

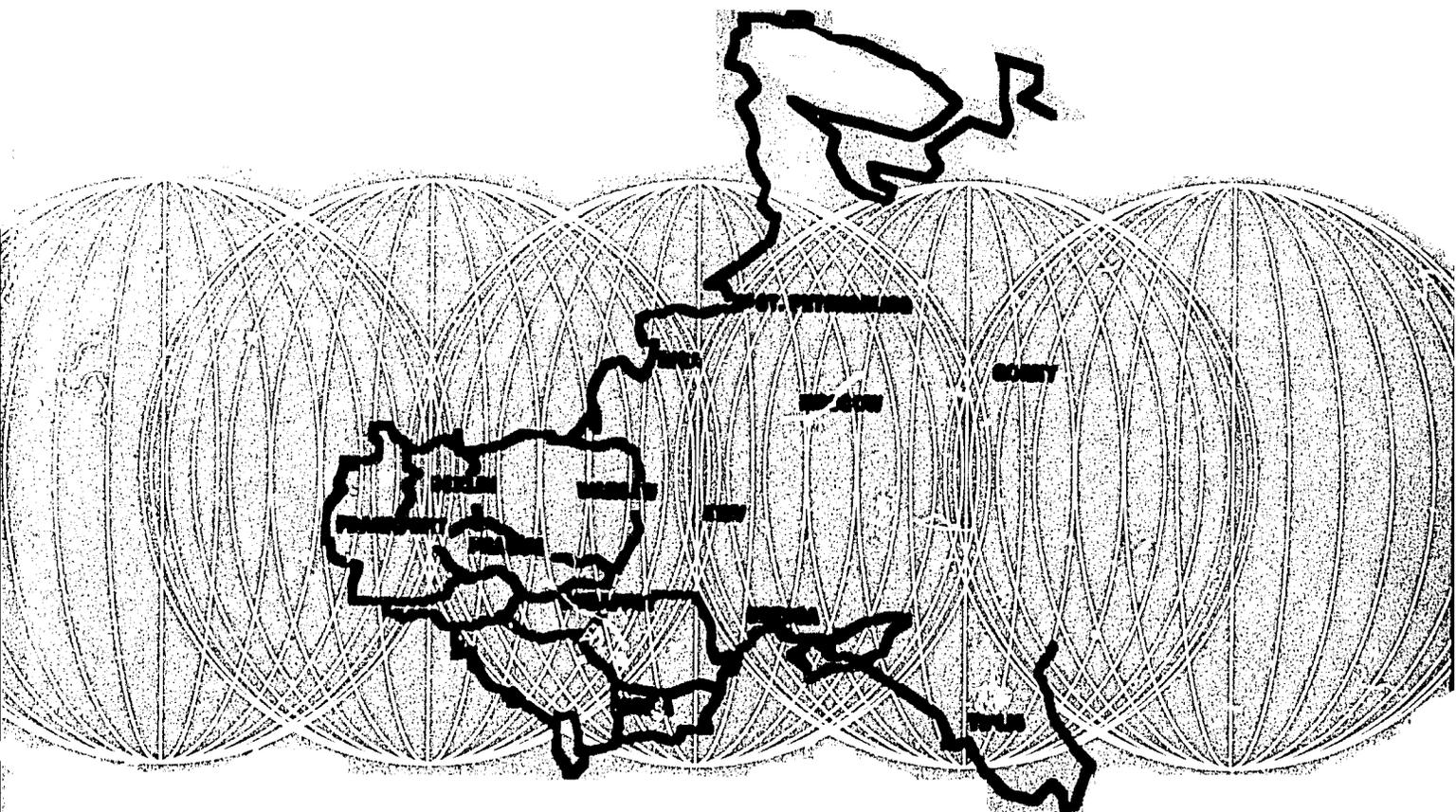
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**BLAGOEVGRAD HOUSING ALLOWANCES**

**REPORT ON ADMINISTRATIVE  
AND IMPLEMENTATION ISSUES**

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## **BLAGOEVGRAD HOUSING ALLOWANCES**

### **REPORT ON ADMINISTRATIVE AND IMPLEMENTATION ISSUES**

The City of Blagoevgrad is considering implementing an ambitious program or rent reform, including the implementation of a means-tested housing allowance program. As the first city to undertake this effort in Bulgaria, the municipality faces many difficulties, but it seems to have the resources — primarily an experienced and resourceful staff — needed to meet the challenge. It will, however, have to rely heavily on its staff to work hard and creatively in designing and implement a successful program.

