISTRATION	70
A.	Recertification of Incomes	71
B.	Changes to Rent and Subsidy Standards	72
C.	Family Turnover	73
D.	New Buildings and Reconstructed Building	75
ANNEX A.	Housing Allowances Program of the City of Moscow	76

LIST OF TABLES

Table I.1:	Housing Allowance Formulas	4
Table I.2:	Overhoused and Underhoused Families	5
Table I.3:	Types of Housing Covered by Moscow Housing Allowance	7
Table II.1:	Functions of the Housing Allowance Office	15
Table III.1:	Intake Workload at a Housing Allowance Branch Office (Prefecture)	36
Table IV.1:	Documentation of Presence of Additional Family Members	42
Table IV.2:	Proposals on Income to be Counted for Housing Allowance	44
Table V.1:	Current System of Family Charges and Subsidies for Maintenance and Communal Services	60
Table V.2:	Components of Gross Rent and Maximum Social Rent under the Housing Allowance	61
Table V.3:	Information Reported to the Department of Communal Services by the Housing Allowance Fund	69

LIST OF FIGURES

Figure II.1:	Flow of Rents and Subsidies to Municipal Housing	12
Figure II.2:	Organization of Housing Allowance Office	18
Figure III.1:	Planning and Development for Housing Allowance	32
Figure IV.1:	Housing Allowance Administration: Summary of Program Steps	40
Figure IV.2:	Housing Allowance Administration: Income Documentation	54
Figure IV.3:	Housing Allowance Administration: Rent Payments and Delinquencies for Municipal Housing	58
Figure V.1:	Flow of Funds as of November 1993 for Municipal Housing	65

INTRODUCTION

The Law on Fundamentals of Housing Policy in the Russian Federation was passed by the Supreme Soviet in December 1992 and signed into law by President Boris Yeltsin. Implementation of the provisions of this landmark law will restructure the housing sector in the Russian Federation.

The most far reaching restructuring will occur in the State rental sector. The law requires that within five years charges to tenants for maintenance and communal services be increased to cover cost fully. However, the law also recognizes that some families will not be able to afford to pay these costs, and for this reason it permits the governments of republics, krajs, oblasts, and autonomous municipalities to establish housing allowance programs-- programs which provide payments to low income families that are to be used to help pay for rents. Under housing allowances, larger subsidies are received by poor families.

This paper provides concrete suggestions for the administration of housing allowances. Other papers produced by our group give guidance on designing programs for increasing rents on a step-by-step basis and introducing housing allowances.¹

A version of this paper was originally prepared for the City of Moscow, which will begin raising maintenance charges

¹ R. Struyk, N. Kosareva, J. Daniell, C. Hanson, and M. Mikelsons, *Implementing Housing Allowances in Russia: Rationalizing the Rental Sector* (Washington, DC: The Urban Institute Press, 1993); and, J. Daniell, S. Puzanov, and R. Struyk, *Guidelines for Designing Programs for Raising Rents and Implementing Housing Allowances in Russian Republics and Municipalities* (Moscow: Urban Institute Technical Cooperation Office, 1993).

in April 1993 and introduce housing allowances in October 1993 when another major increase in charges for maintenance fees and communal services is scheduled.² It has been modified to introduce more options on critical administrative questions-- including how to organize the flow of funds among various government agencies involved in housing maintenance and how housing allowances should be structured for households in different living arrangements, i.e., departmental housing, cooperatives, municipal housing, private rental units, and condominiums. Still, the paper is focused on Moscow as this makes the examples highly concrete.

We emphasize that this paper is being prepared before the City of Moscow has finalized all of its decisions. Hence, the reader should not rely on it as a fully accurate description of the program in Moscow.

The first chapter defines housing allowances and gives examples of how they are calculated. The second chapter gives an overview of the administrative system; this part contains most of the key issues that local administrations will have to address. The next four chapters then discuss aspects of administration in greater detail: planning and start-up; the process for making determining whether families are eligible for allowance payments (including checking on incomes) and how to calculate the subsidies; greater detail organizing the administration of the allowances for municipal units; and, the routine tasks necessary after the program has been established.

I. WHAT IS A HOUSING ALLOWANCE?

A housing allowance is a subsidy paid to a family or on behalf of a family when it otherwise would be an economic hardship for the family to pay its rent and communal services

² Jill Khadduri, *Administering Housing Allowances in Moscow* (Moscow: Urban Institute Technical Cooperation Office, 1992). The Decree of the Mayor of Moscow on the city's housing allowance program is included in Annex A.

charges. The housing allowance pays the difference between typical housing costs in the city for a family of that size and a social norm chosen by policy-makers. This social norm is the percentage of income a family is expected to be able to pay for housing. The key feature of the housing allowance is that it depends on the family's income: the lower the family's income, the larger the family's housing subsidy and the smaller the amount of the full costs of housing the family must pay out of its pocket.

Housing allowances are very useful in a situation in which housing costs are increasing rapidly. For example, in Russia and other countries moving to market relationships in the housing sector, housing allowances will make it possible to raise rents to a level that reflects the current market prices of maintaining housing and providing communal services. Over time, housing allowances will make it possible for the distinction between municipal housing and private housing to disappear. As renters or as homeowners, families will pay housing costs set by the market, so that housing can be provided on an efficient, competitive basis. At the same time, families who cannot afford market rents or homeownership costs will be protected.

Each city or republic-level government must consider a particular set of options for increasing rents and implementing a housing allowance:

Increased rents and communal services charges (gross rents) will be phased in over a period of several years.

For each size family, there will be a "maximum social rent" (MSR) established, based on the new rent and communal services charges per square meter for the size unit that reflects a social norm for housing for that family.

The family will receive a housing allowance equal to its MSR minus a percentage of its income ("t"). Depending on the option chosen and the month and year in which the housing allowance is paid, "t" will be 5, 7, or 10 percent.

The actual rent and communal services charges (net rent) paid by the family each month will be the gross rent minus the family's housing allowance.

Income will be reexamined every six months and the phase in for rent increases and new MSRs will be at least that frequent.

Table I.1 shows the formulas for the housing allowance and the net rent paid by the family.

TABLE I.1: HOUSING ALLOWANCE FORMULAS

Gross rent = (actual sq.m.) x (charge per sq.m. for rent or maintenance and communal services)³

MSR = (social norm sq.m.) x (charge per sq.m. for rent or maintenance and communal services)

Housing allowance = MSR - (t x family income)

Net rent = gross rent - housing allowance

Note that the MSR is set for the size unit that the family is considered to need, not for the unit in which the family is actually living. This social norm for the number of square meters of total space per family is based on actual statistics for the average size of units with different numbers of rooms in the city of Moscow. Since few families will live in units that are exactly the same size as the social norm, families rarely will pay as the percentage of their income spent for housing

³ This is a slightly simplified formula for both gross rent and MSR and is the formula that has been used for estimating the effects of various housing allowance options. The actual gross rents and MSRs in the proposal under consideration by the Moscow Government would be based on a charge per square meter for maintenance and heat plus a charge per person for hot water, cold water, and cooking gas. See below, Section V.

TABLE I.2: OVERHOUSED AND UNDERHOUSED FAMILIES

Case 1: If the family lives in a unit that has exactly that number of square meters, the net rent paid by the family will be equal to the percentage of income established by "t."

income or $y = 2000/\text{mo.}$

$t = .05$

rent and communal services per sq.m = 5 ruble/mo.

social norm for family = 50 sq.m.

family's actual unit = 50 sq.m.

MSR = $5 \times 50 = 250$ rubles

gross rent = $5 \times 50 = 250$ rubles

housing allowance = $250 - .05(2000) = 150$

net rent = $250 - 150 = 100$

net rent/ $y = 100/2000 = .05$

Case 2: If the family lives in a larger unit than the social norm, it will pay more than "t".

family's actual unit = 60 sq.m.

MSR = 250

gross rent = $5 \times 60 = 300$

housing allowance = $250 - .05(2000) = 150$

net rent = $300 - 150 = 150$

net rent/ $y = 150/2000 = .075$

Case 3: If the family lives in a unit smaller than the social norm, it will pay less than "t".

family's actual unit = 40 sq.m.

MSR = 250

gross rent = $5 \times 40 = 200$

housing allowance = $250 - .05(2000) = 150$

net rent = $200 - 150 = 50$

net rent/ $y = 50/2000 = .025$

Case 4: For a severely underhoused family, the housing allowance can be larger than the family's gross rent, in which case the family will receive a positive cash payment (up to some limit chosen by policy-makers).

family's actual unit = 25 sq.m.

MSR = 250

gross rent = $5 \times 25 = 125$

housing allowance = $250 - .05(2000) = 150$

net rent = $125 - 150 = -25$

The family pays no net rent and, instead, receives a payment of 25 rubles per month.

exactly the social norm chosen for "t," as explained in Table I.2.

Families living in housing larger than the social norm for their family size will have an incentive under the new policy to move to smaller units. Living space freed up by these moves will help solve the shortage of living space in Moscow. However, because of the difficulty and costs of moving, the new policy will be implemented with the following transition rules: 1) families who are overhoused will be given help in finding smaller units, and 2) for families who are overhoused, the difference between their gross rent and the MSR (the gross rent they would pay if they lived in a unit of the appropriate size) will be phased in over a one-year period.

In the proposal originally under consideration by the Moscow Government, neither the family nor the owner of the housing actually receives a housing allowance in the form of a payment of money, with the exception of those severely underhoused families described in Case 4 in Table I.2. (ultimately it decided against cash payments to anyone). From the point of view of most families, the housing allowance takes the form of a net rent that is lower than the gross rent the family would otherwise pay. From the point of view of the owners of housing, the housing allowance takes the form of a lower rent than they otherwise would receive from that family. For the municipal housing stock, it is Moscow's municipal housing system as a whole that receives lower rent from families who are eligible and apply for housing allowances than from families who pay the full new gross rent after each rent increase. This will be explained in more detail in Section II of this paper.

Housing allowances can apply to families living in any type of housing. The proposal for Moscow is for the rent increase, and the housing allowance, to apply to the types of housing shown on the top panel of Table I.3. The lower panel shows types of housing that could be included in the housing allowance program.

Note that because Moscow has almost no individual housing units, their inclusion in the program was never seriously discussed.

TABLE I.3: TYPES OF HOUSING THAT COULD BE COVERED BY HOUSING ALLOWANCE

Proposal for Moscow

municipal rental units

departmental rental units

units in cooperative buildings (whether or not the loan has been paid off)

privatized units in municipal or departmental housing occupied by the family who privatized

privatized units in former municipal or departmental housing occupied by the family who privatized

privatized units occupied by renters

Other housing

individually owned units

units privatized but later transferred to another owner

However, in Moscow the housing allowance will not be available to homeowners who have acquired their units by buying them from the original privatizers ("secondary transfers") or who have bought new units sold at market prices. Families who can afford to buy housing at market prices are assumed not to need a housing allowance to help them pay housing costs. The housing allowance will also not be available to illegal sub-tenants of municipal or departmental housing, that is, to families living

in units that continue to be registered in the name of a different family. All these, of course, are decisions that other governments could make differently.

In many countries that have housing allowances, the housing allowance may only be paid on behalf of a family who lives in a unit that is considered to be of adequate quality. Families who live in units that do not pass such a housing quality test must either arrange to have their unit repaired or move to a better housing unit.

Such a housing quality standard has many advantages: for example, it helps persuade managers of apartment buildings to keep those buildings in good condition, because otherwise families would move elsewhere to protect their eligibility for housing allowances. However, in the present situation of housing shortage in Moscow, it is not possible to implement a program with a housing quality standard. With the exceptions noted above for certain kinds of homeowners and for illegal sub-tenants, all housing will be eligible.

The new policy of rent increases and housing allowances will be implemented for the entire city of Moscow, so that residents of different parts of the city, as well as different types of housing, will be treated fairly. However, the policy may have to be phased in over a short period of time, in order to make possible the administrative work necessary to implement the new system for a city of three million families. This could mean that some microdistricts will experience new rents and housing allowances slightly sooner than others during the phase-in. Whether such a phase-in will be necessary depends on the size of the increase decided on for gross rent. The smaller the increase, the fewer families will be eligible for the housing allowance and the more families will simply need new payment books showing their new obligations to pay for rent and communal services. As of February, the goal is to introduce allowances in the whole city in October 1993.

II. OVERVIEW OF THE ADMINISTRATIVE SYSTEM

This section describes the rationale and the basic structure of the new system to be put in place for administering both housing allowances and the subsidy system for municipal and other housing. Later sections of this paper will describe the new administrative system in more detail.

A. Options for Municipal Housing

The new policy in Moscow of rent increases and housing allowances will provide some additional revenue for housing maintenance and communal services without an increase in the City's budget for municipal housing. Under the options being considered, the increased gross rents (rent or maintenance and communal service charges) paid by families who do not qualify for housing allowances always will represent additional revenue for maintenance and communal services. In many cases the net rents paid by families who do qualify for housing allowances will also be somewhat higher than the old rent and communal services charges. In other cases, families who receive housing allowances will pay less rent than they have in the past. Part of the increased revenue from other families will be used for rent reductions for these families.

Thus the overall rent increase will both pay for the housing allowance and leave some of the increased gross rents for additional maintenance and communal services costs.

This additional maintenance and communal services budget will cover part of the shortfall that has occurred in recent years between the full costs of maintaining and servicing municipal housing and the amounts available in the City's budget. It is important to note that, at the same time as increasing gross rents, the City is reforming the management of the municipal housing stock by experimenting with private management of municipal housing and by pursuing privatization policies that

will make it possible for whole buildings to leave the municipal housing system and become condominiums managed by homeowners associations. These reforms will reduce the full costs of maintaining and servicing municipal housing, or improve the quality of the management and maintenance of the housing, or both.

It will take several years before the increased gross and net rents for municipal housing cover the full costs of maintenance and communal services. Until then, the City will have to add other sources of revenue, as it does now. The other sources of revenue are, and will continue to be, subsidies from the City's general budget and part of the rents paid for commercial space in municipal housing buildings. Thus, for each primary housing maintenance organization or RAIU, the Department of Communal Services will continue to estimate an annual budget and to provide funds based on that budget.

Relatively better-off families and lower-income families are not evenly distributed across the city's municipal housing. Therefore, unless funds from the budget and commercial rents are adjusted, for some RAIUs the new gross and net rents paid after the rent increase and the implementation of the housing allowance will exceed the amount budgeted for housing maintenance and communal services, while for others the new rents will be less than needed. Therefore, the new system of funding municipal housing after the rent increases and housing allowances are implemented will depend on cross-subsidization of families who cannot afford the increased rents by families who can, as well as on the addition of other municipal funds. This cross-subsidization may occur, not only between RAIUs, but also between the municipal housing in the city's ten prefectures.

Figure II.1 provides a simplified explanation of the old system and the recommended new system. The solid lines in the figure represent flows of money and the dotted lines, the instructions to families on the payments they are obligated to

make.

Under the system in place as of November 1993 (Panel A), family payments for rent and communal services go directly to the microdistrict housing management organization (the RAIU). The RAIU calculates the payments owed by each family and gives the family a payment book. The family pays the amounts owed into the RAIUs account at Sberbank.

The City budget adds to those family payments an amount of subsidy estimated to cover the difference between the rents and communal service payments owed by families and the total budgets estimated to be needed by each RAIU. (In the current situation of budget shortfall, the actual subsidy paid to each RAIU is some fraction of the estimated need.) These funds are allocated to the RAIUs by the Moscow Department of Communal Services and Department of Finance through their counterpart organizations at the prefecture level. An additional source of revenue is a portion of the commercial rents (rents paid for non-residential space) collected by the Moscow Property Committee on a centralized basis since the beginning of 1992.

