

Central and Eastern Europe Local Government and Housing Privatization

Prepared for the Office of Housing and Urban Programs
Agency for International Development



**ICMA
Consortium Report**

Consortium Members

**International City/County Management Association
Urban Institute
Urban Land Institute
National League of Cities**

PD-ABL-102

**EVALUATION OF THE PILOT PROJECT
ON ASSET AND PROPERTY MANAGEMENT**

SZOLNOK, HUNGARY

MAY 1994

Prepared for the Office of Housing and Urban Development
U.S. Agency for International Development

Prepared by

Antonia Sanders

The Urban Institute

INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
Local Government and Housing Privatization
USAID Contract No. EUR-0034-C-00-2034-00
USAID Project No. 180-0034
Request for Services No. 65

ABSTRACT

The Szolnok Pilot Project in Asset and Property Management was designed to accomplish certain important objectives: to strengthen the role of the municipality with respect to monitoring the performance of the housing stock; to transform the relationship between the municipal Housing Office and Szollak (previously known as IKV, the former state owned property management company); to improve the level of property management services provided to the municipally owned rental units; and to introduce competition in the provision of property management services. This paper is an evaluation of the Pilot Project to determine how well these objectives were accomplished. The evaluation includes four components: a financial analysis of Pilot Project unit expenses in 1992 and 1993; an analysis of a survey of the inhabitants of the Pilot Project units; results of an interview with Lajos Csala, President of Tiszaber, the company which manages the Pilot Project units, and the opinions of the Asset Management staff members and an evaluation of their performance. In analyzing each of these components, it is clear that the objectives of the project were reached in varying degrees. Furthermore, the financial data generated for the Pilot Project units demonstrate that costs to operate these units were in line with predictions, and the data itself is more accurate and useful than that produced by IKV. The tenants of these units believe that management services have improved somewhat under Tiszaber. Tiszaber considers the project to have been worthwhile, as do members of the Asset Management branch of the Office of Housing. In order for the Pilot Project to enjoy continued success, the authority and responsibilities of the Asset Managers must be more clearly defined.

EXECUTIVE SUMMARY

Historically, the management of the state-owned flats in Hungary was solely the responsibility of IKV, the state-owned housing management company. Since early 1992, USAID has been providing technical assistance to the City of Szolnok in reforming their rental housing sector in which the improvement of asset and property management played a crucial part. This component of the overall housing strategy is known as the Szolnok Pilot Project in Asset and Property Management. Project objectives were to strengthen the role of the Municipal Housing Office by creating a viable asset management capability within the department; clarify the relationship between the Municipal Housing Office and IKV; improve the quality of management of the municipally owned rental units; and introduce competition in the management of the stock.

The USAID team commenced work on the project in April, 1992. Since that time, an Asset Management function has been established within the Housing Office, and the City successfully bid a portion of its housing stock for management by a private company called Tiszaber. The purpose of this paper is to evaluate the Pilot Project in Asset and Property Management, to determine whether or not the original objectives were achieved. The evaluation includes four components, which are as follows:

1. Comparative analysis of expenditures made on behalf of the Pilot Project units under IKV management and under management by Tiszaber and a review of financial statements.
2. Analysis of a survey of the inhabitants of the Pilot Project units.
3. Results of an interview with Lajos Csala, President of Tiszaber, in which his perspective on the outcome of the Pilot Project is obtained.
4. The opinions of the Asset Management staff and an analysis of their performance.

In the discussion of these four components, it becomes clear that the objectives of the Pilot Project were achieved in varying degrees. In addition, the expenses to manage the Pilot Project units were in line with original estimates, and the level of financial information now being produced by Tiszaber is superior to that which was produced by IKV. Importantly, the administrative costs decreased sharply both in absolute terms and as a percentage of operating expenses. The tenants of the Pilot Project units believe that the level of management services provided has improved since Tiszaber assumed management. Both Tiszaber and the members of the Asset Management group think that the Pilot Project was a worthy endeavor.

In order for the Pilot Project to enjoy continued success in Szolnok, the Asset Managers need to exert more authority over the property managers and be more active in monitoring the managers' performance. The authority and responsibilities of the Asset Managers must be clarified. Finally, the City needs to take an active role in reviewing the financial information generated for the Pilot Project units in order to make informed decisions about the fate of the housing stock.

EVALUATION OF THE SZOLNOK PILOT PROJECT ON ASSET AND PROPERTY MANAGEMENT

INTRODUCTION

Background

Historically, the management of state-owned flats in Hungary was solely the responsibility of IKV, the state-owned housing management company. When the central government granted the rights of ownership of the housing stock to the individual local governments in 1990 and 1991, the management of the housing stock remained the *de facto* responsibility of the local IKV branches. Local governments have only just begun to exercise their rights as owners of the housing stock and to act in a regulatory capacity to ensure effective management of these units.

Since early 1992, USAID has been providing technical assistance to the City of Szolnok in a variety of areas relating to housing. The broad reform to the municipal rental sector included an increase in rents and the introduction of income-tested allowances as well as improvements in management. Technical assistance in asset and property management and maintenance was provided to train the new municipal asset management staff and to hold a competition for contracting out the management of a small portion of the municipally owned rental housing stock¹. Project objectives were to strengthen the role of the Municipal Housing office by creating a viable asset management capability within the department; clarify the relationship between the Municipal Housing office and the former municipally owned property management firm, IKV; and to improve the quality of management of the municipally owned housing stock by introducing competition into the provision of property management services.

Several goals have been accomplished. One, the City is beginning to take an active role in determining how the municipally owned housing stock is managed. Two, a management contract was successfully bid and alternative management has been introduced in Szolnok. Three, the relationship between the City and Szollak (the former IKV) is beginning to change, as the City tries to establish an employer-employee relationship in which it acts as Szollak's regulatory body. Lastly, and most importantly, the level of property management services provided to the municipally owned housing in Szolnok appears to be improving.

¹ This component of assistance was led by Antonia Sanders (formerly Toni Baar) working closely with Katalin Zsamboki. Katharine Mark was the project manager. A detailed description of the management project can be found in Baar and Mark, *Szolnok Pilot Asset and Property Management Program*, October 1993.

Evaluation of Pilot Project

The USAID team commenced work on the Pilot Project in April, 1992. Since then, these milestones have been reached: an Asset Management function was introduced into the municipal Housing Office, and the City successfully bid a portion of its housing stock² for management by a private company.

Almost two years have elapsed since the inception of the Pilot Project. At this point, it is important to determine whether or not the original objectives of the project were met: has the role of the municipality with respect to monitoring the performance of the housing stock been strengthened? has the Housing Office transformed its relationship with Szollak? have property management services improved substantially enough to justify the level of effort put into the project by the City? In addition, how successful was the competitive bidding component of the Pilot Project—how well is the new management company, Tiszaber doing its job? Has the City learned anything from this process? The purpose of this Evaluation is to provide answers to these questions.

A secondary purpose of this evaluation is to serve as a model for city Asset Management staff. While it is unlikely that staff will regularly have access to the time or funds necessary for such a broad effort, this study does demonstrate the sort of analysis the city should conduct on a regular basis in order to assess the effectiveness and cost of property management. Its results can be useful as well in providing feedback to property management.

The Evaluation of the Pilot Project includes four components, which are as follows:

1. Comparative analysis of expenditures made on behalf of the Pilot Project units under IKV management (from January through June, 1992) and Tiszaber (from April through September, 1993) and a review of financial statements. In this section, the impact of the Pilot Project on the costs of managing municipally owned housing is explored.

² The addresses of the pilot project units are as follows:

<u>Address</u>	<u>No. of Units</u>
Orosz Gy. 9	44
Orosz Gy. 11	44
Györfly Istvan 1 (formerly Orosz Gy. 32)	15
Györfly Istvan 3 (formerly Orosz Gy. 34)	20
Györfly Istvan 5 (formerly Orosz Gy. 36)	20
Györfly Istvan 7 (formerly Orosz Gy. 38)	15

2. **Analysis of a survey of the inhabitants of the Pilot Project units. It is important to know what the tenants think about the change of management and the conditions of their housing. How do their perceptions influence the judgment of the overall efficacy of the pilot project, if at all?**
3. **Results of an interview with Lajos Csala, President of Tiszaber, in which his perspective on the outcome of the Pilot Project is obtained.**
4. **The opinions of the Asset Management staff and an analysis of their performance.**

The answer to the questions raised appears to be a qualified "yes." Each of the objectives was reached, to varying degrees. The competitive bidding process achieved its desired result in that alternate management was introduced in Szolnok. Tiszaber, the new management company, seems to be doing a reasonably good job. And the City has learned something from this process, namely that property management alternatives do exist in Szolnok. In addition, the capacity to monitor the quality of property management—an entirely new function for municipal staff—is now in place. These results are elaborated in the body of this report.

FINANCIAL ANALYSIS

Methodology

Data on operating and repair expenses was made available by IKV for each staircase of the 158 pilot project units for the period January 1 through June 30, 1992. The data was obtained from two sources: IKV operating expense statements and LAJ print-outs.³ Data was also made available by Tiszaber for all building expenses for the pilot project units for the period April 1, 1993 through September 30, 1993.

The data from IKV's statements from 1992 was reorganized to fit into the categories used in Tiszaber's monthly operating statements. The expenses incurred in the two periods are compared, and the variance (percentage increase or decrease) is determined. The comparative information was compiled for each staircase in separate spreadsheets, which are included in this document (see Annex A). An example comparing expenses for the two periods is shown in Table 1.

Although the expense information for the two years comes from different time periods (January through June in 1992 and April through September in 1993), many of the expenses, particularly routine operating expenses, are fixed. Therefore, for the most part, fluctuations would not be due to seasonal variations.

Utility costs obviously fluctuate depending upon the time of year and prevailing weather conditions. However, the utility costs included in the statements are for common area electricity, common area heating and water/sewer expenses. Common area electricity does not fluctuate dramatically, although it is generally higher in the winter since the common area lights must be left on for longer periods of time. Heating costs for the common areas are minimal. Water/sewer charges are offset by monthly reimbursements from the tenants. (This is why in some cases, the expense line item shows a credit when the monthly reimbursements exceed actual expenses, or when delinquencies from one period are paid up during a subsequent period.) Therefore, utility expenses do not substantially change routine monthly expenses, except in cases in which there have been rate increases.⁴

³ LAJ expenses refer to repair items. The term LAJ originates from a fund which was specifically earmarked and provided by the City for repairs and renovation. This fund was no longer in existence in 1992, but the repair items were still referred to by IKV as LAJ expenses at the time the statements were printed.

⁴ To illustrate, water charges have increased substantially since October, 1993. Although this occurred after the end of the reporting period of the Tiszaber financial statements included in this report, this is an example of how dramatic increases in utilities have been, and how multiple increases have been effected during a short period of time. Prior to October, 1993, the price of one cubic meter of water was 64.40 HUF. In October, 1993, the price was increased 23.7 percent to 79.66 HUF. It was expected that as of the beginning of 1994, water rates would increase a further 25.5 percent to 100 HUF per cubic meter.