The report below highlights all implementation issues, and identifies many tasks to be completed in order to begin an allowance program. A Work Plan is attached which details each action item, and suggests municipal staff that might be appropriate for each task. The Work Plan assumes that in the near future several current members of the municipal staff will work on the project on a part-time basis until a positive response is received from the Council of Ministers on exemptions that will be necessary to implement the program. However, at least three new positions — described in Section III.A. below — will need to be created before the program can be put into effect, and it is expected these appointments will be made after the governmental decision.

The two principal objectives of the program are to target subsidies to the needy and to encourage the private rental sector to expand. These social and economic objectives will be met through increasing rents on the municipal stock and introducing a housing allowance program that will protect low-income tenants in both the public and the private rental sector. The allowance program will associate subsidies with households instead of housing units, so that tenants will be free to look for housing in the private rental sector. Private landlords will also become more interested in renting when they know that allowance recipients will be guaranteed rental support on a regular basis. The higher rents will fully fund the allowance program, and will provide additional revenue that can be used to improve management of the municipal rental stock, which is currently in bad physical condition. While low-income tenants will be protected, those who are able to will begin to cover the costs of housing.

#### **I. LEGAL ISSUES**

The Council of Ministers will be asked to grant an exemption for Blagoevgrad with regard to two important aspects of the program that are currently prohibited by regulations. These are:

- The right to set rents. At present, although the public rental flats are "owned" by the city, the rents are set centrally.

- The right to keep all rent revenues off budget. At present rent revenues are part of the budget and are therefore subject to centrally-mandated earmarking of municipal funds, and therefore cannot be spent on the purposes essential to make this program work — that is, funding the allowances, and improving maintenance of the rental flats.

It is imperative that a proposal be made to the Council of Ministers as soon as possible. The City will begin work on the housing allowance program, but does not want to incur major expenditures — for example, by hiring new staff — until it is certain that approval of these important exemptions will be given.

In addition to these two requirements, a number of other legal issues should be explored. These are:

- The city must be able to enforce its rental policy. Therefore the city needs to review its eviction powers under the current Rental Relationship Law and determine if it is the law or mere administrative practice which limits evictions.
- Current law requires that some tax information be kept secret. It would be helpful if the allowance office could have access to this information, at least to have the Tax Office confirm or deny submitted income information. (Property tax information is not secret, but is only listed for property within city limits; i.e., residents who own property elsewhere are not registered.) Exact current restrictions should be clarified and the possibility of revisions examined.

## **II. PROGRAM DESIGN**

The simultaneous increase of rents and implementation of a housing allowance program needs to be carefully designed. This section identifies the principal features of the program that must be decided upon at the outset. While the feasibility study recommends program parameters, these are decisions that must be made by the city.

### **A. New Rents for the Municipal Stock**

The first step in the new program must be in moving municipal rents to the market level. While "market rents" should normally be determined by the market, i.e., through demand and supply and flexibility in the price, it is not expected that this is practically feasible at this time. It is therefore recommended that rents be set now at levels approximating current rents in the private sector for flats of similar location and quality. However, it is also recommended that next year the rents no

longer be mandated by city council, but that they be open to negotiation through the property manager.

It is estimated that currently private rents are four to six times higher than municipal flats. Some brief analysis and consultations with real estate brokers can provide confirmation of these levels. In addition to increasing municipal rents by approximately this magnitude, they should also be differentiated to reflect varying demand for different flats. This can be done by establishing two or three categories by location (for example, "Center City" and "Outskirts") and then varying rents according to different criteria (for example, an increase of 5 percent for flats facing south, or a decrease of 5 percent for flats facing a noisy street). Rent differentiation is important for several reasons, most importantly fairness and encouragement of mobility. If rents are the same, people in the better flats have no reason to leave, even though they might value those flats less than another household.

