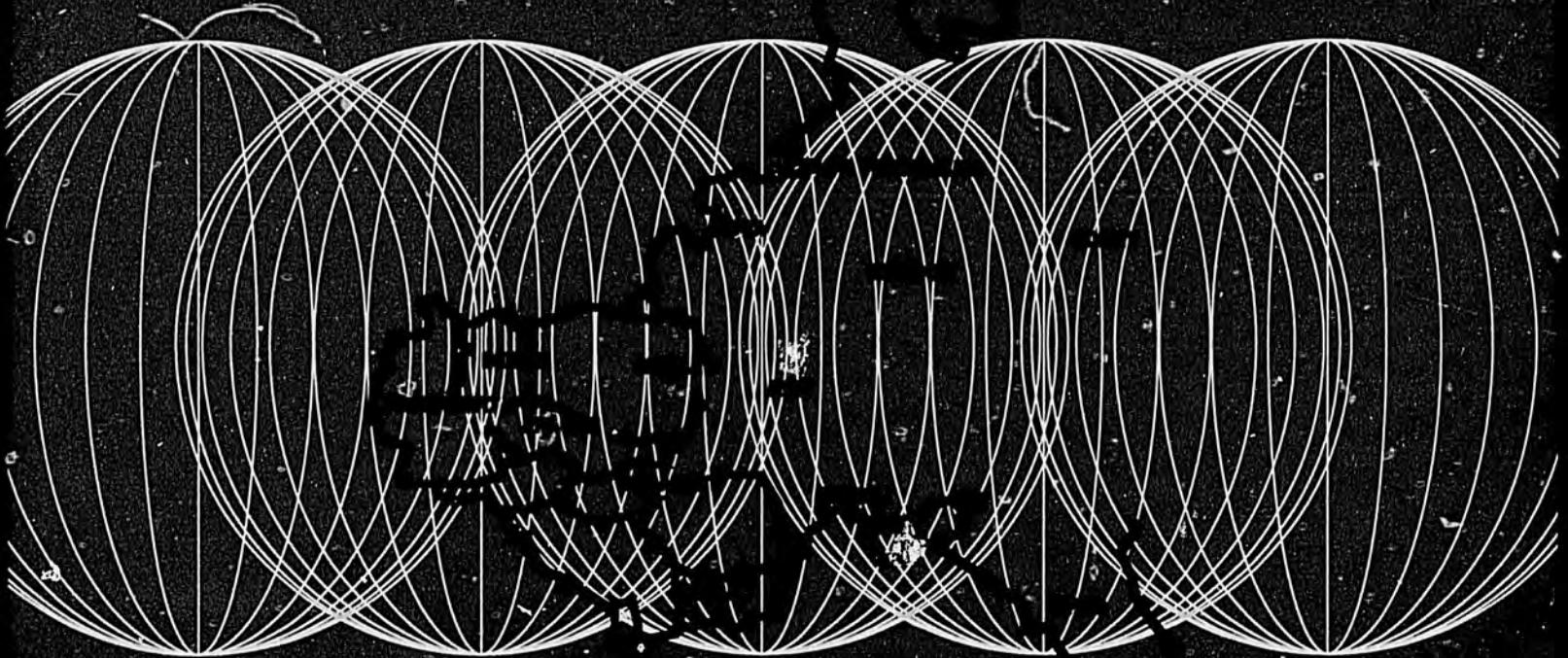


**FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE**



THE URBAN INSTITUTE
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**PRIVATIZATION OF
MANAGEMENT AND MAINTENANCE OF
MUNICIPALLY-OWNED HOUSING**

**MOSCOW PILOT PROGRAM
DESCRIPTION AND DOCUMENTS**

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ABSTRACT

In March 1992, the United States Agency for International Development (USAID) signed a Memorandum of Understanding with the City of Moscow to provide technical assistance to the municipal housing sector. The goal of this "Shelter Sector Reform Project" is to introduce and test private market principles in a housing sector that has been the exclusive domain of the state.

The Privatization of Management and Maintenance Pilot Program was designed to demonstrate the feasibility of providing competitive, high quality private management and maintenance to Moscow's municipally-owned housing stock.

This paper summarizes the Pilot Program implementation effort and outlines strategies to expand the privatization of management and maintenance on a citywide basis.

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EXECUTIVE SUMMARY

In 1928, dwelling rents were capped in the Soviet Union at 16.5 kopecks per square meter per month. This rent policy continues in the Commonwealth of Independent States, and places an enormous housing subsidy burden on local governments. In Moscow, the municipal rents cover only one-half of one percent of the current operating costs.

As part of USAID's Shelter Sector Reform Project, the City of Moscow is considering ways to make municipally-owned housing more self-sufficient. These strategies involve the introduction of private market techniques, including the privatization of management and maintenance of municipally-owned housing. At the end of 1990, these municipal units comprised 72 percent of Moscow's entire housing inventory.

The primary goal of the Pilot Program is to demonstrate the feasibility of providing competitive, high quality private management and maintenance to municipally-owned housing. Additional pilot objectives are to reduce operating costs and to enhance the tenants' quality of life through improved maintenance.

Moscow also has under consideration a housing allowance program that will make rents affordable over a broad range of incomes. This program will raise rents to cover a larger percentage of the housing operating costs and will introduce housing allowance subsidies for truly needy renters. A secondary goal of the Pilot is to facilitate the introduction of the housing allowance program by raising the level of tenant satisfaction with municipally-owned housing.

In addition, Moscow has just observed the privatization of its 500,000th housing unit; this represents the sale of 20 percent of the municipal housing stock in a period of just one year. As homeowner associations emerge and assume more responsibility for maintenance, competition among housing management enterprises will contribute to enhanced consumer freedom in the choice and quality of units.

The Pilot utilizes a sample of 2,000 housing units in Moscow's Western Prefecture; the prefecture is one of ten such subdivisions in Moscow, and it is inhabited by over one million people. The Western Prefecture was chosen for its commitment to participating in the Pilot, and for the diversity of its housing stock.

On March 1, 1993, three contracts were signed with the new private managers. While funding for technical assistance is provided by USAID, funding for the management contracts is provided by the Moscow City Government.



This paper describes the Pilot's key components—planning, training (including a U.S. study tour for the municipal owners), procurement, monitoring, and replication.

Notably new real estate concepts that were introduced by the Pilot are as follows:

- The first time that private management will be used in municipally-owned housing.
- The first time that a "Request For Proposals" (RFP) process was used to solicit services in the municipal housing sector. New concepts introduced include: advertising for proposals, freedom of information, open meetings, equal opportunity employment, deadlines for proposal submission, the use of objective rating criteria, the use of a "Notice To Proceed," and the ability to terminate for non-performance.
- The first time that municipally-owned housing used performance factors such as "clean and attractive," "removal of hazardous conditions," and "preventive maintenance." These concepts had to be operationally defined.
- The first time that tenant feedback regarding their satisfaction with maintenance will be used as performance measure in municipally-owned housing.

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THE PRIVATIZATION OF MANAGEMENT AND MAINTENANCE OF MUNICIPALLY-OWNED HOUSING

MOSCOW PILOT PROGRAM

INTRODUCTION

In March 1992, the U.S. Agency for International Development (USAID) signed a Memorandum of Understanding with the City of Moscow under which USAID agreed to provide certain technical assistance in the shelter sector. This program is known as the Shelter Sector Reform Project.¹ The goal of this technical assistance is to introduce private market techniques into a housing sector that had been monopolized by the state government since 1917.

The demise of the Soviet Union in late 1991 gave new found autonomy to the "Newly Independent States" (NIS). A priority item on the list of reform issues was to determine the future of the massive state-owned housing sector. Once a part of the centralized "command economy" system, the housing sector could no longer be the beneficiary of enormous subsidies under the new Russian Soviet Federal Socialist Republic (known as the RSFSR or the Russian Federation). Rents had been capped in 1928 and maintained at the artificially low level of 16.5 kopecks per square meter per month.² While the price of consumer goods was allowed to float in early 1992, the rent formula has remained unchanged; thus, shelter is a singularly outstanding consumer bargain in an economy that experienced an inflation rate of 2,600 percent in 1992. Since the urban shelter sector is now the responsibility of the cities, the provision of huge housing subsidies imposes an inordinate drain on scant municipal funding resources.³

The Moscow Privatization of Management and Maintenance Pilot Program is the first effort in Russia to test the viability of competitive and private alternatives to traditional public sector management. This paper will describe the components of the work plan that led to the signing of three private management contracts on March 1, 1993. Also described are plans for the future expansion of the Pilot Program in Moscow.

Under the umbrella of USAID's Shelter Sector Reform Project, a variety of technical assistance is provided to the RFSFR and select cities. In addition to the Pilot Program, USAID is engaged in other key areas of Russian housing reform, including legal and policy issues; the creation of housing finance mechanisms; the

¹ The Memorandum of Understanding is included as Appendix A.

² A kopeck is 1/100th of a ruble; at the time of this paper, the ruble was trading at the official exchange rate of 1 U.S. dollar = 667 rubles; the unofficial rate is 730 rubles per dollar.

³ Moscow municipal rents account for only one-half of one percent of the operating costs.

implementation of housing allowance programs; land reform; and condominiums.⁴

To facilitate the Pilot Program, USAID provided a resident, long-term advisor to Moscow. USAID has a similar long-term commitment to provide housing-related technical assistance at the federation level. The activities of the two resident advisors are regularly augmented by short-term advisors in various housing sector specialty disciplines. In addition, a Russian counterpart organization, the Institute of Housing Economy (IHE), is assisting with the implementation and expansion of the Pilot.

Moscow's Housing Stock

In order to understand the context within which the Pilot Program occurs, some demographic information on the Moscow housing sector is helpful.⁵

- In early 1991, approximately 9 million people lived in the City of Moscow, with another 6.7 million living in the Moscow region.
- At the beginning of the decade, there were approximately 2.9 million dwelling units in Moscow, with a density of 9,221 persons per square kilometer.
- Based on the best available statistic (total floor space), over 90 percent of the Moscow housing stock was state-owned at the end of 1990. In late 1991, ownership of the state-owned housing stock was conveyed to municipalities.
- In 1991, there were five categories of housing owners in Moscow: municipal (72 percent of the stock); Federation (18 percent); public organizations, like trade unions (included in the preceding Federation category); cooperatives (9 percent); and private (less than 0.5 percent).
- In terms of age, only three percent of the stock was constructed prior to the Revolution (1917), and over 88 percent of the stock was built after 1955. In appearance, however, the stock presents a much "older" image.
- In 1989, the average per capita dwelling space was 17.7 square meters (or around 180 square feet).

⁴ Publications describing this work are available in English and Russian from USAID's Office of Housing and Urban Programs and from The Urban Institute, Washington D.C.

⁵ "Housing Reform in the Russian Federation: A Review of Three Cities and their Transition to a Market Economy," by Raymond Struyk, Nadezdha Kosareva, and Charles Hanson, SSRP Project Report, August 1992 (Washington, DC: Urban Institute).

- Over 60 percent of the stock has five or more floors (70 percent of this stock is served by elevators).
- All of Moscow's residential heat is generated by 15 central heating points, the world's largest central heating network. This heat is in the form of hot water (*not* steam) that is pumped to radiators in the units. Of all residential units, 99.8 percent are served by this heating network; the only units not served being in some tsarist era (pre-1918) buildings.
- At the end of 1990, there were 360,000 applicants for housing on the waiting list; these applications represent 12 percent of Moscow's existing housing stock.

In 1992, the "private" category of housing units began to increase dramatically, due to the new policy of allowing municipal renters to "purchase" their units free of charge (only a nominal processing fee of 840 rubles is required). As of March 1993, the private ownership category had burgeoned to 500,000 units.

Comparison To Public Housing In The U.S.

In many ways, the municipally-owned housing stock is *similar* to public housing in the U.S.:

- It is owned and managed by political subdivisions.
- It is spartan, architecturally monolithic, and often lacking in amenities (such as landscaping).
- It has low rents that are fixed by statute.
- It is deeply subsidized, because the rents pay for only a small fraction of the operating costs.
- It is exempt from taxes.
- It is often densely populated. There are many large apartment blocks comprised of buildings over ten stories in height.
- It often has severe management and maintenance problems stemming from poor management practices, insufficient funding, low worker morale/motivation, and tenant malaise.

- It has large delinquencies (sometimes approaching 50 percent in Moscow), despite low rent levels.⁶
- It has a backlog of deferred maintenance, and there is a need for preventive maintenance programs. The useful life of many buildings is reduced by a lack of required capital repairs (modernization). Many hazardous conditions exist unabated at the building sites.
- It has long waiting lists that could require an applicant to remain on the list for 20-25 years before receiving housing. In order to qualify for the waiting list, an applicant must live in almost desperate circumstances. While waiting for housing, many applicants are forced to live with relatives in severely overcrowded conditions. Those who cannot live with relatives must live in communal flats, with as many as four unrelated adults living in a one-room (not including kitchen or bathroom) unit.
- When government operating subsidies cannot meet 100 percent of the total operating needs, public owners and managers must cope with the operating deficits. The 1992 operating subsidy shortfall in Moscow was 40 percent of actual operating costs.
- New publicly-owned housing construction is almost non-existent, because of government funding limitations.

In many other ways, the municipally-owned housing stock is *unlike* public housing in the U.S.:

- Public housing in the U.S. represents only about three percent of the total housing stock, whereas in Moscow, municipal housing is ubiquitous. The huge housing subsidies are an enormous drain on Moscow's budget—7.3 billion rubles in 1992. Operating subsidies are provided by the municipal governments and not the federal government.
- Renting in Russia has taken on the mantle of ownership. Because there are *no* eviction laws, tenancy is for life; transfers are rare. In contrast to Moscow's overcrowded families, many "empty nest" elderly are over-housed. Units may also be inherited from deceased family members.

⁶ Delinquencies are exacerbated by wage payments occasionally being two to three months late, and by consumer prices inflating at a higher rate than wages. In many instances, food costs are in excess of 50 percent of family income. The inflation rate in Russia was 2,600 percent for 1992, and the ruble inflates at an average rate of 20 percent per month. It is estimated that 30 percent of all Russians live below the current subsistence level of 4,400 rubles (or U.S. \$6.00) per month.

- In the U.S., rents are based on a "rent-to-income" formula (rents generally being set at 30 percent of income), and subsidy is then given to the Public Housing Agency (PHA) based on a number of need variables (Performance Funding System or PFS) and performance variables (Public Housing Management Assessment Program or PHMAP). In Russia, rents are based on a "rent-to-floor area" formula (rent is set at 16.5 kopecks per square meter of dwelling space), regardless of the tenant's income; subsidies are provided regardless of the performance of the municipal owner.⁷
- Rents must be paid in person and in cash (individual checking accounts do not exist) at one of the branches of the state bank (Sberbank). Rent payments are recorded manually in tenants' payment books. A crude accounts payable ledger is then created from small slips of paper (literally millions of pieces) that are removed from the payment books and consolidated on personal computers (286-type machines that are *not* networked) at regional "computing centers." The municipal owner receives the payment ledger two to three weeks after payment is made. Tracking rent payments is presently not a high priority, because the rental income accounts for a scintilla of the operating costs, and the owner is unable to evict anyone for non-payment of rent.
- Tenants' rights (except for eviction) in Moscow are very limited. There is no grievance procedure other than making ad hoc verbal or written complaints. Complaints of any kind are rarely made. Tenant or community associations were unheard of in Moscow rental housing. However, tenant associations are now emerging in the context of privatization, and these groups are the precursors of condominium associations.
- Municipal owners have complete sovereign immunity. As a result, owners are seldom concerned with hazardous site conditions or acts of negligence. Owners, landlords and tenants (OLT) insurance does not exist in the municipal housing sector. Personal injury is viewed as the problem of the injured party, and any relief for a property-related injury would not be addressed to the municipal owner; rather, it would be addressed to one's employer for relief from wages lost as a result of the injury.
- Mixed commercial and residential uses are commonplace. The ground floors of many residential buildings (particularly in Central Moscow) are

⁷ This will change with the Housing Allowance Program now under consideration in Moscow. Rents will be based on ability to pay under a broad range of incomes, similar to the U.S. Section 8 Program, and over housed families will have to pay an additional premium for dwelling space in excess of a "meters per person" standard.

rented by the municipality to commercial establishments. The commercial rents are an important source of additional income for the municipal owners, and the convenience of having readily available shops is an amenity sought by tenants.