TABLE 1:
Comparative Expenses
Orosz Gy. ut. 9

	1992 <u>(IKV)</u>	1993 <u>(Tiszaber)</u>
ADMINISTRATIVE EXPENSES		
Bank Charges	0	2,540.00
Travelling Expenses	2,665.63	1,359.40
Training of Lift Operators	1,050.00	0
Legal Fees	0	0
Other Administrative Expenses	55,089.08	2,034.00
Bad Debts	0	0
TOTAL ADMINISTRATIVE EXPENSES	58,804.71	5,933.40
UTILITIES		
Water and Sewer	15,580.20	(37,821.00)
Electricity	76,526.00	53,925.00
Common Area Heating	21,940.00	28,700.00
TOTAL UTILITIES	114,046.20	44,804.00
PERSONNEL		
Superintendent's Salary	32,414.83	53,757.00
Superintendent's Fringe Benefits	14,262.53	38,946.00
Contract Workers' Wages	0	0
Contract Workers' Fringe Benefits	0	0
Meal Vouchers	0	2,500.00
TOTAL PERSONNEL	46,677.36	95,203.00
OPERATING EXPENSES		
Garbage Removal	8,187.02	20,021.00
Container Sanitation	750.00	0
Garbage Chute Sanitation	2,072.00	0
Pest Control	294.00	0
General Materials	5,595.00	2,382.50
Electrical Materials	0	1,956.00
Cleaning Materials	5,285.55	3,554.50
Clothing for Workers	707.14	5,000.00
Water & Central Heating Inspection Fee	0	37,500.00
TOTAL OPERATING EXPENSES	22,890.71	70,414.00

TABLE 1: Comparative Expenses (continued)

EQUIPMENT MAINTENANCE		
EXPENSES		
Fire Extinguisher Maintenance	134.27	2,250.00
EMI-Lift Supervision	12,250.00	1,900.00
Lift Maintenance	1,800.00	27,150.00
Lift Repair Materials	0	7,894.00
Maintenance of District Heating Center	40,176.00	50,220.00
Maintenance of Interior Water & Heating Pipes	4,371.25	35,196.00
Ventilation Maintenance	3,615.00	4,125.00
Maintenance of Electrical Systems	0	0
Cable Service	0	0
Other Operating Expense	9,710.48	2,580.00
TOTAL EQUIPMENT MAINT. EXPENSES	72,057.00	161,236.00
TOTAL ROUTINE EXPENSES	314,475.90	377,590.40
OTHER EXPENSES		
Insurance	14,898.81	16,240.00
Management Fee	0	36,432.00
Scheduled Obligations of Owner	0	0
TOTAL OTHER EXPENSES	14,898.81	52,672.00
MAINTENANCE AND REPAIRS		
Panel Insulation	0	0
Maintenance of Staircases	0	0
Changing of Vinyl Flooring in Staircases	0	0
Electrical Repairs - Common Areas	0	3,750.00
Locksmith's Repairs	0	10,050.00
Water and Sewer System Repairs	0	6,000.00
Lift Repairs	0	40,504.00
Installation of Automatic Light Switches	0	9,102.00
Roof Repairs	0	0
Non-Scheduled Repairs	0	0
Miscellaneous (non-itemized) Repairs	170,229.00	0
TOTAL MAINTENANCE & REPAIRS	170,229.00	69,406.00
GRAND TOTAL EXPENDITURES	499,603.70	499,668.40

Financial Statements

As mentioned above, there were two sources for the financial information from IKV for the pilot project units for the period January through June, 1992. The routine expense and LAJ data had to be combined and reclassified, so that the line-items would be directly comparable to Tiszaber data (for instance, management company overhead had to be separated from expenses directly related to the operation of the buildings). In some cases, it is impossible to determine the meaning and derivation of certain line items. In addition, it is difficult to determine whether or not any other expense data exists for these units for this period, although IKV representatives assured the USAID consultants that this was not the case.

Furthermore, there exists wide variation among certain line-items between the four staircases, Györfy István u. 1, 3, 5, and 7, for which IKV was unable to provide any explanation. This casts doubt on the accuracy of the data. Operating expenses for Györfy István u. 1 and 7 appeared to be unrealistically low during this period.

Finally, the expense statements do not include income data for the buildings. Given the low rent levels in 1992 and the increasing expenses, one can assume that each building had a net loss during the reporting period. However, one does not know how much of a loss was generated on a per building basis, nor how much subsidy was granted on the part of the municipality to offset these losses.

Conversely, the statements provided by Tiszaber were much clearer.⁵ The statements are actually patterned after income and expense statements used in the west, with a section which compares actual expenses to those budgeted, both on a month-to-date and year-to-date basis. There is a line-item on the statement which shows how much subsidy the building received from the owner during the given period (as well as the amount of housing allowances received).

These financial statements are well-organized and comprehensible; it is apparent what kind of expenses are included in each line-item. There seems to be basic consistency in expenses from one staircase to another. In cases in which there are large variances, such as in the same line-item for the two fifteen-unit staircases, Tiszaber is ready to provide an explanation. No one at IKV was able to provide this information, as the information was not readily available in the statements and back-up documentation was either inaccessible or nonexistent.

⁵ The Management Criteria included with the instruction to bidders in the competition to manage the Pilot Project units required that the financial statements generated by the contractor be presented in a particular format. This requirement is now true for Szollak as well.

Findings

As one might have expected, given the rate of inflation in Hungary, which was 25 percent from April, 1992 to July, 1993, overall operating costs have increased in the pilot project units from one reporting period to the next. However, this is not unilaterally the case. Table 2 shows that the change in average per unit expenses varies considerably.

TABLE 2:
Average Per Unit Increase/(Decrease) in Expenses
between Periods
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Water/Sewer	680.1	(362.1)	(153.2)
Electricity	1,384.4	871.5	(37.0)
Common Heating Areas	465.6	607.3	30.4
Garbage	193.0	471.4	144.2
Superintendent Salaries	665.1	1,103.8	66.0
Administrative	1,383.6	952.3	(32.1)
(admin.as a % of total expenses less maint.)	19.5%	9.4%	(51.8)
Routine Operations	1,963.1	6,140.6	212.8
Other	352.0	368.8	4.8
TOTAL (excluding extraordinary maintenance and repairs)	7,086.9	10,153.6	43.3

Costs of water/sewer appear to have decreased from one period to the other in all of the staircases except Győrffy István u. 1.⁶ This is not actually the case, but appears so because water charges paid for by the tenants offset the water charges paid on behalf of the buildings to the water company. The net decrease, then, may be due to increased collection efforts on the part of Tiszaber.

Electricity costs actually decreased in all staircases but one, Győrffy István u. 7, between the two reporting periods (see Table 3). This is odd, given the fact that electricity rates have increased slightly (due to the addition of a Value Added Tax⁷) between reporting periods. Common area electricity covers lighting of the hallways and stairwells, and in the staircases in which there are elevators, the electricity for running the elevators. Electricity consumption should be similar for staircases of like size and configuration, in

⁶ Please see water and sewer figures in financial statements, Annex A.

⁷ The Value Added Tax was first introduced for utilities at a rate of 6 percent in January of 1993 and raised to 10 percent effective September, 1993.

buildings of similar construction. This is not the case as reported in the statements of IKV for the period January through June, 1992. This may have been due to inaccuracies in recording expenses, malfunctions of the electrical systems in one or more of the staircases, or overcharges by the utility company. IKV personnel were unable to explain the reasons for the discrepancies.⁸ The decrease in expenses between 1992 and 1993 may be related to the installation of automatic light timer switches in Gyórfy István u. 1, 3, 5 and 7.

TABLE 3:
COMPARATIVE ELECTRICITY COSTS
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	75,256	53,925	(28.3)
Orosz Gy. 11	86,198	53,554	(37.9)
Gyórfy István 1	18,927	-0-	?
Gyórfy István 3	21,916	17,392	(20.6)
Gyórfy István 5	12,844	8,817	(31.4)
Gyórfy István 7	3,600	4,005	11.3

Common area heating costs show an increase of between 29.2 percent and 34.5 percent per staircase between the two reporting periods, which is somewhat high, rate increases plus the increase in Value Added Tax come to a total increase of only 22 percent between the two periods (see Table 4). The large increase may partially be due to a change in the way in which heating costs were allocated among the staircases in housing stock. Garbage Removal expenses increased by between 132.1 percent and 150.7 percent per staircase, because the garbage removal company was transformed from a communal company to a shareholding company, and prices for services have skyrocketed (see Table 5). Superintendent salaries increased by between 48.5 percent and 83.4 percent, or an average of 67.8 percent (see Table 6). Management company salaries for maintenance and operations staff were traditionally low, and large salary increases have been put into effect for individuals in these occupations in Hungary due to the rapid increase in the cost of living.

⁸ For further discussion of this topic, please see "Operating Cost Study: An analysis of the costs associated with the management of municipally owned rental housing in Szolnok." Toni S. Baar, The Urban Institute, December 1992.

TABLE 4:
COMPARATIVE COMMON AREA HEATING COSTS
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	21,940	28,700	30.8
Orosz Gy. 11	21,941	28,519	30.0
Gyórfly István 1	6,361	8,555	34.5
Gyórfly István 3	8,477	10,951	29.2
Gyórfly István 5	8,477	10,951	29.2
Gyórfly István 7	6,372	8,271	29.8

TABLE 5:
COMPARATIVE GARBAGE REMOVAL COSTS
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	8,187.02	20,021	144.5
Orosz Gy. 11	8,187.02	19,748	141.2
Gyórfly István 1	3,293.63	8,190	148.7
Gyórfly István 3	3,764.14	9,438	150.7
Gyórfly István 5	3,764.14	9,435	150.7
Gyórfly István 7	3,293.63	7,645	132.1

TABLE 6:
COMPARATIVE SUPERINTENDENT SALARIES
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	32,414.8	53,757	65.8
Orosz Gy. 11	33,135.2	53,757	62.2
Gyórfly István 1	9,756.7	14,488	48.5
Gyórfly István 3	11,292.2	19,032	68.5
Gyórfly István 5	10,270.2	18,305	78.2
Gyórfly István 7	8,215.2	15,067	83.4

One of the most interesting variances which occurred between the two reporting periods was in administrative expenses. For the purposes of this analysis, administrative expenses include the following: bank charges, travelling expenses, training of lift operators, legal fees, other administrative expenses⁹, and management fee (see Table 7). One early observation about management of Szolnok's municipal housing stock by IKV was that the amount of operating expenses incurred in connection with management overhead seemed to be an inordinately high percentage of total expenditures. Tiszaber's administrative and management fee expenses combined are not only lower in total forint amount, but the percentage of administrative/ management fee expenses to total expenditures is much lower than that of IKV during the period January through June, 1992 (see Table 8).

TABLE 7:
COMPARATIVE ADMINISTRATIVE/MGMT. FEE EXPENSES
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	58,804.7	42,365.4	(28)
Orosz Gy. 11	59,760.8	41,214.4	(31)
Gyórfy István 1	24,683.8	14,665.5	(40.6)
Gyórfy István 3	28,581.3	20,140.0	(29.5)
Gyórfy István 5	25,986.0	18,078.0	(30.4)
Gyórfy István 7	20,786.9	14,005.5	(32.6)

TABLE 8:
COMPARISON OF ADMINISTRATIVE TO TOTAL EXPENSES
LESS EXTRAORDINARY MAINTENANCE & REPAIRS (PERCENT)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	17.8	10.8	(39.3)
Orosz Gy. 11	16.9	9.9	(41.4)
Gyórfy István 1	22.1	7.6	(65.6)
Gyórfy István 3	24.0	13.6	(43.3)
Gyórfy István 5	20.2	11.1	(45.3)
Gyórfy István 7	26.7	8.8	(67.0)

⁹ These include all administrative overhead charged back by IKV as reflected in the January through June, 1992 financial statements. The components of this category are discussed in "Operating Cost Study" (see Note 3).

Routine operating expenses (services and equipment maintenance) increased between periods by between 144.0 percent and 287.8 percent (see Table 9).¹⁰ The percentage increase was much higher in the four smaller staircases (Gyórfy István 1, 3, 5 and 7) than it was in the other two staircases. The average percentage increase in routine operating expenses in the other two staircases was 169.6 percent, which is certainly high. There have been increases in the cost of many services. The District Heating plant was previously under the management of IKV. It is now a private limited company (kft.).¹¹ The large increase in expenses in Gyórfy István 1, 3, 5 and 7 may be due to the fact that expenses are being allocated differently than was done in the previous period by IKV,¹² but also because it is often more expensive on a per unit basis to operate a small building than it is to operate a large one. Also, one notes that in the 1992 reporting period, expenses in these buildings appeared to be disproportionately low. It is interesting to note that the increases in routine operating expenses for the small staircases were consistent.