A working group composed of a representative from the municipal housing office, a municipal architect, and some private sector construction experts and real estate brokers will meet to establish the criteria for valuing flats. The "base" rent levels in each location category will be based on current private sector rents.

Another change will take place in rent structure. At present, the first 20 square meter per person are at the low rent (1.69 lv); any extra space rents at double that amount. With the new rent system — and a housing allowance which takes household size into account — there will be no such distinction in rent within one unit.

A further decision that needs to be made is whether the rent rise to market level happen all at once or be phased in? There does not seem to be serious concern at present about the shock of a sudden increase — especially with the protection of the housing allowance program — but if it is decided that this is a worry, the following scenario could be followed.

1. Municipal rent is raised halfway to market rents.
2. An allowance program — for municipal renters only — is started, with an appropriate normative rent, set somewhere between the highest and the lowest municipal rents.
3. Six months later municipal rents rise all the way to market levels. At that point, the allowance program is expanded to include private renters as well.

## **B. Housing Allowances**

### **Description of Program**

The allowance program should be designed in such a way that balances the protection of low-income tenants with the City's ability to fund such a program. Housing allowances will cover the gap between an acceptable percentage of a household's rent and the amount of money required to rent an adequate flat for a household of a particular size. The determination of these two parameters is at the heart of program design. Other elements of program design include conditions for eligibility, and provisions to assist mobility.

It is recommended that a Housing Allowance Working Group be formed to meet regularly to decide on program design. Possible members include staff from Housing Office, Social Welfare Office, the Legal Counselor, member(s) of the Housing Policy Commission, and members of city management. The Group should meet every one or two weeks to discuss important issues and review progress. The Group would have primary responsibility for ensuring that various tasks in program develop are completed satisfactorily.

### **Program Parameters**

The amount of the allowance is determined by the household size, income and wealth on the one hand, and two program parameters on the other, as shown in the following formula:

$$\text{Allowance} = \text{Fair Market Rent} - (t * \text{household income})$$

The parameter  $t$  is the percentage of income that a family should be expected to spend on rent. Fair Market Rent (FMR) — which is the rent needed to rent a flat of appropriate size in Blagoevgrad — is determined by multiplying the space required for each size household by the Square Meter FMR. Both the Square Meter FMR and the parameter  $t$  must be decided upon by the city.

- Setting the percent of income ( $t$ ) that should be spent on rent. Possible values are 10, 15, 20, or 25 percent. While this number should represent the percentage of income that a household can reasonably be expected to pay on rent and still be able to afford other essential expenses, a few other considerations should be mentioned, such as the cost to the city and the number of households covered — and especially how many of the poorest households are receiving allowances. The first is the impact of  $t$  on the cost of the program. Higher percentages result in higher revenues (all but 10 percent produce a net increase in rent revenues to the city) and in lower

coverage.<sup>1</sup> A final consideration is that it is much easier to increase benefits than to lower them, so that in a situation where there is bound to be uncertainty (e.g., about incomes or about participation rates) it may be wise to start conservatively — i.e., with a higher  $t$  — holding in reserve the possibility of reducing  $t$  after the program has begun.

- Setting the Square Meter FMR. THE FMR should be high enough to be sufficient to rent an adequate flat in Blagoevgrad. It does not have to be high enough to pay for the best flats.
- The space norms suggested are 20 square meters per household plus 12 for each person.

### **Conditions for Eligibility**

- Should assets as well as income be considered when establishing eligibility? What assets? How should they be measured? Compatibility with other programs should be considered — for example, tax forms, and social subsidy regulations. The principle behind the inclusion of assets should be fairness: a household holding greater wealth than another should probably not receive as large an allowance. On the other hand, the requirements for cataloguing and valuing assets should not be onerous.
- We recommend that an agreement for the repayment of arrears be precondition for allowances, to underline the seriousness with which the city views the payment of rent. However, because the new rents may be a significant burden on a household budget, it may be necessary to keep the repayments low. A specific policy should be developed, e.g., the household must repay at least XX leva/month, and must repay total within 10 years.