Since early 1992, funds flow from the prefecture level organizations to the RAIUs through the Department of Unified Customer (DEZ). The RAIU uses its rent collections and subsidy funds to pay its employees' wages and salaries, to pay its bills to communal services providers⁴, and to pay other materials suppliers and contractors.

There are two broad alternatives for changing the existing system so that it works smoothly with housing allowances. They differ as to the degree to which operations are centralized at the municipal level. The choice as to which one a locality selects probably depends on the size of the city (and hence the

⁴ Technically heat is not a "communal service," but it is often referred to as such in discussions of the municipal housing rent and subsidy system and the issues relating to structuring its subsidies are the same as for cold water, hot water, and gas.

Figure II.1 Flow of Rents and Subsidies to Municipal Housing

—————> money - - - - -> instructions on rent payments

A. System as of November 1993

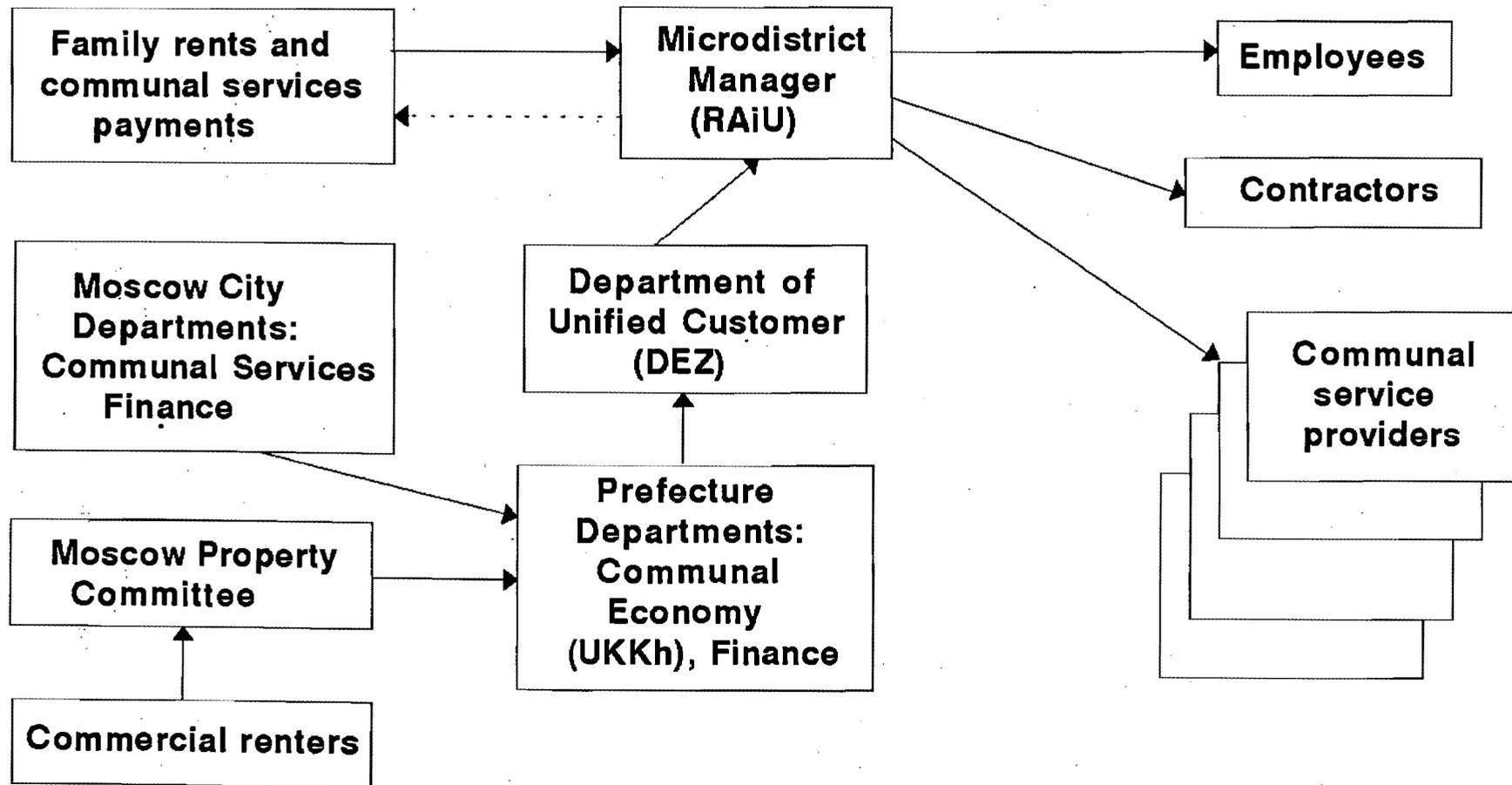


Figure II.1 Flow of Rents and Subsidies to Municipal Housing

—————▶ money - - - - -▶ instructions on rent payments

B. Option A: Centralized System for Housing Allowance

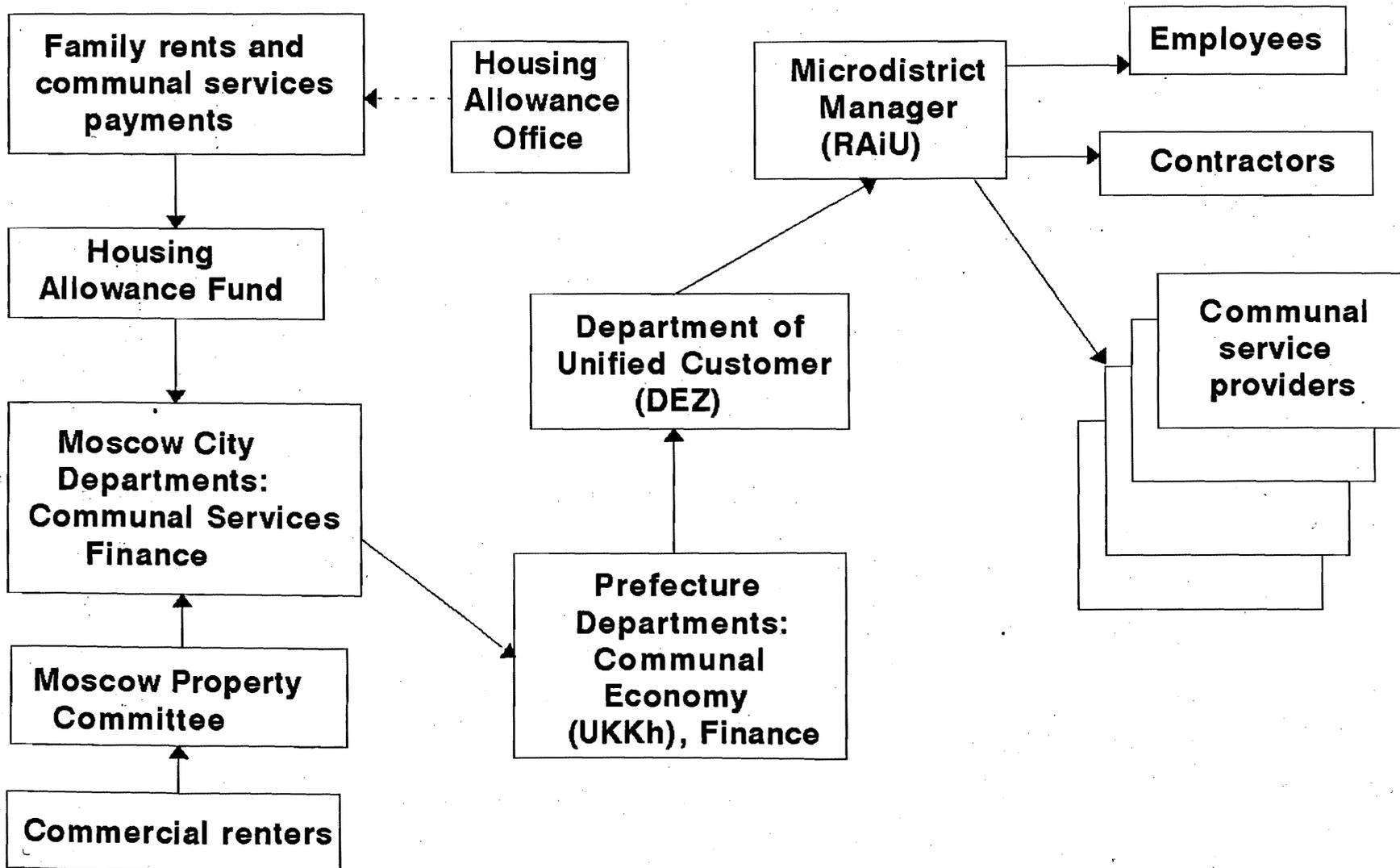
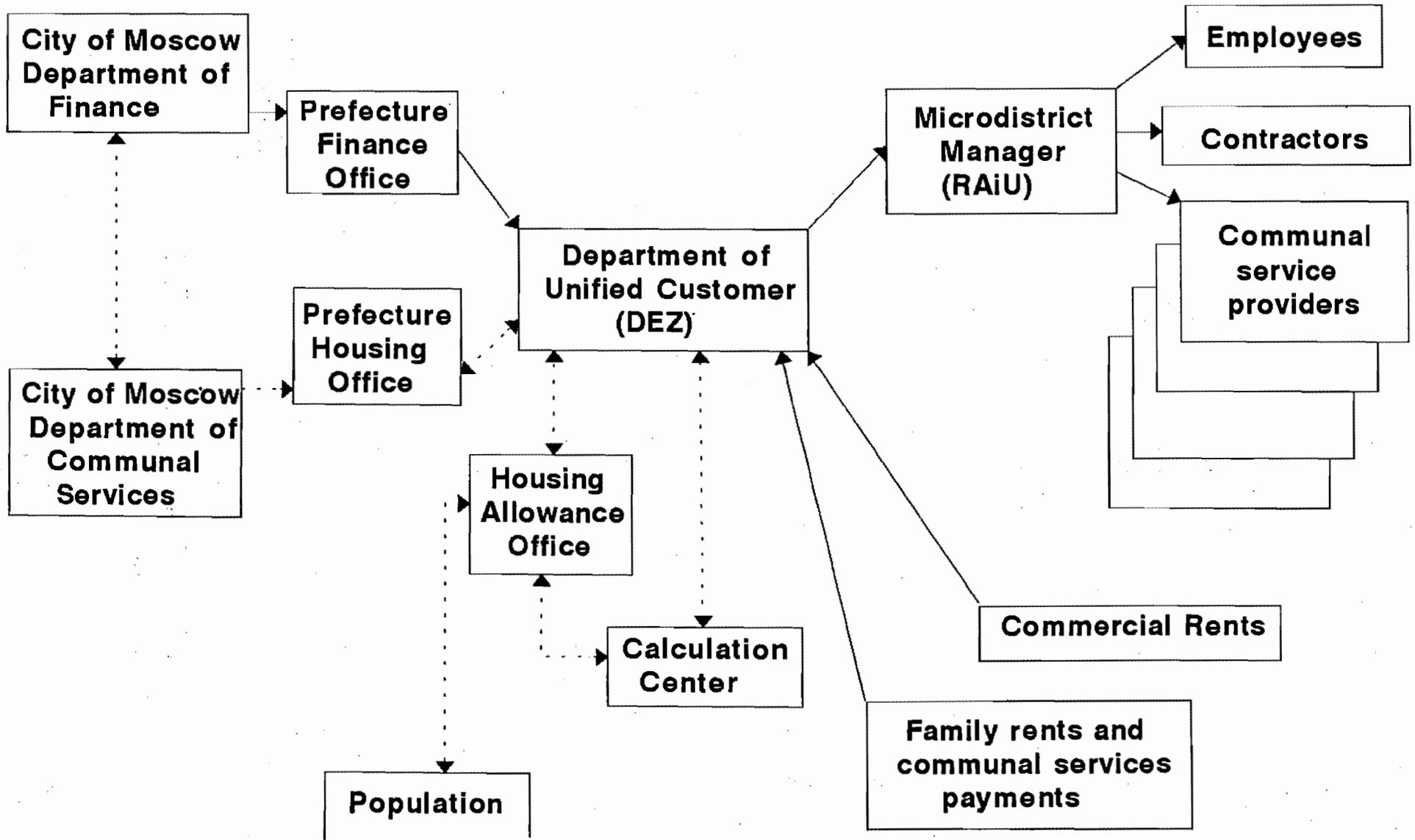


Figure II.1 Flow of Rents and Subsidies to Municipal Housing

—————> money - - - - -> instructions on rent payments

C. Option B: Decentralized System for Housing Allowance



number of families expected to participate in the allowance program), with larger cities likely selecting the more decentralized model, and on the capabilities of the district offices responsible for housing maintenance.

Option A: Centralized System

Under this option a city-wide Housing Allowance Fund is established. All rents for municipal housing are paid into this fund and then these are allocated to RAiUs through the budgeting system of the Department of Communal Services, along with the other sources of funds for housing maintenance and communal services (i.e., the funds provided by the City budget and commercial rents).

Thus under this system, shown in Panel B of Figure II.1, family payments will be made to a central, city-wide Housing Allowance Fund, through payments to that organization's account at Sberbank, rather than to the individual RAiU accounts. The Housing Allowance Fund will transfer those payments to the Moscow Department of Finance, where they will be put into a segregated account and joined to City budget funds and to whatever funds continue to be available from commercial rents. The Department of Finance, by agreement with the Department of Communal Services, will allocate these funds through their prefecture level counterpart organizations and the DEZs.

The RAiU will no longer provide the family with its payment book. A new organization at the prefecture level, the Housing Allowance Office, will replace the RAiU as the organization responsible for calculating the amounts that each family must pay, as part of its overall responsibility for administering housing allowances. Within each Prefecture there will be a series of Housing Allowance Offices, probably at the Municipal District level, that take applications from the tenants and calculate the subsidy payments due to those receiving allowances.

Option B: Decentralized System

Under this system, shown in Panel C. of Figure II.1, the centralized Housing Allowance Fund is not created. The new Housing Allowance Office will be established at the DEZ level, although certain functions--such as working with the Office of Tax Inspection and assisting families who need to move to smaller units--will be handled at the Prefecture or Municipal level.

In this model the DEZ is the key actor. The DEZ receives tenant payments and allowance payments made on behalf of the tenants who live in its district. Funds are allocated to it for the RAIUs in its area by authority of the Department of Communal Services from the City budget and commercial rents, based on estimates of the difference between the cost of operating the buildings in each DEZ's region and the expected tenant payments (including allowances). The DEZ will make a unified payment to the RAIU.⁵

The Calculation Centers belonging to the City would be charged with making the actual calculations of subsidies payments due to tenants and estimating the total revenues which will be received by each DEZ from tenants, including allowance payments. The Centers would also be responsible for preparing the rent payment books for all tenants in state housing. A system of DEZ-level Housing Allowance Offices would take applications from tenants and provide this information to the Centers to use in computing subsidy payments.

B. The Housing Allowance Office

The Housing Allowance Office will be a new, private commercial organization with which the Department of Communal Services will contract to administer the housing allowance

⁵ If a building is being managed by a private company, it will receive the same funding as the RAIUs would, unless some other arrangement has been made.

TABLE II.1: FUNCTIONS OF THE HOUSING ALLOWANCE OFFICE

public information about new rents and housing allowances
family intake/application process
certifying/documenting family income and family size
calculating rents, housing allowances, and family payments
sending payment book to family
verifying rent payments starting the process for pursuing delinquencies
assisting with requests for relocation and with family problems with housing managers
periodically recertifying income and recalculating rents
providing the Department of Communal Services with information needed to monitor rents and housing allowances and to estimate budget needs for municipal housing
administering housing allowances on a contract basis for non-municipal owners of housing

program for municipal housing. Each DEZ will have a branch Housing Allowance Office, which will be responsible for administering the system for rents and housing allowances for all the families living in municipal housing in the prefecture and for families in non-municipal residential buildings that choose to follow the new policy of rent increases and housing allowances.