TABLE 9:
COMPARATIVE ROUTINE OPERATING EXPENSES
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ (Decrease)
Orosz Gy. 9	86,760.7	211,629.0	144.0
Orosz Gy. 11	69,475.1	205,117.0	195.2
Gyórfy István 1	27,064.8	91,273.0	237.2
Gyórfy István 3	26,299.3	95,222.5	262.1
Gyórfy István 5	27,400.4	97,248.5	254.9
Gyórfy István 7	22,863.3	88,659.5	287.8

¹⁰ Routine operating expenses includes services such as pest control, heating and ventilation maintenance, and elevator maintenance.

¹¹ It should be determined whether the same fees are charged by the District Heating kft. for heating energy costs and the inspection and maintenance costs of district heating equipment within the buildings in units managed by Szollak and units managed by private companies.

¹² IKV was fairly inconsistent in the way it allocated expenses among buildings. The way this was usually done for the four staircases in this example was to divide the lump sum expense figure by four, rather than to allocate the expense proportionately (based on the actual number of units in the staircase). However, in some cases, expenses were allocated the same for buildings of widely varying sizes, i.e. in some instances a lump sum expense was divided by the number of buildings in the portfolio. Therefore, for example, ventilation maintenance expenses were the same in 15 unit and 44 unit buildings.

A calculation was made of the variance between periods of all expenses excluding repairs.¹³ The percentage increase between the two reporting periods ranges from 28.3 percent to 120.9 percent (see Table 10). As is the case with routine operating expenses, however, the percentage increase was much higher in Győrffy István 1 and 7 than it was in the other four staircases. The average percentage increase in all expenses excluding repairs in the other four staircases was 34.1 percent, which seems reasonable given inflation and rate increases in all services provided.¹⁴ Again, the large increases in Győrffy István 1 and 7 are likely to be due to a change in the allocation of expenses among the staircases in the building.

TABLE 10:
COMPARATIVE TOTAL EXPENSES (EXCLUDING REPAIRS)
(in HUF)

	Jan-June <u>1992</u>	Apr-Sep <u>1993</u>	% Increase/ <u>(Decrease)</u>
Orosz Gy. 9	329,374.7	430,262.4	30.6
Orosz Gy. 11	353,374.7	453,262.4	28.3
Győrffy István 1	111,742.6	205,697.5	84.1
Győrffy István 3	118,983.4	165,154.5	38.8
Győrffy István 5	128,529.1	178,206.8	38.7
Győrffy István 7	77,718.7	171,690.3	120.9

For the pilot project units, the average total cost to operate one unit during 1993 was HUF 1,871 per month. Excluding costs for extraordinary maintenance/repairs and improvements, the total per unit cost was HUF 1,692 per month. If one anticipates a rate of inflation of 22 percent for 1994, one can anticipate that the average costs of managing a one pilot project unit to be HUF 2,077 in 1994, or HUF 1,878 excluding extraordinary maintenance/repairs and improvements. It must be noted, however, that this amount

¹³ These are excluded because the amount of funds spent on major repairs fluctuated so wildly in 1992, depending upon what emergency situations arose. It is fairly obvious that funds were only spent on repairs for emergencies, and these repairs were not previously budgeted by IKV.

¹⁴ Expenses included are as follows: garbage removal, pest control, inspection and maintenance of the District Heating Center, maintenance of water and ventilation systems.

represents costs at which a minimal level of service is provided, which is all that the current rent levels presently support.¹⁵

There are six observations and conclusions which can be made from the comparison of expenditures between January through June, 1992 and April through September, 1993. These are as follows:

1. Due to financial constraints (low rents, delinquencies in rent payments and other charges, limited subsidies) the nature of services provided probably could not have increased substantially when Tiszaber assumed management of the pilot project units. Increases in costs were primarily due to increases in services provided by independent companies, such as garbage removal, and charges to maintain the district heating plant.
2. Administrative expenses incurred by Tiszaber were substantially lower than those incurred by IKV, which allowed a greater percentage of building revenue to be applied to operations and maintenance. While the cost of operating the units may have increased in line with inflation and increased deterioration of the housing stock, *the overhead costs associated with the management of the units have decreased.*
3. For various reasons, net water and electricity costs were lower during the 1993 reporting period than they were in the 1992 reporting period. As mentioned previously, the decrease in net water expenditures may be due to more vigorous collection efforts on the part of Tiszaber. The decrease in electricity charges may be due, in part, to Tiszaber's installation of light timer switches in the hallways of Györfly István u. 1, 3, 5, and 7. However, it may be that IKV reported electricity charges incorrectly (for instance, Orosz Gy. 9 and 11 already had light timer switches in the hallways, yet electricity costs in these staircases were substantially lower in the 1993 reporting period than they were in the 1992 reporting period), or did not make sufficient efforts to conserve energy.

¹⁵ In the "Operating Cost Study," written in late 1992, it was estimated that the average cost to manage one municipally-owned rental unit during 1993 would be HUF 2,200 to 2,300. This estimate included projections for vacancy losses, Reserve for Replacement impounds, bad debt write-offs, and amounts payable to the housing allowance fund, which amounted to approximately HUF 676 per month. The housing allowance impound is not a real number, although the funds are provided by the municipality as a subsidy to buildings, which technically comes from the rent revenue. Because the impound is implicit, then, for purposes of this analysis, it is still considered a valid building expenditure. Therefore, the actual estimate is reduced to 1,968.6 which is 5.2 percent higher than the average cost to manage the pilot project units. This is not surprising, as the pilot project units are in better condition than some parts of housing stock in Szolnok.

4. The characteristics of the financial reports of both companies demonstrates how much information can be obtained from clearly presented accurate data. The financial information provided by Tiszaber, and which was supposed to have been provided by Szollak as of October, 1993, could be of value to the municipality in terms of determining actual operating costs for the municipally owned housing stock if this information were used and analyzed properly (which it is not at this time, although the Asset Management staff should know how use this information in a relevant way by now). For example, as the analysis in this section demonstrates, the average total cost to operate and manage a unit during the six months in 1993 is far more reliable than the equivalent number for 1992.
5. Service-related expenses appeared to increase in line with inflation, except in the cases of Györfly István 1 and 7, which experienced extraordinary increases in these categories. This may be due to a change in allocation procedures. Also, as mentioned previously, expenses for these staircases in the 1992 reporting period appeared to be unrealistically low.
6. It cost the city of Szolnok approximately what was anticipated to operate and manage the pilot project units during 1993. At this point, however, no financial information is available to determine what it cost to operate and manage the remainder of the municipally owned units.

SURVEY ANALYSIS

Methodology

In the summer of 1992, the municipality, through the Housing Department, hired two individuals, Michel Charkawi and Agota Szilagyí, to work with the USAID team in gathering information regarding the units in the pilot project. A survey form was prepared and Mr. Charkawi and Ms. Szilagyí attempted to go to each of the 114 units¹⁶ and speak directly with the inhabitants.

The survey queried the tenant about the number of rooms in the units, the condition of the unit, and the level of maintenance and rehabilitation of the unit. One of the most important questions asked of the tenants was how they rated the level of maintenance services provided by IKV. Many of those questioned said that they had never seen evidence that IKV did anything inside the building, and the majority said that the level of service provided was unsatisfactory.

By November, 1993, Tiszaber had been managing the pilot project units for eight months. At that point, the USAID team decided to survey the inhabitants of the pilot project units once again, in order to aid in the evaluation of the overall asset and property management program in Szolnok. The survey was prepared by USAID consultants in November, and was conducted by an independent contractor, Miklos Kálmán (a list of the survey questions and the detailed responses are included in Annex B). Interviewers attempted to gather responses from all 158 households in the pilot project. Responses were obtained from 116 households, although many households did not answer all questions. There were seven vacancies.

The questions in the survey are phrased so that comparisons can be made of IKV and Tiszaber's performance. This is done by asking households to respond to questions for the period prior to April 1, 1993 and for the subsequent period. Questions are commonly phrased as follows:

How would you rate the cleanliness of the building ...
before April 1, 1993?
after April 1, 1993?

April 1, 1993 is the date which the Tiszaber contract commenced. The results obtained from the survey would have been clearer if identical surveys had been undertaken in two periods, such as October, 1992 and October, 1993. The questions in this survey were not identical to those asked in the July, 1992 survey. In addition, some of the questions in this survey rely on the respondents' memories which are subject to discrepancy.

¹⁶ Originally, 114 units were selected for the pilot program; this number was later augmented to 158 units when an additional staircase was added for practical reasons.

Findings

It is clear that the physical appearance of the pilot project units has not changed appreciably since Tiszaber assumed management in April, 1993. This is not surprising due to financial constraints. It is also clear from the responses to the survey, that while the tenants were not satisfied with the level of services provided by IKV, they are not particularly satisfied with that which is provided by Tiszaber either. In addition, the respondents do not appear to have an understanding of the financial constraints surrounding the management and maintenance of their units. What is not entirely clear from the survey, however, is how the respondents rate Tiszaber's performance in comparison with IKV's. It is understandable that the tenants' perception of Tiszaber's performance might differ from that of the municipal Housing Department and the USAID consultants, since tenants base their conclusions primarily on appearance and personal satisfaction with individual units, while the two latter consider items such as financial performance, report submission, contract compliance, and responsiveness to the Asset Managers.

Due to the rent increase which was implemented by the municipality in May, 1993, as well as substantial increases in utility costs, renters' average monthly housing expenses (before housing allowances) among the pilot project units are now approximately 8,000 HUF per month (rent and utilities). This amount is two to three times higher than it was two years ago. Despite the fact that rents are still not high enough to cover operating expenses, it is understandable that tenants would wonder why they do not perceive concomitant increases in the level of housing services provided to them. Of the survey respondents, only 16 households are receiving housing allowances.

Unfortunately, in many cases, the number of responses to questions relating to management was fairly low (less than half of the total number of respondents). For instance, only 51 households provided responses when asked if they had ever met someone from the management company *at a meeting*. Only 19 respondents said that they had met someone from the management company after April, 1993 (when Tiszaber assumed management). However, at the beginning of the contract period, a meeting was conducted by the municipal Housing Department to introduce Tiszaber representatives to the tenants. At least 70 tenants were present at the meeting. This example illustrates that people often have very short or selective memories, and may or may not remember accurately certain events which took place at a given time. This must be taken into account when the results of the survey are analyzed. The number of respondents who said that they had met representatives from the management company under other circumstances (in connection with maintenance, for example) in the six months since April 1993, is roughly equal to the number who had met representatives from IKV during the previous two to three years. This suggests that tenants may have more contact with Tiszaber representatives than they did with IKV representatives, but the findings are inconclusive.

Only 39 respondents stated that they reported complaints to management for one to two years prior to April, 1993 (to IKV), and 32 since April, 1993 (to Tiszaber). When asked to rate the companies' responsiveness, however, the mean result for the period prior to

April, 1993 was 1.67, while the mean result for the period after April, 1993 was 2.47 (1 is the lowest score; 5 is the highest). Twenty-one respondents said that they made complaints to management during both periods. The mean rating for company responsiveness prior to April, 1993 was 1.86; subsequently, the mean was 2.52. These results indicate that the respondents believe, on the whole, that Tiszaber is more responsive than was IKV.

Survey results indicate that overall, there has been no appreciable change in the cleanliness of the common areas. Specifically, slightly more tenants rated performance after April than before, and their ratings were slightly less favorable.¹⁷ In response to survey item 17, suggestions for improvements, it was mentioned that building cleanliness has not improved due to increased vandalism and traffic by "tramps".

Almost 40 per cent of respondents indicated that they had witnessed maintenance/repairs in their buildings since April, 1993. In the five years prior to April, 1993, 61.2 per cent of responses witnessed maintenance and repairs in their buildings. In both periods, the most common type of work witnessed was lift repairs. The statistics show that in the nine months since Tiszaber's contract commenced, more than half of the respondents who had witnessed repairs during the previous five years saw work being performed in their buildings. The unequal length of the two periods, however, makes results somewhat inconclusive in this section.