### **Administration**

- Should cash be paid directly to landlords or the tenants for private rentals? While it is not certain what the recipient will spend the allowance on when cash is handed out, it will be much simpler to hand out the allowance to tenants than to send individual payments to different landlords. In the case of municipal renters, the allowance will simply be subtracted from the rent, and the tenant will be informed of the balance due. In cases where actual rent paid is lower than the allowance, the balance will have to be directly to both private and municipal tenants.

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<sup>1</sup> The lowest quartile is fully covered in all four cases, while the highest quartile declines dramatically from 90 percent eligibility under  $t=15$ , to 0 percent under  $t=25$ . The second highest quartile remains largely eligible (72 percent) even at  $t=20$ .

### **Other Program Features**

- Should a (possibly retroactive) grace period be granted to households who want to move to a less expensive flat? This may be an additional protection to households who are in larger or more expensive flats than they can afford — even with an allowance — but who may not be able to move to a less expensive flat as fast as they would like. The reason to make the grace period retroactive would be to ensure that the move actually take place as soon as possible.
- It is quite certain that the city will have to play an active role in assisting households who want to move to more appropriate flats. While it may seem that most of the demand would be in one direction (that is, towards cheaper flats) it should be remembered that in the past the demand has been in the opposite direction, while households in the better and larger flats have not had a reason to move. There will probably still be overcrowded households who — perhaps assisted by an allowance — can afford a larger flat and will now be able to move.

## **III. ALLOWANCE PROGRAM IMPLEMENTATION AND ADMINISTRATION**

### **A. Summary of Municipal Staff Requirements**

The most important commitment on the part of the municipality will be to create new positions and assign new functions to municipal staff. The following summarizes the new functions that will be required in order to make the program workable.

#### **Housing Allowance Calculation**

*Necessary Staff:* Four during the first intake period; subsequently one or two full time staff. At least one staff member should have some computer expertise. Experience in social work or tenant relations would be useful.

#### *Functions:*

- Receive tenant applications
- Calculate allowance
- Verify information
- Inform tenant of allowance amount and how much rent is therefore owed
- Inform rent collection office of allowances for each tenant and how much rent is therefore owed

## **Rent Collection, Allowance Distribution, and Fund Management**

*Necessary Staff:* One accountant, in addition to rent collectors.

*Functions:*

- Receive tenants, collect correct amount (rent minus allowance)
- Distribute allowances directly to municipal tenants when allowance exceeds rent due, and to private renters in all cases
- Keep track of source of "revenues": rent paid versus allowance
- Allocate portion of rent revenue to management office

### **B. Tasks to be Undertaken in Preparation for Allowance Program**

#### **Establish the Housing Allowance Calculation Office**

The housing allowance calculation office will need a staff of at least four at the peak time after the program is announced when most eligible tenants will be submitting applications and many renters will have questions and concerns. Subsequently one or two staff members should be sufficient to run the program.

The office will need to have access to at least one computer (possibly with several terminals for use during the peak intake period). The software that will be needed includes an allowance calculation program that can be adapted from the one being designed for use in Szolnok, Hungary. It must interface, however, with existing municipality databases (see 3a in this section) to be able to verify income or assets, for example, or to check whether a household has arrears, and that software should be designed in-house by municipality staff.

#### **Develop Forms and Public Information Materials**

An allowance application form should be designed well in advance of the program. It should contain detailed questions asking for income in specific categories (for example, full-time jobs, part-time work, occasional jobs, specific benefits). It should also specify types of assets that should be listed, such as cars, real estate, savings, bonds, jewelry. Insofar as possible, the list should be consistent with other such forms, for example tax returns or other subsidy applications.

A public information pamphlet should be prepared with care. It must explain the program clearly, including a description of how the allowance is calculated and how to apply for it. It should be clear and complete, and should include a sample simplified calculation work sheet so potential applicants can quickly determine the rough magnitude of the allowance they might be eligible to receive.

An additional suggested form might be a flat exchange form, to encourage tenants to consider the possibility of moving now that their financial circumstances may be changing.

### **Develop Procedures for Information Verification**

One of the most difficult issues of the housing allowance program is ensuring the accuracy of income and wealth information. It is therefore imperative that every effort be made to identify ways in which information can be checked. In addition, all information material and application informs should contain strongly worded, clear information about the penalty of providing false information. At the very least, the penalty should be ineligibility for the allowance program for five years.