- Many industries are located in residential neighborhoods in Moscow. When heavy industrial uses are adjacent to residential uses (as is sometimes the practice), tenants may risk exposure to environmental hazards, like airborne pollutants. In the U.S., strict environmental reviews during public housing construction and modernization protect tenants from such environmental risks.
- Virtually *none* of the Moscow municipal housing stock was built to be accessible to persons with handicaps or disabilities. To retrofit housing to make it accessible is unheard of, and is most likely impossible because of building design. In the U.S., "Section 504" and Fair Housing Laws mandate accessibility for a percentage of publicly-assisted housing units and protect the handicapped/disabled against discrimination. Lack of handicapped facilities and accessibility is not unique in the housing sector. Sidewalks universally lack curb cuts, and subway stations lack lifts or ramps.
- Lead-based paint is still used in residential building interiors. The causative effect of this lead on the incidence of elevated blood lead levels in children is unknown.
- Sprinkler systems are not used. Smoke sensors are used, however, to activate innovative "smoke removal" systems. These systems employ powerful fans to create negative air pressure in building central core areas, and to exhaust smoke through the roof. It should also be noted that the pervasive use of concrete and masonry construction makes virtually all interior partitions equivalent to fire walls, making it difficult for fires to quickly spread beyond one unit.
- Many public housing sites in the U.S. are isolated from services that are critical to tenants. This is not the case in Moscow, where an excellent, extensive, and affordable public transportation system exists citywide. However, the entire system is inaccessible to persons with mobility impairments.

Pilot Program Goal

The rationale behind the Pilot Program is that if rents must inevitably increase, there must be some justification in the form of improved management and maintenance. Rent increases will be difficult to implement in any economy that has been as hard-

hit by inflation as Moscow's. If the present low levels of maintenance continue, it will be hard for the policy makers to justify and hard for the tenants to accept *any* rent increases.

The goal of the Pilot Program is to demonstrate the feasibility of competitive, high quality, private management and maintenance in Moscow's municipally-owned housing stock. The premise of the Pilot is that private maintenance will be more cost effective than traditional public maintenance, and that the tenants' satisfaction levels with their housing will rise under private maintenance. Ultimately, the Pilot hopes to enhance the tenants' quality of life through the improvement of maintenance.

BACKGROUND WORK

In early September 1992, USAID signed a contract with the Urban Institute to commence the long-term work on the Shelter Reform Project. By late September, the long-term advisor was posted to Moscow to implement the Privatization of Management and Maintenance Pilot Program. However, much background and planning work had to be accomplished before the long-term work was possible. To accomplish this background work, teams of International Activities Center (IAC) staff and short-term consultants worked in Moscow (and other Russian Cities—Ekaterinburg and Novosibirsk) on fact-finding missions. IAC's prior experience with similar housing reforms in Eastern Europe helped facilitate the Russian data reconnaissance effort.

Identifying The Players And Their Roles

In addition to the author, two short-term advisors were instrumental in the background endeavor—Jill Khadduri in March⁸, and Toni Baar in May/June⁹.

Prior to the reforms of January 1992, Moscow was divided into 36 Municipal Districts. These districts were then consolidated into 10 administrative districts, known as *Prefectures*, each having approximately one million inhabitants. After reform, the Prefectures became the municipal owners of all state multifamily rental units. A prefecture is governed by a *Prefect*, who is appointed by the Government of Moscow. Each Prefect reports directly to the Vice-Mayor and Mayor of Moscow;

⁸ For a summary, refer to "Housing Management And Maintenance In Moscow," by Jill Khadduri, SSRP Project Report, April 1992 (Washington, DC: USAID Office of Housing and Urban Programs).

⁹ For a summary, refer to "Municipal Housing Structures In The City Of Moscow: Subdistrict And Micro-District Management," by Toni Baar, SSRP Project Report, July 1992 (Washington, DC: Urban Institute).

hence, a Prefect is a like the "Mayor" of a mini-city within Moscow. A typical prefecture is staffed by 100 support personnel. The Pilot occurs in the Western Prefecture, which geographically resembles a "pie slice" running due west from the Moscow River in Central Moscow to the suburbs. The Western Prefecture is historic and strategic, being the route that Napoleon choose to enter (and later flee) Moscow. The area of the Western Prefecture in Central Moscow is one of the most desirable commercial areas in the City, and is known as the "Kutusovsky" community (from its street named after a Russian general and hero of the Napoleonic War).

Each prefecture has a centralized housing function known as *UKaKha* (*Upravleniye Kommunal'noy Khozyaistva*; pronounced "ou-kah-hah" in English). UKaKha acts like a single point of contact in the prefecture for the coordination of municipal housing management, maintenance, and communal services.¹⁰ A typical UKaKha is staffed by 35 personnel, including a Chief; a Deputy Chief; an attorney; an economist; and Departments of Administration, Technical Repairs, Capital Repairs, and Grounds Improvements. UKaKha is also a liaison between the Prefecture and City departments that are major players on the housing scene:

- **The Department of Municipal Housing** (formerly known as *Moszhilkomitet*). Responsible for waiting lists and privatization. Effective May 1, 1993, this department will be reorganized into the Department of Housing Policy. This reorganization consolidates many of Moscow's housing functions into one department, including: reforms; allowances; management; finance; planning for new construction; commercial property within residential buildings; laws; policies; privatization; and condominiums.
- **The Department of Engineering Provision** (formerly known as *Mostnzhkomitet*). Responsible for the provision of communal services to residential buildings, and for infrastructures, such as roads and utility networks. Also responsible for the maintenance (at the Prefecture level) of municipally-owned housing and rent collection.

Moscow's 10 Prefectures are further subdivided into 124 *Sub-Districts*; there are 17 of these sub-districts in the Western Prefecture. A sub-district is governed by a Sub-Prefect, who reports directly to the Deputy Prefect and Prefect. A typical sub-district is staffed by 25 support personnel. The sub-districts are equivalent to neighborhoods in any large U.S. city. Since Moscow is served by ten subway lines (known as the "Metro" system), that have over 150 stations, a sub-district will often take the name

¹⁰ Communal Services are a "bundle" of services (heat, hot water, cold water, cooking gas, rubbish collection, radio antenna, and TV antenna) that are provided by Moscow's Department of Engineering Provision.

of its most prominent subway station. The two sub-districts that are in the Pilot are Fili-Davidkova (suburban) and Kutusovsky (the urban neighborhood mentioned above).

The *DEZ* (*Dozhnoct' Edinovo Zakazchika*), or Board of the Unified Customer, is responsible for municipal housing management and maintenance at the sub-district level. Hence, there is one DEZ for every sub-district. The Pilot includes two DEZ's—one in Fili-Davidkova and one in Kutusovsky. A typical DEZ is staffed by a Chief, an economist (similar to an accountant in the U.S.), and engineers (one for each micro-district in the sub-district). Oversight of the day-to-day management and maintenance of the municipal housing stock is the responsibility of the DEZ. In size, DEZ's are analogous to very large PHAs in the U.S., each DEZ having responsibility for 12,000-15,000 units. However, unlike PHAs, DEZs do not directly function as managers; instead, the management and maintenance function is delegated for each micro-district within a DEZ's area of operation. For the purpose of the Pilot, the DEZ is the owner of the municipal housing stock and is the entity that signed the private management contracts.

Moscow's sub-districts are further subdivided into 490 *Micro-Districts*; there are 54 of these micro-districts in the Western Prefecture—4 in the Fili-Davidkova Sub-District and 3 in the Kutusovsky Sub-District. Micro-districts typically contain 3,000-6,000 housing units. Micro-districts are known by numbers and not by names.

The *RAiU* (*Remontnoye y Aikspluatatsionoye Upravleniye*, pronounced "ray-you" in English), or Housing Repair and Operating Department, is the basic unit of municipal housing management and maintenance in Moscow. A RAiU is referred to by a number (taken from the same number of the micro-district in which it operates). DEZs have agreements with RAiUs to perform management, maintenance, and other non-housing related functions in the micro-districts. RAiUs are public entities acting as contractors to the DEZs. Until the Pilot Program, RAiUs had a virtual monopoly on municipal housing management and maintenance.

A typical RAiU is staffed by over 100 personnel, including a Chief, engineers, dispatchers, maintenance foremen, maintenance technicians, economists, and unskilled maintenance workers (such as janitors). RAiUs provide daily maintenance to building exteriors, interiors, and grounds. RAiU housing functions include routine maintenance, emergency maintenance, preventive maintenance, and 24-hour dispatch of maintenance service. RAiUs typically subcontract with other state enterprises for services such as truck transport; electric stove repair; and the maintenance of elevators, fire systems, and security systems. RAiUs often subcontract with private firms for the provision of after-hours emergency services. A major focus of RAiU activity is on seasonal work, such as snow removal and on the testing/preparation of the heating networks for winter.

In the past, RAiUs typically performed cosmetic repairs (like painting of common areas) every five years, but funding constraints have put an end to this practice. Capital repairs (akin to modernization programs in PHAs) were typically undertaken every twenty years but have also ceased due to a lack of funding. Capital repairs, however, are the responsibility of another state entity.

Although housing management is the RaiU's primary function, it is unfortunately saddled with other activities that detract from its basic housing mission. These *extraneous activities* are as follows:

- **Passport Control** (*Propiska*¹¹ in Russian). All Russian citizens must register for a passport at the age of 16. This passport is not just for travel, it also specifies the person's authorized place of permanent residence within Russia. For instance, a Russian with a passport listing St. Petersburg as their official residence *cannot* relocate to Moscow unless he or she gets approval, i.e., a new passport for Moscow. RAiUs register tenants for passports and maintain a passport "who's who" for micro-district tenants. All of the passport work is done manually.
- **Calculation of the Communal Services Charges.** Communal services charges are calculated down to the building and unit levels. Since none of these services are check-metered, gross building consumption is used to calculate an average per tenant charge. From this average, a unit charge is then calculated based on each tenant family's "preference." The "preference" system is a perquisite-driven system based on a number of factors, such as employment and family characteristics. Family members may have various "preferences," but the highest one becomes the preference for the whole family. The calculation of these charges is interminable and complicated. It is made tedious by the lack of computers; it is not uncommon for these charges to be calculated on an abacus. The RAiUs receive a small fee for making these calculations, but it is not nearly enough to cover the cost. An analogy to this situation would be to require PHAs to calculate bills for utility companies; add to this task calculating the charges based on a myriad of complex formulas.
- **Draft Registration.** Although two-year military service is no longer mandatory for all men 18 or older, some men are still drafted into military service. Data on all eligible men is maintained on a District basis, and the RAiUs are required to fulfill this function.

¹¹ A *propiska* is a stamp that all Russian citizens must have on their passports; it was originally used to tie serfs to the land and continued under the Soviet system.

The Pilot involves two RAIUs. RAIU No. 33 is located in Fili-Davidkova Sub-District; it has 63 buildings containing approximately 4,500 units. RAIU No. 25 is located in Kutusovsky Sub-District; it has 18 buildings containing approximately 3,000 units.

Conditions

The general condition and appearance of the municipal housing stock is poor. This is mainly a reflection of the extraordinarily low level of maintenance services delivered by the RAIUs, although, poor construction is also a contributing factor. Architecturally, the prevalent high-rise building style is monolithic, bland, and dense—reminiscent of the infamous Pruitt-Igoe project in the U.S. From afar, much of the municipal housing looks satisfactory. However, upon closer inspection, the impression soon changes.

There are notable and chronic deficiencies:

- The presence of filth and litter in the building entry ways, stair ways, and on the grounds.
- Offensive odors resulting from sporadic rubbish collection and inadequate deodorizing of rubbish chutes. Garbage will sometimes accumulate up to the fifth floor level in a high-rise garbage chute, because it has not been regularly collected. In older buildings, rubbish chutes are located inside units, compounding sanitary hazards.
- Security problems, such as broken entryway systems, broken locks, and lights that are burned out. The first floors are very undesirable because of these problems.
- The presence of hazardous conditions that pose an immediate threat to life, such as exposed electric wiring; man holes without covers; broken metal playground equipment that has jagged and pointed edges; and open excavation trenches that are uncovered and unlighted at night.
- The presence of hazardous conditions that are serious, but not immediately life threatening, such as: broken glass; improperly aligned elevators that stop at mid-floor; dark, unlighted hallways; and unshoveled snow which turns to ice. Sidewalks often have gaping holes and cracks. Curbs and gutters are often not aligned properly with sidewalk and street elevations. Storm drains are inadequate and often clogged, causing severe soil erosion and pond-sized accumulations of run-off water on sites.

- Water penetration in buildings is commonplace, particularly when the construction is of the concrete panel type. The joints between panels are the penetration point, and these require constant patching.
- In older brick buildings, the desired style was pargeting over the exterior brick surfaces. This plastering technique covered up what was often aesthetically poor masonry work, but over time created moisture problems.
- Roofs are invariably flat with membrane coatings that often leak. The top floors of buildings are very undesirable because of the leakage problems.

Tenant Satisfaction

A recent City-wide survey of 2,000 municipal housing units verifies the extent of tenant dissatisfaction with municipal maintenance:

- 50 percent of respondents said that their entryways were in need of rehabilitation.
- 40 percent reported common area lights were off for 30 days; 75 percent of security systems were inoperable (including concierges shirking their duty).
- 30 percent reported frequent rubbish in common interior spaces.
- 30 percent reported chronic elevator problems.
- 10 percent reported chronic heat problems; 3 percent were without heat for an entire month.
- 39 percent of those requesting repairs reported that the work was never done; 25 percent of those having a maintenance problem reported that they never asked for service, because it was futile to request repairs.
- 9 percent reported chronic toilet leaks.

Operating Costs

City-Wide

Although actual operating and maintenance costs are only available for the first nine months of 1992, the projected annual cost is 7.3 billion rubles (U.S. \$10.93 million); this figure does not include capital repair or communal services costs. Since the municipal housing sector continues to have responsibility to maintain both privatized

and rental units, the cost includes both types of housing.¹²

Based on a universe of two million units (municipal rental and privatized) this equates to an estimated 1992 operating cost of 300 rubles per unit per month (PUM). Although this may seem like a small amount when compared to U.S. assisted housing costs, the housing expense is a large portion of the Moscow budget.

In 1992, municipally-owned housing expenditures represented 14.2 percent of the entire Moscow annual budget—3.4 percent for current repair, 8.3 percent for capital repair, and 2.5 percent for communal services subsidies.¹³ The capital repair expenses represent crisis or emergency (not planned) needs.

Pilot Program Compared To RAIU Funding

Based on an annual funding level of 41.2 million rubles (without any inflation factor), and a sample size of 2,180 units, this equates to 1,574 rubles per unit per month (PUM) for the Pilot.

In February 1993, RAIUs were funded at an approximate average of 1,000 rubles PUM. This funding level is considerably below 100 percent of the funding need, which is estimated to be 3,000-4,000 rubles PUM.¹⁴

The "funding versus need" comparison is noteworthy in the context of the Pilot. The Pilot contractors were willing to undertake the work at a funding level that is approximately 50 percent of the estimated funding need, and to conduct the work under more strenuous performance standards and scrutiny.

The Design Of The Pilot Program

Preliminary work on the Pilot occurred in July-August 1992. The prior background work had confirmed the hypothesis that there was widespread tenant dissatisfaction with maintenance. Also validated was the rationale that maintenance should be improved before raising rents, and that the benefits of private maintenance should be tested. However, in order to implement the Pilot, a Program had to be designed

¹² Until a condominium law is adopted, RAIUs will continue to provide maintenance to buildings where municipal units have been privatized; to pay for this maintenance, owners will continue to pay "rent" based on the standard rent formula.

¹³ Budget data provided by the City of Moscow Ministry of Finance, Housing Division.

¹⁴ Approximations are based on the best estimates that could be provided by the City of Moscow. Actual monthly or cumulative funding data for 1993 is not yet available.

that was acceptable in terms of concept *and* funding to Moscow City Government—this was the goal of the preliminary work.