Respondents were asked to rate the condition of various building systems (common areas, security, lift, roof, windows, concrete panel insulation and building facade) in autumn 1992 and autumn 1993. The mean rating for each item is very similar for both periods; there appear to have been no substantial differences. Again, this perception may have been due to a lapse of memory on the part of the respondents, or there actually may have been no appreciable changes. There has been little funding available in the budgets which went into effect as of April 1, 1993 to address these items, although some repairs/improvements were accomplished (such as roof repairs, plumbing repairs, and installation of light timer switches in Györfy István u. 1, 3, 5, and 7).

With regard to the level of maintenance, very few households responded to the question about whether they have noticed an improvement in the level of maintenance being provided since April, 1993 or whether the level has deteriorated. Twenty-four households indicated changes in the level of maintenance. Of these, only 8 households indicated that improvements were noticeable in the level of maintenance, and 13 in the level of operating services provided. Sixteen households indicated that they perceived a decrease in the level of maintenance services, and 11 indicated a decrease in the level of operating services provided. When asked in what ways services have either improved or deteriorated, the responses were similar for each end of the spectrum (for example, areas of improvement: "lift maintenance has improved"; areas of deterioration: "the lift has

¹⁷ For the period prior to April, 1993, 73 respondents (70.8%) rated cleanliness of the common areas satisfactory or better. For the period after April, 1993, 76 respondents (68.4%) rated cleanliness of the common areas satisfactory or better.

been frequently out of operation"). There were too few responses to these questions to be conclusive.

Most of the suggestions that respondents had for improving management had to do with improving building security, preventing vandalism, and getting rid of "undesirable elements." Some of the suggestions were particularly insightful. One respondent suggested that a "Reserve for Replacement" account be established by setting aside 100 to 200 HUF per month for repairs (if the respondent meant 100 to 200 HUF *per unit* per month, he or she is on the right track). Furthermore, two of the respondents indicated that the tenants should be more involved in making decisions about building-related problems.

Only 2.6 per cent of respondents indicated that they had seen the budget for the building in which they reside. At the same time, 53.4 per cent indicated an interest in seeing the budget.

More than half the respondents indicated that they would be interested in attending periodic meetings with the property manager. Mr. Lajos Csala, however, said that Tiszaber organizes tenant forums on a quarterly basis. Attendance is very poor, although tenants are given adequate written notice.

From the results of the survey as indicated above, the following conclusions can be drawn:

1. Overall, the respondents feel that management has become somewhat more responsive to the tenants since April, 1993, when Tiszaber's contract commenced.
2. The general conditions of the buildings have not changed appreciably. However, this would not have been a reasonable expectation, given the short period of time since Tiszaber obtained the management contract, the amount of deferred maintenance needs, the inadequate rent levels, and the continued financial constraints of the municipality.
3. Tenants are generally apathetic about the common areas of the building. This has been stated by the personnel in the municipal Housing Department, the staff of IKV, and the staff of Tiszaber. It is also indicated by the lack of response to the survey questions related to management. Also, it is arguable that some of the responses are colored by memory lapses on the part of the tenant, so while an event may have occurred or a particular situation may have arisen, the tenant may not have any memory of these things. And finally, the very fact that a survey was undertaken should notify tenants that the city is interested in their comments, which should be good news to those respondents who indicated an interest in being more involved in management.

4. The results of the survey are not conclusive with regard to performance of the management agents, either before April, 1993 or afterwards. However, the results are useful in other ways. They give a sense of how much the residents know about what it takes to manage a building. They indicate what are perceived to be the greatest problems in the building, both maintenance and otherwise. In addition, some interesting suggestions for improving building maintenance are offered.

**PERCEPTIONS OF THE PILOT PROJECT:
MR. LAJOS CSALA, TISZABER**

A meeting was held with Mr. Csala, the president of Tiszaber, in order to determine his perceptions of how well the Pilot Project has worked since the contract period commenced on April 1, 1993. A transcript of the questions asked and answers obtained at the meeting is included in the Annex Section of this document (see Annex C).

Mr. Csala provides an important perspective on the Pilot Project in his role as the new management contractor. Up to this point, only the perspective of the municipal Housing Department has been shared with members of the USAID team. Mr. Csala offers interesting insights on the municipality's role in the process.

In interpreting the results of the interview, it appears that in Tiszaber's perspective, the Pilot Project has been a good experiment, in which both Tiszaber and the municipal Housing Office have learned valuable lessons. This was apparent when Mr. Csala said that Tiszaber would like to continue managing the pilot project units, and that if there were a chance for the company to manage additional municipally owned units, Tiszaber would certainly submit a bid. He also said that the Housing Office's report submission criteria are reasonable, and that after clarification by the City on the transfer of rents, housing allowances and operating subsidies, Tiszaber is able to generate reports in accordance with scheduled deadlines.

Managing the pilot project units was not profitable for Tiszaber, because the number of units, 158, was very small. Due to set-up costs (the new computer systems to meet the financial reporting criteria), the overhead associated in the management of these units was very high. If additional municipally-owned units were managed by Tiszaber, certain economies of scale could be achieved. Then the venture would become profitable. Also, the management fee paid on a per unit basis to Tiszaber is lower than that paid to Szollak Kft. (the former IKV). Tiszaber receives HUF 350 per unit per month, and Szollak receives HUF 400 per unit per month. There should at least be a parity here, especially since it costs more per unit to manage a small number of units than it does to manage a large number of units.

Mr. Csala had some criticisms of the way in which the Pilot Project is being administered. For example, he shares the USAID team's perspective that the process the municipality has implemented for the transfer of funds between the City and the management companies is cumbersome. The management companies collect rent, transfer the funds to the City, and then the City transfers the monthly budget allocation back to the respective management companies. The system is further complicated because a similar transfer process takes place in connection with housing allowances. Mr. Csala suggested that the management companies merely transfer the net difference to the City. Conversely, if the amount of rent collected is less than the amount of the monthly budget allocation, the City should transfer the difference to the management companies.

Another criticism related to program administration is that the Asset Management staff members have no independence nor authority. In other words, they are not allowed to make any independent decisions with respect to the management of the Pilot Project units, and must confer with department superiors. Thus, it can take weeks for Tiszaber to obtain an answer to the simplest of questions, as by law the City has thirty days in which to respond to most issues in writing. If the Asset Managers had more authority, delays in resolving problems would be minimized.

Mr. Csala had other criticisms of a financial nature. Since the commencement of Tiszaber's management contract, there have been six to eight residential vacancies, and several vacant commercial spaces among the Pilot Project units. Mr. Csala has offered to find tenants for the commercial spaces but the City appears to be in no hurry to rent these spaces. Nor have they apparently made any steps to have tenants from the long waiting list move into the vacant apartments. This is shameful, not only because of the resulting loss of rent revenue, but because there is such a severe housing shortage in Szolnok. If the units are not to be rented to permanent rent-paying tenants, they should at least be used as emergency shelter.

In addition, the building budgets suffer from the high rate of vandalism. Repairs frequently have to be done over and over again, such as replacement of broken glass and repairs to the lifts. The cost of these repeated repairs effectively decreases the amount of funds available for more substantial repairs and improvements, particularly those which would be important to the tenants.

According to Mr. Csala, the City is not sufficiently active or supportive in finding solutions these problems. It is evident from his comments that while management of municipally owned rental units is basically an attractive venture for a private company, the City needs to be more active in facilitating the management process and solving various problems.

**THE ASSET MANAGEMENT STAFF:
THEIR PERCEPTIONS OF THE PILOT PROJECT
AND AN ANALYSIS OF THEIR PERFORMANCE**

Status of the Asset Management Function within the Housing Office

On November 2, 1993, the USAID team was updated on what the Asset Management staff has been involved in during the previous few months.

Szollak was supposed to have submitted a lengthy report which was to have included building-based budgets, financial statements, and a physical status report for their inventory to the Office of Housing by October 25, 1993. The only component of this that the municipality has received is the physical status report, because according to the director of Szollak the company was having problems with its software. The Asset Management staff had not sent correspondence to Szollak in which this information was requested. The staff did say by November 4, 1993, they would know when to expect them. It is important that the staff try to be forceful with Szollak. Szollak staff must become aware that the Housing Office will react when they are non-responsive.

Since the new rent norms went into effect in Szolnok on September 1, 1993, the Asset Managers have been assisting the Housing Allowance staff in reviewing applications. As of November 2, 1993, 689 households were receiving allowances. Another 20 to 30 households will be eligible to receive allowances shortly. The Asset Managers have been very involved in the housing allowance process, as they are responsible for informing Szollak and Tiszaber about which tenants are receiving allowances, and how much the tenant portion of the rent should be, among other tasks. Apparently, this function is not as automatic as was originally hoped, but perhaps the situation will resolve itself within the next few months.

In addition, the Asset Managers have been tracking the fluctuation of the four funds: Housing Allowance, management fee, operations, and maintenance/renovation. They have spent little time reviewing financial reports, and no time performing any other Asset Management tasks, such as performing physical needs analyses, or inspecting properties, for example.

Although a lot of their time was spent dealing with the Housing Allowance program, the Asset Managers were confident that this would not be the case much longer. They had to review previously rejected Housing Allowance applications because of the August decree which changed utility normatives, a task which will not be repeated. Also, the housing allowance software has had to undergo various modifications, which slowed down the processing of applications. They spend a lot of time reconciling fund transfers

(actual vs. reported).¹⁸ The circumstances which caused this problem have been resolved, so the Asset Managers should not have to spend additional time doing this. They do, however, spend 90 per cent of their time on Housing Allowance and Asset Management tasks. They said that they will be happier to be able to spend more time performing report analysis. They like their jobs much better than they did one year ago.

The Pilot Project - The Housing Office's Assessment

With regard to Tiszaber's performance, the Asset Managers said that the company submits its reports on time, but the reports have become less accurate. Apparently, Tiszaber reports collections which are higher than the amounts that are actually transferred to the municipality. However, this situation will be rectified shortly. It occurred because funds in transit from Tiszaber's bank account to the City's were not recorded as being received by the City, but Tiszaber recorded them as having been transferred. Bank transfers between different branches take several days in the best instance. The Municipality authorized Tiszaber to change the fund transfer date to a time of the month when most of the collections for the month have been received.

Apparently, however, the Asset Managers have no other problems with Tiszaber's performance. Tiszaber is quite responsive. There were some roof leaks at some of the pilot project buildings, and Tiszaber engaged a contractor very quickly and the repairs were made. In addition, in Györfly István 1, 3, 5, and 7, Tiszaber had light timer switches installed in the hallways. This cost only 32,000 HUF, and should reduce the cost of common area electricity in these buildings. The company has not been able to do any painting. It needs to pay for some additional roof repairs. These will cost approximately 600,000 HUF, and if the cost is higher the building's annual budget allocation for maintenance/renovation will be depleted.

The Asset Managers have received no negative reports from tenants on Tiszaber's performance. They have received no positive comments, either, but neither have these been solicited. The Asset Managers are satisfied with Tiszaber's performance.

With regard to the Pilot Project as a whole, there seems to be some difference of perception on the part of individual members of the Housing Office. The Asset Managers think that the competitive bidding aspect of the program was successful. They also enjoy their new responsibilities, particularly the analytical component of their job. In private discussions, they have stated that the overall level of property management services being provided to the municipally owned housing stock has improved, particularly in the units managed by Tiszaber.

It is less easy to pinpoint the reactions of the Asset Managers' superiors within the Housing Office. Clearly the introduction of the Asset Management function has upset the

¹⁸ The Asset Managers have to determine why the bank often states that the city received less than what Tiszaber instructed its bank to transfer. This discrepancy is due to the length of time it takes to transfer funds, as described in the next paragraph.

status quo, and it is not hard to imagine that such changes may not be viewed as entirely positive. The head of the Housing Office appears to think that the competitive bidding aspect of the program was a success, and says that if the municipality maintains a sizeable portion of the housing stock after privatization occurs, then additional contracts should be offered for tender. However, it is important that the Asset Managers assume some of the regulatory duties which are traditionally the responsibility of Asset Management staff, and that they be given the authority to make decisions.