The functions of the Housing Allowance Office are listed in Table II.1 and will be described in more detail in sections IV and VI of this paper.

There are many reasons for establishing a new organization, rather than using the existing institutions of the housing management system:

Those organizations are already in a period of organizational stress, as new institutional relationships have been set up among the central Moscow government and prefecture-level organizations.

The city's objective for primary housing management organizations (RAiUs) is to transform them into efficient, competitive professional organizations and/or replace them with private managers. Therefore, the RAiUs badly need to shed functions and to focus on their central responsibilities for housing management and maintenance, rather than taking on new functions.

The RAiUs would have conflicting incentives that might deter them from certifying income accurately. For example, the RAiUs might want to minimize turnover of units and, therefore, want to charge families less net rent than the families really owe so as not to encourage them to move to smaller units. Or the RAiUs might simply want to minimize conflict with families with whom they have to deal on a day-to-day basis.

The Department of Unified Customer (DEZ), which has a kind of ownership or tenant representation role delegated by the City, has similar conflicts of interest. In addition, the DEZs are new organizations trying to cope with these new functions.

A Housing Allowance Office (HAO) will be able to specialize its functions and set up streamlined and automated systems for carrying out the limited set of tasks needed to administer a housing allowance and to collect rents. This does not mean that the new system should not build on and take advantage of institutional capacity already in the system. For example, there appears to be no reason to move away from Sberbank as the financial institution that receives family payments. As suggested above the Information-Computing Center of the Department of

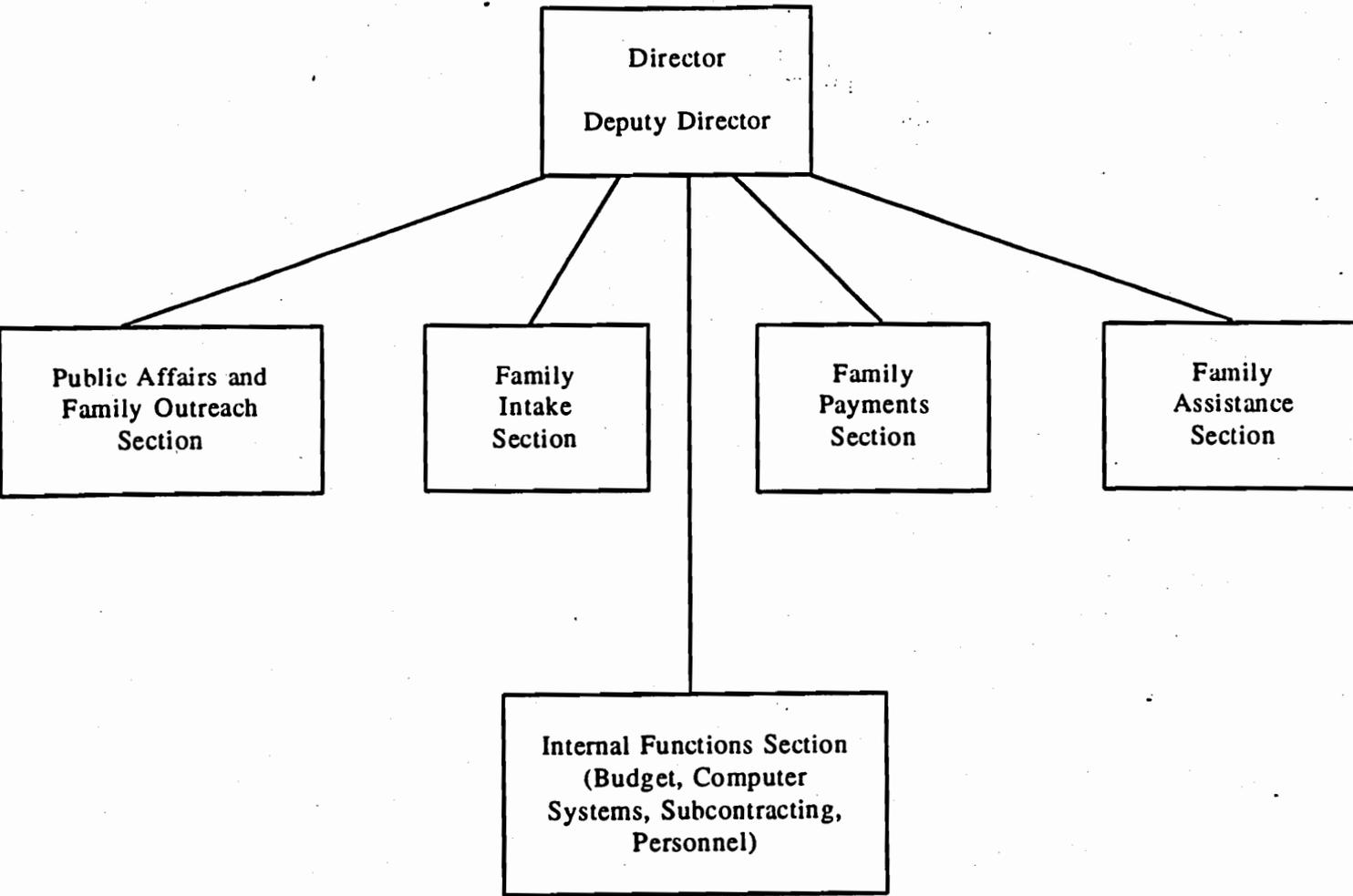
Communal Services, or its constituent branches at the prefecture or subprefecture level, will likely be called upon to provide significant data-processing support to the new system on a subcontract basis.

Recommended Functions

Figure II.2 shows the recommended organization of the Housing Allowance Office at the level dealing with the public. The key feature of this organization is that the staff who interview families, begin the process of verifying their income, and make the preliminary calculations of their housing allowances and rent payment obligations (the Family Intake Section) are different from the staff who receive the results of the requests for income documentation and make the final payment calculations (the Family Payments Section). This is done for two reasons: 1) to minimize opportunities for bribery and collusion on the part of intake staff by having their work verified by a different staff, and 2) to establish specialization of functions and skills. The Family Intake Section staff will talk with families directly and need to be skilled at interviewing people and putting them at their ease, while the Payments Staff will be more like a data processing and accounting office. At the same time, the Family Intake Section will process a large number of cases, perhaps 15 per day, in more or less the same way. In order not to break the flow of this work, which will be very important for timely implementation of the whole program, more customized services to families will be handled by a separate Family Assistance Section.

The Family Assistance Section will provide help to families who want to move to different housing units (in particular, those who currently are overhoused) and to families who have serious complaints about their housing managers. This latter function is necessary because of the absence of a housing quality standard as a condition of receiving a housing allowance and because the centralization of rent collection for municipal housing will mean that a family's refusal to pay rent will become a much more

Figure II.2: Organization of Housing Allowance Office



indirect threat for housing managers. There will need to be some mechanism for identifying managers who are acting irresponsibly and threatening to cut off their subsidies and help their families to move elsewhere.

The link between the housing allowance and the system for subsidizing the management of municipal housing will be discussed further in Section V of this paper. For example, in addition to the issue of penalties for bad performance, the introduction of the new administrative systems connected with a housing allowance will provide an occasion for rationalizing and simplifying some of the features of the current system for subsidizing housing management, such as circular and overly complex flows of funds between housing management organizations and communal services providers.

Options

The foregoing gives what we believe is an efficient structure for the Housing Allowance Office located at the municipal district level. However, depending on local circumstances, some reallocation of functions between these offices and others may be appropriate. Two examples come to mind.

1. Computation of payments. If there is insufficient computing capacity to permit each local HAO to have an adequate computer capability, then these calculations would be done at more centralized facilities. This option may well be adopted by Moscow.

2. Some administrators might also want to centralize the Family Assistance Section, perhaps at the Prefecture level. While there may be efficiency arguments for this, the overall merits seem dubious. In particular, the applicant would have to visit multiple offices--a time intensive and inconvenient task. It would appear to be easier for the Family Assistance Section at each HAO to be provided information about all housing

opportunities from the centralized source rather than sending the tenant to another office. Moreover, if the tenant is dealing with different administrators, the coordination among them can become a genuine problem.

C. Residential Buildings that are Not Municipal Housing

A system must also be set up for administering housing allowances and paying for the maintenance and communal services budgets of residential buildings that are not part of the municipal housing system. The general principle should be to make these buildings self-supporting as soon as possible in order to encourage the overall process of privatization, as well as the establishment of market relationships in the housing sector and the incentives for good housing management that flow from market relationships. Therefore, the housing allowance should not be the occasion for centralizing the funding for the management of these buildings.

If the subsidy system for these buildings is not centralized, it will not always be possible to pay for housing allowances for relatively lower-income residents of the buildings through the higher rents paid by relatively higher-income residents of the same buildings, although it usually will be possible to do so. In some limited cases the City will have to fund housing allowances for families in these buildings out of its own budget (that is, out of the three sources of funds available to it for subsidizing municipal housing: the rent payments from municipal housing, rents for commercial space in residential buildings, and the general city budget.)

At the same time, the housing allowances for which residents of these buildings will be eligible should be administered by an organization other than the owner of the housing, because of potential problems of conflict of interest. These may be different from the conflicts of interest noted above for the RAIU and DEZ but equally severe. For example, unless residents of

these buildings are covered by the general system of outreach and intake to the housing allowance program, the owners of buildings who are required to provide housing allowance protection to some of their residents may try to avoid informing them of this fact. It is in the interests of these owners not to provide the housing allowance-based reductions for some residents, but rather to require all residents will pay the higher gross rents permitted by the new policy.

1. Departmental Housing

Under the current system, families in departmental housing pay the same rent as families in municipal housing, but the maintenance and communal services are subsidized by the ministry or enterprise (called "agency" hereafter) to which the housing belongs. The agency or its management organization has direct contracts with communal services providers, which, generally speaking, charge the same rates to the housing management organizations that manage departmental housing as are charged to the RAiUS that manage municipal housing.

In the past the state indirectly subsidized the maintenance of this housing through budget allocations to the enterprises and it still does so by providing a tax exemption from the enterprises taxable profits that were used for this purpose. Many enterprises with low-value housing turned it over to the City under a policy that encouraged the transformation of departmental housing into municipal housing. Other enterprises continue to own and subsidize this housing, either by permitting it to be a drain on their resources or by cross-subsidizing it from rents for commercial space. The rents for non-dwelling space in departmental housing in Moscow still belong to the owner of the housing, unless the owner of departmental housing is itself part of the municipal government (for example, the water company).

Under Moscow's new policy, each enterprise, government

ministry, or other organization that owns departmental housing will be required to follow the new gross rents for municipal housing and to implement a housing allowance for those residents, either renters or former renters who have privatized their units, who could benefit from the subsidy -- that is, those families for whom $MSR - ty > 0$. The parameters of the housing allowance program will be the same as for municipal units. Agencies will be required to contract with the Housing Allowance Offices for the administration of the housing allowance. However, instead of paying rent into the Sberbank account of the city-wide Housing Allowance Fund, families in departmental housing will continue to make payments to the individual Sberbank accounts of the departmental owners.

Most agencies will be able to fund their housing allowance obligations entirely from the increased gross rent payments made by other families. This is true because, for most families, housing allowances are simply a net rent that is lower than the new gross rent but still the same or higher than the old rent paid by the same family.

There may, however, be some agencies who would actually lose income from family rent and communal services payments as a result of the new policy, if their residents have very low income and, especially, if they are also severely underhoused. Such families might pay less rent under the new system than they were paying before, and some could receive a positive payment of a housing allowance from the agency's Sberbank account, if cash payments were permitted. Such a situation could arise, for example, for owners of housing for unskilled workers, if the same agency did not also own housing for higher-level employees.

There are at least three options for dealing with this situation.

Option 1. The City pays makes a compensatory payment to the agency to cover the agency's actual, after-tax-deduction loss.

While this will be attractive to the agency, it represents a clear increase in the City's cost of introducing housing allowances and will very likely be resisted by most local governments.

Option 2. The agency must make the payments. This is the option adopted by Moscow.⁶

Options 3. The agency be permitted to negotiate with the City to turn over the ownership of part or all of the agency's housing stock for operation as municipal housing. For the City to consider such an offer, the agency would have to demonstrate that it was not using this occasion to get rid of buildings occupied by low-income families and to keep buildings occupied by higher-income families and/or with commercial renters who would have been able to cross-subsidize the lower-income buildings. Even if such a demonstration is made, however, the City would not be obligated to accept the buildings.

2. *Cooperative Housing*

Cooperative buildings, with few exceptions, currently are managed by the municipal housing management organizations on a contract basis. Cooperative buildings in Moscow⁷ pay to the RAiUs a maintenance fee of 19.1 kopecks per square meter, which is higher than the rent charged to families in municipal housing. However, this amount was established in 1971 and for many years has not been high enough to cover the full cost. Some cooperatives charge their members higher maintenance fees but do not pass the additional revenue on to the RAiUs.

Members of cooperatives pay approximately the same charges

⁶ For enterprises that are privatized, a Presidential Decree requires that the enterprise cannot privatize its housing stock and that the enterprise must negotiate how its housing stock will be maintained with the local government. In effect, the Decree suggests a result somewhere between these first two options.

⁷ The system is different for other cities.

for communal services as residents of municipal housing. However, if the cooperative is managed by a RAIU, the RAIU is not required to subsidize the difference between these charges and the "full cost" charged by the communal services companies for municipal housing. In effect, the communal services companies, in particular the companies that supply heat, are required to bear the subsidy cost for cooperative housing, which they do by charging higher rates for industrial customers.

There are two broad options for handling cooperatives under the housing allowance: the City pays housing allowances or each cooperative is responsible for paying allowances to those within its membership who qualify for payments.

Coop Members Treated as Municipal Renters

Under this option, for cooperatives managed by RAIUs the cooperative would be treated the same as municipal buildings, i.e., rent and communal service charges would increase in the same way, the standard housing allowance program would be established, and the total support to the building would be determined by the Department of Communal Services on the same basis as municipal buildings. The only action need by the cooperative would be to sign an agreement with the DEZ, giving the DEZ the role of "customer."

For cooperatives not now having contracts with the RAIUs, income eligible tenants will receive allowances paid for by the City. The allowance payments are computed in the same way as for municipal units. However, the cooperative will not receive other support from the city, i.e., during the transition it will not receive the funds allocated to the RAIU for buildings it maintains from the City budget and commercial rents.

This is the option likely to be adopted in Moscow.

Coops as Self-Supporting

Under this policy, cooperative buildings will be permitted to raise gross rents -- maintenance and communal services charges -- to the new levels permitted for municipal housing or, if an association representing the residents votes to do so, to higher levels. In either case, they will be obligated to fund housing allowances for residents whom MSR > ty (that is, reduce the gross rents for these families by the amount of the housing allowance). They will be required to contract with the Housing Allowance Office to administer the housing allowance.

Family rent and communal services charges -- that is, gross rents, net of reductions attributable to the housing allowance - - will be paid into a Sberbank account maintained on behalf of the cooperative. It will be rare for residents of cooperative housing to have very low incomes and be severely underhoused. Therefore, the new policy should always produce more revenue from the new net rents and the housing allowance will always be "self-funded" by the cooperative buildings.