To facilitate this phase of the work, a "steering committee" of housing officials and experts was appointed by Moscow City Government. The Moscow Office Of Privatization was designated as the primary agency responsible for coordinating the Pilot. Others members of this committee were appointed from the Western Prefecture, The Department of Engineering Provision, and Mossoviet (the legislative branch of Moscow). This committee met regularly during this period to review ideas and give feedback regarding the design of the Pilot.

Although the Western Prefecture had been identified as the general location of the Pilot, a specific sample of units had to be selected. As with the selection of the Prefecture, participating sub-districts had to be selected that were strongly committed to the task. The sample also had to be a reflection of the real Moscow housing stock, because replication in a real world environment was a high priority.

It was agreed to use a sample of 2,000 units: 1,400 in the Fili-Davidkova Sub-District/RAiU No. 33 (suburban) and 600 in Kutusovsky Sub-District/RAiU No. 25 (urban). Chosen for diversity, these units vary in construction type (brick versus panel), age (from 1930 to 1980), and height (mid versus high rise). Much field work was necessary to coordinate the selection of the units with the prefectures, and to gather building demographic information. Visits were made with tenants to discuss building characteristics, and with RAiU personnel to assess work patterns. RAiU budgets were studied in much detail to discern what funding commitments would be required by the Pilot.

It was necessary to designate an owner below the prefecture level—preferably an entity with direct and accountable involvement with maintenance at the sub-district level. The DEZ was a natural choice for the ownership role, and was designated as the agent of the owner for the Pilot. Staff from both DEZs were designated to work closely with the advisor on the design and implementation of the Pilot.

Research on legal issues was conducted at this time. No legal impediments were found to implementing maintenance privatization. In addition, RAiUs were found to qualify as small business enterprises that could convert from public to private status.

The issue of RAiUs converting to private businesses was a sensitive one. The RAiUs employ some 50,000 people in Moscow and with unemployment on the rise, no one wanted to create more hardships. On the other hand, satisfaction with RAiUs was low, and some RAiU reorganization was inevitable, since subsidies were reduced in 1992 by 40 percent. Absent some new approaches, RAiUs were clearly going to have a difficult time surviving if simultaneously required to cut costs and improve maintenance quality. The more entrepreneurial RAiUs were quite capable of making

the transition to the private sector, and it was agreed that RAIUs could bid for the Pilot work. Ideally, a RAIU control sample would have been built into the Pilot, but there was not sufficient funding or time to create a control group. The unemployment issue was handled by getting a pledge from the Prefecture that no workers at RAIUs No. 33 or No. 25 would be laid off as a result of the Pilot.

A visit was also made to Pskov (a city northeast of Moscow, close to the Estonian border) to meet with a RAIU that had made the transition to the private sector. This RAIU is the only one known to have gone private, and the results were mixed. The RAIU was still operating, but had encountered considerable political problems from officials who did not approve of the switch from public to private. Funds were delayed and frequent, harassing "no-notice" audits were imposed on them. The RAIU was also involved in several entrepreneurial ventures that were only marginally successful, and that had put their financial future in jeopardy—one example was a manufacturing venture to make plastic "p-traps" for sinks. The lesson learned from this visit was that the political will to allow privatization must be present during the genesis stage of the Pilot, and that the Pilot should be tightly focused on the maintenance function.

During this period, several factors that have a profound affect on RAIU performance were explored:

- There is a strong negative stereotype regarding RAIU workers. They are regarded as "limitchiks"—literally persons of limited ability. For decades, workers had to be recruited from the villages, and lured to the city with the offer of a housing unit in exchange for work. This widespread stereotype has apparently had the effect of a "self-fulfilling prophecy" on the workers over the years, and now the expectation is that a RAIU worker is a dull, unmotivated, often intoxicated person, who wants exorbitant payments for slipshod work.
- The RAIUs are the only maintenance game in town, and a RAIU has almost no accountability. RAIUs do their own dispatching and keep their own logbooks on routine and emergency service requests. Upon logbook inspection, *all* service requests are annotated as promptly completed. In essence, RAIUs rate themselves on maintenance response times and on site conditions. Real world verification, however, indicates quite a different story—missed service requests, deferred maintenance, and a plethora of dangerous site conditions.
- Meaningful performance goals do not exist at the RAIUs. Long and tedious performance manuals (or "Normatives" in Russian) exist, but these are strictly "process" and not "results" oriented. The focus is on "how to" do a job, and not on "how well" a job is done. This focus often produces

contradictory work priorities. A prime example of this phenomenon is the posting of RAIU workers at garbage receptacles to catch crows that strew garbage from the overflowing containers onto the grounds. The focus is not on the real cause of the garbage problem—regularly disposing of the garbage, and hence, abating the nuisance of the crows. Instead, the focus is on disposing of the crows.

- Real incentives for outstanding performance do not exist at the RAIUs. Bonus pay is a budget line item, but in reality, every RAIU worker gets it, regardless of performance.

The RAIUs are hobbled with extraneous, non-management/maintenance functions that detract from the main mission of housing. These are the previously mentioned functions of passport control, communal services calculations, and draft registration.

The RAIUs are much more involved in maintenance than management. Traditional western management functions are not part of the Moscow housing scene, and probably will not be until the maintenance function is improved. The RAIUs are not involved in leasing, grievances, evictions, eligibility, income/family composition reverification, rent collection, or tenant relations.

It was agreed that the Pilot would be structured to certain design criteria: to make the work respectable; to make the workers accountable to owners and tenants; to make the work "results" oriented; to build in goals and incentives for outstanding performance; and to initially focus the work on the "management of maintenance." It was further agreed that the Pilot would be implemented over the six-month period of September 1992-February 1993.

The Pilot had to address not only the role of the maintenance worker, but also, the new role of the municipal owner. The Russian notion of the owner's role was a tabula rasa, and it would have to be introduced through training and technical assistance. Also, in order to augment the training with real life experiences, it was agreed that representatives of the owner would participate in a U.S. Study Tour.

With these criteria as the design envelope for the Pilot, a specific implementation work plan and schedule was drafted and submitted to the steering committee. The work plan consisted of the following general program areas:¹⁵

- Preliminary Steps (September 1, 1992)
- Training

¹⁵ The complete work plan is included as Appendix B.

- Database Development
- Budget Development
- Development of Financial/Accounting Systems
- Development of a Model Management Contract
- Procurement of Private Managers (March 1, 1993)
- Performance Monitoring (March 1993-February 1994)

In late August, an "Order" (an order is similar to a federal regulation or notice in the U.S., but it has more of an edict tone than its U.S. counterparts) was issued approving the work plan and committing to the funding of the Pilot. The order also extended the life of the steering committee and added a representative of Mossoviet. The amount of funding was to be determined by the contract to be signed in March 1993. The order was jointly signed by the Office of Privatization, The Department of Engineering Provision, and the Western Prefecture.

Also in late August, an agreement was signed with the IHE to provide large scale training in 1993. Staff from the IHE would be trained alongside the DEZ's in the fall of 1992, and they would assist in the training of additional owners when the Pilot is replicated in 1993-1994.

IMPLEMENTATION

The Training Phase

The training phase ran from September-December 1992. The focus was on classroom training, with a one-week owners study tour to the U.S. in late January 1993. A well-equipped training classroom was provided by the IHE.

Drawing on experience from the background work, a training philosophy and curriculum took shape. The initial idea was to introduce western-style real estate management techniques to the owners, including leasing, rent collection, tenant turnovers, accounting/budgeting, work orders, and computer automation. However, experience showed that this goal was too broad and too progressive to be successfully implemented within the scope of the Pilot. The current work of the DEZ and RAIU is focused on maintenance, and to introduce management functions on such a large scale would have been overwhelming to the new owners. DEZs were found to lack the basic management skills which needed to be mastered before undertaking any real estate training. Recent history has also shown that implementing change

(particularly of this magnitude) had faltered because of unrealistic goal setting. Furthermore, to introduce automation at this time was not practical, because no funding resources existed to purchase the computer hardware or software.

Taking a more pragmatic approach, it was agreed to focus the Pilot's training component on two elements: basic management skills, and basic multifamily property maintenance. This methodology would give the owners a solid foundation in basic management and focus on the area that *most* urgently needed improvement—maintenance. Improvement in the maintenance function would be immediately apparent to residents and should quickly result in measurable increases in tenant satisfaction. This narrow focus also meant less systemic change for the housing sector, and the impact of the change would be readily manageable. The more advanced real estate training would be needed only *after* the basic skills had been mastered by the owner, and the presentation of an advanced curriculum would be postponed until the owners had six -months of experience under the Pilot.

The underlying philosophy of the training was that it would be informal and allow for high levels of participant interaction. To create this classroom atmosphere, a classroom limit of 20 participants was set. Questions in the classroom would always be welcome. In fact questions were encouraged as a feedback mechanism to ensure that concepts were being understood by the participants. The training would be reinforced by visual aids (overhead transparencies) in the classroom. Although supervisors were participants in the training, equality and freedom of expression would be sacrosanct classroom principles. The target time for each session would be three to four hours; this length was required for translations—two hours of English presentation would require four hours when translated into Russian. Although training breaks were not customary in Russia, there would be a mid-session tea break. The resident advisor would function as a classroom "facilitator," as opposed to a traditional "teacher." Testing would be restricted to self-tests, and scores would be personal to each participant—this ensured that no one was embarrassed by their performance in the classroom.

The sessions were structured to provide maximum reinforcement of the course content. Sessions followed a standard format:

- **Pre-Session.** Reading material; test.
- **Session.** Review/summary of the pre-session reading material; group discussion questions; practical and interactive group exercises; session test and group discussion of answers; distribution of the pre-session material for the next session.

Each session was written in English and translated into Russian. Session materials became units in a workbook binder that was "built" by each participant. At the

beginning of the course, each participant was given a binder with dividers for each session. The workbook included only a "Table of Contents" at the beginning of the course, and as the sessions progressed, participants inserted new session materials. These workbooks were both training manuals and future reference materials for participants.

The course consisted of sixteen sessions—ten basic management sessions and six real estate sessions. All sessions were tailored to the municipal owner as the trainee. Seventeen persons were selected for training—two from the Prefecture, two from the UKaKha, four from the DEZs, three from the Office of Privatization, and four from the IHE. Training commenced on October 23, 1992. Sessions were originally scheduled one per week, but in order to meet the Pilot implementation plan, sessions were accelerated to two per week. Enthusiasm among the participants was high, and to complete the training on time, they volunteered to include a Saturday in the training schedule. The final session and "graduation" was on December 16, 1992, with participants receiving course certificates.

The first ten sessions were devoted to management, with an emphasis on productivity and management by objectives (MBO). Leadership styles, good communication skills, good coordination skills, and an awareness of the power vested in work groups (formal versus informal) were stressed in the training. The training was designed to make participants think about their own work situations and to employ new management techniques on the job. After years of having to function in a "command" work place, the course sought to engage managers in a more participatory, open style of management. Using MBO and organizational goal-setting techniques, the managers were taught to seek the input of workers in formulating goals, and to delegate authority in the achievement of those goals. How to motivate workers to produce high quality work, and how to motivate workers to fulfill organizational goals were part of the curriculum. In addition, worker attitudes, stereotypes, and how to combat ethnic discrimination in the work place were discussed. Whenever possible, the management exercises were tailored to real estate situations and the potential problems that the owners would encounter in managing/maintaining the housing stock.

These basic management sessions were a revelation for the participants. Even though they had been managers for many years, the course put management in a new perspective for them. Ideas learned in the classroom were soon being applied in the work place, and classroom discussions were filled with personal experiences. The ability of the participants to learn and practice the new management principles was exceptional.

With the establishment of a good background in basic management, the real estate portion of the training was introduced.¹⁶ Migrating off-the-shelf real estate training materials from the U.S. to Moscow was out of the question, because "boiler plate" training was inappropriate for the municipal owners. The focus of the Pilot was on maintenance, and standard Western management fare was not germane. The real estate sessions were written to highlight the management of maintenance role of the owners. Particular emphasis was put on budgeting, accounting, and maintenance responsiveness. Practical exercises were again a part of the sessions, with participants having to rank hypothetical maintenance requests by priority. Budgets were analyzed; sample work order and inventory systems were reviewed. Accountability for routine and emergency service requests was also stressed.

To supplement the classroom training, three representatives of the owner (DEZ) traveled to the U.S. in late January 1993 to participate in a study tour. Public/private owners and managers were represented in counterpart meetings with the Muscovites. Site visits allowed them to see maintenance conditions firsthand. In addition, meetings were held with real estate attorneys to highlight the legal responsibilities of landlords in the U.S. The participants found this learning experience to be very helpful in establishing performance standards for themselves and for the Pilot contractors.

The Procurement Phase

With the training component complete, the Pilot entered into the bidding, or procurement phase. In the west, public procurement is an open and objective process, strictly regulated by local, state, and federal laws. In the Russian public sector, openness and choice were precluded by the "command" economic system. The municipal housing area is typical of that system—there was no choice, because the state granted the RAIUs a monopoly on the maintenance business. The goal of this phase was to introduce western public procurement practices to the municipal housing sector. This new "Request For Proposals (RFP)" procurement process was slower and much more cumbersome than past procurement practices that were arranged by "order."

It was agreed that private contractors would be responsible for the following maintenance work items:

- **Current Repairs.** Routine and emergency service requests; general and ordinary maintenance to building interiors and exteriors; painting; cleaning; electrical; and plumbing repairs. All routine requests should be

¹⁶ Quadel Consulting Corporation assisted in the development of the real estate training component.

handled within 24 hours, and all emergency requests should be abated or cured within 24 hours.

- **Grounds Maintenance.** Litter removal, snow removal, grass cutting, and landscaping. Grass cutting and landscaping have traditionally been neglected by RAIUs.
- **Refuse Removal.** Sites, interiors, and exteriors should be clean at all times. The concepts of "curb appeal" and the "image" of the properties should be a performance factor.
- **Selective Preventive Maintenance.** Items such as light bulbs in common areas should be periodically replaced.
- **Elevator Maintenance.**
- **Heating Networks.** The repair and testing of building interior networks.

It was agreed that contractors would *not* be responsible for the following: capital repairs, tenant turnover repairs, dispatch, communal services, passport control, draft registration and leasing.

It was also agreed that equal opportunity and freedom of information would be mandated in the RFP and subsequent contracts. Furthermore, it was agreed that contractors would have the right to hire and fire staff.

Solicitation Component

Since this type of municipally-owned housing maintenance had not occurred before, finding interested bidders would be difficult; finding qualified bidders would be even harder. A few small enterprises provided maintenance to "departmental housing," but the number of interested bidders from this area proved to be insignificant.¹⁷ During the training phase, a few potential bidders were found by word-of-mouth. Meetings were held with these persons to explain the Pilot Program, but there proved to be a great deal of skepticism about the bidding process. Potential bidders wanted a guaranty that if they made the effort to submit a proposal, that they would get the work. The concept of business risk was totally new and had to be explained to the potential bidders. They were also incredulous that this process would be fair and objective, and insisted that the owners would "fix" the bidding process. Assurances

¹⁷ Departmental housing is employer-owned housing. The owner is a department of the state—like the Army—and it is not mandatory for these buildings to be maintained by the RAIUs.

had to be made that this process would be fair; it was also stressed that the advisors would not participate in a manipulated bidding situation. There was much concern about whether the Pilot funding would be secure and sufficient. These issues were a preview of concerns that would be voiced by all future bidders.

An advertisement was drafted and placed in three papers:¹⁸

- *The Evening Moscow*, a paper having a daily circulation of 500,000 plus; the ad was run in the February 5th edition.
- *Stroitel'naya Gazetta*, a bi-weekly construction trade paper read by many small maintenance enterprises; the ad was run in the February 2nd edition.
- *Quartiyera*, a paper published by The Office of Privatization; the ad was run in the February-March edition.

The ad was longer than a typical solicitation in the U.S., because the RFP process was new and had to be explained if we were to successfully attract bidders.

In an effort to create additional publicity for the Pilot, a press conference was held on February 10, 1993, at Mossoviet where a press center is available for coordinating such events. At the press conference, the Pilot was introduced by the heads of the three sponsor agencies—Mr. Bryachikin, Prefect of the Western Prefecture; Mr. Matrosov, Director of the Department of Engineering Provision; and Mr. Maslov, Director of the office of Privatization. The resident advisor was also present and answered questions regarding the technical details of the Pilot. The press conference was attended by 15 media organizations, including the print, television, and radio media. The press conference preceded the proposal submission date by 12 days, and the timing of the conference gave a tremendous publicity boost to the Pilot. The 10:00 pm evening news on Moscow Channel 3 carried the press conference, as well as Radio Moscow. The results were immediate—within one week, over twenty expressions of interest in the RFP were received.