Appraisal of the Asset Managers' Performance

The City is beginning to understand that it must take an active role in determining how the municipally owned housing stock is managed. This is reflected in the fact that a viable Asset Management capability has been established within Szolnok's Office of Housing. The Asset Management staff was directly involved in the development of criteria by which contractors are to manage the housing stock, a viable management contract document, financial statement formats, and the competitive bidding process. They have been attempting to review Tiszaber's performance on an ongoing basis.

There are some areas in which the Asset Management function in Szolnok needs to be strengthened. The Szolnok Office of Housing must ensure that tenants are given a more active role in the process. Tenant participation in the decision making process will increase the probability of improvement of housing management services and will assure tenant awareness of positive changes.

The Asset Managers must take a more *proactive* role and direct more activities, rather than continuing to merely react to events. For instance, rather than using the model Management Contract which they helped develop for use between property managers and the City, the Asset Managers allowed Szollak to submit its own contract. In addition, the Housing Office needs to be more strict in forcing Szollak to adhere to the Management Criteria and Financial Reporting Requirements.

In order for the Pilot Project to be completely successful, more commitment needs to be exhibited on the part of the Housing Office. Asset Management is a continuous and evolving process. As in any program, there must be adequate follow-through and follow-up so that systems which are developed continue to work properly. The Asset Managers and Housing Office need to put more effort into regulatory tasks so that improvement of housing management of the municipally owned rental units becomes and continues to be a reality.

A SUMMARY OF PROJECT RESULTS

The ultimate goal of the Szolnok Asset and Property Management Pilot Project was to improve the level of management of the municipally owned housing stock. The establishment of an Asset Management function within the Housing Office was intended to help fulfill this goal by establishing a stricter relationship between housing managers and the City, introducing a regulatory function, and increasing the department's overall awareness of how rental housing should be managed and maintained. The competitive bidding process was designed partially as a tool to teach the Asset Managers how to do their jobs, as well as to determine if the introduction of competition between service providers would improve the overall level of housing management in Szolnok.

In various areas, the project has achieved its goal. It has been demonstrated that although much of the municipally-owned housing stock is in bad condition, operating costs can be carefully planned and monitored. Furthermore, the analysis of administrative/ management fee expenditures shows that substantial savings can and have been made in the cost to *manage* the stock (in terms of administrative overhead costs). Prior to 1993, administrative overhead costs were an inordinately high percentage of the total cost of managing, operating and maintaining the buildings. Total costs to operate the stock are in line with what was anticipated when the bid packages were prepared. Also, it has been proven that if the City demands accurate, informative financial reports, the City will get accurate, informative reports. The importance of this cannot be stressed enough. In 1992, when the "Operating Cost Study" was being prepared, it was very difficult to obtain information about income revenues received, routine operating costs, a breakdown of maintenance and repair costs, and the derivation of separate expense line-items. In some cases, it was impossible to obtain this information. Now, at least for the Pilot Project units, it is possible to obtain income and expense information to a high degree of specificity. It is also possible to determine the average total cost to manage, operate and maintain a municipally-owned rental unit. The municipal government is now in a better position to make informed decisions regarding the management of the pilot project units. This can be true in the case of the other 4,500 residential rental units owned by the municipality as well, if the Office of Housing exerts its authority in an appropriate fashion. Better information on the physical and financial status of the buildings leads to better housing management.

The survey of tenants in the Pilot Project units provides valuable information on the housing stock, demographics, and how the tenants perceive management. It is clear that during the past year, while the physical state of the units have not changed appreciably, Tiszaber is more responsive to the tenants than was IKV. If the Asset Managers exert as much regulatory control over Szollak as they do over Tiszaber, perhaps management of all of the stock will become more responsive. It appears that a new standard of housing management performance is emerging.

Those involved in the competitive bidding process, both the Office of Housing and Tiszaber, feel that the process was helpful: alternative housing management was introduced in the municipally-owned rental sector, new procedures for the management of the stock were created, and the City assumed a new role with respect to housing

management. This situation can bring about improvements in the level of management service provided, as long as the City has adequate commitment to the program. The City now has the tools to do the job. It remains to be seen how these tools will be used.

In light of these findings, the Consultants have the following recommendations for the Housing Office in the City of Szolnok:

- 1) This report should be shared with each property management company employed by the municipality so that they are aware of their role and effectiveness from both the municipality's and the tenants' perspectives.
- 2) The Housing Office should assert its authority in order to get Szollak to comply with the terms of its contract.
- 3) The authority and responsibility of the Asset Management staff needs to be clarified and the process for solving property management problems needs to be simplified.
- 4) The procedure for the transfer of funds between the Property Management Company and the municipality needs to be simplified in order to decrease the number of errors in reporting income and to improve cash flow.
- 5) The Asset Managers need to analyze data from the financial statements and provide information on the income and expenses associated with operating the municipally owned housing stock to the appropriate City officials on a regular basis. The City should be using this information to make decisions about the disposition of the stock.
- 6) The terms of the contract to manage the Pilot Project units (specifically, the period of time covered by the contract) should be clarified so that Tiszaber can plan accordingly.
- 7) Tiszaber's inventory should be expanded so that the company does not have to continue managing the Pilot Project units at a loss.

Annex A

A Comparison of Expense Statements

January through June 1992 (managed by IKV)

compared to

April through September 1993 (managed by Tiszaber)

ANNEX A

	Orosz Gy. - ut. 9					Orosz Gy. - L u. 11					Gyorffy I. - u. 1				
	Expenses				% Variance 1992-1993*	Expenses				% Variance 1992-1993	Expenses				% Variance 1992-1993
	1992	% total	1993	% total		1992	% total	1993	% total		1992	% total	1993	% total	
ADMINISTRATIVE EXPENSES															
Bank Charges	0	0	2540	0.51											
Travelling Expenses	2665.63	0.53	1359.4	0.27	2724.87	0.58	1359.4	0.25			1125.49	0.97	463.5	0.22	
Training of Lift Operators	1059	0.21	0	0.00	0	0.00	0	0.00			0	0.00	0	0.00	
Legal Fees	0	0.00	0	0.00	0	0.00	0	0.00			0	0.00	0	0.00	
Other Administrative Expenses	5509.08	11.03	2034	0.41	57035.96	12.09	1627	0.30			23558.3	20.35	571	0.27	
Bad Debts	0	0.00	0	0.00	0	0.00	0	0.00			0	0.00	0	0.00	
TOTAL ADMINISTRATIVE EXPENSES	58804.71	11.77	5933.4	1.19	10.09	59760.83	12.66	5574.4	1.03	9.33	24683.79	21.32	1993.5	0.95	
														8.08	
UTILITIES															
Water and Sewer	15580.2	3.12	-37821	-7.57	45223.6	9.58	-5469	-1.01			10399.68	8.98	46138	22.10	
Electricity	76526	15.32	53925	10.79	86198	18.27	53554	9.94			18927.42	16.35	0	0.00	
Common Area Heating	21940	4.39	28700	5.74	21941	4.65	28519	5.29			6361	5.49	8555	4.10	
TOTAL UTILITIES	114046.2	22.83	44804	8.97	39.29	153362.6	32.50	76604	14.22	49.95	35688.1	30.82	54693	26.19	
														153.25	
PERSONNEL															
Superintendent's Salary	32414.83	6.49	53757	10.76	33135.17	7.02	53757	9.98			9756.7	8.43	14488	6.94	
Superintendent's Fringe Benefits	14262.53	2.85	38946	7.79	14579.47	3.09	38776	7.20			4292.95	3.71	15612	7.48	
Contract Workers' Wages	0	0.00	0	0.00	0	0.00	0	0.00			672	0.58	0	0.00	
Contract Workers' Fringe Benefits	0	0.00	0	0.00	0	0.00	0	0.00			0	0.00	0	0.00	
Meal Vouchers	0	0.00	2500	0.50	0	0.00	2500	0.46			0	0.00	1250	0.60	
TOTAL PERSONNEL	46677.36	9.34	95203	19.05	203.96	47714.64	10.11	95033	17.63	199.17	14721.65	12.71	31350	15.01	
														212.95	
OPERATING EXPENSES															
Garbage Removal	8187.02	1.64	20021	-4.01	8187.02	1.73	19748	3.66			3293.63	2.84	8190	3.92	
Container Sanitation	750	0.15	0	0.00	0	0.00	0	0.00			750	0.65	0	0.00	
Garbage Chute Sanitation	2072	0.41	0	0.00	2073	0.44	0	0.00			0	0.00	0	0.00	
Pest Control	294	0.06	0	0.00	295	0.06	0	0.00			302	0.26	0	0.00	
General Materials	5595	1.12	2382.5	0.48	5507	1.17	2382.5	0.44			600	0.52	1191.25	0.57	
Electrical Materials	0	0.00	1956	0.39	0	0.00	0	0.00			0	0.00	0	0.00	
Cleaning Materials	5285.55	1.06	3554.5	0.71	5403	1.14	3554.5	0.66			2231.67	1.93	1777.25	0.85	
Clothing for Workers	707.14	0.14	5000	1.00	0	0.00	5000	0.93			0	0.00	2500	1.20	
Water & Central Heating Inspection Fee	0	0.00	37500	7.50	7080.4	1.50	37500	6.96			0	0.00	37500	17.96	
TOTAL OPERATING EXPENSES	22890.71	4.58	70414	14.09	307.61	28545.42	6.05	68185	12.65	238.86	7177.3	6.20	51158.5	24.50	
														712.78	

* Variance is calculated as the amount spent in 1993 as a percentage of the 1992 cost; thus a decrease in expenses results in a variance of less than 100 percent.

ANNEX A

	Orsz Gy. - ut. 9					Orsz Gy. - t. u. 11					Gyorffy L. - u. 1				
	Expenses				% Variance 1992-1993*	Expenses				% Variance 1992-1993	Expenses				% Variance 1992-1993
	1992	% total	1993	% total		1992	% total	1993	% total		1992	% total	1993	% total	
EQUIPMENT MAINTENANCE EXPENSES															
Fire Extinguisher Maintenance	134.27	0.03	2250	0.45		137.26	0.03	2250	0.42		0	0.00	0	0.00	
EMI - Lift Supervision	12250	2.45	1900	0.38		1050	0.22	1900	0.35		0	0.00	0	0.00	
Lift Maintenance	1800	0.36	27150	5.43		1800	0.38	27150	5.04		0	0.00	0	0.00	
Lift Repair Materials	0	0.00	7894	1.58		0	0.00	3538	0.66		0	0.00	0	0.00	
Maintenance of District Heating Center	40176	8.04	50220	10.05		4468.39	0.95	50220	9.32		11664	10.07	14556	6.97	
Maintenance of Interior Water & Heating Pipes	4371.25	0.87	35196	7.04		40176	8.51	35199	6.53		1845.64	1.59	12000	5.75	
Ventilation Maintenance	3615	0.72	4125	0.83		1485	0.31	4127	0.77		3615	3.12	5322	2.55	
Maintenance of Electrical Systems	0	0.00	26317	5.27		0	0.00	26318	4.88		0	0.00	10916	5.23	
Cable Service	0	0.00	3604	0.72		0	0.00	5268	0.98		0	0.00	-787	-0.38	
Other Operating Expenses	9710.48	1.94	2580	0.52		0	0.00	440	0.08		6056.53	5.23	6297.5	3.02	
TOTAL EQUIPMENT MAINTENANCE	72057	14.42	161236	32.27	223.76	49116.65	10.41	156410	29.02	318.45	23181.17	20.02	48304.5	23.13	208.38
TOTAL ROUTINE EXPENSES	314475.98	62.95	377590.4	75.57	120.07	338500.1	71.73	401806.4	74.56	118.70	105452.01	91.07	187499.5	89.80	177.81
OTHER EXPENSES															
Insurance	14898.81	2.98	16240	3.25		15229.91	3.23	16240	3.01		6290.63	5.43	5526	2.65	
Management Fee	0	0.00	36432	7.29		0	0.00	35640	6.61		0	0.00	12672	6.07	
Scheduled Obligations of Owner	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
TOTAL OTHER EXPENSES	14898.81	2.98	52672	10.54	353.53	15229.91	3.23	51880	9.63	340.65	6290.63	5.43	18198	8.72	289.29
MAINTENANCE AND REPAIRS															
Panel Insulation	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Maintenance of Staircases	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Changing of Vinyl Flooring in Staircases	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Electrical Repairs - Common Areas	0	0.00	3750	0.75		0	0.00	0	0.00		0	0.00	0	0.00	
Locksmith's Repairs	0	0.00	10050	2.01		0	0.00	10050	1.86		0	0.00	0	0.00	
Water and Sewer System Repairs	0	0.00	6000	1.20		0	0.00	25550	4.74		0	0.00	0	0.00	
Lift Repairs	0	0.00	40504	8.11		0	0.00	40505	7.52		0	0.00	0	0.00	
Installation of Automatic Light Switches	0	0.00	9102	1.82		0	0.00	9102	1.69				3104	1.49	
Roof Repairs	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Non-Scheduled Repairs	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Miscellaneous (non-itemized) repairs	170229	34.07	0	0.00		118149	25.04	0	0.00		4046	3.49	0	0.00	
TOTAL MAINTENANCE AND REPAIRS	170229	34.07	69406	13.89	40.77	118149	25.04	85207	15.81	72.12	4046	3.49	3104	1.49	76.72
GRAND TOTAL EXPENDITURES	499603.79	100.00	499668.4	100.00	100.01	471879.0	100.00	538893.4	100.00	114.20	115788.64	100.00	208801.5	100.00	180.33