However, cooperatives will have larger financial obligations under the new system, because henceforth they will be charged the same rates as municipal housing for communal services and they will pay to the RAIUs fees for housing maintenance that reflect the new maintenance charges included in the new gross rents for municipal housing. As is already the case, cooperatives will be free to contract for maintenance with organizations other than the RAIUs. They will also be permitted, if they wish to give up the subsidy paid from the municipal budget (the difference between the new maintenance charges to families in municipal housing and whatever the RAIU actual spends per unit) in return for a negotiation for a higher level of service from the RAIU or a competing management organization.

The communal services companies will be permitted to charge cooperatives the same rates that they charge the RAIUs for

municipal housing and no longer will be required to cross subsidize cooperative housing from rates charged other customers.⁸

3. *Condominiums (privatized buildings that were formerly municipal housing)*

Buildings that are no longer owned by the municipality, but instead have been transformed into condominiums in which common space is owned jointly by the owners of the units and management is controlled by a homeowners association, will also need special rules for the implementation of the rent increase and housing allowance. Condominiums will not be part of the municipal management system, but will have direct contracts with whatever maintenance organization they choose and with communal services providers.

Again, there are options on how a City might treat the occupants of these buildings. In all cases the allowance payment is made to the condominium association directly, with the subsidized household paying a correspondingly lower rent.

Option 1. Buildings are treated the same as municipal buildings. They receive the same total revenue as RAIUs, i.e., revenues from the housing allowance and tenant payments and the operating subsidy payment from other sources. Housing allowance calculations are the same as for municipal buildings; allowance payments are made from DEZ to condominium association. If a condominium association spends more than the rent and communal services included in the MSR, the owners--including the City which is a member of the condominium association in all except buildings that are 100 percent privately owned--have to decide

⁸ Whether cooperatives' communal services payments can be made directly to the communal services providers, which is desirable, or must go through the RAIU, appears to depend in the case of heat on whether the RAIU or the heating company is the owner of the district heating plant that serves the cooperative building. A process is now under way for transferring ownership of all of these heating plants to the heating companies.

how to cover the difference.⁹ This is the option tentatively adopted by Moscow.

Option 2. The City stops making the general operating subsidy payment and the condominium receives only the allowance payments. However, the payments are based on an MSR which is based on the total operating costs (not the rent level that is administratively set at progressively higher levels during the transition). If the condominium spends more than the MSR, then the association must cover the extra expenditures.

The expected flow of funds is from DEZ to condominium to maintenance firm. This could, however, be a good opportunity to make payments directly to the tenant and let the tenant pay the association.

Option 3. Same as option 2, except housing allowance payments are computed on the same basis (MSR) as for the municipal stock. Thus, the condominium associations would receive a lower level of support during the transition than other buildings. If this option were adopted, it is likely that no condominium associations would be formed during the transition period.

The condominium association will be permitted to set gross rents for all units at any level it chooses, following the rules of the condominium law and the by-laws of the particular association for voting on such matters. The condominium will be required to fund housing allowances (to provide lower net rents or, in cases of extreme underhousing, positive payments to families) for families who are eligible. Condominiums will be required to contract with the Housing Allowance Office to administer the housing allowance program.

⁹ It is not legal to force the tenants to pay the extra amount. For the municipality not to make these higher payments on behalf of the tenants would require changing the City's law on condominiums as presently drafted.

If less than 100 percent of the units in a condominium have been privatized, the City will remain the owner of some of the units and will be represented in the condominium association. Municipal renters will be required to pay whatever gross rent has been established by the condominium association, less a housing allowance calculated as MSR - ty. In other words, they will not be given greater protections than homeowners, so as not to discourage them from privatizing their units. On the other hand, renters in such buildings will almost certainly occupy better housing and receive better housing management than renters in continued municipal buildings.

4. *Private renters*

Private renters are families who rent private apartments from other families (from families who have privatized their units, bought them, or paid off cooperative loans). These families are distinguished from renters in municipal or departmental housing in that gross rents are not set by public policy, but by individual negotiation between the renter and the owner or primary tenant of the housing. There are few such renters currently, but their number is likely to grow substantially over the next few years.

Private renters will be eligible for a housing allowance based the MSR, although they will almost certainly pay a gross rent greater than MSR during the transitional period, when MSR is based on the new gross rents per square meter for municipal housing that are still controlled by public policy. In the future, after the number of such private renters grows and an increasing number of entire buildings are no longer part of the subsidy system for municipal housing, the MSR will be set based on a survey of such private rents.

The housing allowances for private renters will be paid directly to the families, rather than to the owner or management organization responsible for the housing. The family will then

use the housing allowance to help pay its private rent.¹⁰

D. Transition to Market Rents for Municipal Housing

The goal is for buildings that currently are municipal housing to become self-supporting and no longer to depend on municipal subsidies paid for the operation of particular residential buildings. This will happen over the next several years for those buildings that leave the municipal system to become condominiums jointly owned by families who have privatized apartments in those buildings. Such buildings will then follow the rules for condominiums just described in Section II.C.3, setting their maintenance fees by decision of the homeowners association. Under current privatization policy, this is likely to happen for a large number of the buildings in the municipal housing stock of Moscow.

Buildings that remain municipal residential buildings also will become self-supporting at the point in the new policy when they are permitted to set their own rents at a market level -- that is, at a level at which residents are willing to continue to live in the building. The municipality will, in effect, become just like a private owner of rental housing. Of course, this process will take some time. The Law on Fundamentals of Housing Policy in the Russian Federation mandates that tenant payments fully cover operating costs within five years. Clearly, this is the initial objective. Some cities may arrive at this point sooner than five years. In any case, they will then have to make a new plan for the speed at which they will increase rents on municipal housing to bring them to market levels.

At that point the housing allowance will change in nature and residents of municipal housing will receive housing

¹⁰ The City will pay for these subsidies. Under the Centralized administration model, the City will add money to the Housing Allowance Fund, which will reimburse Sberbank for such payments. Under the Decentralized model the Department of Communal Services will authorize the Department of Finance to allocate larger payments to the account of the relevant DEZ at Sberbank.

allowances on the same basis as private renters. They will pay, not the gross rent per square meter determined by public policy for municipal housing, but whatever rent has been established by the market for their unit. They will receive a housing allowance directly based on allocations from the municipal budget (or from whatever off-budget source, such as commercial rents in municipal residential buildings, continues to be dedicated to municipal housing).

At the same time, condominiums, cooperatives, and owners of departmental housing will no longer be obligated to charge below-market rents to residents who qualify for a housing allowance. On the other hand, municipal housing management organizations will no longer be obligated to charge below-market maintenance fees to cooperatives. Housing allowances for families in condominiums, cooperatives, and departmental housing will also be provided directly. The city will have completed the transition to a subsidy system for housing management based on families rather than buildings.

III. PLANNING AND START-UP

For Moscow, a city of three million families, most of whom will have new rent and communal services calculations and many of whom will be eligible for housing allowances, the implementation job will be large. It will be formidable even substantially smaller cities. The intake process, the process by which families apply for housing allowances and are given new payment books, will have to be completed for every family that believes itself to be eligible for a housing allowance. For most families in the city, it will be necessary to make new rent calculations and payment books.

The size of the intake job will depend on the size of the rent increase decided on the the City for the first stage of the phase-in of the new policy and the social norm chosen for the

percentage of income to be paid for housing costs (the "t" in MSR - ty). These factors will determine how many families are eligible for a housing allowance. If the number is large (for example 70 percent of the families in the city, under one option under consideration), then the intake will have to be phased in over a several month period in order to handle the workload without creating a much larger administrative structure than will be needed for ongoing operations.

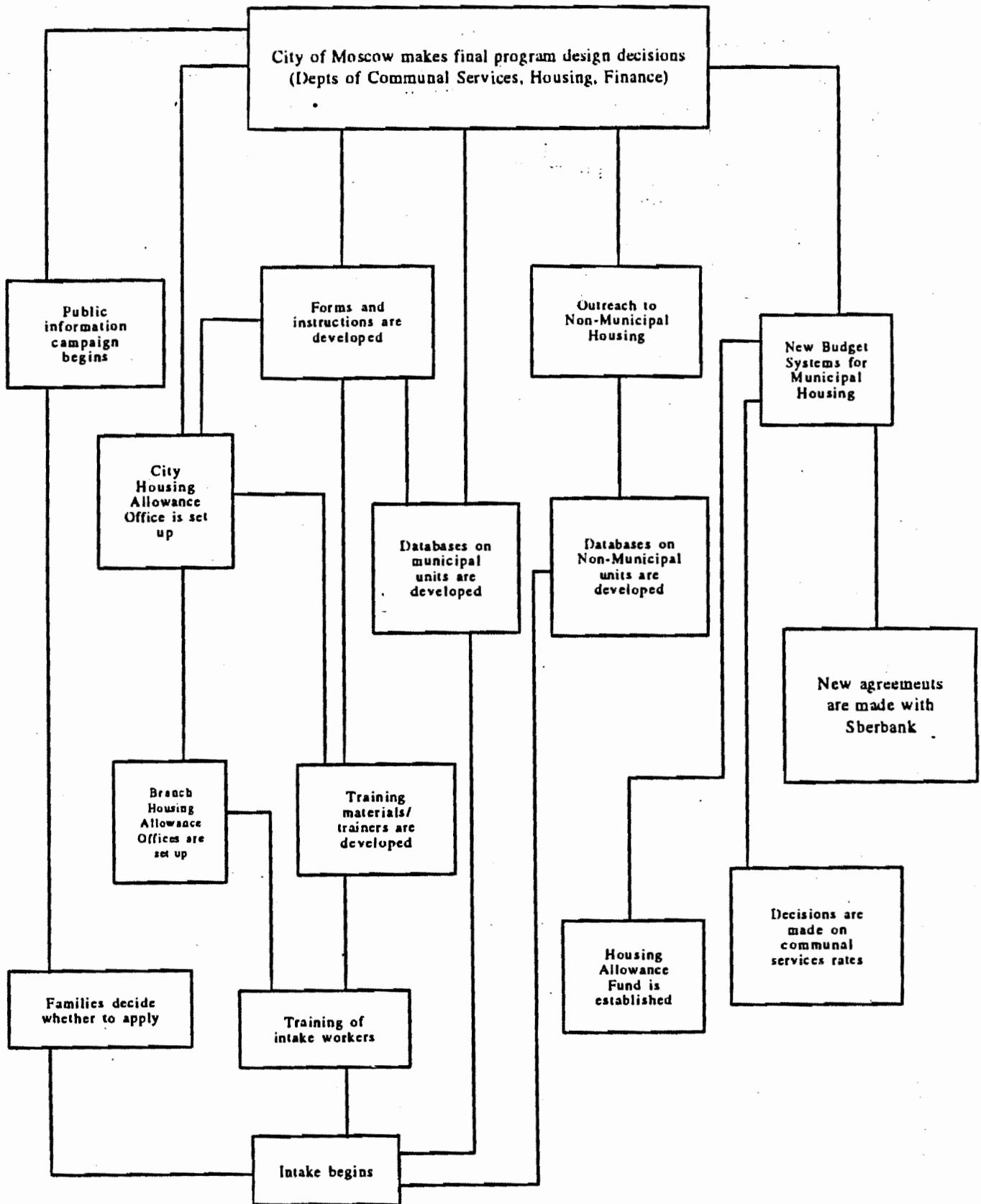
There is much work to be done even before the intake of families can begin. This section describes several processes that must occur in order to get ready for the housing allowance program: 1) citizens must be prepared for the new program through a public information campaign; 2) the new Housing Allowance Offices must be created, staffed, and equipped; 3) detailed forms and instructions must be developed and an information base created, so that the intake workers have on their desks all the materials needed when the first applicants appear; 4) intake workers must be trained; and 5) changes to the budgeting system for municipal housing must be developed and new agreements made with communal services providers and with Sberbank.

A. Planning and Development

Figure III.1 lists the planning and development steps that must be taken before the intake process begins and describes their timing and interrelationships.

Reading from left to right on the figure, the public information campaign that prepares the citizens for the new policy must begin as soon as possible. The first objective of this campaign is to explain the new rents and subsidy system, emphasizing the protections that will be provided to families against paying unreasonable portions of their income for housing, the assistance that will be provided to families who want to move

Figure III.1: Planning and Development for Housing Allowance



to smaller units, and the simultaneous steps the city is taking to improve the management of municipal housing.

The second objective of the information campaign is to give families a rough idea of whether they will qualify for a housing allowance, based on their MSR and income, to encourage self-screening. It will save significant workload for the Housing Allowance Offices if families who will not qualify for an allowance do not apply, but instead simply receive their new payment books in the mail and begin paying the new gross rents. The third objective is to tell families who will apply for a housing allowance what kind of documentation they should bring to their intake interview.

At the same time that it is beginning to conduct the public information campaign, the City must set up the institutions that will administer the housing allowance program, beginning with the city-level Housing Allowance Office. In Moscow under the Centralized model, the central Housing Allowance Office would immediately set up the 10 prefecture branch offices, hire large numbers of people to staff them, and decide which functions of the branch offices can be subcontracted. Space will need to be allocated for these offices. Under the Decentralized model HAO will be established directly at the municipal district level, with the municipal Housing Allowance Office working with the Prefecture housing office. The Family Intake Section at each municipal district level HAO will need desks separated by partitions for conducting intake interviews in reasonable privacy. Ideally, there should be a computer terminal on each intake worker's desk, for entering the information about each family that will be used to generate documents needed for income verification and to store information needed by the Family Payments Section for generating the family's payment book and continuing to serve the family over time.

Moving to the middle of the figure, at the same time the branch Housing Allowances are being set up, the City agencies and

the central Housing Allowance Office must develop the forms and instructions that will be needed to administer the program, including any computer software that will be used. The next step is the development of training materials and the training of trainers, who will then train the intake workers at the 10 prefecture Housing Allowance Offices.

At more or less the same time, the RAIUs will develop the data base on municipal housing units and their occupants that will form the starting point for the intake interviews. The RAIU will use the information form maintained for each housing unit to develop and send to the Housing Allowance Office a list of units showing the total square meters of each unit, the name and passport number of the head of the family and of each family member, and the amount of any back payments to the RAIU for rent and communal services that are owed by the family. The RAIU will also inform the HAO of any special benefits which the family receives, i.e., deductions to charges for maintenance and communal services. The information about the family will be checked with both the Records Office and the Accounting Office at the RAIU in order to get as close as possible to an accurate description of the family members actually living in the housing unit.

Another type of outreach campaign, to the owners and managers of housing other than municipal housing, must take place during this period, so that data on these housing units and families can also be sent to the Housing Allowance Offices.

Finally, changes to the system for developing the budgets for municipal housing management organizations and for sending money through the system must be developed. If the Centralized administration model is adopted, these changes will include establishing the central Housing Allowance Fund through which family payments for municipal housing will flow. In any case they will include decisions on new communal services rates and how to allocate rental income and subsidies among communal

services providers. Finally, new agreements must be made with Sberbank on setting up a somewhat different account structure and on fees to be paid to Sberbank for its role in the rent collection and housing allowance payment process.

In all, this is at least a three-month process. To take just one part of the process that must be sequential rather than simultaneous, the development of forms and instructions will take a month (and perhaps more, if computer software is developed), the development of training materials and training of trainers will take another month, and the actual training of intake workers a third month. Forms development can start, but the forms cannot be completed until final program design decisions have been made.

Fortunately, many of the steps in this process need not be sequential and some can begin before the final program design decisions are made. For example, about six weeks after the Government of Moscow decided in principle to implement a housing allowance, the process of creating the Housing Allowance Office and its branches began.