The Request For Proposals (RFP) Component

An RFP was developed, translated into Russian, and made available to all interested bidders (and members of the public and media).¹⁹ The RFP, like the solicitation, was longer than usual because of the need to explain the Pilot and the procurement

¹⁸ A copy of the solicitation is included as Appendix C.

¹⁹ The Request For Proposals is included as Appendix D.

process. The RFP was structured to also be a training guide on how to write a proposal.

It was decided to break the Pilot sample into three discrete bidding packages of approximately 600-700 units each. Bidders could bid on one, two, or all three packages. Fili-Davidkova consisted of Packages I and II. Kutusovsky consisted of Package III.

In the Introduction to the RFP, an attempt was made to contemplate bidders' questions and to give certain assurances regarding the Pilot. Particular care was given to stipulating funding guaranties and fairness in the selection procedure. The format for writing a proposal was presented in a detailed outline that coached bidders through the process. Bidders were instructed to include two major sections:

- The *technical proposal* outline asked for information regarding how the work would be done. The bidders' experience, and a list of work references were requested. Fiscal information was requested to ensure that bidders had sufficient financial strength to undertake and complete the work. A work plan was required to explain how bidders intended to handle the maintenance tasks. Specifics, such as staffing, sub-contracting, work order mechanisms, inventory control, and tenant relations were requested. In keeping with the "results" oriented philosophy, a bidder could use any methodology to perform the work, as long the owners goals were achieved.
- The *cost proposal* outline asked for information regarding how the work would be priced and what fiscal controls would be used. Detailed information was requested on salaries, materials, equipment, sub-contracts, office expense, seasonal expense, and start-up expenses. Cost proposals were required to include overhead and profit. Maximum bid costs were quoted in the RFP for each of the three bid packages; this caveat insured that bids did not exceed available funding. The bid ceilings were calculated using historic data adjusted for inflation to March 1993 costs. A budget format was stipulated for the proposals. Bidders were reminded that cost was a critical component of the selection process and that to be competitive, they should not bid the maximum allowable cost. Again, in keeping with the "results" philosophy, bidders could use as many or as few staff as desired, and they could pay staff more or less than was customary—as long as the owners goals were achieved. The RFP introduced the concept that the "lowest qualified" bidder prevails.

A pre-bid conference was held on February 12, 1993, to review the purpose of the Pilot, to give instructions on how to write proposals, and to answer questions. All interested bidders and public were welcome to attend; eight bidders attended.

To allow for existing conditions to be recognized, site inspection tours were held for all interested bidders on February 15, 1993. This was followed by an independent evaluation of the Pilot sample. This baseline survey of the Pilot building conditions (and the grounds associated with the buildings) was completed by the IHE, and this data is on file. As the Pilot work progresses, this data will be periodically updated to determine changes in the building conditions. This data will also ensure that contractors are not unjustly penalized for pre-existing conditions that are beyond their contractual responsibility.

A bid-opening occurred on February 22, 1993, and 11 bids were received from six bidders. The bid-opening was a public meeting, and several bidders were in attendance. Proposals continued to trickle in for the next 48 hours, but all late bids were steadfastly refused.

Interviews were held on February 24, 1993, and all six bidders were interviewed. Interviews lasted all day, and each bidder had approximately one hour to be interviewed. An interview/selection committee was appointed by the three sponsors of the Pilot, and the committee consisted of 11 members. Each member received copies of the six proposals in advance, and familiarized themselves with the contents prior to the interviews. Interview guidelines were drafted by the RA and were followed by the committee. Rating sheets for each bidder were filled out, and ratings followed the rating system agreed upon in the RFP:

| <i>Criteria</i> | <i>Points</i> |
|----------------------------------|---------------|
| Experience | 20 |
| Staffing | 15 |
| References | 10 |
| Plan | 20 |
| Cost | 25 |
| Interview | + <u>10</u> |
| | 100 |
| Bonus for Completeness of RFP | + <u>10</u> |
| Total Possible Points | 110 |

The interviews and selection were handled in a very professional manner by the committee. Three bidders were selected—one for each package. Clear winners were evident when individual committee member scores were tallied for each bidder, and no competitive negotiations were necessary. The three successful bidders were:

| | | |
|----------------------------|---------------------|-------------|
| Bid Package I (Kutusovsky) | OLSO | 68.1 points |
| Bid Package II (Fili) | Moszhilrehm-Service | 87.5 points |
| Bid Package III(Fili) | Santechnic-Complex | 62.0 points |

All three winners have different backgrounds and bring different strengths to the Pilot. OLSO is a newly founded group to assist redundant military personnel make the transition to the private sector. Moszhilrehm-Service is a new venture of ex-public sector workers, who have many years of housing maintenance experience. Santechnic-Complex is a private firm that has departmental housing maintenance experience.

The Contracting Component

A model contract format was drafted and approved by the owner for use with all three bid packages. Drafts of the contract were circulated to the bid winners so that they could also have input in the contract language.²⁰

The contracts are between the owner (the DEZ) and the manager (the contractors), and the contract term is for one year (extendable). The contracts list the responsibilities of the parties, highlights being:

- **Funding.** Funding was calculated on a "rubles per square meter" basis, and the amount varies. Kutusovsky properties are more costly to operate than the Fili properties because the Kutusovsky buildings are older. The Fili properties were funded at 12.395 million rubles (Package II) and 12.588 million rubles (Package III). The Kutusovsky properties were funded at 16.244 million rubles (Package I). The total funding (without inflation) was 41.227 million rubles for the contract period. Payments will be made monthly, one month in advance. Budgeted versus actual expenditures are to be reported monthly (on a cumulative basis) to the owner. Payments may be delayed, reduced, or withheld for unsatisfactory performance. Inflation adjustments will be made monthly based on the Federation's inflation index. Funding availability (with inflationary adjustments) is guaranteed under the contracts.
- **Performance Standards and Incentives.** There are four categories of performance: satisfactory, outstanding, incentive, and unsatisfactory. To define performance standards, an operational definition section had to be

²⁰ The contract is included as Appendix E.

included in the contracts. Some terms, like "clean and attractive" were never used before, and hence, the standard had to be operationally defined. For outstanding performance, the managers receive an additional 1.5 percent of the contract amount. For incentive performance, the managers receive an additional one percent of the contract amount for each 10 percent of the contract amount saved and rebated to the owner; this makes the owner's goal to save money in synch with the manager's goal to make more money. For unsatisfactory performance, the manager risks contract termination, unless performance is improved within a reasonable period of time. In the past, RAiUs could not be terminated, and this provision was a dramatically new concept for the owners.

- **Termination Procedures.** The contracts stipulate that no termination shall occur until every effort to cure deficiencies has been exhausted. Regular reporting and meetings are mandated, so that if problems occur, there will be ample early warning. Long before matters reach a crisis stage, there will be ample time to correct problems so that contracts may remain in effect. The goal of the Pilot is to gain long-term experience and to assist the owners and managers in developing their skills. However, if necessary, owners are prepared to cancel contracts and solicit new managers.

Announcements were made to Pilot tenants informing them of the purpose of the program, and giving them the names/telephone numbers of the new private contractors. Announcements were posted in building lobbies and put in every tenant's mailbox.

Meetings with tenants were held in Fili and Kutusovsky Sub-Districts. These meetings were designed to introduce the Pilot, answer questions, and enlist tenant cooperation. The meetings were particularly helpful in quelling rumors that had been circulating about the Pilot. One rumor was that the Pilot was an "American plot" to sell the buildings and displace the tenants. Another rumor was that only American firms could bid for the work. The meetings were well attended, with over 200 persons in attendance at Kutusovsky. One meeting lasted three hours, and at this meeting, the resident advisor had to intercede on behalf of the owners to correct misinformation that continued to be spread by several tenants in attendance. Both meetings ended with a solid and large majority of tenants supporting the Pilot.

Contracts were signed on March 1, 1993. Orders were given to the bank to transfer the first monthly contract payments into the managers accounts on March 1, 1993.

In order to give the managers adequate time to hire staff and purchase supplies, the Notices To Proceed were not effective until March 15, 1993. The Contractors' work commenced on March 15, 1993, on the exact date projected in the summer of 1992.

Notable new real estate concepts that were introduced by the Pilot are as follows:

- The first time that private management will be used in municipally-owned housing.
- The first time that a "Request For Proposals" (RFP) process was used to solicit services in the municipal housing sector. New concepts introduced include: advertising for proposals, freedom of information, open meetings, equal opportunity employment, deadline for proposal submission, objective rating criteria, "Notice To Proceed," and termination for non-performance.
- The first time that municipally-owned housing used performance factors such as "clean and attractive," "removal of hazardous conditions," and "preventive maintenance." These concepts had to be operationally defined.
- The first time that tenant feedback regarding their satisfaction with maintenance will be used as performance measure in municipally-owned housing.

MONITORING

During the year of the Pilot Program, the results will be carefully monitored. Both the owners' and the contractors' performances will be tracked. Technical assistance will continue to be given to the Pilot owners during this phase. If warranted, technical assistance in the form of training will be given to managers.

Performance is measured against the contractor's approved work plan and budget. In addition to holding regular meetings with the contractor, the owner will make regular inspections to assess and verify site conditions.

Performance indicators will include:

- Contract compliance;
- Routine/emergency service response times;
- Budget compliance, particularly cost savings;
- Building conditions;
- Site conditions;
- Correction/removal of hazardous conditions;

- Appearance of the building common areas and grounds;
- Operational readiness of building systems;
- Tenant satisfaction.

Owners and managers will meet weekly to review the performance indicators. The meetings will facilitate good communication and coordination between the owners and managers. This will ensure that problems are identified and addressed before developing into crisis situations. In these meetings, managers will be encouraged to anticipate problems and to discuss "trouble-shooting" strategies. The meetings will foster two-way feedback that will allow the managers to also make comments regarding the owners' performance.

A site inspection form that assesses the condition of the buildings and grounds will be a regular feature of the monitoring process. These forms will be used by the managers as a self-assessment mechanism. The owners will review the forms and will verify site conditions through on-site inspections with the managers. The site visits will be used as an opportunity to meet with tenants and to solicit tenant feedback regarding performance. Any deficiencies will be addressed by the managers and targeted for follow-up inspection.

A critical performance measure will be the service request response time. Managers will be required to submit monthly work order reports that summarize activities, including the number of routine/emergency requests and response times. All work orders will be reviewed by the owners, and a sample will be selected for field checks. The owners will then visit with tenants to verify work order information, such as:

- Was the response time correct?
- Was the work performed satisfactorily?
- What materials were used?
- How long did it take to complete the work?
- Was there a service charge? If so, how much?
- Did the worker cleanup any dirt or clutter caused by the work?

Tenant satisfaction will be the most critical measure of program success. All other indicators may point to success, but if tenants are not satisfied with the results, a major goal of the program will not be achieved. The Pilot serves as a gateway for other housing sector reforms, like the housing allowance program, and tenant

satisfaction will be crucial to acceptance of those future reforms. Contractors are required to regularly meet with tenants, and contractor performance is linked to tenant satisfaction.

To assess tenant satisfaction, surveys of 300 units included in the Pilot Program will be conducted to measure baseline, short-term, and long-term results. Baseline surveys were taken in February 1993 to assess satisfaction with RAIU management. Follow-up surveys will be taken in May and December to assess satisfaction with the contractors.

A committee of prefecture representatives has been appointed to periodically meet with the resident advisor to monitor and facilitate the Pilot; this committee consists of the Deputy Prefect, the Chief of the UKaKha, and the Chiefs of the DEZs. In addition, the resident advisor is "on call" to provide technical assistance to owners during the monitoring phase of the Pilot.

REPLICATION

The goal is to have 25 percent of Moscow's municipal housing stock under private management by the end of 1994; this equates to having 500,000 flats under private management.

Moscow Government will be periodically briefed on the status of the three contracts that were signed in March 1993. In accord with the "Memorandum of Understanding between USAID and The City Of Moscow," Moscow Government will be consulted regarding the selection of additional Administrative Districts for inclusion in the privatization of management expansion. This will involve the designation of at least one additional District during the March-August 1993 time frame, and several additional Districts during the October 1993-February 1994 time frame. Districts will be chosen for their commitment to the privatization of management.

To facilitate the expansion of the privatization of management, Moscow Government will be requested to provide the funding commitments needed for the expansion. Technical assistance will continue to be provided to Moscow Government to calculate the expense projections for the expansion of the privatization of management budget. Actual cost data from the Pilot contracts will be available at that time to assist in making future expense projections; any cost savings experienced from the Pilot contracts will be highlighted and factored into the calculations.

Training

The goal is to train key personnel from 35 owners (DEZs), along with key public officials from the respective owners' districts and sub-districts.

Four trainers from the IHE have been trained by the resident advisor. Starting in June 1993, these trainers will train additional owners, prefecture officials, and contractors as the privatization of management effort is expanded. The resident advisor will participate as a "facilitator" in the first training course to insure that the transition to IHE training goes smoothly; thereafter the resident advisor will be available as a resource/advisor to IHE trainers.

As this training will be a large undertaking for the IHE, the resident advisor will provide technical assistance to insure that the IHE has a realistic business plan to accomplish the training goal. The business plan will include the following:

- Staffing and training of additional trainers;
- Training budgets;
- Training fees to make the training self-sustaining;
- Training schedules.

As the training requires a minimum of eight-weeks per course, the strategy will be to conduct simultaneous training of several groups. The training is rigorous; in addition to advance readings and tests, it requires participation in sixteen classroom units of four hours duration.

Because many potential trainees may not be absent from their jobs for the time required by training, a videotape of one of each of the units will be produced and will be made available on a loaner basis to prefectures and owners. This videotape will allow trainees to "make-up" missed sessions and will allow for greater flexibility in the training schedules. For instance, if five trainees were unable to attend sessions during a given week, repeats of that week's sessions could be given by videotape on Saturdays.

Housing Conference

A 2-3 day conference will occur in May 1993 and will be jointly sponsored by USAID, the City of Moscow, Russian Federation Agencies, and the IHE. The purpose of the conference will be to share information/short-term results from the Pilot contracts and to generate interest in expanding the Pilot. A secondary purpose of the conference will be to publicize the results of the housing allowance program. The conference will be held at a guest house near Moscow and will receive wide advance publicity throughout Russia by utilizing the IHE's existing housing network.

The conference will showcase the various roles in the Pilot—the owner, the contractor, the Prefecture, and the tenants. The conference will allow counterparts to share experiences—owner-to-owner, contractor-to-contractor. Consultants from management privatization efforts in other countries, such as Hungary, will participate in the conference and compare their experiences with Russia's. The USAID resident advisor from Novosibirsk and a representative from the privatized RAIU in Pskov will also speak regarding their experiences.

LESSONS LEARNED

Experience gained from the implementation of the Pilot will be applied to the replication phase of the program. Despite putting much forethought into the anticipation of problems, several valuable learning experiences occurred. Future work plans will be revised to compensate for these lessons learned.

One major area of difficulty was in the traditional owner-tenant relationship. The owners were not accustomed to coordinating programs with tenants. Soliciting tenant input and utilizing tenant satisfaction as a performance indicator was an alien concept to the owners and the tenants. The tenants relished the idea, but the owners were loath to try it. The owners were actually fearful of having any mass meeting with tenants, and the resident advisor was strongly urged to abandon this notion.

In addition, the officials were aghast at the concept of open tenant meetings where the media was welcome to attend. The Prefecture officials continually postponed the dates of the tenant meetings, until the resident advisor was forced to present non-negotiable deadlines. This resulted in the tenant meetings being held only three weeks before the contract signing—too close to the Pilot implementation date to answer tenant questions. Tenants had heard about the Pilot months before, and the delay in these meetings had allowed many rumors and much misinformation to be spread. In the future, these meetings will be held at least two months prior to implementation. This will offset any misinformation about the privatization effort, and abate any tenant anxieties that may be associated with the program.