- 30 -

ANNEX A

	Gyorffy I. - u. 3					Gyorffy I. - u. 5					Gyorffy I. - u. 7				
	Expenses				% Variance 1992-1993	Expenses				% Variance 1992-1993	Expenses				% Variance 1992-1993
	1992	% total	1993	% total		1992	% total	1993	% total		1992	% total	1993	% total	
ADMINISTRATIVE EXPENSES															
Bank Charges	0	0.00	1291	0.76		0	0.00	1167	0.64		0	0.00	907	0.18	
Travelling Expenses	1303.19	0.47	618	0.37		1187.71	0.91	618	0.34		982.83	0.98	463.5	0.09	
Training of Lift Operators	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Legal Fees	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Other Administrative Expenses	27278.09	9.86	807	0.48		24798.24	18.92	453	0.25		19804.02	19.72	755	0.15	
Bad Debts	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
TOTAL ADMINISTRATIVE EXPENSES	28581.28	10.33	2716	1.60	9.50	25985.95	19.83	2238	1.23	8.61	20786.85	20.70	2125.5	0.43	
UTILITIES															
Water and Sewer	5502.9	1.99	-31768	-18.77		27750.7	21.18	-9375	-5.14		3002.41	2.99	-18912	-3.78	
Electricity	21915.98	7.92	17392	10.27		12844.2	9.80	8817.3	4.84		3400	3.58	4005.3	0.80	
Common Area Heating	8477	3.06	10951	6.47		8477	6.47	10951	6.01		6372	6.35	8271	1.66	
TOTAL UTILITIES	35895.88	12.97	-3425	-2.02	-9.54	49071.9	37.45	10393.3	5.70	21.18	12974.41	12.92	-6635.7	-1.33	
PERSONNEL															
Superintendent's Salary	11292.2	4.08	19032	11.24		10270.2	7.84	18305	10.04		8216.17	8.18	15067	3.02	
Superintendent's Fringe Benefits	4970.78	1.80	16129	9.53		4518.9	3.45	16129	8.85		3615.1	3.60	15273	3.06	
Contract Workers' Wages	896	0.32	0	0.00		896	0.68	0	0.00		672	0.67	0	0.00	
Contract Workers' Fringe Benefits	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Meal Vouchers	0	0.00	1250	0.74		0	0.00	1250	0.69		0	0.00	1250	0.25	
TOTAL PERSONNEL	17158.98	6.20	36411	21.51	212.20	15685.1	11.97	35684	19.57	227.50	12503.27	2.50	31590	6.32	
OPERATING EXPENSES															
Garbage Removal	3764.14	1.36	9438	5.57		3764.14	2.87	9435	5.17		3293.63	3.28	7645	1.53	
Container Sanitation	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Garbage Chute Sanitation	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Pest Control	590	0.21	0	0.00		591	0.45	0	0.00		302	0.30	0	0.00	
General Materials	600	0.22	1191.25	0.70		600	0.46	1191.25	0.65		1400	1.39	1191.25	0.24	
Electrical Materials	0	0.00	0	0.00		0	0.00	0	0.00		0	0.00	0	0.00	
Cleaning Materials	2584.04	0.93	1777.25	1.05		2349.14	1.79	1777.25	0.97		1879.29	1.87	1777.25	0.36	
Clothing for Workers	0	0.00	2500	1.48		0	0.00	2500	1.37		0	0.00	2500	0.50	
Water & Central Heating Inspection Fee	0	0.00	37500	22.15		3078.43	2.35	37500	20.57		1554.21	1.55	37500	7.50	
TOTAL OPERATING EXPENSES	7538.18	2.72	52406.5	30.96	695.21	10382.71	7.92	52403.5	28.74	504.72	8429.13	8.39	50613.5	10.13	

ANNEX A

	Gyorffy I. - u. 3					Gyorffy I. - u. 5					Gyorffy I. - u. 7				
	Expenses				% Variance 1992-1993	Expenses				% Variance 1992-1993	Expenses				% Variance 1992-1993
	1992	% total	1993	% total		1992	% total	1993	% total		1992	% total	1993	% total	
EQUIPMENT MAINTENANCE EXPENSES															
Fire Extinguisher Maintenance	0	0.00	125	0.07							0	0.00	125	0.03	
EMI - Lift Supervision	0	0.00	0	0.00							0	0.00	0	0.00	
Lift Maintenance	0	0.00	0	0.00							0	0.00	0	0.00	
Lift Repair Materials	0	0.00	0	0.00							0	0.00	0	0.00	
Maintenance of District Heating Center	15924	5.61	19410	11.47							2462.75	2.45	14556	2.91	
Maintenance of Interior Water & Heating Pipes	3386.27	1.22	16002	9.45							0	0.00	12000		
Ventilation Maintenance	3615	1.31	5328	3.15							11650	11.60	5322	1.07	
Maintenance of Electrical Systems	0	0.00	13054	7.71							3615	3.60	10916	2.18	
Cable Service	0	0.00	-1875	-1.11							0	0.00	3029	0.61	
Other Operating Expenses	0	0.00	210	0.12							0	0.00	-257	-0.05	
TOTAL EQUIPMENT MAINTENANCE	22525.27	8.14	52254	30.87	231.98	20781.79	15.86	54280	29.77	261.19	17727.75	17.65	45691	9.14	
TOTAL ROUTINE EXPENSES	111699.59	40.37	140362.5	82.91	125.66	121907.45	93.03	154998.8	85.00	127.14	72421.41	72.12	123384.3	24.69	
OTHER EXPENSES															
Insurance	7283.86	2.63	7368	4.35							5297.37	5.28	5526	1.11	
Management Fee	0	0.00	17424	10.29							0	0.00	11880	2.38	
Scheduled Obligations of Owner	0	0.00	0	0.00							0	0.00	30900	6.18	
TOTAL OTHER EXPENSES	7283.86	2.63	24792	14.64	340.37	6621.7	5.05	23208	12.73	350.48	5297.37	5.28	48306	9.67	
MAINTENANCE AND REPAIRS															
Panel Insulation	0	0.00	0	0.00							0	0.00	0	0.00	
Maintenance of Staircases	0	0.00	0	0.00							0	0.00	0	0.00	
Changing of Vinyl Flooring in Staircases	0	0.00	0	0.00							0	0.00	0	0.00	
Electrical Repairs - Common Areas	0	0.00	0	0.00							0	0.00	0	0.00	
Locksmith's Repairs	0	0.00	0	0.00							0	0.00	0	0.00	
Water and Sewer System Repairs	0	0.00	0	0.00							0	0.00	0	0.00	
Lift Repairs	0	0.00	0	0.00							0	0.00	0	0.00	
Installation of Automatic Light Switches	0	0.00	4138	2.44							0	0.00	0	0.00	
Roof Repairs	0	0.00	0	0.00							0	0.00	3104	0.62	
Non-Scheduled Repairs	0	0.00	0	0.00							0	0.00	0	0.00	
Miscellaneous (non-Itemized) repairs	157712	57.00	0	0.00							0	0.00	0	0.00	
TOTAL MAINTENANCE AND REPAIRS	157712	57.00	4138	2.44	2.62	2511	1.92	4138	2.27	164.79	22700	22.61	3104	0.62	
GRAND TOTAL EXPENDITURES	276695.45	100.00	169292.5	100.00	61.18	131040.15	100.00	182344.8	100.00	139.15	100418.78	100.00	174794.3	34.98	

22

ANNEX B

RESULTS OF SURVEY OF PILOT PROJECT UNITS December, 1993

In cases where the number of respondents was unusually low, the number is represented in parentheses after the result shown.

1. What is the size of the tenant's household?
 - Least number of household members 1 person
 - Greatest number of household members 9 persons
 - Average number of household members 3.16 persons

2. How many rooms are in the tenant's flat (kitchen included)?
 - Least number of rooms in flats 1.5 rooms
 - Greatest number of rooms in flats 3.5 rooms
 - Average number of occupants per room 1.57 persons

3. What is the gross monthly rent of the tenant's unit?
 - Lowest rent amount 1,204 HUF
 - Highest rent amount 7,950 HUF
 - Average rent amount 2,050 HUF

4. What does the tenant pay for utilities per month?
 - Electricity, lowest amount paid 48 HUF
 - " " , highest amount paid 1,800 HUF
 - Gas, lowest amount paid 104 HUF (66)
 - Gas, highest amount paid 450 HUF (66)
 - Heating, lowest amount paid 1,351 HUF
 - Heating, highest amount paid 7,000 HUF
 - Water and sewer, lowest amount paid 83 HUF
 - Water and sewer, highest amount paid 3,911 HUF
 - Lowest amount of total utilities paid 2,534 HUF (61)
 - Highest amount of total utilities paid 9,333 HUF (61)
 - Average amount of total utilities paid 5,865 HUF (61)

5. Housing Allowances
 - percentage of those surveyed which are receiving housing allowances 13.8 %
 - Number of households surveyed which are receiving housing allowances 16
 - Lowest amount of allowance received 84 HUF

-	Highest amount of allowance received	3,661 HUF
-	Of the total number of households surveyed receiving allowances, what number (and percent)	
	are single person households	2 (12.5%)
	are two person households	5 (31.3%)
	are three person households	4 (25.0%)
	are four person households	3 (18.7%)
	are five person households	1 (6.3%)
	are six or more person households	1 (6.3%)

6. Length of Tenancy Among those Surveyed

-	Shortest length of tenancy	0	(recent move-in)
-	Longest length of tenancy	16	years
-	Average length of tenancy	8	years

7. Tenants' Dealings with the Management Agent

-	Number and percentage of those respondents who have met someone from the management company (during the past two to three years)	51 households	44.0%
	before April, 1993	11 households	21.6%
	after April, 1993	14 households	27.5%
	in both periods	26 households	51.0%
-	Number and percentage of those respondents who have met someone from the management company at a meeting (during the past two to three years)		
	before April, 1993	10 households	8.6%
	after April, 1993	19 households	16.4%
	during both periods	7 households	6.0%
-	Number and percentage of respondents who have met someone from the management company due to rent payment matters		-0-
-	Number and percentage of respondents who have met someone from the management company in connection with maintenance-related matters (who have reported complaints - during the past two to three years)		

before April, 1993	25 households	21.6%
after April, 1993	17 households	14.7%
during both periods	13 households	11.2%