B. Managing the Intake Process

If eligibility for the housing allowance will reach a substantial fraction of the city's population, the intake process will have to be phased in. If the initial "rent" increase is large, the number of applicants will be great. A sensible way to handle the phase in this case might be micro-district by micro-district within each of Moscow's 10 prefectures, with the order within each prefecture determined by lottery. In a typical prefecture, with 50 RAIUs, the families living in housing managed by seven to ten RAIUs, plus some of the non-municipal buildings in the prefecture, would receive instructions (by mail, by postings in common areas, and through the news media) telling them during which two-week period they should come to the Housing Allowance Office for an intake interview. If the family believes

it does not qualify for a subsidy, it need not appear, in which case it will automatically receive a new payment book based on the gross rent for its unit. (There will need to be some provision for extensions of the two-week period for families traveling away from Moscow or with family emergencies.)

Table III.1 shows the calculations of intake workload for a typical prefecture at different estimated eligibility levels. The assumption is that some eligible families will not apply, while some who are not eligible will apply, and that these will cancel each other out.

TABLE III.1: INTAKE WORKLOAD FOR HOUSING ALLOWANCE OFFICES IN A PREFECTURE

ASSUMPTIONS:

total population: 300,000 families

intake interviews per worker per day: 15

rent increase as multiple of current gross rent (in nominal rubles)	percent of families eligible	intake workers for one month phase-in	intake workers for two-month phase-in	intake workers for six-month phase-in
4 times	10	100	50	17
6.5 times	20	200	100	35
10 times	50	500	250	63
15 times	70	700	350	117

These estimates assume that each intake interview takes approximately 30 minutes, that intake workers do nothing other

than intake interviews, and that other staff, with access to the computerized information about the family, enter the third-party income documentation and process the payment books.

Even if not phased in for different micro-districts, the entire intake process will take two months: two weeks to complete the intake interviews, one month to wait for third-party documentation of income, and another week to make out the payment book and mail it to the family.

The proposal adopted by the Moscow Government in January would increase rents in several steps, which would mean that new waves of families would become eligible for a housing allowance over an 18 to 24 month period. Families who paid the full gross rent at the time of the first rent increase, or the first two rent increases, would now come to the Housing Allowance Office to apply for the program. In addition, the plan is for incomes to be recertified at six-month intervals, which means that at particular times, families who began receiving a housing allowance at the time of the first rent increase would return to the Housing Allowance Office to reapply. All of these factors have to be taken into account when estimating the number of intake workers needed, both at the very beginning of the program and over time.

IV. THE ADMINISTRATIVE PROCESS: HOW FAMILIES BECOME PARTICIPANTS

This section describes the process through which families enter the housing allowance program. It provides details on the central functions of the Housing Allowance Office: bringing families into the program, determining their new rent payment obligations, and confirming that those amounts actually are paid.

Figure IV.1 summarizes the steps in this process. On the basis of lists provided by the RAIUs and other managers of

residential buildings and of information brought to the Housing Allowance Office by the family, staff at the Housing Allowance Office branches interview the family and fill out an application form with all the information needed to determine the housing allowance and the family's payment obligations (step 1). If the family appears to be eligible for a housing allowance, the Housing Allowance Office may ask for additional documentation from other institutions ("third parties") of the family's income and size (step 2). After that information is confirmed and any problems are resolved, the Housing Allowance Office or the Calculation Center (if the branches are not computerized) calculates the family's actual gross rent, housing allowance, and net rent and sends the family a new payment book (step 3). Actual family payments are recorded by Sberbank (step 4) and, through an information feedback process similar to the current process, the Housing Allowance Office determines whether the correct amounts have been paid and institutes any penalties associated with delinquencies (step 5).

A. Step 1: The Intake Interview

During the start-up period of the Housing Allowance Program, families will have been informed of the details of the rent increase and housing allowance. They should have an idea of whether they will qualify for a rent reduction, because they will know the MSR for their family size and the percent of their income to subtract from it to determine if $MSR - ty > 0$. Therefore, they should know whether it is a waste of time for them to come for an intake interview. They should also know what documents they should bring to the interview in order to verify their family size and to verify the various types of income for which the family itself can supply the documentation.

At the same time, the Intake Section of the Housing Allowance Office will have received lists of housing units from RAiUs and other managers of residential buildings, showing the square meters of total space for each unit and the family members

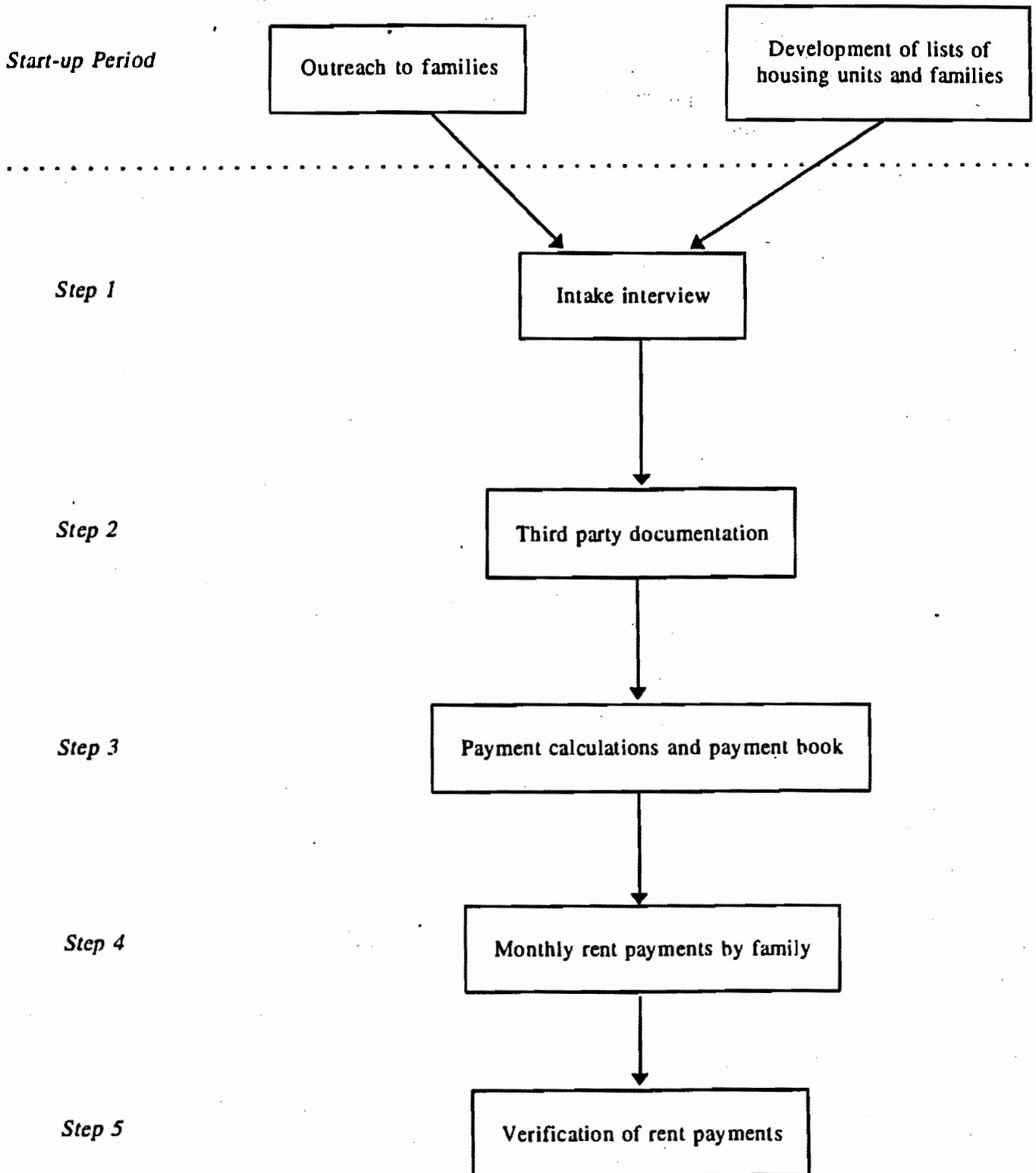
living in the unit.

Families who do not appear for an intake interview during the intake period announced for their micro-district will be presumed to be not eligible for the housing allowance, unless they request an extension of the intake period. For these families, the Housing Allowance Office will go immediately to step 3 in the process. The Intake Section will send the information on families who did not apply for a housing allowance to the Payment Section of the Housing Allowance Office or the Calculation Center. On the basis of the size of the housing unit, the Payment Section will calculate the new gross rent, make out the new payment book, and send it to the family at the address indicated on the list. (Studies of housing allowances in other countries have shown that families who qualify for very small housing allowances, as well as those who do not qualify at all, often will not bother to apply for the subsidy.)

For families who appear for an intake interview, the list of housing units provided by RAIUs and other housing managers will be the starting point for the interview. The list will be organized by the name and passport number of the head of family and will show the name, date of birth, and passport number of each member of the family, the square meters of total living space, and any back payments for rent and communal services owed by the family.

For each family, the intake interviewer will have a blank form, which serves as the family's application form, the record of income certification, and the worksheet for calculating the family's gross rent, housing allowance, and net rent. To the extent possible, this application form should be computerized -- that is, the form will actually be a set of computer screens that the interviewer fills in and prints out at the point when it is necessary to have a paper copy (for example, at the point the family signs the application).

**Figure IV.1: Housing Allowance Administration:
Summary of Program Steps**



First, the interviewer will confirm the name and passport number of the head of the family, the address of the unit, and the number of square meters on which the gross rent will be based. If the family believes the number of square meters to be inaccurate, there will be a process for checking with the housing manager and the Bureau of Technical Inventory, which in theory has a record of the size of each unit in the Moscow housing stock. It is unlikely that there will be many such challenges, since charges for heat are already assessed on the basis of square meters of total living space.

Because MSR varies significantly with family size, families will have an incentive to pretend people live in the housing unit who do not. On the other hand, many families will have applied to their RAIUs for reductions for absent family members in the payments for those communal services that are charged on a per-person basis (hot water, cold water, cooking gas, and rubbish collection). The lists of housing units received from the RAIUs will reflect those corrections, since the information on the family from the RAIUs records office will have been verified with its accounting office. Also, for people of working age, the family has just as much reason to claim that the person does not live in the housing unit, so that the income earned by the person will not count in the calculation of the housing allowance.

While differences between the family members on the list and the members actually living there will be common, the cost of attempting to verify that family members actually live in the housing unit is probably too high, both in monetary terms and in terms of intrusion on the family's privacy. Therefore, only if the family claims that additional family members, not "propiskaed" on the unit, are present will the intake interviewer ask for documentation. Table IV.1 lists some forms of documentation that might be requested in such cases.

TABLE IV.1: DOCUMENTATION OF PRESENCE OF ADDITIONAL FAMILY MEMBERS

children under school age	kindergarten teacher's records or medical records showing address of child
children of school age	teacher's records showing address of child; Department of Education school childrens' allowance showing address of the child
university/institute students	records of academic institution, showing address of student
working age people	employment records, medical records, records of special pensions for invalids, addresses on magazine subscriptions or other evidence that person regularly receives mail at the address
pensioners	pension receipt showing address to which it was delivered; Sberbank records showing address of pensioner; magazine subscriptions or other evidence that person regularly receives mail at the address

There will be space on the form for filling in detailed information on each type of income received by each member of the family. The interviewer will go down a list of questions for each family member and ask the head of the family (or the other adult family member who has come to the interview) each question in turn. The interviewers will be trained to press for information if there are apparent anomalies or inconsistencies - for example, if a family member of working age is reported not to be working, if a family member of pensioner age is not reported to be receiving a pension, if a person stated to have

recently become unemployed is not reported to be receiving unemployment benefits, or if a man of the right age to have seen wartime service is not reported to be receiving veteran's benefits. The income of family members who are temporarily absent from the family, such as those who are traveling or on temporary work assignment, will be counted.

The income to be used for calculating rent is anticipated income, which the family expects to receive on an average, monthly basis during the next six months. This is different from income which is subject to income tax, which is past income for the previous year. However, the family's current circumstances will be used to determine its anticipated monthly income during the next six months. Therefore, unless the family reports, convincingly, that a source of income has just been lost or is about to be lost, the family's recent past income is the source of information on anticipated income.

Income that will be received for less than the whole six month period will be counted but will be converted from an annual total to an average monthly amount. During the work of designing the application form, it will be necessary to decide whether it is better to record all income on an annual basis and then divide by 12 before making rent calculations or whether it is better to record income on a monthly basis, taking an average for sources that are not received in all months or are not the same for each month.

Questions will be asked on all sources of income, including those that will not be counted as part of the gross income the family must pay for rent, for two reasons: 1) to help families remember sources of income that will be counted, and 2) so policy-makers understand the effect of excluding certain sources of income both on families and on the program's cost. The questions will include indirect questions that lead to questions about sources of income: for example, 1) a beginning question about the profession of a working-age family member, in order to

suggest sources of employment income other than the main job; 2) a question about the nature of a pensioner's work history, in order to suggest the likely size of the pension; and 3) a question about military service of family members, in order to suggest the presence of military pensions or veterans' benefits.

The interviewers will also be trained to ask all questions that might possibly be applicable, rather than such questions as "is that all?" for the sake of saving time. The idea is to force the family to willfully conceal its income, rather than encouraging it to be forgetful.

Table IV.2 shows various sources of income that might be included in determining the gross family income on the basis of which the housing allowance is calculated. From each of these sources of income, the family is expected to contribute the percentage chosen as the social norm for the percentage of income devoted to housing costs (the "t" in the housing allowance formula, MSR - ty). The table also shows some sources of income that should not be counted, and explains the reasons for not counting them. This table represents interim recommendations and, of course, could be changed as the proposal for the City of Moscow undergoes further modification.

TABLE IV.2: PROPOSALS ON INCOME TO BE COUNTED FOR HOUSING ALLOWANCE		
Type of income	If counted	Reason for counting/not counting
wages from employment by agency, enterprise, company, firm or other registered institution	yes	major source; large variation among families
frequently paid bonuses from employment by registered institution	yes	major source; large variation among families

Type of income	If counted	Reason for counting/not counting
regularly received overtime pay from employment by registered institution	yes	major source; large variation among families
child allowances paid by employer	no	not counting reflects smaller ability to pay same percentage of income for housing
in-kind bonuses over a certain level of rubles per month (recorded in organization's books)	yes	large variation among families; may be growing source
wages from employment by unregistered employer	yes	may be major source; large variation among families; hard to detect but families may be induced to declare by well-trained interviewers; political support for program may depend on attempt to count this income
net income from operation of a business or self-employment (registered or unregistered)	yes	large variation among families; hard to detect but families may be induced to declare; political support for program may depend on attempt to count this income

Type of income	If counted	Reason for counting/not counting
unemployment compensation	yes	adds substantially to income of families with other workers
disability benefits for workers	yes	major source; large variation among families
pensions for working-age invalids who cannot work	yes	major source; not counting could result in zero rent
pensions based on prior civilian employment of individual or spouse	yes	major source; large variation among families
pensions of military and security officers	yes	major source; large variation among families
veterans pensions and benefits	yes	major source; large variation among families
pensions for elderly whose source of support has died	yes	major source; not counting could result in zero rent
pensions for elderly invalids	yes	major source; not counting could result in zero rent
child support (alimony) paid on behalf of minor children	yes	where exists, large variation among families
pensions paid on behalf of children of large families and single mothers	no	highly correlated with low income; not counting reflects smaller ability to pay same percentage of income for housing

Type of income	If counted	Reason for counting/not counting
allowances to adoptive parents	no	very small
pensions for orphans	no	not large source; not counting reflects smaller ability to pay same percentage of income for housing
pensions for handicapped children	no	not large source; not counting reflects smaller ability to pay same percentage of income for housing
value of produce from dacha or vegetable plot	no	large variation among families, but important to encourage this food production
interest on savings accounts	yes	not large source now, but important to establish precedent
dividends on investments	yes	not large source now, but important to establish precedent
rental income from housing unit or boarders	yes	where exists, a large source of income
income imputed to asset value of owner-occupied housing unit: primary residence	no	conflicts with encouraging housing privatization

Type of income	If counted	Reason for counting/not counting
income imputed to asset value of owner occupied housing unit: second residence or dacha	no	not good surrogate for differences in family wealth unless value quality of structure, which is difficult
income imputed to asset value of housing unit not occupied by owner on which rent is not charged	yes	good surrogate for differences in family wealth; equal treatment of units on which rent is and is not charged; avoids encouraging concealment of rental income
income imputed to asset value of automobiles and video equipment less than two-years old	no	good surrogate for current differences in family wealth, but too difficult to implement
student grants	no	should not discourage education
income earned by children under 18	no	highly correlated with low income
one-time inheritances	no	one-time payments otherwise taxed; income produced will be counted
remittances from abroad	yes	great variation among families

Determining the asset value of housing units not occupied by the family and on which rent is not charged will require some method for determining the market value of the housing unit. If a system of property taxes based on assessment of market value,

even if crude, has been put in place, it should be used. Otherwise, the housing allowance program could use the family's own estimate of the amount for which they could rent out the unit, with the intake interviewer accepting any estimates within a certain range shown on a table based on the size of the unit and the prefecture in which it is located.