A potential program setback occurred when the tenant meetings were finally held. Although agendas were planned and roles rehearsed, prefecture officials stumbled badly in the meetings. The meetings were supposed to be run by the officials, and the resident advisor was to act as a resource to answer questions.

The first meeting at Fili-Davidkova started out all wrong, with the Deputy Prefect talking for over 30 minutes about: how rents were going to be raised 48 times; how this was an American program; and how anyone that didn't like it, should leave the room! This was a prelude to making the tenants (50 were present) quite upset, at

which point the resident advisor was compelled to intercede to finish the meeting. It was explained that the Pilot was *not* going to raise rents, and that indeed, it was a cost-saving measure designed to enhance the tenants' quality of life. It was further explained that tenant satisfaction with the results was a very important facet of the Pilot. After two hours, the meeting ended very well, with many tenants expressing their appreciation afterwards.

The second meeting at Kutusovsky started out even worse than the Fili meeting. The Deputy Prefect failed to attend, and instead, the Chief of the UKaKha attempted to run the meeting. Over 150 tenants were crammed into a hall designed for 100; it was standing room only, and the crowd was restless. The Chief of the UKaKha was unnerved by the crowd, and after only several minutes of introduction, he turned the whole meeting over to the resident advisor. At that point, there was no alternative except for the advisor to run the meeting. There was much misinformation regarding the Pilot: some tenants feared that Americans were buying all of the flats; some heard that Americans were being paid to manage the buildings; some were merely upset with any change in the status quo. After two and a half hours of "grilling," a positive sentiment prevailed, and the meeting ended on a happy note.

In the future, prefecture officials will be more tightly scripted in the handling of the tenant meetings. They will be coached to be less defensive and more sensitive during the meetings.

Another potential area of difficulty was the owners' proclivity to grant waivers to the RFP procedure. The resident advisor was compelled to intercede several times during the RFP to "police" the process; for example:

- The owner wanted to accept proposals after the submission deadline and after the bids had been tabulated.
- The owner wanted to pick the "best" contractors by suggesting that the selection procedure be changed after the winners had been selected by the interview/selection committee.
- The owner wanted the contracts funded at a higher amount than the proposers had bid—59 million versus 42 million rubles. The owner did not believe that the bidders could do the work for the bid prices.

The resident advisor had to remind the owner that these changes were contrary to the public procurement policy of the Pilot, and that under no circumstances would these changes be considered under the program guidelines. Resolving these issues required persuasive debates at the last moment before the contracts were signed. When the Pilot is replicated, the agreement with the prefectures will reiterate procurement policies, and stipulate to the confirmation of those policies.

Some logistical issues surfaced regarding the provision of office space, warehouses, and telephones for the contractors. Space for workers and supplies in proximity to the various sites was desirable. Telephones were also needed, but the lead time required to install a telephone was beyond anyone's expectation. In the future, space will be sought early in the process, and telephones will be installed well in advance of the contract signing.

THE FUTURE

Advanced Management Training

The basic training focused on generic management and housing maintenance. Advanced real estate management training was deferred until the basic real estate management skills had been mastered by the Pilot owners and contractors.

An advanced training curriculum will be developed by the resident advisor and advanced training will be initially presented during the October-December 1993 time frame. This curriculum will be tailored to graduates of the basic course who have had six months of "hands-on" management experience. The advanced course will include such topics as: how to implement a preventive maintenance program, and how to implement a tenant turnover repair program. As more basic course graduates gain experience, the advanced course will phase in as a second full-time training program.

As with the basic program, the IHE will be utilized in the "training of trainers" function. Advanced training will follow the same format as the basic training, and resource workbooks will be given to each participant.

Publication Of A "How-To" Privatization Of Management Manual

This manual will be developed by the resident advisor, and will be aimed at the owner who is interested in the privatization of management, but who is not a participant in the expanded Pilot.

The purpose of the manual will be to pique the interest of owners as to the potential for privatization of management, with the goal of privatizing the management of a majority of Moscow's municipal housing stock by the end of 1996. The manual is not intended to serve as a substitute for the training.

It may be possible for a few of the more sophisticated owners to use the manual to implement private management without the benefit of the training course. The manual may also serve as a guide for a few of the more sophisticated RAiUs to assist them in making the transition to small private repair enterprises.

The above tasks are priority tasks to be accomplished during the period. However, if time permits, the following goals will also be addressed:

Create A Model For A New Dispatch System

The current dispatch system is under the control of the RAiUs in which the buildings are located. The current system lacks accountability and is unnecessarily labor intensive, requiring rotating 24-hour shifts. The ideal dispatch system will have a central dispatcher with telephones to receive work order requests; the dispatcher will then route the work orders to the appropriate private contractor or RAiU.

The resident advisor will create a model for a new dispatch system that is accountable to the owners, that is responsive to the tenants, and that is readily automated in the future.

Create A Model For A New Work Order System

The current "work order" system uses logbooks that are maintained at the RAiUs; no work orders are generated. The logbook system lacks accountability and makes it very difficult to gather maintenance data beyond the increment of one RAiU.

The resident advisor will create a model for a work order system that is accountable, that facilitates the gathering of district and citywide maintenance data, and that is readily automated in the future.

APPENDIX A

MEMORANDUM OF UNDERSTANDING BETWEEN THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT AND THE CITY OF MOSCOW FOR TECHNICAL ASSISTANCE IN THE HOUSING SECTOR

Statement of Principle and Objective

As part of its overall assistance program to the Russian Federation (R.F.), the Government of the United States is prepared to provide technical assistance, training, and advice on the shelter. Such assistance is considered to be especially pertinent at the municipal level, since it is the localities which must now bear the full burden of responsibility to see to the housing needs of the citizenry.

The purpose of this Memorandum of Understanding is to record agreements reached between the United States Agency for International Development (USAID) and the City of Moscow, R.F., regarding technical assistance to be provided by USAID in the field of housing.

Areas of Cooperation

The initial main area of cooperation is the organization of the system of management of the City housing stock and ways to improve the efficiency in the maintenance of the municipal housing stock. The primary task will be to experiment with alternative management arrangements, particularly the introduction of private management companies on a competitive basis for housing maintenance. The privatization of housing management is a logical outcome of the housing privatization program and the formation of new "housing condominiums" (housing associations), and it is expected that both Moszhilkomitet and Mosinzhkomitet will be involved. It is also expected that these experiments will be carried out in the administrative districts, particularly in the West Administrative District. The positive results of these experiments will be communicated through training programs developed with U.S. assistance. If needed, the Center for Housing Reform Assistance will participate in the development of the training program.

Additional areas in which cooperation may be undertaken could include areas as:

- The formation of mortgage savings banks by the municipality.
- The creation of modern land and property registration systems.

This list may be amended by mutual agreement to include other areas of mutual interest in the shelter sector.

Support by the U.S. Government

One resident advisor, who is an expert in housing management, will work in Moscow with Mosinzhkomitet, Moszhilkomitet, and West Administrative District. This advisor will be appointed for a minimum of a two-year period.

In addition, short-term advisors who are experts in other

areas of mutual interest will be provided on an as needed basis, subject to overall resource constraints.

Technical training is expected to be provided for private management companies and those Housing Repair and Maintenance Departments who wish to provide services on a competitive basis.

The U.S. Government will pay for the expenses associated with these activities.

Support by the City of Moscow

The City will designate a single coordinator to assist the experts for the entirety of the project. The coordinator will, as appropriate, create committees of concerned government agencies to work with the experts. City will give all possible assistance to the experts in obtaining the necessary information and housing statistics.

For each activity undertaken, including the privatization of housing maintenance functions, the City of Moscow will provide: key senior staff counterparts to work intensively with the experts; office space (with telephone and photocopying services) in close location with the counterparts for the long-term advisor; and, as needed, work-related transportation services.

Period of Cooperation

This agreement will be in effect for an initial period of two years.

Relation to Other Agreements

It is also understood that the assistance provided will be subject to any undertaking which may be given by the Government of the Russian Federation to the Government of the United States in any agreement between the two governments concerning economic assistance.

AGREED:
City of Moscow

BY //signed//
Yuri Luzhkov
Premier of the Moscow City Government

AGREED:
U.S. Agency for International Development

BY //signed//
David Olinger
Assistant Director, Office of Housing and Urban Programs

Appendix B

PROPERTY MANAGEMENT AND MAINTENANCE PILOT PROJECT IN MOSCOW

DETAILED WORK PLAN August 1992

I. Preliminary steps

A. Designation of owner of the housing stock for purposes of the pilot.

Originally, it was intended that the owner be one entity which is a part of the municipal government, at whatever level was deemed appropriate. However, due to the lack of enabling legislation, it will be difficult at this point to clarify ownership. In the absence of this clear designation, we will proceed with Rudolf Povarov, Deputy Prefect of the Western Administrative District (prefecture) as the person responsible for the administration of the pilot project. Mr. Povarov will have the authority to make certain decisions regarding the management of the housing stock. For decisions which are not within Mr. Povarov's purview, Nikolai V. Maslov, who Mayor Lyushkov has designated to be in charge of the Urban Institute's housing strategy activities on the part of the City of Moscow, will have ultimate authority. This authority will be delegated, in part, to the six to eight member working group that will be appointed by the Mayor within the next two weeks.

Mr. Maslov stated that the working group will be supplemented by four subcommittees which will address each aspect of the housing strategy. These include the following components: legal issues, land use, housing management and operations, and finance. The housing management steering committee will be folded into the working group and subcommittees.

B. Legal issues

1. The laws and regulations which currently affect the management and maintenance of housing in Moscow need to be collected and supplied to Consultants. This should include any laws, regulations, or acts related to housing which have been passed since January 1, 1990.

This information apparently has been collected by the Institute of Economy of Housing and Municipal Economy, and will be supplied to Consultants. These laws will be cross-referenced with those already in the possession of Consultants, the Urban Institute and Dr. Nadezhda Kosareva, so that there are no duplications of translations.

2. Any legislation which is currently under consideration by the Federation, Mossoviet or the Moscow government should be summarized at least on monthly basis and supplied to Consultants. This will enable the Urban Institute to be aware of current legislative trends and/or attitudes.
3. Efforts will need to be made to keep up with relevant developments in laws effecting private enterprise, corporations, etc. The reason for

this is that it appears that enterprises related to housing may be governed by a different set of rules than those which are related to the provision of other goods and services. If this is the case, then there is a possibility that the establishment of private firms for the management and maintenance of housing may not be feasible at this time.

4. Likewise, efforts will need to be made to keep up with applicable developments in the area of contract law. This will be relevant in the creation of any contract format to be used between the housing owner and entity which will potentially provide management/maintenance services.
 5. Finally, if there are any existing laws which regulate procurement practices, particularly with regard to housing, Consultants should be made aware of them.
- C. Determination of target inventory of 2,000 units.
1. Final decision on the Administrative prefectures, sub-districts, and micro-district in which the pilot units will be located needs to be made as soon as possible. Areas of choice are as follows:
 - a. Western Administrative Prefecture: Fili Davidkova sub-district.
 - b. Western Administrative Prefecture: Kutuzovsky sub-district.
 2. Above areas were preliminarily chosen for several reasons.
 - a. There is a diversity of types of construction and locations: Fili-Davidkova consists of outlying areas of Moscow, Kutuzovsky is close to the City center.
 - b. Consultants have been working with the Western Administrative Prefecture staff and have already developed a rapport with them.
 - c. It would be more efficient administratively, and presumably less expensive to run the pilot in one Prefecture.
 3. Final decision on the stock to be chosen will rest with Maslov/the working group.
- D. Designation of staff to work with consultants on the development and implementation of the pilot.
1. Consultants will meet with working group and subcommittees on a regular basis.
 2. Individuals from the sub-district level should be chosen to work with consultants.
 - a. Consultants should meet with the Deputy Prefect of the Administrative district ultimately chosen at least twice per week.

- b. Members of the sub-district staff, presumably the chiefs of the Board of the Unified Customer should be available to work with Consultants on a half-time basis.
- c. Preferably, one individual from the staff of each sub-district will be available on virtually a full-time basis to work with consultants in all aspects of training, project development, implementation and monitoring.
- d. Salaries of the sub-district staff designated to work with Consultants shall be the responsibility of the municipality, as is currently the case.

E. Assessment of computer center capabilities.

- 1. Consultant will meet with Vladimir Yastribov, head of The Department for the Provision of Engineering's Computer Center to determine the following:
 - a. Assessment of hardware currently in use.
 - b. Assessment of software currently in use.
 - c. Networking capability.
 - d. Extent of demographics included in existing database(s).
- 2. Consultant will determine what types of functions currently performed by Computer Center can be adapted for use for asset management/property management purposes.

II. Training Component

- A. Introduction of property management and maintenance principles to key municipal officials.
 - 1. Attendance of designated officials to one-day property management seminar developed by Consultants.
 - a. Overview of key components of asset and property management practices generally employed throughout the West.
 - b. Assessment by group of aspects of the above which are relevant and transferrable to the Moscovite housing situation.
- B. Training curriculum development
 - 1. Development of written materials on applicable topics including but not limited to the following:
 - a. Basic managerial techniques: supervisory skills, personnel management, efficient use of time, planning, motivational techniques, employee morale, teamwork, communication and coordination, etc.

- b. Information management: how to get information, what is relevant, where to put it, what to do with it.
 - c. The roles and responsibilities of the asset manager and the property manager, or the housing owner versus the housing manager.
 - d. Development of criteria for the effective management of housing.
 - e. Property management systems development, such as rent collections, payment of bills, etc.
 - f. Types of generally used financial reports and reports used for the monitoring of physical performance.
 - g. How budgets are used and developed.
 - h. Methods for calculating fees to be paid to providers of property management services.
 - i. Development of viable management contract.
 - j. Solicitation of bids for potential management contractors (including requests for qualifications/management proposals, advertising, evaluation of proposals received).
 - k. How to select contractors.
 - l. How to monitor the property manager on an ongoing basis.
- C. Actual training
- 1. Training of key staff who will be working directly with Consultants.
 - a. During the first few weeks of working with the staff chosen to work on the pilot, at least twenty hours per week for the first two weeks will be dedicated to the training component. This will consist of informal sessions conducted by Consultants combining written material and oral presentations.
 - b. Supplemental training will be given to augment special segments of the pilot on a periodic basis, using a combination of written materials and oral presentations.
- D. Assignment of information-gathering tasks.
- 1. It will be important to have up-to-date information available on each unit to be included in the pilot project. The best way to obtain this information is by visits to individual units to survey their condition. If it is feasible to get tenant cooperation in this unit inspection effort, a letter should be sent to each household, signed by a municipal official, which states the purpose of the inspection. The letter should explain about the pilot project and should

provide the tenants with the following assurances:

- a. That the tenants will not be judged for the condition or cleanliness of their units;
 - b. That the pilot project is being undertaken solely to increase the effectiveness of property management services;
 - c. That the inclusion of their unit in the pilot does not mean that the unit will be prohibited from privatization;
 - d. Likewise, that their unit will not be targeted especially for privatization;
2. If these inspections will not cause undue social pressure, every unit in the pilot should be surveyed. At a minimum, a representative sample should be surveyed (approximately 20%, or 400 units). The surveyor will have a survey format which asks questions about the condition of each room, maintenance problems, construction-related problems, etc. In addition, if feasible, it will include questions about the level of maintenance and capital repair performed in the unit and in the building.
 3. Additionally, a similar survey format will be prepared by Consultants for individual buildings. The survey will include questions about building systems and common areas.
 4. As a corollary to the budget development portion of the training program, staff will be instructed to gather preliminary cost information, particularly with regard to "fixed" expenses. This will aid in the eventual development of operating budgets for the buildings to be included in the pilot.

III. Database development

A. Computerized versus manual system

1. Computerized system. It originally appeared that because of the scarcity of computer hardware at the RAiU level, it might not be a good idea to develop computerized systems for the administration of the pilot. However, because the Western Administrative district has some computer equipment, and because the Computer Center may be of some assistance in the program, it may be possible to use computer systems for the development of a database, accounting systems, tracking systems, etc.

If a computer database is used, the software requirements will be quite simple. Either existing software such as D-Base, Paradox, or Reflex can be translated into Russian, or a similar program can be developed.

