

**PILOT ASSET AND PROPERTY MANAGEMENT
PROGRAM IN SZOLNOK, HUNGARY
FINAL REPORT**

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UI Project 6283-19
August, 1993

Prepared for

INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
Local Government and Housing Privatization
USAID Project No. 180-0034
U.S. Agency for International Development

Contract #EUR-0034-C-00-2034-00, RFS No. 19

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BACKGROUND

Property Management and Asset Management in Hungary

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.

The municipalities do not have the resources to continue to subsidize publicly owned housing. Throughout the country, rents have not been increased sufficiently to keep pace with inflation, but the costs for services and materials have increased exponentially. Tenants have already been experiencing increases in the fees charged for utilities. In Szolnok, under the auspices of USAID's program of technical assistance, rents were increased as of May 1, 1993, but the recently passed national Rental Housing Act freezes rents in publicly owned housing until June 30, 1994. Thus, in most cases throughout Hungary, there will continue to be a gap between rising maintenance costs and decreasing operating subsidies and fixed rent revenues. One tenet behind USAID assistance has been that one way to close this gap is to raise the level of effectiveness of property management — the actual day-to-day management of the housing stock.

The role of the owner is to maximize the value of the asset, the housing stock, which can be accomplished by carefully monitoring the physical characteristics of the housing, to ensure that the buildings' physical systems are properly maintained, and by regulating their financial performance. These functions may be referred to as **asset management**. The asset management function is typically assigned to the municipal Housing Department.

In accordance with USAID's concept, which is consistent with widely accepted practices in the management of publicly owned housing, the Asset Management Department should be involved in the long-term planning for the housing stock. It should not only ensure that the day-to-day operations are performed well, but that plans are made to address deferred maintenance and capital repair and improvements. It must be involved not only in the compilation of physical needs assessments, but in the financial planning as well (i.e., it should help to determine how these repairs will be financed).

The authors gratefully acknowledge the assistance of Katalin Zsámboki at every stage of this project.

Because the Owner, the municipality, is entitled to derive financial benefits from the housing stock, it is important to note here that it must assume the risks and the responsibilities associated with it as well.

The Situation in Szolnok

Until last year, although the City of Szolnok had a Housing Department, all of the property management functions and most of the asset management functions rested with IKV. IKV would submit proposed budgets to the City for review and approval, but these were usually submitted after the start of the budget year, not before. It appears that the City, rather than analyzing these budgets, either tacitly approved them or approved a total amount of funds that would be available to IKV which had little relation to the actual costs of running the housing stock. In addition, various financial reports were submitted on a periodic basis, but no one in the Municipality was acting in a real monitoring capacity, to review actual expenses versus those which were budgeted, to monitor and question various expenditures, or to conduct random site visits to ensure efficient, quality performance of operating, maintenance and renovation tasks.

IKV had little incentive to cut costs, manage more efficiently, or provide comprehensible reports to the City, because the City exercised almost no control over, nor made any demands on them. The municipal Housing Department performed no real asset management function; rather, its main task was to allocate units. IKV had long been able to exercise independence in the way that it operated public housing, despite its dependence upon subsidies, the amount and timing of which were uncertain, as well as restrictions imposed upon it by the State and IKV's central office. The result was that while IKV had become less powerful by the end of 1991, its management staff had not decreased substantially, while the level of building operations and maintenance had. That is due to the fact that IKV was covering its entire management overhead from residential and commercial rent, as well as municipal subsidies. It was able to fund its own operations at the expense of the real estate.

The fact that the net result of this situation was less than satisfactory housing management was not so much the fault of the IKV as of the existing system. In fact, during the past two years, various IKV branches throughout Hungary have embarked on massive downsizing and reorganization campaigns, in order to increase the efficiency of their operations. However, previously, the government never forced the organization to establish sound management practices and financial controls, nor to submit to the authority of a regulatory agency. In order for the situation to improve, the Cities had to begin to take an active role in setting the parameters for how the housing stock should be managed.

THE SZOLNOK PILOT PROJECT

Summary

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. In the area of asset and property management and maintenance, the goal of the technical assistance project was to train 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 stock. By participating in the project, the City of Szolnok hoped to accomplish the following:

- ! to strengthen the role of the Municipal Housing office by creating a viable asset management capability within the department;
- ! to 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.

The USAID team¹ embarked on a five-step program in order to accomplish these goals. These were as follows:

- 1) Information Gathering. During the spring and early summer of 1992, team members interviewed staff of various municipal departments with special emphasis on the staff of the Housing office. In addition, much time was spent with the Director of IKV and his close subordinates to determine how the organization managed properties, and to study its financial recordkeeping and reporting practices. Finally, information was collected on the apartment units which would eventually be part of the group to be managed by the competitively selected firm.