Number and percentage of respondents who have met someone from the management company for other reasons (during the past two to three years)

before April, 1993	13 households	11.2%
after April, 1993	14 households	12.2%

Number and percentage of respondents who have *not* met someone from the management company for other reasons (during the past two or three years)

before April, 1993	79 households	68.1%
after April, 1993	76 households	65.5%

8. Reporting of complaints

Number and percentage of respondents who have reported complaints to the management company (during the past two to three years)

before April, 1993	39 households	33.6%
after April, 1993	32 households	27.6%
during both periods	21 households	18.1%

percentage of those who have reported complaints who rate the company's responsiveness as each of the following: excellent, good, satisfactory, below satisfactory, an poor

(before April, 1993) (39)		
poor (1)	24 households	61.6%
below satisfactory (2)	6 households	15.4%

35

satisfactory (3)	7 households	17.9%
good (4)	2 households	5.1%
excellent (5)	0 households	

mean = 1.67

(after April, 1993) (32)

poor (1)	12 households	37.5%
below satisfactory (2)	4 households	12.5%
satisfactory (3)	7 households	21.9%
good (4)	7 households	21.9%
excellent (5)	2 households	6.3%

mean = 2.47

(before April, 1993, for those
who reported complaints during
both periods) (21)

poor (1)	12 households	57.1%
below satisfactory (2)	2 households	9.5%
satisfactory (3)	5 households	23.6%
good (4)	2 households	2.0%
excellent (5)	0 households	

mean = 1.86

(after April, 1993, for those
who reported complaints during
both periods)

poor (1)	8 households	38.1%
below satisfactory (2)	3 households	14.3%
satisfactory (3)	3 households	14.3%
good (4)	5 households	23.8%
excellent (5)	2 households	9.5%

mean = 2.52

9. The biggest problems related to management of the building

The ten most common responses and the number and percentage of households who made this response are listed.

(before April, 1993)

1.	Insects, rodents	70	60.0%
2.	Security system	43	37.1%
3.	Light in walkways and hallways	34	29.3%

4.	Heat	30	25.9%
5.	Lift	26	22.4%
6.	Cleanliness	24	20.7%
7.	Leaks into flat/water damage	22	19.0%
8.	Hot water	16	13.8%
9.	Routine repair of common areas	15	12.9%
10.	Other	13	11.2%

(after April, 1993)

1.	Insects, rodents	58	50.0%
2.	Security system	45	38.8%
3.	Light in walkways and hallways	35	30.2%
4.	Heat	27	23.3%
5.	Lift	26	22.4%
6.	Cleanliness	24	20.7%
7.	Leaks into flat/water damage	21	18.1%
8.	Hot water	17	14.6%
9.	Routine repair of common areas	14	12.1%
10.	Other	20	17.2%

10. Renovation

percentage of respondents who have had any renovation done in their flats during the past 5 years

75 households 64.7%

percentage of respondents who have had any renovation in their flats in the past 10 years

82 households 70.7%

percentage of respondents who have had any renovation in their flats in the past 15 years

82 households 70.7%

percentage of respondents who have had any renovation in their flats in the past 20 years

82 households 70.7%

The most common types of renovation and the number and percentage of respondents who have had this type of renovation are listed below

1.	painting and/or wall-papering	75	64.6%
2.	new bathroom fittings	28	24.1%

3.	new floor covering	20	17.2%
4.	new kitchen units	17	14.7%
5.	water meter installation	13	11.2%
6.	other types of renovation	22	19.0%

Average number of years ago in which renovation was done = 3

Lowest amount spent for renovation	2,000 HUF
Highest amount spent for renovation	118,000 HUF
Average amount spent for renovation	23,100 HUF

11. Building cleanliness

- Number and percentage of respondents who think that the buildings are maintained in the following condition: poor, below satisfactory, satisfactory, good, excellent

(in autumn, 1992)

poor (1)	9	8.7%
below satisfactory (2)	21	20.4%
satisfactory (3)	27	26.2%
good (4)	40	38.8%
excellent (5)	6	5.8%

(in autumn, 1993)

poor (1)	12	10.8%
below satisfactory (2)	23	20.7%
satisfactory (3)	28	25.2%
good (4)	42	37.8%
excellent (5)	6	5.4%

mean = 3.06

number of respondents: 111

12. Building maintenance

Number and percentage of respondents who have witnessed maintenance/repairs being done in the building since April, 1993

44 households 37.9%

Number and percentage of respondents who have witnessed maintenance/repairs being done in the building during the five years prior to April, 1993

71 households 61.2%

Number and percentage of respondents who have witnessed maintenance/repairs being done in the building during both periods

35 households 30.2%

Number and percentage of respondents who have witnessed maintenance/repairs being done in the building longer than five years ago

0 households

Number and percentage of respondents who have *never* witnessed maintenance/repairs being done in the building

36 households 31.0%

Below are listed the most common types of repairs witnessed, and the number and percentage of those respondents who witnessed them

Number of respondents: 116
(during the five years prior to April, 1993)

1.	painting of common areas of building	17	14.6%
2.	repairs/replacement of the lift	39	33.6%
3.	repairs/replacement of the roof	8	6.8%
4.	repairs to the plumbing system	7	6.0%
5.	lighting repairs/improvements	1	0.9%
6.	repairs to the building entry system	24	20.7%
7.	other types of repairs	2	1.7%

(after April, 1993)

1.	painting of common areas of building	1	0.9%
2.	repairs/replacement of the lift	27	23.3%
3.	repairs/replacement of the roof	13	11.2%
4.	repairs to the plumbing system	8	6.9%
5.	lighting repairs/improvements	4	3.4%
6.	repairs to the building entry system	3	2.6%
7.	other types of repairs	5	4.3%

13. Specific building maintenance questions

Below are listed various building components, as well as the number and percentage of respondents which rated the areas as one of the following: excellent (5), good (4), satisfactory (3), below satisfactory (2), and poor (1)

Common areas (stairways, hallways, building entrance, basement, equipment rooms)

(in autumn, 1992) (Number of respondents = 92)

poor	32	34.8%
below satisfactory	29	31.5%
satisfactory	23	25.0%
good	6	6.5%
excellent	2	2.2%

mean = 2.10

(in autumn, 1993) (Number of respondents = 103)

poor	39	37.9%
below satisfactory	30	29.1%
satisfactory	20	19.4%
good	13	12.6%
excellent	1	1.0%

mean = 2.10

Security (doors, windows, locks, building entry system)

(in autumn, 1992) (Number of respondents = 106)

poor	73	68.9%
below satisfactory	25	23.6%
satisfactory	4	3.8%
good	3	2.8%
excellent	1	1.0%

mean = 1.43

(in autumn, 1993) (number of respondents = 108)

poor	78	72.2%
below satisfactory	20	18.5%
satisfactory	4	3.7%
good	5	4.6%

excellent	1	1.0%
-----------	---	------

mean = 1.44

Lift

(in autumn, 1992) (Number of respondents = 61)

poor	12	19.7%
below satisfactory	12	19.7%
satisfactory	15	24.6%
good	16	26.2%
excellent	5	9.8%

mean = 2.87

(in autumn, 1993) (Number of respondents = 68)

poor	16	23.5%
below satisfactory	16	23.5%
satisfactory	15	22.1%
good	16	23.5%
excellent	5	7.4%

mean = 2.68

Roof

(in autumn, 1992) (Number of respondents = 57)

poor	18	31.6%
below satisfactory	7	12.3%
satisfactory	10	17.5%
good	12	21.1%
excellent	10	17.5%

mean = 2.81

(in autumn, 1993) (Number of respondents = 63)

poor	25	39.7%
below satisfactory	5	7.9%
satisfactory	10	15.9%
good	13	20.6%
excellent	10	15.9%

Windows

(in autumn, 1992) (Number of respondents = 99)

poor	43	43.4%
below satisfactory	24	24.2%
satisfactory	18	18.2%
good	9	9.1%
excellent	5	5.1%

(in autumn, 1993) (Number of respondents = 102)

poor	45	44.1%
below satisfactory	27	26.5%
satisfactory	18	17.6%
good	7	6.9%
excellent	5	4.9%

Insulation of concrete panels

(in autumn, 1992) (Number of respondents = 88)

poor	42	47.7%
below satisfactory	23	26.1%
satisfactory	6	6.8%
good	11	12.5%
excellent	6	6.8%

mean = 2.05

(in autumn, 1993) (Number of respondents = 91)

poor	44	48.4%
below satisfactory	21	23.1%
satisfactory	9	9.9%
good	10	11.0%
excellent	7	7.7%

mean = 2.07

Building exterior

(in autumn, 1992) (Number of respondents = 77)

poor	20	26.0%
below satisfactory	17	22.1%
satisfactory	17	22.1%

good	18	23.4%
excellent	5	6.5%

mean = 2.62

(in autumn, 1993) (Number of respondents = 81)

poor	24	29.6%
below satisfactory	14	17.3%
satisfactory	19	23.5%
good	16	19.8%
excellent	8	9.9%

mean = 2.63

14. Level of Maintenance

percentage of respondents who have noticed a change in the level of maintenance being provided during the past year (from April, 1993. . . number of respondents: 114)

the level of maintenance	24	21.0%
the level of operations	24	21.0%

percentage of respondents who have noticed a change in the level of services provided

the level of maintenance	8	7.0%
the level of operations	13	11.4%

percentage of respondents who have noticed a decrease in the level of services provided

the level of maintenance	16	14.0%
the level of operations	11	9.6%

Below are listed, for both maintenance and operations, the five most common responses and the number and percentage of those respondents who gave these responses with regard to the ways in which maintenance services have improved and they ways in which they have deteriorated

Maintenance (number of respondents = 17):

deteriorated

1.	Since the new company took over, the bulbs have been missing, the lift has been frequently out of operation, and they do nothing	6	35.3%
2.	They are not flexible enough	1	5.9%
3.	The office work is slow and inefficient	1	5.9%

improved

1.	The lift maintenance has improved and they have repaired the building entrance door	3	17.6%
2.	They arrived promptly to the spot and did the repair after having received the complaint	2	11.7%
3.	They replace bulbs frequently	1	5.9%

other responses

1.	When filing a complaint, only a recorder takes the message, and the respondent only knows the rent collector personally	1	5.9%
2.	A lot depends on people, many tenants are harmful to the property	2	11.7%

Operations (Number of respondents: 14)

deteriorated

1.	The cleaning is negligent, a lot of dirt remains	2	14.3%
2.	Everything is worse	2	14.3%
3.	The improvement is not significant	1	7.1%
4.	The office work is slow and inefficient	1	7.1%

improved

1.	Things have improved, the new company does cleaning	4	28.6%
2.	The new company pays more attention to the buildings	1	7.1%

other responses

1.	The caretaker does the cleaning, but the situation is worse due to tramps	1	7.1%
2.	We do not know the conditions of the Tiszaber contract	2	14.3%

15. Suggestions for Improvement

The six most common suggestions for improvement in building services and the number and percentage of respondents who gave these suggestions are listed below

(Number of respondents = 52)

1.	They should do whitewashing, repair everything, and start immediately	16	30.8%
2.	There is a lot of vandalism, the perpetrators should be punished because repairs are made in vain, after two days the damage is repeated	9	17.3%
3.	They should install safety devices, a gate telephone, and close (lock?) the gate	8	15.4%
4.	This survey should be conducted quarterly, and repairs should be done as necessary out of the increased rents	3	5.7%

5.	The flats will be sold in due time; one takes better care of one's own property	3	5.7%
6.	Other responses (there were 12 other suggestions, as follows)	18	25.1%
	a. They should employ unemployed people and pay their salaries from the rent	2	
	b. A fund should be created by depositing HUF 100 - 200 per month to be used for repairs	1	
	c. A watchman should stand at the gate, his salary should not exceed the cost the repairs that he might prevent	1	
	d. Tramps and gypsies should be forbidden to enter, the "Romanian" conditions should be stopped	3	
	e. One of the managers should move to the tenth floor of the building	1	
	f. It is only the local government which can help to improve things	1	
	g. The gate telephone, the insulation, the lift, and entry door lock are not working	3	
	h. The problems should be discussed with the tenants, and the entire building should be renovated	2	
	i. The building needs a good cleaning and the rats need to be exterminated	1	
	j. It is not proper to collect rent for these flats in such a deteriorated state, they should manage the building with entrepreneurs	1	

- k. The entrance gate is repaired out of our own money for the sake of safety; the local government should contribute to this 1
- l. The maintenance funds should be proportionally distributed among the buildings 1

16. Building Budget

Number and percentage of respondents which have seen the budget for their building

3 households 2.6%

Number and percentage of respondents which would be interested in seeing the budget for their building

62 households 53.4%

17. Meeting with the Management Company

Number and percentage of households which would be interested in attending periodic meetings with the property manager

65 households 56.0%

ANNEX C

**MEETING WITH MR. LAJOS CSALA
OF TISZABER**

Szolnok, December 2, 1993

A meeting was held with Mr. Csala in order to determine his perceptions of how well the pilot project has worked since the contract period commenced on April 1, 1993. A list of questions was prepared in advance of the meeting. The following is a transcript of the meeting with both the questions and answers.