2. Manual system. If it appears that the availability of computer hardware and/or software will be a problem, a manually kept database can

be used. Also, migrating software may be very time-consuming, and therefore not advisable at this time. This may be rather cumbersome, but valuable information on a per building basis already exists at the Board of the Unified Customer.

3. Building database. Hard copies of the surveys will serve as the basis of a building database, which will include information on each building used in the pilot. It would be desirable for this information to be kept on a computer. Sample information for the building database is as follows:
 - a. Number of stories;
 - b. Number of units;
 - c. Number of total square meters;
 - d. Number of square meters/common areas;
 - e. Elevator? (yes/no)
 - f. Courtyard? (yes/no)
 - g. Type of construction
 - h. Year of construction
 - i. Year roof last replaced
 - j. Year of most recent other capital repair
 - k. Number of municipally owned units in building
 - l. Number of privately owned units
 - m. Type of heating system
 - n. Are units individually metered for electricity?
gas?
water?

4. Unit database. Hard copies of the surveys will serve as the basis of a unit database, which will not need to be input into a computer. Sample information for the database, which needs to be reviewed for relevancy, is as follows:
 - a. Building address;
 - b. Unit number;
 - c. Number of square meters;
 - d. Number of rooms;
 - e. Bathroom (yes/no);
 - f. Toilet (yes/no);
 - g. Bathtub (yes/no);
 - h. Other amenities;
 - i. Type of heating (if building has mixed systems);
 - j. Type of floor covering

5. Tenant database. Copies of this information should be placed into individual tenant files, which will be set up on a per building basis. Sample information to be included is as follows:
 - a. Unit number;
 - b. Rent charge;
 - c. Other charges;
 - d. Family name, name of primary lessee;
 - e. Number of inhabitants;
 - f. Number of adults;
 - g. Number of children;
 - h. Telephone number of flat (if applicable);
 - i. Occupation of primary lessee;
 - j. Address of employment;

- k. Telephone number of employment;
- l. Occupation of other adult (if applicable);
- m. Address of employment;
- n. Telephone number of employment;

IV. Budget development

- A. Based on the unit and building inspections collected for the designated units, the gross rent potential for these units, income from commercial spaces which will be available, and any other sources of revenue, a first year operating budget will be developed.
 - 1. Budget format will be developed by Consultants and staff.
 - 2. Staff will continue to collect information on fixed building expenses (electricity, heating, water, garbage removal, and any other relevant items).
 - 3. Staff will collect information on discretionary expenses (labor costs, material costs, janitorial fees, painting costs, etc.).
- B. Based on the above information (and the amount of discretionary income available), a management fee structure will be developed.
 - 1. Consultants will provide information on the various types of management fee structures (fixed fee, percentage of gross collections, incentives, etc.).
 - 2. Final operating budget will be prepared.

V. Development of financial/accounting systems

This is the phase of the pilot in which the asset management staff will learn about asset and property management accounting systems as they are used in the west. These western systems have been developed over a long period of time. Their aim is to give the asset and property manager the most important financial information regarding a property in the most straightforward fashion possible.

Although the importance of good accounting systems in the areas of housing management and maintenance may not be readily apparent, when one begins to think of real estate as an asset, one begins to focus more keenly on financial performance. In addition, since the economic circumstances of housing in the Russian Federation are so difficult at present, it is important to carefully monitor how funds are being collected and spent. This may be done most effectively through the use of accounting procedures which have been specially designed for housing management.

Therefore, the staff will aid Consultants in the design of housing management accounting systems which will ultimately be used, to at least a large extent, by the contractor who will eventually manage the pilot project units. The financial monitoring techniques that will be developed will be used by the municipal staff who assume the role of the asset manager.

A. Obtain applicable Russian laws on finance and accounting.

The relevant laws governing finance and accounting systems will have to be researched. Information must be obtained on upcoming changes in these laws, particularly if movement toward International Accounting Standards is anticipated. The currently used accounting standards for housing must be studied, and Consultants will need to determine if western style systems may be substituted.

B. Rent collection, rent rolls, and tenant accounts receivable.

1. Decision will need to be made regarding who will be responsible for rent collection, and where and how it will be deposited. Consultants will advise staff on the pros and cons of different options.

2. Safeguards such as receipts, division of tasks, etc. will be developed by Consultants and staff.

3. Consultants will instruct staff in the development of a cash receipts journal format and tenant accounts receivable report.

4. A determination will be made regarding the transmittal of funds (by whom and to which Agency?).

5. If it is decided that the process will be computerized, software will either be developed or adapted for use in rent collection.

C. Development of procedures for payment of bills.

1. Consultants will aid staff in determining what entity (municipality, RAIU, other management agent, bank, etc.) is to be responsible for physical act of payment of bills.

2. Consultants will train in the development of a chart of accounts for expenses as well as for different types of revenue.

3. Consultants will aid staff in development of approval systems for payment of bills, cash disbursement journals, etc.

D. Software, general ledger/financial statements.

1. Consultants will examine available software for recording of revenue collection and accounts payable, general ledger production and generation of financial statements. Determination will be made whether or not computerized accounting systems will be used, or whether a combination of manual and computerized systems should be used. As in item V.B.5. above, Consultants will assist staff to determine if existing software and hardware can be adapted for the production of general ledgers and financial statements.

2. Consultants will help to design manual system which can run independently of a computerized

system to use in the interim while computerized systems are being developed.

3. Consultants will aid in the decision regarding what entity will keep the general ledger (municipality, RAIU, other management firm).
4. Consultants will aid in the design and development of financial statements formats.

E. Financial training.

Training on how to read and interpret Tenant Accounts Receivable reports, Accounts Payable reports, and financial statements will be provided to designated municipal officials.

VI. Progress Reports.

Consultants will help staff develop a property management progress report. This report will eventually be used by the contractor, who will provide asset management staff with written statements of progress and obstacles in the management of the housing stock.

VII. Finalization of management contract format.

- A. Sample management contracts used in the west will be reviewed to determine which sections, if any, would be transferrable to the pilot project.
- B. Contracts will be translated into Russian and reviewed by Russian attorneys specializing in housing law to determine what, if any, sections could be legally enforceable.
- C. Contract currently in use by the Board of the Unified Customer will be reviewed for its appropriateness.
- D. Consultants will assist in the development of a new management contract which incorporates aspects of the contracts described above.

VIII. Bid process

- A. Consultants will assist the asset management staff in the development of a set of criteria for potential management agents.
 1. Consultants will aid in the development of a format for a request for qualifications or a proposal in order to solicit bids from interested RAIU and other organizations who may wish to take part in the pilot.
 2. Consultants and staff will develop a bid format for potential contractors. A seminar will be developed, to be given to potential contractors, on how bids should be prepared.
 - a. Subsequent training courses will be developed which will be targeted to RAIU and other organizations. These courses will focus on various aspects of property management and maintenance.
 3. Tenant involvement. Steering committee, staff

and consultants will determine extent of tenant involvement in the process of selection of contractors.

4. Consultant and staff will solicit proposals, determine closing date of submittal period.
- B. After bidding period closes, Consultants will assist in the evaluation of bids and in the selection of three or four finalists.
1. Interview format and mechanism for assigning a rating will be developed by Consultants and staff for finalists.
 2. Steering committee, staff and consultants will decide on what basis to choose finalist(s) and how to divide inventory (if applicable).
 3. Contractor (or contractors) will be chosen; management contract (or contracts) will be signed.

IX. Ongoing monitoring of contract.

Consultants will train staff how to monitor the performance of the management contract effectively on an ongoing basis. This will include training of the use of report formats and intermittent physical inspections of the properties.

At this point, the entire pilot process will be evaluated. Steering Committee will decide whether or not to implement additional projects or add to the asset management staff's inventory.

APPENDIX C

INVITATION TO BID

REQUEST FOR PROPOSALS

Privatization Of Management And Maintenance Of Municipally-Owned Housing

The Moscow Western Administrative District and the Board of the Unified Customer(hereinafter referred as the "DEZ") in the Fili-Davidkova and Kutusovsky Sub-Districts invite qualified bidders to submit proposals for the Private Management and Maintenance of 2,000 flats of Municipally-Owned Housing.

Background: An Agreement has been signed between Moscow City Government and The United States Agency For International Development(hereinafter referred to as "USAID") to implement The USAID Shelter Cooperation Program. Through this Program, USAID and its Contractor, The Urban Institute, have been providing Technical Assistance to The Moscow City Government to facilitate the Privatization of the housing Sector. As part of this Privatization effort, a one-year Pilot Program will be conducted to demonstrate the feasibility of providing high quality management and maintenance services to the Municipally-Owned Housing stock.

The Pilot Program: Three(3) Contracts will be entered into with three(3) private enterprises to manage and maintain approximately 2,000 flats in the Fili-Davidkova and Kutusovsky Sub-Districts of the Western Administrative District. The Contracts will each contain 600-700 flats to be placed under Private Management/Maintenance. Contracts will be awarded on an objective and competitive basis, taking into account such factors as experience, references, staffing, and cost. Contracts will be negotiated between the DEZ's from the respective Sub-Districts and the successful bidders. Contracts will be for a period of one-year, with the capability of being extended for additional years; it is expected that the Contracts will be extended beyond the initial one-year period.

The Bidding Process: The bidding competition will be conducted using the "Request For Proposals"("RFP") format. All interested parties should request a copy of the RFP package and thoroughly acquaint themselves with it before bidding for this work. Proposals that are not submitted in the format stipulated in the RFP will not be considered. A copy of the RFP may be obtained from Sergei Mityakin, Chief of Infrastructures, The Western Prefecture at telephone 141-70-02.

The Bidder's Conference: To assist all interested parties in preparing their proposals, a Bidder's Conference will be held on Friday, February 12, 1993 at 1000 in the Training Room at The Institute of Housing Economy, Prospect Vernadskogo, House #4, telephone 939-13-95. As the "RFP" procurement concept is a new one, a complete explanation of the process will be given at the Pre-Bid Conference. Step-by-step instructions on how to prepare proposals will also be presented at the Pre-Bid Conference.

All proposals must be received by 1500 on Monday, February 22, 1993. Any proposal received after that deadline will be returned unopened to the submitting entity.

The DEZ is an equal opportunity employer and all proposals will be evaluated strictly on their merits.

The DEZ reserves the right to reject any and all bids.

A competitive negotiation may be held among the finalists to determine the final award.

APPENDIX D

MOSMANAGEMENT RFP

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I. INTRODUCTION

A. Background

In 1992, a "Memorandum of Understanding" was signed between the United States Agency For International Development (hereinafter referred to as "USAID") and The City of Moscow (hereinafter referred to as the "City") for Technical Assistance in the Housing Sector. The City targeted the privatization of the management and maintenance of the Municipally-Owned housing stock (hereinafter referred to as the "Stock") as the initial area of study.

The City will enter into a one-year Pilot Program (hereinafter referred to as the "Pilot") to demonstrate the feasibility of providing high quality private management and maintenance services to the Stock.

Implementation of the Pilot is scheduled to begin on March 1, 1993; the Pilot will have a duration of one-year, but the expectation is that the Contracts will be continued for some additional years.

The City's Stock is currently administered by the ten Prefectures (also known as Administrative Districts, and hereinafter referred to as "Districts"). Each District is further divided into neighborhoods, known as Sub-Districts; each Sub-District has a Board of the Unified Customer (also known as the DEZ, and hereinafter referred to as the "Owner") that is responsible for the management and maintenance of all the Stock within the Sub-District. The Owner currently has agreements with municipal maintenance enterprises (also known as RAiU's or Repair Exploitation Enterprises, and hereinafter referred to as "RAiUs") to maintain the Stock.

Rents for the Stock have been fixed since 1928 at 16,5 kopecks per square meter per month. City rents currently pay for only one-half of one-percent of the operating costs of the Stock, thus requiring the City to provide enormous annual housing subsidies. The current inflationary trend in the economy puts additional strain on the City's limited subsidy resources. The City has taken under consideration a policy to raise rents so that the future operational costs of the Stock will be self-sustaining, as called for in the "Law on Changes to the Housing Policy in The Russian Federation" recently enacted by The Supreme Soviet.

In the context of UI's Pilot, the City will explore private and competitive alternatives to traditional forms of public management and maintenance. The premise of the Pilot is that private, competitive management and maintenance alternatives will be less expensive, and will lead to a better quality of life as measured by changes in the levels of tenant satisfaction with the Stock.

Who may submit Proposals? Any Juridical Person, Small Business Enterprise or Individual may submit Proposals.

B. Objectives

The Pilot is Goal-Oriented and utilizes quantifiable, qualifiable, and time-bounded Objectives to measure performance. The Pilot is focused less on the work "process" and more on the work "results". For example, the Contractors will be required to maintain the building common areas to a

certain standard of cleanliness and safety. The Pilot is not concerned with the process (or "how") the Contractors achieve the common area objective, but rather with the "end result". When the common areas are inspected by the Owner and found to be in compliance with the stated objectives, the Contractor's performance will be judged as satisfactory (or outstanding in instances where the Contractor has exceeded the performance objective). If the objectives and budgets are met, it will not be the concern of the Pilot to evaluate how many man-hours or what techniques were used by the Contractors to achieve the Pilot's goals.

The Goal of the Pilot is as follows:

To demonstrate the feasibility of Private Contractors delivering high quality management and maintenance services to Municipally-Owned Housing.

Your performance criteria should be written to achieve the Owners Goal and to satisfy Owner standards, such as:

1. Immediately responding to all emergency service requests; abating all emergency conditions with 24-hours.
2. Responding to all routine service requests within 24-hours, unless due to circumstances beyond your control.
3. Abating all hazardous conditions within 24-hours of discovery; maintaining security systems in working order.
4. Disposing of refuse so that garbage chutes are always clean and odor-free.
5. Maintaining entryway, stairway landings, and other common areas that are inside buildings so that the areas are always clean and attractive.
6. Maintaining building exteriors and grounds so that the property presents a clean and attractive image to the tenants and general public.
7. Maintaining a responsive and cordial working relationship with tenants at all times.
8. Being accountable to the Owner by attending meetings and keeping accurate records; regularly reporting data, such as budgets, site inspections, detection of illegal activities and vandalism, maintenance response times, work order accountability, etc..
9. Earning incentive fees by reducing budgeted expenses whenever possible and passing the savings back to the Owner.
10. Using motivational management techniques with your staff that make the Owner's goals and objectives coincide with staff goals and objectives.

C. Scope of Work

Contracts will be awarded for the following package of work:

Current repair of buildings that are included in the Pilot Program. Current repair is any ordinary repair to buildings (and associated systems, structures, and grounds) required to keep the building in good working order. Current repair does not include capital repair or extraordinary maintenance, such as replacing lifts.

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Emergencies in buildings and flats. An emergency is any repair that poses an immediate threat to the safety and well being of the tenants and/or the general public, including any hazardous condition inside or outside of the buildings. An example of an emergency is a gas leak in a flat or a building.

Refuse and litter removal.

Janitorial service.

Landscaping or the improvement of the appearance of a building by the planting and maintaining of grass, shrubs, plants, and trees on the grounds associated with that building.

Selective Preventive Maintenance, as agreed upon with the Owner. Preventive maintenance is the performance of regularly scheduled maintenance tasks to prevent and or decrease the incidence and/or frequency of emergency repair.

Contractors will not be responsible for the following:

Capital repair (please note that all required testing and repairs to the heating systems of the Pilot properties was performed and verified)

Tenant turnover repair

Dispatch

Contracts for utilities, or other communal services

Communal services, rent, or utility calculations

Passport control

Draft registration

Leasing

D. Funding

Funding for the Pilot is provided by the City.

Because of the geographic distribution of the flats, the Pilot is divided into three distinct packages of 600-700 flats each, and three contracts (one for each package) will be awarded. You may submit a proposal that includes one, two, or all of the packages. These packages are described in detail in Section III. You must specify in your proposal for which package(s) you are submitting a bid.

The level of funding for the Pilot has been determined using actual historic expense data for the three packages of flats.

Factors such as the location of the flats, construction type, age of the building, and amount of deferred maintenance have been taken into account in the calculation of the expense data. All expense data has been calculated on a "rubles per square meter (of dwelling space) per month" basis; expense calculations do not include the cost of Communal Services. Your cost proposal must be formatted using the same "rubles per square meter (of dwelling space) per month" basis; data regarding square meters is also contained in Section III.