Families will be asked about assets they have owned over the past year and sold or given away, as well as assets they currently own. If the family has disposed of an asset (for example, a housing unit) for what appears to be less than market value, the difference between the market value and the price will be counted as an asset still owned by the family. This is to discourage the practice of concealing assets by giving them, or pretending to give them, to relatives who are not living with the family.

Based on the income declared by the family, the intake interviewer will add up the various sources of income. In a summary section of the form, the intake interviewer will use the total monthly income, the family's MSR, and the family's actual square meters of total space to calculate and fill in the estimate of the family's gross rent, housing allowance, and net rent. At that point, the family will be given an opportunity to decide that its housing allowance would be small, or that it can afford the gross rent in any case, and that it does not want to bother to go through the further process of having its income certified. In effect, the intake interviewer will give a family that may be concealing income a graceful way to back out of the process or to decide to be honest without having to admit that it was lying.

As part of the calculation of the family's housing allowance, the basic Maximum Social Rent based on the family's size will be modified slightly to reflect the 35 "privileges" mandated in Federal Law that now permit certain families to receive deductions from rent or communal services payments.

These privileges are calculated on a variety of bases. For example, some are a straight percentage reduction to the payment, some are a number of square meters that the family gets "free" when the particular charge is calculated, and some involve not counting that family member for charges based on the number of persons rather than the size of the unit.

Part of the work that must be done in getting ready for the housing allowance is to draw up a scheme for transforming these privileges into modifications to the MSR, or the household contribution, or to handle the privileges as adjustments to the family's reported income or as a simple addition to the normal subsidy payment. Implementation of the housing allowance in Moscow might be a good occasion for a proposal to change Russian Federation law concerning these privileges, which are too complex and prescriptive and which are not well targeted to families with the greatest economic need.

It would also be possible to devise deductions from income counted for the housing allowance to reflect differences in the ability of different types of families to pay a certain percentage of income for housing costs. In particular, families with children and without children may have different needs that are not well reflected in the current system of privileges. However, for the sake of keeping the rent calculation system as simple as possible, it is preferable to reflect these differences in sources of income counted for rent, rather than making them deductions from income. Thus, for example, the recommendations on Table IV.2 include not counting child allowances paid by employers or pensions for children of large families or single mothers as income for determining the housing allowance.

In addition to showing the family the probable amounts of its gross rent, housing allowance, and net rent, the intake interviewer will explain to the family its rights and responsibilities, including those involving penalties that may be imposed for false statements about income and for failing to

make accurate and timely rent and communal services payments. If the family is overhoused, it will be given an opportunity to request assistance in finding a smaller housing unit and the intake interviewer will make an appointment for the family with the section of the Housing Allowance Office responsible for this assistance (the Family Assistance Section).

At this point, if the family has back payments owed to its RAiU for rent or communal services, the intake worker and the family will plan a repayment schedule lasting from one to several months, depending on the amount owed and the economic circumstances of the family. Eligibility for the housing allowance will be dependent on the family's willingness to sign an agreement to make these repayments and continued receipt of the housing allowance (that is, continued reductions to the gross rent owed under the new system) will be dependent on the families compliance with the repayment agreement.

The head of the family or the other adult making the application will be asked to sign the application form, which will include a statement in which the family acknowledges that it understands its rights and responsibilities under the program. The applicant will also be asked to sign any forms that will be needed to request documentation of income from third parties, providing the family's authorization for those organizations to tell the Housing Allowance Office information that might otherwise be considered confidential under the laws of the Russian Federation.

B. Steps 2 and 3: Documentation of Income and Payment Calculations

Each source of income for each family member will be documented in one of three ways:

1) no documentation. the family's own declaration will be considered sufficient for income about which it is believed the

family is unlikely to lie (for example, benefits that are the same for any person or family of the relevant type); for income which is not going to be counted in the total family income (see Table V.2); and for income about which it is impossible to ask for documentation (for example, remittances from abroad). Further work must be done on defining these categories.

2) documentation supplied by the family. This will be used for sources of income for which it is easy for the family to supply information. For example, pensioners who receive their pension at Sberbank will be asked for a copy of their most recent bank statement showing the amount paid in. Pensioners who receive their pension from the postman will be asked for a copy of their receipt. All families with savings accounts will be asked to bring copies of recent bank statements. Families will be encouraged to bring these forms of documentation to the intake interview. If they have not done so, they will be asked to mail them to the Housing Allowance Office immediately.

3) documentation requested from third parties.

A standard form will be sent to employers that asks for the employee's current monthly income and that includes questions, and space for answers, about bonuses and other cash income and in-kind income that will be counted for the housing allowance.

For certain categories of families, a standard form will be sent to the tax inspectorate asking for confirmation of information supplied by the family about the taxable income (or income declared to be below the minimum taxable amount) of family members. For example, this form will be used for family members of working age who are not reported as working or reported as working for unregistered employers. Since the family's housing allowance will be based on current income rather than last year's income, the purpose of documentation from the tax inspectorate is to find out

if the family has concealed a source of income that it may still have, rather than to learn the exact amount of income to be used for calculating the housing allowance.

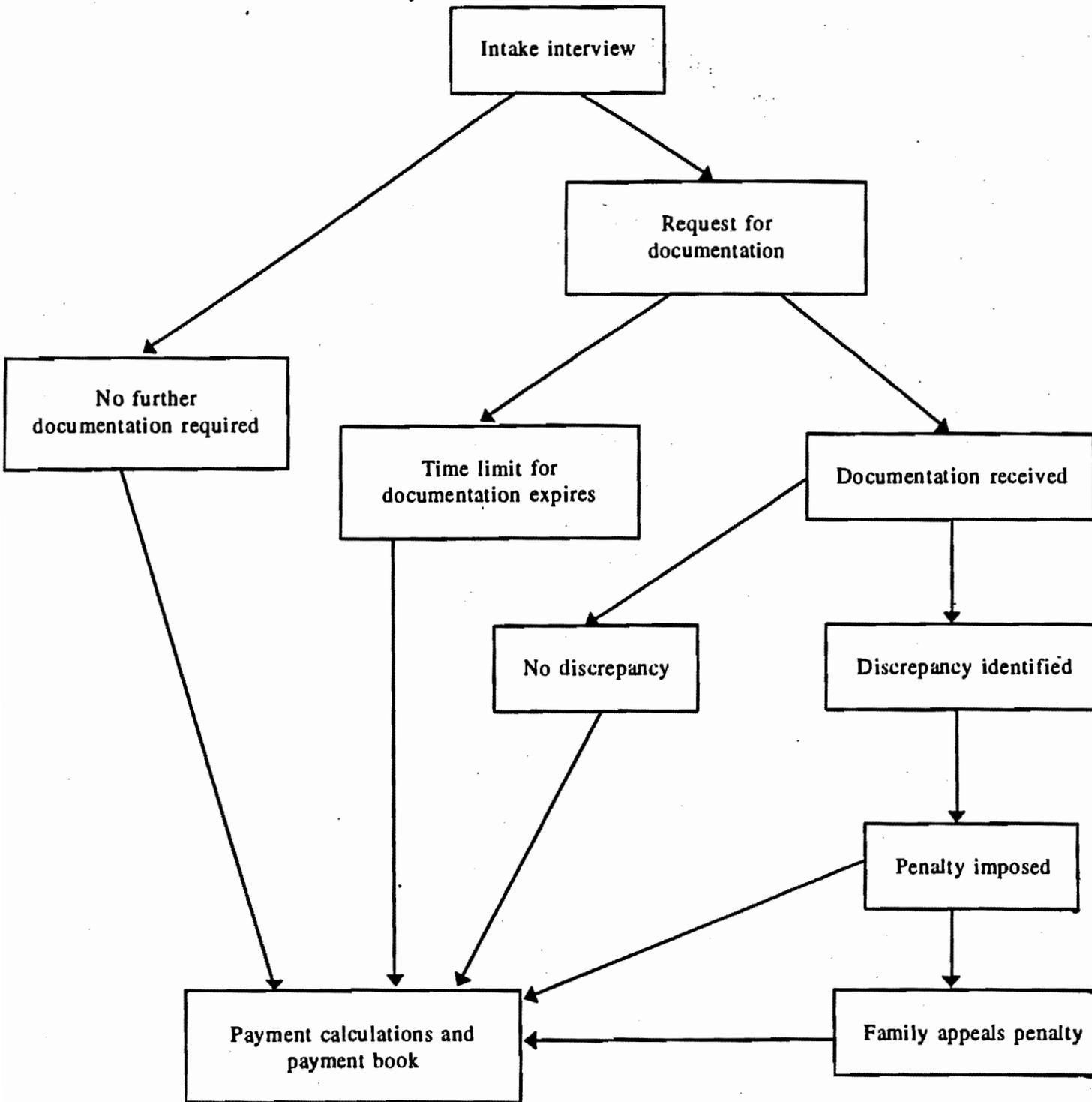
For working-age family members declared to be unemployed, a form verifying this fact and the amounts of unemployment compensation to be received over the next several months will be sent to the unemployment office.

Figure IV.2 describes the process for obtaining and using income documentation. If the family has itself supplied adequate documentation of all sources of income and if it does not belong to one of the categories of families to be cross-checked with the tax inspectorate, no further documentation will be required and the family's application form will be sent directly to the section of the Housing Allowance Office that checks the payment calculations made by the Intake Section and makes out the family's payment book (the Payment Section). For example, in many cases families consisting of a single pensioner or a pensioner couple will not require further income documentation.

If there are sources of income that require documentation or if its statements about income will be cross-checked with the tax inspectorate, the family will be asked to sign forms authorizing the Housing Allowance Office to request such documentation. It may be possible to design these authorization forms so that they also serve as the letters to be sent requesting the documentation and the forms to be filled in and signed by the source of the documentation. If possible, these forms should be generated by computer.

Families who declare income from unregistered employers will be given the option to request oral instead of written verification of the amount of that income. This is in order to encourage families to declare such income by reassuring them that

**Figure IV.2: Housing Allowance Administration:
Income Documentation**



their employer will not be asked to acknowledge in writing the fact of such employment. Such oral verification will be carried out by telephone by the intake interviewer.

At the end of the intake interview, the interviewer will send the requests for written documentation to be mailed and will send the completed application form to the Payment Section. If the system is computerized, both the paper copy and the electronic copy will be sent.

The form letters requesting written documentation of income will request a reply within one week of the receipt of the letter. Replies will go to the Payment Section. If no reply is received within that period of time, a follow-up letter will be sent. If no reply is received within three weeks of the date of the family's application, the failure to document income will be considered not the family's fault and the Payment Section of the Housing Allowance Office will proceed to check the Intake Section's calculations of the family's payments, fill out the payment book, and mail it to the family.

When replies are received to the requests for income documentation, if there are no discrepancies between the information supplied by the family and the information received from third parties, the Payment Section will proceed to calculate the family's payments, fill out the payment book, and mail it to the family.

If the third party documentation shows an amount of income from one or more sources different from the amount the family claimed, the Payment Section will recalculate the family's gross rent, housing allowance, and net rent, using the revised information. If the discrepancy is large and results in a

smaller housing allowance,¹¹ the new calculation will include a penalty imposed on the family for inaccurately stating its income. Decision rules will have to be developed on what is a small discrepancy and what is a large discrepancy.

The Payment Section will send the payment book to the family, along with an explanation of the discrepancy between the family's statement and the income as documented. The family will be given an opportunity to appeal either the information supplied by the documentation (by providing information showing that the third party documentation is erroneous) or the imposition of a penalty (by explaining extenuating circumstances that show that the family was not willfully concealing income).

If the tax inspectorate reports that it has questioned a family member's amount of income or its claim to have income below the minimum taxed amount but that the investigation has not been completed, the family will be sent a payment book reflecting an obligation to pay the full gross rent for its housing unit. Should the tax investigation result in a finding in the family's favor, the family will have the right to appeal to the Housing Allowance Office for recalculation of its housing allowance and net rent and for reimbursement of the family's extra rent payments during the relevant period of time.

C. Steps 4 and 5: Rent Payments and Rent Verification

Figure IV.3 describes the process by which the rent payments made by families are verified and the Housing Allowance Office attempts to ensure the collection of the full amount of rent owed by each family living in housing that is part of the subsidy system to municipal residential buildings.

As is currently the case, the family will take its payment

¹¹ This will not always be the case. Experience with income certification in other countries shows that families often make errors that are not to their benefit.

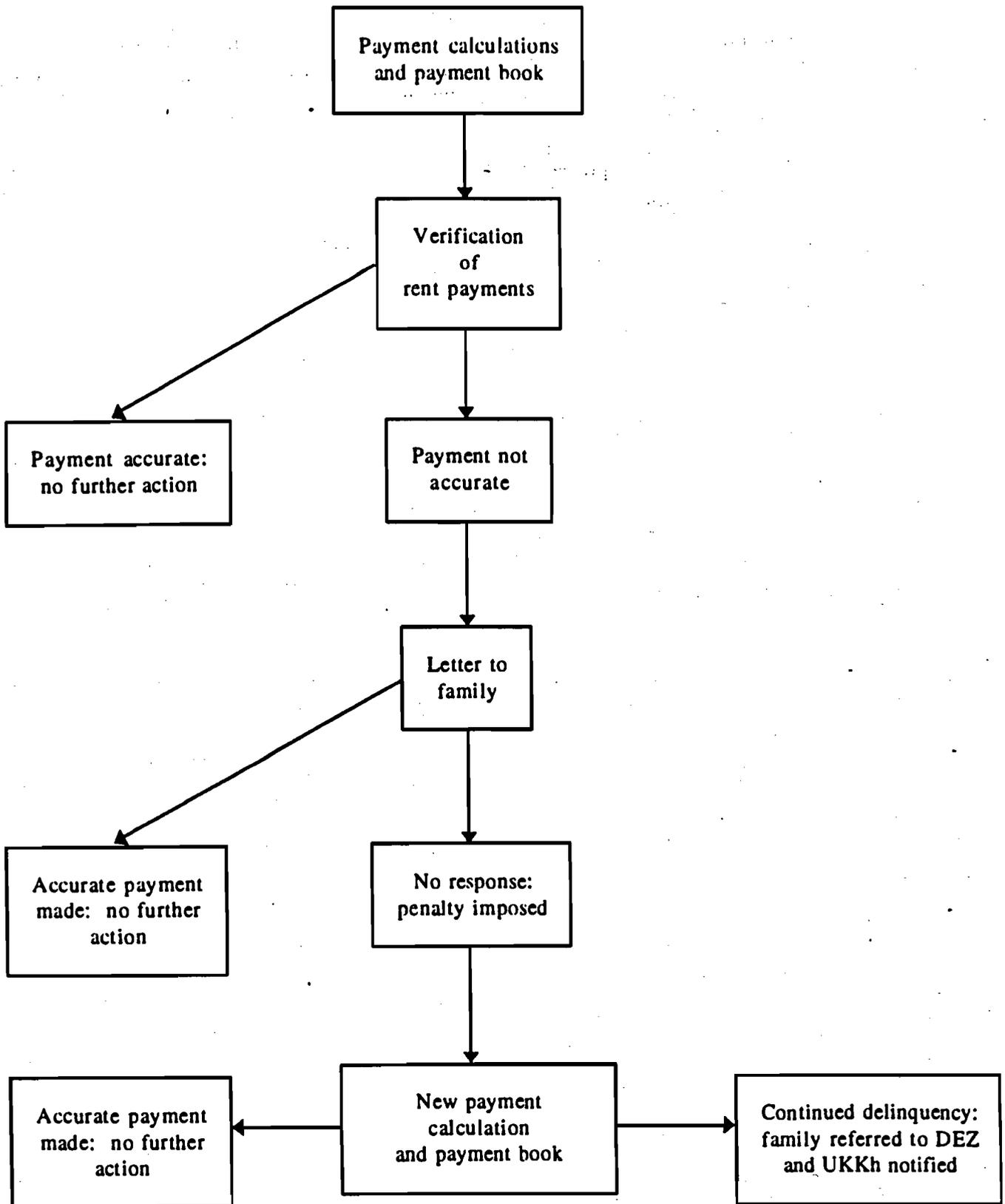
book to Sberbank. There it will pay its net rent or, in some cases where the income is low and the family severely underhoused, receive a positive housing allowance payment.