There are several databases available in the municipality, and there may be others elsewhere that can be used to check information. To the extent possible, software should be developed so that the housing allowance calculation office can interact directly with those sources of information. The Rent Collection Office database can be used to establish whether applicants owe rent arrears, for example, and the Administrative Services Office database may have useful information on members of each household, while the Social Needs Office database provides information about income and assets (in some cases already verified) and about other subsidies already being received.

Other sources for verification must be investigated, including the Tax Office, and the property records of other local governments. Random site visits should be announced as part of the program, and should be carried out regularly to the extent possible.

### **Plan and Begin a Public Information Campaign**

A public information campaign — on newspapers, television, radio — is necessary to ensure that municipal renters understand the larger purpose of the program — targeting assistance to low income people, improving housing management — in order to provide a context for the increase in rents they will have to pay. Furthermore, private renters who have low incomes will have to be informed through the media, because unlike the municipal renters, the City does not know who these people are and it is important that they also be protected by the program.

It is suggested that the first step in the campaign be a fairly substantial newspaper article, and that subsequently public hearings, brief radio interviews, and possibly call-in shows be planned.

## **Fund Management**

A fund management function must be established, and the future flow of information and of revenues has to be designed. For example:

- a. The rent collectors need to be informed of who is entitled to how much allowance, so they will know how much rent each tenant will pay.
- b. The tenants must be informed how much their allowance is, and how much rent they therefore owe.
- c. A system of allocating money for management costs from rent revenues must be established.

## **IV. OTHER RENTAL POLICY REFORMS: ENFORCEMENT AND MANAGEMENT**

This major change in the rental policy of Blagoevgrad cannot be taken in isolation. At least two other issues must be rethought and improved in conjunction with the higher rents and the introduction of housing allowances.

First, enforcement of rental policy must be taken seriously. The allowances ensure that those who really cannot afford to pay rent are protected, so that non-payment of rent can to a large extent no longer be excused as due to the inability to pay. Rules about paying the new rent should be as strict as possible under the law. This may mean that in the event of non-payment eviction procedures should be started. It should also be clearly stated that in the event of non-payment, tenants receiving allowances will forfeit eligibility.

Arrears from the previous system should also be treated seriously but should be kept separate. A condition of eligibility should be the signature of an agreement to repay former arrears. Household income should be taken account, and where current rents represent a heavy burden, repayment installments may be quite low.

Second, as soon as the rents increase, it will be essential to *visibly* improve management services so that tenants see some change when their rents increase four-fold. More importantly, with increased rent revenues, the municipality will have the means with which to improve and maintain the value of its assets.

Currently very little adequate maintenance takes place. There is no property management or asset management function. No day-to-day maintenance takes place other than what the tenants choose (and are able) to arrange. Repairs take place on an emergency basis only, initiated by complaints by tenants. The response to such complaints is a joint visit to the building by the municipal Management and

Maintenance Office and the housing office in order to ascertain if the repair is necessary. If it is, the Maintenance Office orders the work from STROY ENGINEERING COMMERCE, a private company which won the maintenance contract through a competitive process last year. The company does the work, and then bills the city. No estimates of cost are submitted before the work is done, which makes it impossible for the Maintenance Office to plan its expenditures even at the time it is commissioning work. In addition, the Maintenance Office feels their budget allocation does not allow them to do what is necessary, but has no idea how much would be necessary. It is perhaps worthwhile to note that one year ago, the head of BIOSTROY (the Municipal Maintenance Company then responsible for housing management) estimated that current rents would have to be increased by 32 percent to cover his company's losses on repairs actually made, doubled to cover the repairs required by Regulation 15, and *quadrupled* to maintain the flats in good condition, assuming that an initial investment be made to make up for deferred maintenance with much needed rehabilitation.

Some fairly simple and inexpensive steps can be taken initially to improve management. For example, a small private firm could be hired competitively to do very simple routine maintenance — perhaps a weekly half-day visit to each building to sweep the hallways, check for minor repairs, receive tenant comments, and then pass them on to the Maintenance Office. However, in the longer term, more careful thought has to be given to how to improve management in larger ways. At the very least, annual budgets should be prepared for each building listing expected operating and management costs. Capital repairs must be undertaken so that further deterioration can be prevented. This is a much larger topic than can be addressed here, but it is a serious one, and is an important cornerstone to this new initiative in city rental policy.