Expense data has been trended and takes into account local inflationary trends through February 1993. If during the Contract period the Contractor's ability to perform is negatively impacted by inflation, the City shall fund the Contracts at a higher expense level based on the Federation index of inflation.

Funding is for a period of one-year. Although Contracts will be written for a period of one-year, with an option on the part of the Owner to renew for an additional one-year, there is no guaranty of funding beyond the first year.

E. Format For Proposal Submission

All proposals must follow the format specified in this RFP. Proposals that are not submitted in the specified format may be rejected by the Owners.

A comprehensive briefing on the RFP concept and on "how to" write your Proposal will be given at the Pre-Bid Conference.

All Proposals must be submitted in Five (5) Copies.

An outline of the Proposal Format is as follows:

I. Technical Proposal

A. Information About Yourself

1. The Name And Composition of Your Team, Including Principles. Who Is The Lead Person For Matters Regarding The Proposal? If You Are Awarded A Contract, Who Will Be The Principle In Charge?
2. Describe Your Enterprise - Is It A Juridical Person, Joint-Stock Company, Public Entity Converting To A Private Company?
3. Where Are You Located? Address(es)? Telephone number(s)?

B. Experience

1. How Long Have You Been In Business?
2. What Are Your Qualifications To Do The Business?
3. What Customers Have You Had? Past? Present? Please Provide Us With A List, Including Addresses And Telephone Numbers. Please Give Us Your Permission To Contact Them Regarding Their Satisfaction With Your Work.
4. What Is The Work Approach/Philosophy Of Your Firm? What Distinguishes You From Other Firms Doing This Type Of Work?
5. Are You Adequately Staffed To Achieve The Goals Of The Pilot Program? Please List Your Staff By Name, Position, Experience, Time With Your Firm, Percentage Of Time That Various Staff Will Devote Exclusively To The Pilot. How Many New Staff Have You Hired In The Past Year? How Many Have You Laid-Off Or Terminated?
6. Have You Ever Had A Contract Terminated? For What Reason(s)?

7. Do You Have Annual Reports, Financial Statements, Audits, Or Other Documents That Show The Financial Soundness Of Your Firm? If So, Please, Provide Us With Copies Of The Last Two Years.
8. If You Intend To Use Sub-Contractors To Perform Any Of The Work, Please Tell Us About Them - Who Are They? What Is Their Experience? How Long Have They Been In Business? Have You Worked With Them Before?
9. What Type Of Work Order System Do You Propose To Use? Please Include A Sample Of Your Work Order Form.
10. How Do You Propose To Provide For 24-Hour Coverage Of Emergencies? Please Include A Narrative In Your Proposal Describing This Process.
11. Likewise, How Do You Propose To Handle Routine Service Requests? Describe The Process.
12. Describe Your Philosophy Regarding Tenant Relations - How Will You Relate To The Tenants? What Steps Will You Take To Insure That The Tenants Are Satisfied With Your Performance?
13. Describe Your Philosophy Regarding Owner Relations - How Will You Relate To The Owner To Insure That Your Performance Is In Accord With The Contract? How Will You Communicate And Coordinate With The Owner?
14. Describe How You Will Handle Supplies To Insure That Adequate Materials Are on-Hand To Fulfill Your Maintenance Mission. What Inventory Procedure Will You Utilize? What Controls Will You Use to Safeguard And Control Supplies?

II. Cost Proposal

A. Income

1. Your Source Of Income For This Contract Will Be Funding Provided By The City.
2. Funding (i.e. Budget Income Levels Will Be Determined By Your Cost Bid(s). Your Cost Bid(s) May Not Exceed The Benchmark Rubles Per Square Meter Per Month (RPSMPM) Calculation Determined By The City. These Benchmark Calculations For The Three Bid Packages Are As Follows:
 - a. Package I (Kutuzovsky Sub-District) -
 X RPSMPM
 - b. Package II (Fili-Davidkova Sub-District) -
 X RPSMPM
 - c. Package III (Fili-Davidkova Sub-District) -
 X RPSMPM
3. Your Cost Bid May Not Exceed The Above RPSMPM's. As The Bidding Will Be Competitive (And Particularly Regarding Cost), The Owners Will Award Contracts To Bidders That Have The Most Cost Effective Price And Who Are Most Qualified To Perform The Work. If You

Can Realistically Perform The Work For A RPSMPM That Is Less Expensive Than The Above RPSMPM's, You Will Have A More Competitive Proposal.

4. You Must Factor Your Fee, Including Overhead And Profit, Into Your Cost Bid.

B. Expense

1. A Requirement Of The Contract Will Be To Submit Monthly Financial Reports To The Owner. The Reports Will Be In The Format Of Cumulative Year-To-Date Budgeted Versus Actual Income And Expense.
2. Please Include A Detailed Breakdown Of The Expenses Upon Which You Have Based Your Bid. This Should Include The Following:
 - a. Salaries - Administrative And Maintenance; Employee Benefits. Salaries Should Be Provided For Each Position.
 - b. Maintenance Materials, Including What Inventory You Will Have On-Hand
 - c. Maintenance Equipment
 - d. Sub-Contracts
 - e. Office Costs
 - f. Start-Up Costs, Including Tools And Equipment
 - g. Other Costs
3. If Some Costs Are Seasonal (Like Snow Removal And Grass Cutting), Please Include A Schedule Of What Months And How Much.
4. Maintenance Supplies Will Be Available Through The Regular RFP Warehouse At The Regular Price. You May Also Use The Private Market To Procure Supplies. How Do You Propose To Procure Supplies, And What Expense Will Be Attributable To This Budget Item?

F. Procurement Process

The procurement of Contractors for the Pilot shall be carried out in an open and fair fashion that is consistent with the public purpose of the Pilot.

Proposals will be analyzed and Contracts will be awarded on an equal and fair basis, without regard to race, sex, religious, or ethnic backgrounds of the bidders.

All Proposals will be opened at UKaKha of the Western Administrative District on February 22, 1993. This Proposal Opening may be attended by anyone that is interested. A list of proposers and bid prices will be made at the Proposal Opening.

All Proposals (and the entire Proposal contents) shall be considered to be in the public domain. Any Proposal may be reviewed by any interested party upon request.

All Contracts shall be considered to be in the public domain.

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The Contract Agreements and the Contract Prices may be reviewed by any interested party upon request.

II. PRE-BID CONFERENCE

A Pre-Bid Conference will be held to brief all interested bidders on the Pilot and the RFP. This conference will be both informational and instructive. Information regarding the Pilot will be discussed, and instructions regarding how to respond to the RFP will be covered at this meeting. Any questions about the Pilot or the RFP will be entertained at the meeting. Any questions that are not answered at the meeting will be answered to each conference attendant prior to the due date of the Proposals.

In the interest of fairness, NO questions will be entertained outside of this conference. Do not telephone the District, Sub-District, or the Owner with questions; please save all questions until the conference. By addressing all questions at the conference, all interested bidders will have the benefit of hearing the same questions and answers.

Although attendance at the Pre-Bid Conference is not mandatory, all interested bidders are strongly urged to attend.

The Pre-Bid Conference will be held at The Institute of Housing Economy on February 12 from 10.00 a.m. till 2.30 p.m. (4, Prospect Vernadskogo)

III. DESCRIPTION OF THE PROPERTY AND PROCEDURE FOR INSPECTION

A. Demographics Of The Three Bid Packages

Package I

| Building Type | 5/3, Kutuzovsky Prospect Individual Project | 3, T. Shevchenko Embankment Individual Project | 5, T. Shevchenko Embankment Individual Project |
|--------------------------------|---|--|--|
| Year of Construction | 1955 | 1967 | 1955 |
| Wall Material | Brick | Brick | Brick |
| Number of Stories | 8 | 8 | 10-14 |
| Building Volume in cub. meters | 151260 | 32949 | 18735 |
| Total Space | 31628 | 16621 | 12110 |
| Dwelling Space | 16530 | 8624 | 4496 |
| Number of Units | 278 | 141 | 92 |

| Roof Material | Soft | Metal | Metal |
|-------------------------------|-------|-------|-------|
| Roof Space in Square Meters | 6457 | 3330 | 1908 |
| Facade Space in Square Meters | 22979 | 12118 | 10500 |
| Drainage Ducts | 180 | 180 | 180 |
| Garbage Tanks | 27 | 18 | 7 |
| Number of Entrances | 13 | 7 | 4 |
| Number of Lifts | 13 | 7 | 6 |
| Last Capital Repair | 1977 | 1978 | 1972 |

Package II

| Building Type | Kastanaevskaya Street 60/62/63, b.2/61, b.1/63, b.1 | | | | | Rublyovskoye Shosse 15/17 | |
|------------------------|--|------------|---------|---------|-------|---------------------------------|-------|
| | P-6032 | P-68 | Special | project | | Special Project | |
| Year of Construction | 1980 | 1980 | 1971 | 1960 | 1960 | 1971 | 1971 |
| Number of Floors | 12 | 16 | 13 | 5 | 5 | 4 | 14 |
| Building's Volume | 70221 | 22821 | 20928 | 14511 | 14572 | 19365 | 17684 |
| Wall Material | Panel | Panel | Brick | Panel | Panel | Brick | Brick |
| Roof Material | Hydro Fiber | Bituminous | Felt | | | Bit.Felt | |
| Roof Space | 2284 | 531 | 585 | 1062 | 538 | 494 | 492 |
| Facade Space | 14284 | 5808 | 4223 | 2855 | 2835 | 3762 | 3890 |
| Number of 1-Room Units | 11 | 45 | 0 | 10 | 10 | 26 | 26 |
| Number of 2-Room Units | 131 | 30 | 25 | 60 | 60 | 26 | 26 |
| Number of 3-Room Units | 131 | 30 | 26 | 10 | 10 | 26 | 26 |
| Number of 4-Room Units | 12 | | | | | | |
| Number of 5-Room Units | 1 | | | | | | |
| Total Space | 16456 | 4990 | 3436 | 3690 | 3700 | 3523 | 3873 |
| Total Dwelling Space | 9365 | 3103 | 1981 | 2449 | 2439 | 2245 | 2255 |

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| | | | | | | | |
|--------------------------|----|----|----|------|------|----|----|
| Number of Rubbish Chutes | 6 | 1 | 1 | 0 | 0 | 1 | 1 |
| Number of Entrances | 6 | 1 | 1 | 4 | 4 | 1 | 1 |
| Number of Lifts | 12 | 2 | 2 | 0 | 0 | 2 | 2 |
| Last Capital Repair | No | No | No | 1987 | 1986 | No | No |

Package III

| Year of Construction Building's Type | Kastanaevskaya street 56/55/57, b.1/57, b.2/61, b.2 | | | | | Rublyovskoye Shosse 5 7 | |
|--------------------------------------|--|-------|-------|-------|-------|-------------------------------|-------|
| | 1980 P-6032 | 1960 | 1960 | 1960 | 1960 | 1971 Special Project | 1971 |
| Number of Floors | 12 | 5 | 5 | 5 | 5 | 14 | 14 |
| Building Volume | 69497 | 14803 | 14527 | 14458 | 14414 | 19193 | 18751 |
| Number of 1-Room Units | 10 | 10 | 10 | 10 | 10 | 26 | 26 |
| Number of 2-Room Units | 60 | 60 | 60 | 60 | 60 | 26 | 26 |
| Number of 3-Room Units | 10 | 10 | 10 | 10 | 10 | 26 | 26 |
| Total Space | 16521 | 3690 | 3713 | 3681 | 3688 | 3617 | 3903 |
| Total Dwelling Space | 9377 | 2438 | 2443 | 2431 | 2433 | 2225 | 2404 |
| Wall Material | Panel | Panel | Panel | Panel | Panel | Brick | Brick |
| Roof Material | Bituminous Felt..... | | | | | | |
| Roof Space | 2284 | 974 | 968 | 964 | 1062 | 492 | 494 |
| Facade Space | 12440 | 2775 | 2869 | 2865 | 2865 | 3962 | 3882 |
| Rubbish Chutes | 6 | 0 | 0 | 0 | 0 | 1 | 1 |
| Number of Entrances | 5 | 4 | 4 | 4 | 4 | 1 | 1 |
| Number of Lifts | 12 | 0 | 0 | 0 | 0 | 2 | 2 |
| Last Capital Repair | No | 1984 | 1982 | 1984 | 1987 | No | No |

B. Procedure For Inspection

All potential bidders are encouraged to inspect the properties included in the Pilot.

A group tour of the properties will be conducted on February

15 at 10.00 a.m. for Fili-Davidkova starting at RAiU NO 33 (17, Rublyovskoye Shosse) and at 1.00 p.m. for Kutuzovsky starting RAiU No 25 (8, Kutuzovsky Prospect). Attendance at the Tour is not mandatory.

Only one Tour will be given. Individual Tours will not be accommodated. There is no prohibition regarding potential bidders making their own site visits, however, you should notify the Owner that you will be visiting a particular site in case there are any questions from the tenants regarding who you are or what you are doing on the site.

IV. SELECTION PROCESS

A. Evaluation Criteria.

All Bidders will be evaluated and ranked using the following procedure:

| Criteria | Points |
|-------------------------------------|----------------------------|
| Experience | 20 |
| Staffing | 15 |
| References | 10 |
| Work Plan | 20 |
| Cost | 25 |
| Interview | 10 |
| | Total: 100 |
| Bonus For Completeness Of RFP | +10 |
| | Total Possible Points= 110 |

B. Interview

Interviews will be scheduled with all qualified bidders. A qualified bidder is one that has submitted a proposal in accord with the requirements of this RFP, including attendance at the Pre-Bid Conference.

Finalists will be selected based on information contained in the Proposals and on information presented in the interview. The ranking of bidders will be based on the weighted evaluation criteria listed above.

Please note that the interview is mandatory; no bidder may advance to a finalist position, unless he or she has been interviewed.

If you are selected for an interview, you may bring a team of representatives from your firm to the interview, as long as the number of persons does not exceed five.

Interviews will be conducted by a team of interviewers representing the Owner and the City. The interview will be held on February 24 at the UKaKha of the Western Administrative District. The composition of the interviewers' team will be announced at a later time.

V. CONTRACTS

A. Contract Format

A "Model Contract" in accord with the laws of THE Russian Federation and the City will be developed by the Owner and will be used for all three Contracts to be awarded under this RFP. Except for the names of the Contractors and the Contract amounts, all Contracts will be identical and will not be subject to individual negotiation or amendment.

The Contracts shall be considered to be documents in the public domain, and any interested party may review the Model Contract and the executed Contracts upon request.

B. Notice To Proceed

No work shall commence on any Contract unless the Owner has issued a "Notice To Proceed". A Notice To Proceed is a written consent from the Owner to the Contractor authorizing the Contractor to commence work as of a certain date.

An executed Contract and a Notice To Proceed constitute a Contractor's authority to commence work.

C. Contract Payments

Payments under these Contracts are guaranteed by the City. Contract payments will be made monthly, one-month in advance. Payments will be transferred directly into the Contractors' specified bank accounts. Payment will be rendered in Rubles.

VI. PERFORMANCE EVALUATION AND MONITORING

A. Financial Accountability

The Contractor shall be responsible for accurate and timely record-keeping regarding the receipt and expenditure of all Contract payments under the Pilot. Monthly financial reporting to the Owners will be required, and monthly payments may be delayed or withheld, if financial reporting requirements are not met. Financial records shall be subject to audit by certified accountants at the end of the Contract Period and at any time during the Contract Period, as may be required by the Owners.

B. Monitoring And Tenant Satisfaction

Monitoring of specific performance under the Contracts will be done by the Owners. The Owners will confer regularly with the Contractors to evaluate performance and to provide feedback to each other. Monitoring will include assessments of the physical condition of the buildings included in the Pilot, and tenant interviews to measure satisfaction with the services provided under the Pilot.

C. Fees And Incentives

There are four levels of Contractor performance that will be recognized by the Contracts:

1. Satisfactory Performance - The Contractor is performing all work in accord with the contract

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provision. Contract payments are made at the base level stipulated in the Contract.

2. Outstanding Performance - The Contractor's performance exceeds all of the Contract provisions. Contract payments are made at the base level plus 1.5 %.