Sberbank will send to the Payment Section of the Housing Allowance Office, or possibly to a Calculation Center depending on the division of the responsibility a record of the rent payment made each month by each family. For families who owe back rent and communal services payments to their RAiU, records of repayments of these amounts will also be sent. The Housing Allowance Office will check those payments against the amounts the family should have paid.¹² When a family fails to pay or when there is more than a minor discrepancy between the amount owed and the amount paid, the Payment Section will send a letter to the family notifying it of overdue rent. If the family continues to fail to pay the amounts owed, the Payment Section will add a penalty to the family's net rent and send the family a new payment book.

If the family persists in not paying its back rent, including any penalties imposed, the Payment Section will notify the Department of Unified Customer (DEZ) responsible for the RAiU managing the family's housing that the family's rent is in arrears and that the amount of delinquent rent will be deducted from the subsidy payable to the RAiU. The DEZ will then be responsible for attempting to persuade the family to pay its rent. If the family still does not pay, the procedure will be initiated to move the family to "barracks", consistent with the provision in the Law on Fundamentals of the Housing Policy.

¹² A similar process is now carried out by the Information-Computing Center (IVTs) of the Department of Communal Services. The Housing Allowance Offices might subcontract with the branch offices of the IVTs to perform this or other data processing functions.

Figure IV.3: Housing Allowance Administration: Rent Payments and Delinquencies for Municipal Housing



V. SUBSIDIES TO BUILDINGS IN THE MUNICIPAL HOUSING SYSTEM

The basic changes to the system for administering subsidies for municipal housing that will be needed to introduce a housing allowance were outlined in Section II of this paper. This section adds more detail, particularly on how charges and subsidies for individual communal services will differ between the old and new systems. It describes some further simplifications to the overly complicated current system for flows of funds that will be implemented as part of the new system. Finally, it includes a discussion of changes to the system for estimating the budgets needed by RAIUs and allocating funds to them through the central and prefecture-level municipal housing management organizations.

A. Communal Services Charges and Subsidies under the New System

An important area in which the new system will differ from the old is the way in which communal services are paid for by families and subsidized by the city budget through the Department of Communal Services. The current system is described on Table V.1.

For purposes of the proposed rent increase and housing allowance, communal services consist only of the first five items on the table: maintenance, heat,¹³ hot water, cold water, and cooking gas. The new gross rent that will be a multiple of the current charges for these items under the housing allowance proposal (for example, 4 times or 10 times the current gross rent) will actually be divided into five components, each reflected separately in the family's new payment book, just as they are now. Both the gross rent and the MSR will be calculated

¹³ Heat technically is not called a "communal service" in the Moscow city administrative system, but it is subsidized through the Department of Communal Services and the RAIUs and will be part of the rent increase and housing allowance.

TABLE V.1: CURRENT SYSTEM OF FAMILY CHARGES AND SUBSIDIES FOR MAINTENANCE AND COMMUNAL SERVICES

Service	Basis on which paid	Paid through RAIU?	Subsidized through RAIU budgets?
maintenance	square meters living space	yes	yes
heat	sq.meters total space; variable rates	yes	yes
hot water	persons in unit	yes	yes
cold water	persons in unit	yes	no
cooking gas ¹⁴	persons in unit	yes	no
rubbish collection	persons in unit	yes	no
radio antenna	per unit	yes	no
TV antenna	per unit	yes	no
electricity	metered use by family	no	no
telephone	per unit and metered use by family	no	no

based on a combination of charges per square meter for maintenance and heat and charges per person for hot water, cold water, and cooking gas, as explained in Table V.2.

¹⁴ Cooking gas is a relatively small charge and is sometimes charged to families for several months at a time rather than each month.

TABLE V.2: COMPONENTS OF GROSS RENT AND MAXIMUM SOCIAL RENT UNDER THE HOUSING ALLOWANCE

Component	Basis for gross rent	Basis for MSR
maintenance	per sq.m. of total space	social norm sq.m. x maintenance charge per sq.m.
heat	per sq.m. of total space	social norm sq.m x heating charge per sq.m.
cold water	per person	per person
hot water	per person	per person
cooking gas	per person	per person

Heating charges per square meter will no longer vary from RAIU to RAIU, depending on which of the municipal heating companies is the supplier and on past usage by the RAIU, but will be a uniform charge per square meter for the whole municipal housing system.

The rent increase will not necessarily be divided among these five components in proportion to current charges -- in fact, it probably will not be, because charges for maintenance have not increased in decades, whereas charges for communal services have already been increased substantially in 1992. Furthermore, as noted in Table V.1, cold water and cooking gas are not subsidized by the municipal housing subsidy system through the RAIUs; the RAIUs simply act as collection agents on behalf of the providers of these communal services. For both these reasons, there is a much larger current shortfall in funds for maintenance of municipal housing than there is for communal services. At least in the first year of the increased rents, most or all of the increase will flow through to RAIUs as higher budgeted amounts for maintenance.

For calculating the housing allowance, the components of the MSR will be added together and the "t" or percent of income times the family's income subtracted. Thus, the more detailed formula for the MSR is:

$$\text{MSR} = (\text{maintenance charge per sq.m} \times \text{social norm sq.ms}) + (\text{heating charge per sq.m} \times \text{social norm sq.ms}) + (\text{hot water charge per person} \times \text{persons}) + (\text{cold water charge per person} \times \text{persons}) + (\text{cooking gas charge per person} \times \text{persons})$$

Other charges now paid by families through their payment book for housing maintenance and communal services are radio antenna, TV antenna, and, frequently, rubbish collection. These payments are not included in the proposal for a rent increase and housing allowance under consideration by the Moscow Government. The payments by families for these services¹⁵ cover the full charges made by the enterprises that supply the services. While the payments flow through the RAiUs under the current system, like cold water and cooking gas, they are not subsidized by the Department of Communal Services.

Electricity and telephone are billed separately to families on the basis of their actual usage of these services under the current system, and this would continue to be the case under the housing allowance. These payments are not included in the proposal for a rent increase and housing allowance under consideration by the Moscow Government.¹⁶

B. Simplifications to Flows of Funds as Part of the New System

Figure II.1 in Section II gave a simplified version of the flow of funds under the existing subsidy system for municipal

¹⁵ These payments also are not known as "communal services" in the city administrative system.

¹⁶ In other countries, electricity is often considered to be a housing cost and included in housing subsidy systems.

housing from the various sources of revenue for that housing to the ultimate providers of service and also described the proposed new system. Figure V.1 is a more complete description of the current system.

1. Payments for Unsubsidized Communal Services

As described in Section II, under the housing allowance system family rents and communal services payments will no longer go directly to the RAIUs, but will be paid through Sberbank into a central Housing Allowance Fund (Centralized system) or into the account of the relevant DEZ (Decentralized). This provides an opportunity to get the RAIUs out of the business of serving as collection agents for those communal services that are not subsidized through the municipal housing system but, rather, are paid for completely by charges to families.

These unsubsidized services (cold water, cooking gas, radio, TV, and rubbish) will continue to be listed in the family's payment book and paid by the family at Sberbank once a month. Sberbank will transfer each family's payments to the Housing Allowance Fund or DEZ, along with rent or maintenance fees and charges for heat and hot water. However, instead of transferring these payments through the RAIUs by sending them through the city and prefecture-level Finance and Communal Services Departments, the Housing Allowance Fund or DEZ will pay the various providers of these services directly. The Housing Allowance Fund or DEZ, on the basis of information received on delinquent payments from the Family Payments Sections of the Housing Allowance Offices, will inform the communal services companies of delinquent payments owed by families.¹⁷

Sanctions for failing to pay for these services are rarely enforced now. The obvious sanction is cutting off the particular

¹⁷ Another alternative would be to remove these items from the family's payment book altogether and to have the providers bill families directly by mail. However, this seems inefficient compared with leaving them in the payment book.

service,¹⁸ which would require the cooperation of the RAIU to be accomplished technically and might be done by the RAIU on behalf of the communal service company on a fee basis, rather than by employees of the company. But the communal services company should both keep the data on which families are delinquent and initiate the action to cut off service. Furthermore, the communal service company, rather than the RAIU, would now be responsible for covering the shortfall in funds that results from families' failure to pay their communal services bills.

At some time the future heat and hot water might also be removed from the municipal housing subsidy system, with individual dwelling units within multifamily buildings individually metered and families making payments directly to the provider of the service. This would both conserve energy and give families a way of saving on their living costs.

2. Commercial Rents and Communal Services Payments

In a change made in early 1992, commercial tenants in municipal housing buildings now pay their rents to the Moscow Property Committee rather than to the RAIU that manages their building. However, they still make their communal services payments to the RAIU, as shown in Figure V.1, and thus the RAIU continues to be responsible for the failure of a commercial tenant to pay its communal services bills, even though it no longer benefits directly from the rents for commercial space in residential buildings under its management.

As part of the new system, for all communal services, including heat and hot water, commercial tenants in municipal housing buildings will pay their charges directly to the companies rather than using the RAIU as a collection agency. The system currently used for determining the share of each

¹⁸ This should be possible by cutting distribution lines to individual apartments for everything except rubbish collection. For this reason, there is an argument that rubbish collection should be included in the basic rent or housing maintenance fee and not paid for separately by families.

building's expenses that is attributable to a commercial tenant will continue to be used. The amount owed by commercial tenants will be deducted from the overall amounts charged to the RAIUs.

Currently the Moscow Property Committee transfers part of the rents for commercial space in municipal housing buildings back to the housing subsidy system through the prefecture-level organizations. A change already in process, which definitely should be part of the new housing allowance system (and was reflected in Figure II.1), is that the Moscow Property Committee should transfer commercial rents to the city-level Departments of Finance and Communal Services, in order to make possible an efficient system of budgeting and allocating funds to the RAIUs.

3. Fees for Various Services Performed by RAIUs

Besides charges for maintenance and communal services, the RAIUs currently collect fees for services connected with the family registration system (the RAIU's Passport Office), in particular for notarizing documents needed by the family for various purposes. Whether the Passport Office should continue to be a function connected with housing management is a good question. For the time being, RAIUs will continue to perform this function and should continue to be permitted to collect such fees, but they should not be deducted from the estimate of the budget needed by the RAIU. Instead, these services should be accounted for as self-financing.

Another type of fee that it makes sense to think of as a fee for service is the fee charged for accepting a family's application to privatize its unit.

Some RAIUs also perform maintenance work inside housing units and charge families for materials or labor, or both. This is currently an informal but probably common practice. In the future RAIUs should be permitted to do this explicitly, and both the cost of this work and its charges kept outside the municipal

housing subsidy system. Families have other ways of getting such work done, and there probably is no need to attempt to control the level of charges set by RAIUs. On the other hand, overseeing such charges to make sure that vulnerable families, such as the elderly, are protected might be a good function for the Department of Unified Customer (DEZ). The DEZs have, in general, been given the job of monitoring the work of the RAIU on behalf of families.

Yet another type of fee paid to RAIUs under the current system is paid by communal services providers in return for maintenance of in-building distribution systems by RAIU employees. For communal services that continue to be funded and subsidized through the RAIUs (heat and hot water), it makes sense to drop these fees in return for a one-time reduction (or slower increase) in rates charged to the RAIUs. For communal services paid for directly by the Housing Allowance Fund, such fees, where appropriate, should continue to be charged by the RAIUs.

C. Estimating Budgets for Housing Management Organizations

Under the current system, the budgets for individual RAIUs are estimated by the Department of Communal Services on the basis of a combination of 1) "norms" based on physical characteristics of the housing under each RAIU's management and 2) historical spending levels by each RAIU. Under the new system, it may be desirable to base these estimates more completely on physical norms and less on recent historical spending patterns than they are now. In addition to possible inequities from using historical spending patterns, it has become difficult to interpret these patterns in a high-inflation environment, given different rates of inflation for different inputs to housing management and maintenance.

The key difference under the new system if the Centralized model is adopted will be that, since family payments for maintenance and communal services will no longer be made to

RAiUs, they need no longer be known on a RAiU by RAiU basis by the Department of Communal Services in order to calculate the amount of subsidy needed by each RAiU and to allocate it through the prefecture-level organizations. Each RAiU will, instead, receive the full amount of its budget estimate (the estimated amount that it needs, less whatever amount must be deducted because of the continued overall shortfall in funds available for subsidizing municipal housing management). With the exception noted below for persistently delinquent payments, rent and communal services charges to families and other fees paid by families will not be deducted as an offset.

For purposes of determining the overall budget available for housing management and communal services, the Housing Allowance Fund will provide the Department of Communal Services with aggregate information on the amounts that will be transferred periodically to the account at the Department of Finance used for subsidizing municipal housing. In order to make budget projections and to monitor the progress of the rent increase and housing allowance, the Department of Communal Services will need information on the amounts of gross rents, housing allowances, and net rents. It will also need aggregate information on various deductions that will be made from net rents that will be reflected in aggregate amounts made available for managing municipal housing, as detailed on Table V.3.

RAiU by RAiU information will be needed on persistent delinquencies in family payments for housing maintenance, heat, and hot water, so that these amounts can be deducted from RAiU budgets in order to give the RAiU and its DEZ a strong incentive for attempting to persuade families to pay their delinquencies and, when it becomes possible under Russian law, to begin the process of eviction for extreme cases. This information probably is not needed on a city-wide basis, however, but can be provided

TABLE V.3: INFORMATION REPORTED TO THE DEPARTMENT OF COMMUNAL SERVICES BY THE HOUSING ALLOWANCE FUND

gross rents owed by all families
 (housing allowances deducted from gross rents)
 (positive payments to underhoused families)
 net rents owed by all families
 (delinquency losses from family non-payment)
 (direct payments by Fund to communal services companies)
 (administrative costs of Housing Allowance Offices and Housing Allowance Fund)
 (fee paid to Sberbank by Housing Allowance Fund)
 net amount available for funding management of municipal housing

to the prefecture-level Department of Communal Economy (UKKha) by the prefecture-level Housing Allowance Office. The UKKha will then be permitted to reallocate funds from RAIUs with serious delinquency problems to other RAIUs within the prefecture.