The USAID team providing technical assistance to Szolnok consists of Toni Baar, Charles Hanson, Katharine Mark, and Jeffrey Telgarsky of the Urban Institute, and Iván Tosics and Katalin Zsámboki of the Metropolitan Research Institute. In the area of housing management, property management specialist Toni Baar took the lead, working closely with Katalin Zsámboki. Katharine Mark is project manager.

- 2) Strategy Development. An overall strategy for Szolnok's housing strategy was prepared in the summer of 1992, including detailed sections on asset and property management, arrears, and landlord-tenant relations.
- 3) Training and Development of Materials. During the fall of 1992, a week-long comprehensive training program was offered to municipal staff and representatives of IKV. Work began in training two individuals designated by the City to assume the Asset Management role. With them, the USAID team began to develop contracts, financial statement formats, bid packages, and other materials.
- 4) Bidding Process. The USAID team worked with Asset Management staff to solicit and review bids from potential management contractors, and to select a contractor to manage the "Pilot Project" units.
- 5) Monitoring and Follow-up. Work continued with Asset Management staff to monitor the performance of the newly selected management contractor and to establish a new relationship in which IKV would adhere to newly created property management criteria.

Description of Work

Information Gathering

The information gathering phase of USAID's work in asset and property management in Szolnok was a very important process, as it was to determine the shape and scope of what eventually came to be known as the **Szolnok Pilot Asset/Property Management Pilot**. Although in some sense, the information gathering phase has been ongoing, the bulk of the work done in this area occurred during the three month period from the middle of April through the middle of July, 1992. This phase had several objectives: a) to determine the various functions and staff capabilities of certain municipal departments in order to determine which department should have the ongoing responsibility for asset management of the municipally owned housing stock; b) to determine the property management and financial practices of, and administrative and fiscal problems experienced by the Szolnok IKV; c) to learn as much about the municipal rental housing stock and population sector as possible with regard to arrears, evictions, and the quality of housing construction and maintenance; and d) to learn about the physical condition of the pilot project buildings and units.

Review of Municipal Departments. The team spent considerable time interviewing the directors and various staff members of Szolnok's existing Housing Department, the Asset Management Department, and the Finance Department. Although it seemed logical for the asset management function to be the responsibility of the Housing Department, initially the staff of the Department was not enthusiastic about

assuming any new responsibilities. Likewise, it was important to determine whether or not the Asset Management Department would be better equipped to handle this function, and what, if any, role the Financial Department would have in the Asset Management Process.

Numerous meetings were held with Dr. Ferenc Probáld and Mrs. Erzsébet Domány of the Housing Department, Ferenc Molnar of the Asset Management Department, and Péter László of the Finance Department. It turned out that the role of the Asset Management Department was to monitor the performance of the City's **non-housing related** assets, and that it would not be an appropriate location for the performance of asset management of the municipally owned housing stock. The Finance Department, which was in the throes of adapting itself in order to adhere to new requirements for municipal finance which were being imposed by the Central Government, apparently would have little time to monitor the financial performance of the rental stock. Finally, it was determined that the Housing Department was to assume the role of asset management of the rental stock, although it was apparent that the Department would either have to add staff or at least be reorganized in order to accommodate this new responsibility.

Review of IKV Functions. Numerous interviews were held with the Director of IKV, László Stefanik (who now holds a position within City Hall), the head of one of the IKV satellite offices, Sándor David (who is now the Director of the reorganized IKV, known as Szollak Kft.), the head of IKV's Finance Department, Varadi Józsefné, and various departmental staff members, the head of IKV's Utility Charge Group (which is responsible for collection of rent, utility and other charges such as cable television), Satellite Office staff, and IKV's attorney. In order to determine what the criteria should be for the management of municipally owned housing stock, it was necessary to know which current management practices were sound and which were not, and in which areas changes were feasible. As a result of these meetings, the consultant prepared an Operating Cost Study which explained IKV's financial recordkeeping practices, and concluded that it was almost impossible to determine the costs of managing individual buildings due to confusing and inconsistent nature of these practices. Despite this observation, it was determined that among IKV's staff there was considerable property management expertise, and that IKV was severely hampered by financial constraints and often advanced funds for utility expenses and other charges which were not their responsibility. The study of IKV's practices made it possible to develop feasible, realistic criteria for the management of Szolnok's rental stock.