3. Incentive Performance - The Contractor's performance is satisfactory or outstanding and the Contractor has reduced budgeted versus actual expense; the expense reduction (savings) are then rebated to the Owner. Contract payments are made at the base level (or the outstanding level) plus 1% for every increment of 10% budgeted versus actual expense reduction.

4. Unsatisfactory Performance - The Contractor's performance is below that stipulated in the contract. Remedial action is required by the Contractor to correct performance deficiencies. Contract payments may be withheld until performance is satisfactory.

A more specific definition of what constitutes these four performance levels will be given at the Pre-Bid Conference and will be incorporated into the Contracts.

D. Termination Provisions

The Contracts will include a provision for termination. Termination may be initiated by either the Owner or the Contractor. Termination is a last resort, and the Contracts may be not only terminated for cause, i.e. lack of specific performance on the part of the Owner or the Contractor.

Termination will not occur until all efforts to cure or remedy defects are exhausted. A reasonable amount of time will be given to cure or remedy defects. All defects must be first discussed at a meeting of the parties, and then written notice of the defect(s) must be given, with the time to cure so specified.

VII. For Information Regarding The RFP

CONTACT:

Sergei Mityakin, Deputy Chief of Infrastructures of The Western Administrative District. Telephone number: 141 70 02

APPENDIX E

MODEL MANAGEMENT CONTRACT

Developed By:
THE URBAN INSTITUTE

For:
THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT'S
SHELTER COOPERATION PROGRAM

MOSCOW
PRIVATIZATION OF MANAGEMENT
PILOT PROGRAM

JANUARY 1993

MANAGEMENT CONTRACT

AGREEMENT made as of _____, 19__ between The Board of the Unified Customer, _____ Sub-District of the _____ District, City of _____, (hereinafter referred to as "the owner") and _____ (Name of the Management Company) acting through the undersigned representative, _____ (Name of Representative) _____ (Address) _____, (hereinafter referred to as "the Manager").

Whereas, the Owner owns a property which includes _____ flats in _____ buildings located at:

- _____ (Address) _____
- _____ (Address) _____
- _____ (Address) _____

AND

Whereas, the Owner wishes to demonstrate the feasibility of Private Managers delivering competitive, high quality management and maintenance services to Municipally-Owned Housing,

AND

Whereas, the orderly and uniform administration, maintenance, appearance, upkeep, management and regulation of the property is necessary and essential for the preservation and promotion of the interest of the Owner and the protection of the value of the property and convenience and well-being of the tenants of the property; and

AND

Whereas, Moscow City Government has agreed to guaranty the funding of this Contract to provide competitive, private management to Municipally-Owned Housing,

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AND

Whereas, the Owner is authorized to hire by means of this agreement, a Property Manager,
NOW, THEREFORE, in consideration of the foregoing premises and promises and covenants herein made, the Owner and the Manager agree as follows:

1. EMPLOYMENT.

The Owner hereby employs the Manager as the exclusive manager of the property and the Manager does hereby accept such employment.

2. POWERS AND DUTIES OF THE MANAGER.

The Manager shall be authorized and required in the name of and on behalf of the Owner, to perform all services reasonably necessary for the management and maintenance of the buildings, including but not limited to the following:

A. **Conference and Site Visits.** The Manager shall meet the Owner at regular scheduled meetings and at other reasonable times at the Owner's request in connection with the performance of its duties. The Manager shall be available to arrange site visits and to meet with the Owner at the Building sites.

B. **Managerial Employees.** The Manager shall hire in its own name all managerial employees necessary for the efficient discharge of the duties of the Manager hereunder. Compensation shall be responsibility of the Manager.

C. **Operational Employees.** The Manager shall select employ, supervise, direct and discharge such operational employees as may be required to maintain the property, and as are specifically provided for in the budget approved by the Owner. Said personnel shall be deemed to be the employees of the Manager; their compensation

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(including all direct and indirect benefits) shall be the responsibility of the Manager.

D. **Repairs and Maintenance.** The Manager is responsible for causing Current Repairs to be made to the buildings, including but not limited to grounds maintenance, painting, cleaning, electrical and plumbing repair, snow removal, grass cutting, refuse removal, and other such selective preventive and ordinary maintenance and repair work as may be necessary or found to be desirable and requested by the Owner. The Manager is responsible for maintaining building interiors, exteriors, and grounds so that the property presents a clean and attractive image to the tenants and general public at all times.

For any one item of repair, replacement or refurbishing, ground maintenance, the expense incurred shall not exceed the sum of 100,000 rubles unless expressly authorized by the Owner, excepting emergency repairs involving danger to persons or property immediately necessary for the preservation and safety of the property or the safety of persons, or required to avoid the suspension of any essential service to the property, irrespective to the above cost limitation. The Manager shall, if at all possible, confer immediately with the Owner regarding emergency expenditures.

The Manager is not responsible for the following:

- Capital Repair
- Tenant Turnover Repairs provided for at the tenants' expense
- Dispatch
- Contracts For Telephone, Utilities
- Communal Services
- Passport Control
- Leasing

The Manager shall conduct all work in accord with an

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approved work plan that is made a part of this Contract and is contained in Exhibit II.

E. Contracting Authority. The Owner acknowledges that the Manager may contract for certain housing-related services. Copies of any such contracts shall be made available to the Owner upon request.

F. Relationship with and Notification to Tenants. The Manager shall maintain a responsive and cordial working relationship with tenants at all times. From the Commencement of this Contract, the Manager has the responsibility to notify the tenants of all buildings under contract that the building is under private management. The manager shall post notices in the entry way of all buildings under contract notifying the tenants of the Manager's name, address and telephone number(s). The emergency telephone number(s) to be called for service after hours and during holidays shall also be posted. This notification must also include information on procedures for reporting problems, including hazardous conditions and illegal activities observed at the property.

G. Applicable Ordinances and Regulations. The manager shall cause the buildings to be managed in compliance with all laws, statutes, ordinances, rules, regulations, and orders of all appropriate governmental authorities. The Manager shall not engage in any illegal activities. The Manager shall immediately report any illegal activities on or near the premises of the buildings to the Owner and the appropriate law enforcement agencies.

H. Use of Funds. The Manager shall maintain a separate bank account in which the Contract payments and any other related payments shall be deposited.

I. Owner's Records. The Manager shall maintain and keep at the office of the Manager all records related to the

management of the buildings. These records shall be available for inspection by the Owner during regular business hours.

J. Manager's Records and Statements. The Manager shall maintain records sufficient to document the performance of services hereunder, including all financial books and records identifying the sources and uses of all funds related to this Contract. In addition, the Manager shall prepare and render to the Owner monthly statements reflecting receipts and disbursements of funds related to building operations. The Owner shall have the right to cause an annual independent inspection of the books and records held by the Manager.

K. Budget. The Manager agrees to perform all services for a cost (including all fees and profit) not to exceed that specified in the approved budget (incorporated into this Contract as Exhibit I). In years subsequent to the first year, the Manager shall prepare an annual operating budget (in the same format as Exhibit I) for submission to the Owner at least 60 days prior to the start of the next Contract year; these subsequent budget shall be based on the prior year(s) of experience, and any changes shall be justified by the Manager. The Owner and the Manager shall meet to discuss all subsequent year budgets, and the Owner shall approve in writing all subsequent year budgets prior to the renewal of the Contract term.

L. Purchases. Any purchases of equipment, tools, appliances, goods, supplies, and expendable/non-expendable materials made by the Manager under this Contract shall be considered the property of the Owner.

M. Prohibited Activities. The Manager may not engage in the following activities, unless this Contract is amended in the future to permit such work:

- Leasing Or Subletting Of Any Residential Or Commercial Space In The Buildings
- Unit Alterations
- Removal OF A Flat Or Commercial Space From Use
- Setting Rent Levels
- Collecting Rent
- Setting Communal Services Charges
- Collecting Communal Services Charges
- Terminating Leases And Evictions
- Demolition Or Disposition Of Any Property
- Issuing Statements On Behalf Of The Owner Without The Owner's Consent

3. Notice to Proceed.

The Manager shall not commence work under this Contract until the Owner has issued a "Notice To Proceed" in writing. A Notice To Proceed is a written consent from the Owner to the Manager authorizing the Manager to commence work as of a certain date. An executed Contract and a Notice To Proceed constitute the Manager's authority to commence work.

4. Contract Payments.

All Contract payments shall be made monthly, on the third to fifth day, one-month in advance. Payments shall be transferred directly into the Manager's bank account. Payment shall be rendered in Rubles. Although funding for this Contract is guaranteed by The Moscow City Government, payments may be delayed, reduced, or suspended for lack of specific performance under this Contract.

5. Definitions.

For the purposes of this Contract, certain terms are defined as follows:

Current Repair - any ordinary repair to buildings (and associated systems, structures, and grounds) required to keep the buildings in good working order.

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Emergency - any situation that poses an immediate threat to the safety and well-being of the tenants and/or the general public, including the presence of any hazardous conditions inside or outside of the buildings.

Landscaping - the improvement or maintenance of the grounds associated with a building to insure that the building presents an attractive appearance. This includes the design of the layout, the planting, and the maintenance of grass, shrubs, plants, and trees.

Preventive maintenance - the performance of select and regularly scheduled maintenance tasks to prevent and/ or decrease the incidence and/or frequency of emergency repair.

Clean and Attractive -the condition of a building and its associated grounds wherein the overall impression is that the building is desirable and well maintained living environment, free from litter and hazardous conditions.

Monitoring - the Owner's ongoing evaluation of the Manager's performance under this Contract. Monitoring shall include the review of the Manager's reports, site visits to assess the condition of buildings and grounds, and periodic surveys of the tenants to assess their satisfaction with the Manager's performance.

Work Order - the form that is used by the Manager to record all data regarding a request for maintenance services, including date, time, staff, materials, and cost.

Routine Maintenance Response Time - the time that elapses between the Manager's awareness of a need for current repair and the completion of the repair. The work order for current repair may originate externally from a tenant's request for service, or internally from the staff's request for service. Routine maintenance response time is satisfactory, if it does not exceed 24-hours; if

the response time exceeds 24-hours, it may still be satisfactory, if the delay was caused by circumstances beyond the control of the Manager.

Emergency Response Time - the time that elapses between the Manager's awareness of a need for emergency repair and the abatement of the emergency. The work orders for emergency may originate externally or internally, as described above under routine response time. Emergency response time is satisfactory if the emergency situation is immediately addressed, and the problem is abated within 24-hours. "Abatement" is the removal of the threat to the safety and well-being of the tenants, or the removal of the tenants from the threat. For satisfactory performance, there are no exceptions to this response time requirement. Please note that the emergency does not have to be corrected within 24-hours, rather, it has to be abated within 24-hours.

6. Manager's Compensation.

A. **Contract Amount.** This Contract shall be for the annual amount of _____ Rubles. This amount is based on the Manager's cost proposal of _____ Rubles Per Square Meter Per Month (know by the acronym "RPSMPM") of total dwelling space in the buildings. The contract amount is reflected in the approved budget (Exhibit I). The Contract amount includes all fees, overhead, and profit payable to the Manager, except for the "Outstanding Performance" and "Incentive Performance" fees outlined below.

B. **Performance Levels.** There are four levels of performance recognized by this contract:

1. Satisfactory Performance - monitoring indicates that the Manager is performing all work in accord with the Contract provisions. Routine maintenance response time and emergency response time is satisfactory. Preventive

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maintenance schedules are met. Reports are accurate and received in a timely fashion. Expenses do not exceed budgeted levels. The properties are usually clean and attractive. Tenants surveys indicate a moderate increase in satisfaction with the Manager's performance over prior traditional forms of management. For performance at the satisfactory level, the Manager shall receive all Contract payments agreed to in this Section.

2. Outstanding Performance - monitoring indicates that the Manager is performing all work in a fashion that exceeds the Contract provisions. Routine maintenance response time and emergency response time exceeds (i.e., are faster) than the Satisfactory Performance Level. Preventive maintenance is performed ahead of schedule. Reports are error free and are received ahead of deadline. Expenses are below budgeted levels. The properties are always clean and attractive. Tenant surveys indicate a dramatic increase in satisfaction with the Manager's performance over prior traditional forms of management. For performance at the Outstanding Level, the Manager shall receive all Contract payments agreed to in Section 6, plus 1,5 %.

3. Incentive Performance - the Manager's performance falls into either the "Satisfactory" or "Outstanding" category and the Manager has reduced "budgeted" versus "actual" expenses by an increment of at least 10%; the expense reduction (savings) are then rebated to the Owner. For performance at the Incentive Level, the Manager shall receive Contract payments at either the Satisfactory Level or the Outstanding Level plus 1% for every increment of 10% of "budgeted" versus "actual" expense rebated to the Owner. A Manager performing at the Unsatisfactory Performance Level shall not be eligible for inclusion in the Incentive Performance

Category.

4. Unsatisfactory Performance - performance monitoring indicates that the Manager is not performing work in accord with the Contract provisions. The reasons for Unsatisfactory Performance include, but are not limited to the following:

- Routine maintenance response and/or emergency response times are unsatisfactory.
- Preventive Maintenance schedules are not met.
- Reports are inaccurate and/or are not received on time.
- Expenses are above budgeted levels.
- The properties are not usually clean and attractive.
- Tenants surveys indicate a decrease in tenants satisfaction with the Manager's performance when compared to prior traditional forms of management.

When performing at the Unsatisfactory Level, the Owner shall immediately inform the Manager in writing, and the Manager shall be asked to provide the Owner with a written plan and timetable to correct any performance deficiencies. The Owner shall afford the Manager a reasonable amount of time (at least 30 days) to correct the deficiencies. If the deficiencies are not corrected within the agreed upon time frame, or if the Manager's performance is chronically unsatisfactory, the Contract Payments may be delayed, reduced, or withheld until the Manager's performance is again satisfactory.

7. Manager's Responsibility.

The Manager in the exercise of its powers and performance of its duties and obligations under this Contract shall be responsible solely to the Owner.

8. No Liability; Indemnity.

The Manager is not liable to the Owner for any loss or damage not caused by the manager's own misconduct or negligence. The Owner agrees to indemnify the Manager against and hold the Manager harmless from the following:

- A. Any liability, damage, cost and expenses sustained or incurred for injury to any person or property in, about, and in connection with the property, from any cause whatsoever, unless such injury shall be caused by the Manager's own misconduct or negligence, and
- B. Any liability, damages, penalties, costs and expenses, statutory or otherwise, for all acts performed in good faith by the Manager pursuant to this Agreement or to instructions of the Owner, provided, in each of the foregoing instances, that the Manager promptly advises the Owner of its receipt and information concerning any such injury and amount of liability, damages, penalties, costs and expenses.

9. Term of Agreement.

The initial term of this agreement is for a period of one year. This agreement shall automatically extend itself from year-to-year. However, either party may cancel this Agreement at the end of any calendar month by providing thirty (30) days written notice to the other party.

10. Termination For Unsatisfactory Performance.

Termination for unsatisfactory performance is a last resort, and only when there is chronic, unsatisfactory performance on the part of the Manager. Termination shall not occur until all possible efforts on the part of the Owner and the Manager to cure or remedy deficiencies have been exhausted. Procedures for correcting deficiencies are outlined in Section 6.D..

11. Entire Agreement.

Contained herein is the entire Agreement between the Owner and the Manager relating to the subject matter and no prior

representations, agreements or warranties written or oral, shall be in effect unless contained herein. No modifications of this Contract shall be effective unless signed in writing by both parties.

12. Nondiscrimination.

In the performance of its obligations under this Agreement, the Manager shall not discriminate against any tenant, potential employee, or employee based on grounds of race, color, sex, sexual preference, creed, or national origin.

13. Counterparts.

This agreement has been executed in several counterparts, each of which shall constitute a complete original Agreement, which may be introduced in evidence or used for any other purpose without the production of any of the other counterparts.

In Witness Whereof, the Principle Parties (by their authorized offices) have executed this Agreement on the date first above written:

OWNER: (Name of Owner)

By: _____

(Name of Person)

WITNESS: _____

MANAGER: (Name of Firm)

By: _____

(Name of Person)

WITNESS: _____

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EXHIBIT I
APPROVED ANNUAL BUDGET

EXHIBIT II

APPROVED WORK PLAN