In contrast, under the Decentralized administrative system RAIU-by-RAIU information will be needed. In particular, in addition to the operating budget figures for each determined by the Department of Communal Services and aggregated to the RAIU level, the DEZ, working with the Housing Allowance Office branches or the Calculation Centers, will make projections of actual tenant payments and housing allowance payments. The DEZ will use this information, combined with the RAIU budget figures, to determine the amount of funds to pay the RAIU in addition to "rents" and allowance payments.

The DEZ will provide its estimates of expected revenues from tenants to the City-level Housing Allowance Office. The City-level Office, on the basis of these figures and the budgets prepared by the Department of Communal Services, will instruct

the Department of Finance to transfer appropriate funds to the Prefecture Finance Office, which in turn will make them available to the DEZs.¹⁹

In general, consideration should be given to various deductions from the amounts budgeted for RAIUs as penalties for poor performance. For example, as noted in Section II, the Family Assistance Section of the Housing Allowance Office should be permitted to identify RAIUs that, based on information received from families, provide particularly bad service and to recommend that the subsidies to these RAIUs be cut. However, this process as well should be handled at the prefecture level and need not take the form of deductions from the funds that the Department of Communal Services provides to the prefecture.

VI. ONGOING ADMINISTRATION

Section IV described the administrative process through which families are informed of increased rents, apply for and receive housing allowances, and make their payments for housing maintenance and communal services. Once that process has been completed, the Housing Allowance Office will continue to monitor whether the correct amount of rent has been paid each month. In addition, however, both rents and housing allowances will change periodically. The proposal under consideration by the Moscow Government would provide for rent increases every three months as rents are phased up to cover the full costs of housing maintenance. In addition, during a period of rapid inflation, families' incomes are likely to change rapidly. Therefore, the proposal provides that incomes are to be recertified at six-month intervals.

¹⁹ If revenues to a RAIU from all sources are believed to be insufficient, the DEZ can apply on behalf of the RAIU for the necessary funds to the prefecture level. The UKKha considers the request and may send this or a modified request to the Department of Communal Services, which discusses with the Department of Finance.

A. Recertification of Incomes

The payment book issued to each family will include coupons for rent payments for a three-month period and a notification for families whose rent payments reflect a housing allowance that they should return to the Housing Allowance Office during a two-week period five months after the new payment book begins, in order to reapply for the housing allowance. The family will be asked to bring the same type of documentation it brought to the original intake interview, showing the new amounts of income for sources of income for which the family itself provides the documentation. If possible, the family will be assigned to the same intake worker who conducted the original interviewer. In any case, the family's original application form will serve as the starting point for the new interview, so the process should not take as long as the first interview.

At the time of the three-month increase in gross rent, the Family Payments Section will make out a new payment book and mail it to the family. At the time of the six-month increase in gross rent, if a family does not reapply for its housing allowance, it will again receive a new payment book in the mail, this time reflecting the full gross rent for the unit.

If at any time during the six month period before recertification a family experiences a significant loss of income, it will be eligible to apply for an increase in its housing allowance. In addition, families who did not originally apply for a housing allowance or did not originally qualify for one will be eligible to apply at any time they believe they do qualify. On the other hand, families will not be required to report increases in income until the time of their regular six-month recertification.

The recertification interview will include all the same questions as the original intake interview and will particularly ask about sources of income that may have changed, such as

employment by registered and unregistered employers. As in the original income interview, the interviewers be trained to recognize likely levels of income for sources like pensions and benefits.

The recertification process will include third party documentation of the same sources of income that require such documentation when the family first applies for a housing allowance. As before, the Family Payment staff will receive the third party documentation, resolve any discrepancies, check the Family Intake Section's calculations, and issue the family its new payment book.

B. Changes to rent and Subsidy Standards

As rents are increased at three-month intervals under the new system, the new gross rents and the new Maximum Social Rents (MSRs) will be used to change payment books for families who have qualified for housing allowance, both at the three-month point and when they come in for their six-month reapplication and recertification. Similarly, families who are not receiving housing allowances will receive new payments books, reflecting new gross rents and MSRs, at three month intervals.

When the rent increase and housing allowance are first implemented, the maintenance component of gross rent will be based only on the total number of square meters in the housing unit. However, at some point fairly early in the implementation process, rents will begin to be differentiated by such factors as the age and type of the building, whether it has recently been rehabilitated, its amenities (such as indoor rubbish chute and security system), and its location in the city (for example, prefecture and traveling time to the center of Moscow by public transportation). It will be particularly important to do this as rent levels approach the full cost of housing maintenance, so that families believe they are paying a fair price for their housing.

When gross rents per square meter are differentiated by the quality and location of housing units, MSRs will no longer be the same as gross rents per square meter. MSRs will not be different depending on the quality of the unit in which the family lives, but instead will reflect the gross rent per square meter of a unit of average quality. Thus, families living in units of better than average quality and receiving a housing allowance, like families living in housing that exceeds the social norm for square meters for that size family, will pay a higher percentage of their income for housing than the "t" established for the program. Conversely, families living in housing of poorer than average quality and receiving a housing allowance will pay less than "t," as long as the size of their unit does not exceed the social norm.

In the future, after a sufficiently large private market of rental and homeownership housing units has been created, MSRs will be based on surveys of rents and maintenance charges established by the market for units of typical quality. As the average size of the housing unit occupied by families of particular sizes increases, the social norm for the number of square meters that is reflected in the MSR will also be changed

C. Family Turnover

One of the key features of a housing allowance is that it does not require the family to remain in the same unit in order to receive a subsidy. For example, if a family changes to a larger unit, a smaller unit, or a more suitably located unit, it retains its eligibility for a housing allowance as long as $MSR - ty > 0$. The only exceptions are for families who acquire different housing units as owner occupants by buying them at market prices (that is, not by being the original privatizer or the family who paid off its cooperative loan) and for illegal sub-tenants.

When a family moves out of its housing unit, the owner or

housing manager for that unit will be responsible for reporting to the Housing Allowance Office the fact that the unit is vacant. The family will no longer be held responsible for making rent payments for that unit and will not receive notices of rent delinquencies. On the other hand, if the family was receiving a positive payment of a housing allowance as a result of being underhoused and continues to collect that payment after it has left the unit, the Housing Allowance Fund will be permitted to bring a complaint against the family for fraud.

When a family moves into a housing unit different from the unit it previously occupied, the owner or manager will be required to send to the Housing Allowance Office information on the address and size of the housing unit and the names and passport numbers of the people living in the unit. This will demonstrate to the Housing Allowance Office that, if a family applies for a housing allowance for its new unit, the family really does live in the unit. This system will apply to all of the types of housing for which the owner or manager is required to fund a housing allowance (that is, for which the owner or manager is required to reduce the rent that would otherwise be charged for the unit in accordance with the housing allowance formula). These types of housing are municipal housing, departmental housing, cooperatives, and condominiums in buildings that formerly were municipal or departmental housing.

If the family does not apply for a housing allowance and the housing is not municipal housing, the owner or manager of the building will have a choice: it may contract with the Housing Allowance Office to issue payment books for such families and monitor and report to the owner/manager on delinquencies, or it may handle rent charges and collections for such families without the help of the Housing Allowance Office.

Private renters (families who rent units from other families) who want to receive a housing allowance will themselves be responsible for demonstrating that they have a rental contract

for a private rental unit in Moscow in order to be eligible for a housing allowance, and they will receive that housing allowance payment through Sberbank, in the form of cash and not as a rent reduction.

D. New Buildings and Reconstructed Buildings

When a new building is completed, if all the units are sold to homeowners or private investors, the owner or building manager has no responsibility to the Housing Allowance Office. Such homeowners will not be eligible for housing allowances, while private renters will demonstrate their eligibility for housing allowances themselves. However, if some of the units will be municipal or departmental rental housing, the manager of the building (whether a public or a private manager) will be responsible for sending to the Housing Allowance Office information on the size of each unit and the family members occupying that unit.

A similar system will exist for newly rehabilitated units. With the exception of units that are sold to new homeowners or become private rental units, the owner or manager must tell the housing allowance office the total square meters in any previously vacant unit or in any unit that has changed in size as a result of the rehabilitation, and must provide information on families newly occupying such units.

ANNEX A

**Housing Allowances Program
of the City of Moscow**

05.01.93 N 3

**On the elaboration of the concept of changes in the
rent payment and on housing allowances in the city
of Moscow**

The first stage of housing reform in Moscow was the housing stock privatization. It has been growing evident that privatization is only a housing policy element. The majority of apartments will be actually rented under the non-commercial terms (leased) during the next year or two.

The housing stock maintenance is in a disastrous state. The municipal housing maintenance expenses used to be covered mostly from the city budget.

At present wages of housing maintenance offices personnel, prices for power, materials and services are increasing, but residents cover only 3,5% of housing maintenance and utilities expenses. Under conditions of high inflation rate and tough federal budget policy, the city budget is practically unable to compensate housing maintenance losses.

At the same time charges for housing make an inadequately low share of the amount of expenses the population bears (average share of rent, utilities and power charges makes 2% of the family income). Principles of social justice are not observed under the existing system of subsidizing housing maintenance from the budget. 25% of families with the lowest income pay more than 4% of it for housing, while families with the highest income pay less than 1%.

Taking into account that without drastic changes in the

system of financing housing maintenance and public utilities, housing reform can not begin, the Moscow Government resolves:

1. To approve main principles of the program of transition to the housing stock maintenance and servicing, under the market conditions:

- Decentralization of management, establishment of the housing stock self-governing system (set up condominiums, housing associations);

- Accelerated privatization of apartment, gradual transition from the non-commercial to commercial rent of housing;

- Transition to water, heat and power consumption in a particular house registration with measuring instruments;

- Gradual (during several years) increase in the amount of rent and charges for utilities up to the market level;

- Transition from subsidizing housing maintenance offices to granting housing allowances to residents;

- Protection of the poorest sections of the population, that will otherwise have to use excessive share of their income to pay for housing within the social standard.

2. To submit for approval of the Moscow City Soviet a draft program of changes in the rent payment and introduction of housing allowances in accordance with the appendix.

3. The Department of Engineering shall elaborate and submit to the Moscow Government a detailed implementation mechanism of the program within a month after it is approved by the Moscow City Soviet.

4. To authorize K.E. Bouravlev to control execution of the present decree.

Premier of the
Moscow Government

U.M. Luzhkov

Appendix

to the decree of the Moscow
Government
of " " _____ 1992
N _____

P R O G R A M

of changes in the rent payment and introduction
of housing allowances for the 1993 and the first
half of 1994

1. Since April 1st 1993 families (or a person) occupying separate apartments in houses of state, municipal and public stock, shall pay rental per 1 sq.m. of total space of the residential unit.

Rental charge per 1 sq.m. of floor space of residential premises in communal apartments and hostels is preserved.

Privatized apartments maintenance and repair expenses remain equal to the rent rate established for the municipal housing stock. The rent rate should include value-added tax and payment for the land.

Since April 1st the amount of housing construction and housing cooperatives' houses maintenance charges shall be increased and reach the municipal housing rent rate.

Since October 1st 1993 the charge for utilities (heat, water and gas supply, sewerage, solid trash removal) shall start to increase gradually: since October 1st 1993 it should increase by 2,6 times if compared with last October's rate, since January 1st 1994 - by 15 times, and since July 1st 1994 - by 48 times.

The Moscow Government establishes uniform rates of charges for utilities in the whole city of Moscow irrespective of the property form.

2. Existing method of financing capital repairs of the housing stock is preserved.

3. Rental is charged per 1 sq.m. of the total space of the residential unit in the state, municipal and public housing stock of Moscow in accordance with the Table 1.

4. It is established that since October 1st 1993 rental and charges for utilities within the social standard of housing shall not exceed 5% of the total family income, since January 1st 1994 - 7%, and since July 1st 1994 - 10% of the total family income.

5. For the purposes of the low-income families social protection, since October 1st 1993 monthly housing allowances for the share of residential premises within the social standard are introduced:

5.1. The amount of housing allowances is calculated as the difference between the established for a particular year rent rate and charges for utilities paid for the residential premises within the social standard, and the established upper limit of the amount a family can pay for the housing facilities and public utilities.

5.2. Social standard of residential premises' floor space is established - residents occupying units within this standard have the right to get housing allowances in accordance with the Table 2.

5.3. The family pays in full for the maintenance and utilities for the floor space exceeding the social standard irrespective of the amount of its income.

5.4. Housing allowances are granted to renters (tenants) of apartments in the municipal, state and public housing stock, owners of privatized apartments, and members of housing construction and housing cooperatives.

6. Further increase in the rent rate and charges for utilities up to the market level, changes in housing allowance rates (social standard of housing, maximum possible share of the family budget spent for housing within the social standard) are determined by the Moscow Government depending on the economic situation, and approved by the Moscow City Soviet.

Table 1

Amount of the Rental in the houses of the state, municipal
and public housing stock in the city
of Moscow (in roubles for 1 s.m. of the total space*)

	Amount of the rental per 1 sq.m. of the total space		
	Since April 1st 1993	Since October 1st 1993	Since January 1st 1994
1. Apartment houses with all utilities	1-00	3-00	5-00
2. Apartment houses with all utilities without an elevator	0-90	2-50	4-00
3. Apartment houses with all utilities without an elevator and the refuse chute	0-80	2-00	3-80
4. Apartment houses without some kind of utilities, less fundamental houses, or houses with more than 60% of wear.	0-60	1-50	3-00

* - Rental for rooms in communal apartments or residential premises in hostels is charged per 1 sq.m. of floor space.

Table 2

Proposed social standard of housing

Single residents	<p>One-roomed apartment with the total space not exceeding 35 sq.m.</p> <p>A room (rooms) with the floor space not exceeding 22 sq.m. in the communal apartment</p>
A family of two	<p>A separate apartment with the total space not exceeding 35 sq.m.</p> <p>A room (rooms) with the floor space not exceeding 22 sq.m. in the communal apartment</p>
A family of three	<p>A separate apartment with the total space not exceeding 45 sq.m.</p> <p>A room (rooms) with the floor space not exceeding 28 sq.m. in the communal apartment</p>
A family of four	<p>A separate apartment with the total space not exceeding 60 sq.m.</p> <p>A room (rooms) with the floor space not exceeding 40 sq.m. in the communal apartment</p>
A family of five	<p>A separate apartment with the total space not exceeding 72 sq.m.</p> <p>A room (rooms) with the floor space of 48 sq.m. in the communal apartment</p>
A family of six and more people	<p>A separate apartment with the total space not exceeding 14 sq.m. per resident.</p> <p>Residential premises in the communal apartment not exceeding 10 sq.m. per resident</p>

The Office of Housing and Urban Programs of the Agency for International Development (USAID) addresses the shelter and urbanization needs of developing and formerly planned economies. In addition to administering the USAID Housing Guaranty Program, the Office supports a broad spectrum of urban activities in program planning, management and capital investment to benefit low-income urban families.

Office of Housing and Urban Programs
U.S. Agency for International Development
Washington, D.C. 20523

The Urban Institute's International Activities Center extends the Institute's expertise on the domestic policy front to help solve similar problems in other countries. Institute staff have now provided policy analysis and policy implementation assistance to 23 nations. International activities focus on three main issues: housing and housing finance; urban development and management, including infrastructure and municipal finance; and human resources, including health care financing and family planning. International Activities project papers can be obtained from:

The Research Paper Sales Office
The Urban Institute
2100 M Street, NW
Washington, D.C. 20037