Analysis of the Rental Sector. In addition to reviewing existing laws on eviction, the team researched the eviction process through interviews with an IKV lawyer and other lawyers in Szolnok, as well as Ferenc Probáld and Erzsébet Domány of the municipal Housing Department. Visits were made to the Utility Charge group in order to obtain a reasonably accurate figure of the arrears among tenants of municipally owned flats (delinquencies in rent, utility and other charges). The team learned that in Hungary it is impossible to evict people from their units because in almost all cases, alternate flats must be provided to the evicted tenant(s). Since there is a severe shortage of municipally owned flats compared to the number of families on the waiting list, there is virtually no possibility of moving a family which has received

an unfavorable judgment from the court. In addition, the amount of arrears in municipally owned flats appeared to be steadily increasing, particularly due to the increase in utility prices. Knowledge of these factors was important in order for the USAID team to develop feasible recommendations for decreasing arrears in the City of Szolnok.

The team also interviewed IKV administrative staff and satellite office staff as well as municipal officials about the common type of construction used in the buildings owned by Szolnok and the general condition of units. Various tours were made through the town to get a sense of the character and condition of the housing stock, not only the municipally owned units but other housing in Szolnok as well.

Assessment of Physical Condition of Rental Units. The municipality, through the Housing Department, hired two individuals, Michel Charkawi and Agota Szilagyi, 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. Szilagyi attempted to go to each of the 114 units² and speak directly with the inhabitants.

The survey (a copy of which is attached and labeled Annex I) queried the tenant about the composition of the units, the condition of the unit, and the level of rehabilitation and maintenance in 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.

The buildings themselves were not in particularly bad shape, although for the most part the common areas and building exteriors were in much worse shape than the unit interiors. The tenants seemed to take a lot of care in the appearance of their individual apartments. The four-story walk-ups (Orosz György 32, 34, 36, and 38) were in quite good condition, although some of the facade's joints which connect the concrete panels need to be replaced, the roofs need work, and the common entryways and hallways need some refurbishing. The ten-story highrise building, Orosz György 9, needed painting throughout the common areas of the building, some renovation of the elevator, replacement of the roof, and replacement of many of joints (insulation) between the concrete panels in the building need to be replaced.

The information from these surveys was the basis for the set of management criteria which later were established for the Pilot Project units.

Strategy Development

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.

The information gathering component of the program contributed to the overall Housing Strategy for Szolnok prepared by the USAID project team. The aim of the strategy was to present a broad, coherent, and feasible plan which the city would use as it began to undertake extensive housing reforms. The sections of the Strategy which related directly to Property Management are as follows:

Waiting List. USAID team members had learned that the municipality's waiting list for municipally owned flats was inaccurate (members of the same household appeared in different parts of the list) and was never purged. The strategy recommended that the waiting list be periodically reviewed to prevent duplication, and that the waiting list be purged every six months to one year. In the latter case, letters would be sent to all families on the waiting list on a semi-annual or annual basis in which they were requested to re-confirm their interest in applying for a unit and to update their family status and eligibility.

Unit Allocation Policy. The strategy recommended that the waiting list for municipally owned flats be partially predicated on a unit allocation policy. Due to the limited (and decreasing) supply of municipally owned rental units, it was suggested that some of the units be preserved for low income families, and others for moderate income families. In any case, an income ceiling for eligibility was recommended, with a lower ceiling for low income families, and a higher ceiling for moderate income families. The mixture of economic strata was suggested so that "ghettoization" of the buildings would be prevented, as municipal officials were concerned about the possibility of creating large pockets of slums for the poor.

Arrears. The information gathering process enabled the project team to compile delinquency statistics in the categories of rent, cable television, lift, district heating, hot water, and cold water. It was determined that delinquencies increased by 172 percent during the 1991 calendar year. The existing procedures for evictions were enumerated in order to illustrate possible methods by which the City could reduce delinquencies. The strategy recommended that the City purchase or build low-cost, low-comfort housing which could be used as alternative units, and that it begin to fill these units with those families who have accumulated the largest arrears. Once tenants see that there are serious consequences for nonpayment of rent and other charges, those who might otherwise not pay may begin to do so. Furthermore, it was suggested that participation in the upcoming Housing Allowance program be contingent upon a family in arrears signing an installment repayment agreement.

The Relationship Between the Property Owner (the City) and the Property Manager. The strategy described the function of both asset and property managers, and compared the way these two groups work together in Western countries with the property management system which currently existed in Szolnok. The problems with the current system were highlighted as follows:

- ! IKV's overhead costs were very high, and the total amount of these costs was charged back to the buildings. The strategy recommended that the property management companies be paid a fixed management fee per a valid contract.