## WORK PLAN

Items below are listed roughly in order of priority — i.e., chronological order, listed with the week in which work should be carried out (starting February 15). In some cases, an appropriate staff member that could be responsible for the task is suggested. In all cases, Maya Koleva, and Michael Hoffman will provide assistance to municipal staff.

In the first few weeks, before a response to the proposal submitted to the Council of Ministers, the work should amount to only a few hours a week for several municipal staff members, but hopefully they will have the time to work on those tasks so that the program continues to move forward. After that, it is hoped that greater allocation of time can be made, because serious efforts will have to go into resolving all the details required by the program.

### **Phase I**

Weeks 1&2 Prepare proposal to be submitted to the Council of Ministers (Krivachka)

Week 1 Form Housing Allowance Working Group to meet regularly to decide on program design. Possible members include staff from Housing Office, Social Welfare Office, the City's Legal Counselor, member(s) of Housing Policy Commission, members of city management. The Group should meet every one or two weeks to discuss important issues and review progress.

Principal decisions center around the following issues:

- reviewing suggested new rent levels for municipal stock;
- setting percentage of household income that should be spent on rent (t);
- setting a square meter Fair Market Rent (which must be set after the municipal rents are set);
- assets to be considered and to what extent they should be counted as contributing to the applicant's income;

- new ways to improve enforcement (especially through serious use of eviction), assist tenant mobility, and improve housing management; and
- numerous administrative particulars of the housing allowance program.

Week 2      Decide upon rent categories and rent criteria for municipal flats. A group comprised of municipal staff and the private sector will be organized by R. Elenkov.

Week 2      Meeting with the Housing Policy Commission to discuss program design and implementation. To be attended by Toteva and Koleva as well.

Week 3      Prepare draft allowance application form including detailed questions about income and assets. Categories should be as specific and complete as possible and compatible with the following:

- tax forms
- social welfare subsidy regulations and application form
- social welfare subsidy database

(Pantaziev and Gyorgyeva)

Week 3      Prepare exhaustive list of sources for income and wealth verification — e.g., municipal databases; information from other municipalities or central government (e.g., lists of property in other jurisdictions); tax information; bank information; site visits. (Pantaziev and Gyorgyeva)

Week 5      Review and adaptation of software to be used to calculate allowances. Begin design of software that will permit access to various municipal databases needed for information and verification during the intake and calculation of housing allowances. (Pantaziev)

Week X      As soon as affirmative response is received from the Council of Ministers, it is suggested steps be taken to make the program official. These should include a resolution by the City Council to move forward, and the beginning of a public information program. Efforts should be made to explain the intention of the program — though not yet the details — in the news media, including, e.g., a newspaper article explaining the principles of the allowance program, and the importance of improving housing management.

- Week 5 Prepare public information pamphlet on the housing allowance system. This will include a description of the system and instructions on how to apply.
- Week 6 Final agreement on proposed values for each of the program parameters.
- Week 7 After proposed t, the Fair Market Rent, and the municipal rents are established, statistical analysis should be undertaken to present final cost estimates to the City. (Pantaziev)
- Week 9 Finalize decisions on program details, including administrative procedures, eligibility requirements, and flow of information. Draft decree on the new rents and the allowance program for City Council.
- Week 10 Finalize decision-making for establishment of housing calculation office, including hiring staff and acquisition of computers.

## ***Phase II***

The second phase of implementation begins when a date is set when new rents and the allowance program come into effect.

- Week 1 Program is announced via letters to all municipal renters (including announcement of their new rent, allowance information pamphlet, allowance application form, and flat exchange form), advertisements in the media to reach private renters, and a news information campaign.
- Week 2 Housing Allowance Calculation Office is established, and training of intake workers begins. Fund Manager (accountant) position is filled.
- Week 3 Applications begin to be submitted. Applicants who request them are given personal appointments.
- Week 8 New rents and new allowances come into effect.