1. *Do you want to continue to manage the pilot project units?*

Mr. Csala said that he fully intends to continue to manage the pilot project units, but is currently confused with regard to how long the contract to manage them will remain in effect. He thinks that the project is going to be assessed in some fashion and would like to know the terms and conditions of this assessment. He has heard rumors that the contract may be terminated. The City doesn't yet know how many units it will keep once privatization is reintroduced, and this is very disturbing for him.

He continued that 158 is a small number of units, and managing these units creates a loss rather than a profit. He stressed this at the time of the original tender. If he does retain the management contract, he hopes that the number of units will be increased from 158 to approximately 500.

Mr. Csala said that he has held a number of tenant forums, but that the turnout never exceeds 30 - 35 tenants. He said that the results of Tiszaber's management tenure would have been more spectacular, but no renovation has been done yet because the funds allocated for repairs and renovation by the Municipality are so low that little can be done.

Some things have been accomplished by Tiszaber, however. Tiszaber has installed automatic light timers in the common hallways at Györffy István 1, 3, 5, and 7. Mr. Csala has been informed by the Asset Managers that he can use part of the buildings' operating cash flow to paint the hallways, but this cannot be done at the moment because the temperature is too low.

2. *Does he want to manage more of the municipally owned stock?*

The answer was an emphatic "yes."

3. *Has managing the pilot project units been a profitable venture for you?*

Mr. Csala said that Tiszaber had experienced a loss in managing the pilot project units, particularly because it had to expend funds in the development of the software to produce the financial statements, etc. Tiszaber receives a management fee in the amount of HUF 350 per unit per month. Since the commencement of the contract in April, 1993, the forint has been devalued several times, and administrative costs for all items from telephone service to stationery have increased. In order to break even in managing such a small number of rental units, Tiszaber would have to charge a management fee of HUF 525 per unit per month.

4. *What do you think about the new financial reporting system which was instituted with the pilot project?*

Mr. Csala did not answer this question directly. He appeared to think that the question referred to what he thought of the system of transferring funds back and forth between the management companies and the municipality. With regard to this, he said that the system has been changing continually—that the municipality has different demands now than it did in March, 1993, when Tiszaber's contract was negotiated.

He said that the system was cumbersome; the municipality transfers funds to Tiszaber and the company has to transfer them right back. Tiszaber transfers the collected rent to the municipality, and the municipality turns around and transfers the monthly budget allocation for the pilot project units back to the company. Mr. Csala said that it would make more sense for Tiszaber to merely transfer the difference between the collected rent and the monthly budget allocation.

In addition, Tiszaber has only recently received clear instructions with regard to handling tenants in arrears. Collections in the pilot project units are currently at 83 percent. The municipality recently instructed Tiszaber to initiate legal proceedings against delinquent tenants.

As an aside, Mr. Csala stated that in the pilot project units, there are currently six to eight vacant units which have been vacant since the management contract commenced last April. The municipality apparently has made no attempts to rent them out or do anything with them. Obviously, Tiszaber derives less rental income from the pilot project units because of the vacancy situation.

Among the pilot project units, there are also vacant commercial spaces. Mr. Csala offered to hold a bidding for possible commercial tenants for these units, but he has not received permission to do so from the City. The municipality has allocated only one space since April, and this space was given to a national gypsy organization. The organization does not pay its rent, and the municipality puts no pressure on them to pay. Mr. Csala feels that Tiszaber could have achieved greater results in managing the pilot project units if the vacancy problems had been dealt with.

The original question about his perceptions of the new financial reporting system was restated. Mr. Csala answered that it is natural that Tiszaber must generate the sort of financial reports now required by the municipality. Originally, the management criteria stated that Tiszaber had to submit quarterly reports to the municipality, but this is not the practice currently. Instead, Tiszaber representatives meet with the Housing Department on a quarterly basis to go over various issues with regard to the pilot project units. The report deadlines were changed from the end of the current month to the tenth of the following month, and Mr. Csala says that it is not problematic to produce the statements on time.

Mr. Csala said that there is a recurrent problem with the amount of collected rents which are transferred to the municipality. The bulk of the rent is collected by Tiszaber during the last week of the month (unemployment benefits are received around the 17th day of the month, pensions on the 20th, and most salaries at the end of the month).

Most of the rent is paid in cash (only 36 tenants pay it by bank transfer). The cash, once it is collected, shows in the buildings books as income. However, a transfer which is initiated in one month may not be effected until the following month. Both the municipality and Tiszaber have OTP accounts, but they use different branches and thus transfers are not instantaneous. If Tiszaber initiates a transfer, its account is debited immediately, but the municipality's account is not credited immediately. This causes a discrepancy in the amount of collections reported and that which actually gets transferred.

Tiszaber has begun to solve this problem through negotiations with the municipality, which is trying to be flexible in its transfer requirements. For instance, when the Housing Allowance program was first initiated, at first Tiszaber had to transfer the tax on Housing Allowances received to the taxing authority. Now, the Municipality has assumed this responsibility. Mr. Csala says that generally speaking, however, the City is very bureaucratic and it takes a long time to get anything resolved. For instance, any time that one department has to make a request of another department, the request has to be made in writing, and this is an impediment to solving problems quickly.

5. *What has his experience been working with the Municipal Housing Department?*

Mr. Csala says that it is pleasant to work with the Asset Managers, but that they have no independence nor authority. They can listen to Mr. Csala's concerns, but must discuss problems with their superiors before any decision can be made. Because of this, it can take weeks or even months to solve a problem. He also feels that not every request that he makes to the Housing Department should necessarily be made in writing, as the Department demands.

Some of the problem resolution procedures are very cumbersome. For example, tenant M owes HUF 40,000 in delinquent rent payments. The M family applied to pay off the arrears in installments. Mr. Csala wrote to the Housing Department to ask if the

arrangement would be acceptable. The Housing Department will respond to his request in writing within thirty days. This is too long of a time period to wait to deal with problems which require immediate action.

6. *What were the biggest problems in connection with managing the pilot project units?*

Mr. Csala said that it has been difficult for the tenants to accept the transition of management from IKV to Tiszaber. The tenants are so accustomed to dealing with IKV, that it is hard for them to remember to contact Tiszaber for building-related issues. In addition, now Szollak Kft. collects hot water and district heating charges, although Tiszaber collects rent, lift charges, normal water supply charges, and odd reimbursements. Tiszaber was collecting cable T.V. charges as well, but are no longer doing so. This creates confusion on the part of the tenants.

With commercial units, Tiszaber collects all charges, even electricity if there is not a separate meter in the unit. However, only rent revenue is transferred to the municipality.

As charges increase, tenant demands increase as well. Initially, the tenants wanted to be notified at what time someone would be coming to collect the rent. It was believed that they might not wish to be at home at this time! Now, the rent is collected at random times, and collections have thus improved.

There is a problem with vandalism at the buildings, particularly with broken glass and with destruction of the lifts. The vandalism apparently is perpetrated by teenage tenants and those who are unemployed. In addition, there are several tenants who cannot tolerate one another and who continually report on one another. This is a problem which could be solved, however, if the municipality would agree to move one or more of the families to a vacant apartment in another building. This is another example of the City's tendency to ignore certain problems.

There are no other major problems. Tiszaber has reliable service contracts in place, and technicians are on duty both during the day and at night.

Originally, the tenants were accustomed to going to IKV for everything, but now they call the building superintendent. The superintendent reports all problems directly to the technician on duty. This is better than having the tenants contact the technicians directly.

7. *What are the biggest expenses associated with the management of the pilot project units?*

The charge for water was increased by approximately 23.7 percent, and this increased expenses considerably.

8. *What other prices for services and/or utilities have increased substantially since last April?*

Mr. Csala answered that electricity charges increased, and will increase again in January. Another water charge increase is planned as well. Szolnok is apparently one of the cities in Hungarian with the highest water charges, despite the proximity of the Tisza. Water charges were HUF 64.40 per cubic meter. The charge was increased by 23.7 percent in October, and should reach HUF 100 per cubic meter in January. Apparently, the large rate increases are to cover the water company's overhead, which is very large (the water company is a shareholding company. Mr. Csala thinks that it should have been divided up among the municipalities).

There is a similar problem with district heating. A branch of the former IKV controls and operates district heating in Szolnok. The organization has enormous overhead, with a staff of 170 people who are mostly secretaries and other administrative personnel. Mr. Csala said that it would have made sense to bid out the contract for the provision of district heating services, to see what company could have provided the service at the lowest price. Prices are set by a body of representatives which were recommended by companies which were started by the representatives themselves!

Waste collection, which used to be a communal service, is now also owned by a shareholding company.

9. *What changes would you make in the management process?*

Mr. Csala answered that it would be a great help to the process if the Asset Managers had more authority, as this would help minimize bureaucratic delays. In addition, as mentioned previously, the fund transfer process should be simplified.

Another suggestion that Mr. Csala had was that he be entrusted with annual allocation of renovation funds so that he does not have to apply separately for releases of funds for each item. He thinks that tenant satisfaction would be increased if the process for receiving these funds were less time-consuming.

10. *If there were another bid competition for contracts to manage additional municipally owned units, would Tiszaber submit a bid?*

Mr. Csala said he would probably have Tiszaber apply, but it would depend upon how realistic a management fee could be charged. The fee currently received by Tiszaber is too low. Even Szollak receives HUF 400 per unit per month. Szollak, however, has a much bigger inventory, which allows them certain economies of scale.

52

11. Do you have any dealings with Szollak Kft.? If so, in what capacity?

Mr. Csala said that some representatives of Szollak came to look at the computer system Tiszaber uses to generate financial reports. Tiszaber's programmer is adapting the software for Szollak. Tiszaber sold the rights to use this software to Szollak. The programmer is dividing up Szollak's stock into smaller segments. Mr. Csala said he was pleased to be approached by Szollak.

Tiszaber has some dealings with tenants on whom Szollak initiated legal proceedings for rent arrears.

Generally, there is smooth cooperation between the two companies, and no hostilities. The intermediate level administrative staff of Szollak has been very helpful to Tiszaber. Mr. David knew the situation of the housing stock very well; he was a good professional with high standards. Mr. Csala said that it will be difficult to replace Mr. David with someone as capable. He knows the staff who serve directly below Mr. David, but not very well. He suggested that a competition be held for the post of director of Szollak. The municipality should know about how Szollak is run and decide who could best run the company, and not make its hiring decision based on politics.

One of Csala's final comments was that the City is supposed to depreciate its assets for insurance purposes, but has no idea how to do this for the housing stock. Csala was asked to make these calculations, but he felt that this should be the responsibility of the Asset Management staff.