- ! IKV's financial reporting procedures and products were found to be inconsistent, confusing, and most likely, inaccurate. It was recommended that the City establish firm financial reporting requirements. The performance of the property management companies would should be monitored and would be partially judged on their adherence to these requirements.

Furthermore, in this section, the strategy recommended that Szolnok's Housing Office be reorganized to include an Asset Management Department responsible for establishing the manner in which the City's housing stock was to be managed and monitoring the performance of the property management companies. It was recommended that their duties be as follows:

- ! to develop a database with information on the municipally owned flats;
- ! to develop budgets and physical improvement plans for different segments of the inventory;
- ! to develop a set of management criteria for different types of buildings in the inventory;
- ! to review all reports submitted by the property managers (financial and physical status);
- ! to prepare a model management contract;
- ! to monitor property management companies' compliance with the management contract;
- ! to approve extraordinary expenditures made in connection with management and maintenance of the housing stock; and
- ! to report problems and developments with the housing stock to the appropriate municipal officials.

Finally, the strategy recommended that the management of a small portion of the municipality's rental stock be bid competitively. This was the basis of the modified Work Plan for the Pilot Project.

Results. In September of 1992, the Szolnok City Council approved the recommendations made in the USAID strategy report as the basis for the City's housing strategy, and in October it affirmed the mayor's independent right to contract for housing management with firms other than IKV. Further, the Deputy Mayor, Jozsef Kéri, with whom the USAID team has been working closely, authorized the team to continue its work with respect to the Pilot Asset/Property Management Project.

Training/Development of Materials

By mid-September, a training manual was completed for use in Szolnok, "An Introduction to the Principles of Asset and Property Management." The manual includes the following topics: the role of the housing owner, the role of the housing manager, maintenance and security practices and procedures, financial management, leasing and occupancy, and general management practices. The manual contains examples of financial statements, vacancy and delinquency reports, a section on budget preparation, preparation of physical needs assessments and budgeting capital repairs and improvements, a sample chart of accounts, and a sample management contract. The manual is adaptable for use in other cities and

countries (various sections have been amended slightly and used in Moscow and in Liberec in the Czech Republic).

The manual was the basis for a week-long seminar attended by various municipal staff members from the Housing, Asset Management, and Finance Departments. Also, two representatives from Szolnok's IKV attended the program. The seminar consisted of five sessions of three to four hours in length. Topics discussed were those listed in the previous paragraph. The appendices were translated into Hungarian and were discussed at length. Of particular interest to those in attendance were the discussions of financial practices and financial statements, and the sample management contract.

The training was valuable in introducing municipal staff to the concept of asset management and the notion of a strong ownership role in the day-to-day management of housing. The seminar gave those in attendance a sense of the work entailed in the implementation of the Pilot Project.

Shortly after the training seminar was given, the Housing Department designated two individuals, Klára Nagy Kun and Erzsébet Varga, to be Asset Managers. Ms. Kun had been part of the staff of the Housing Office for some time. Ms. Varga was a newly hired business school graduate, who had studied accounting. Unfortunately, the individuals selected to be Asset Managers were not among those who attended the training seminar. While city leadership realized from the beginning of USAID technical assistance that new staff would have to be hired and staff structure reorganized in the housing allowance component as well as this one, those decisions were often postponed, creating situations — like this one — in which training has to be repeated. This is probably a frequent difficulty in demonstration projects which require such changes, and should be addressed by making sure management knows as early as possible what new staffing will be needed and how important it is.

From the middle of October through mid-December, 1992, the USAID team worked with the Asset Managers, to provide them with training and to aid in the development of materials to be included in the bid packages for the Pilot Project. As of mid-November, 1992, the following tasks had been accomplished:

- ! Development of a sample management contract between the City and potential property management contractors
- ! Reinspection of the pilot project units with an emphasis on using the information procured to develop a long-term physical needs assessment and operating budgets
- ! Draft of operating budget for the pilot project units

- ! Development of a set of management criteria for the management of the pilot project units (concrete panel highrise building and concrete panel four-story walk-ups)
- ! Design of financial reporting requirements for the property management company chosen to manage the Pilot Project units
- ! Finalization of financial statement formats

After the completion of the items listed above, the USAID team and Asset Managers concentrated on the finalization of a bid package and on scheduling the bid process. The bid package was completed by mid-December, and includes the following documents: Instruction to Bidders, Management Criteria, Sample Management Contract, draft budgets for pilot project units, budget notes, and sample financial statements. (A copy of the bid package is attached and labeled Annex II.)

Bidding Process

The actual bidding process for the contract to manage the Pilot Project units commenced shortly after January 2, 1993. During that week, a schedule was developed which detailed the steps in the process which would lead to the awarding of the management contract. The effective date of the contract was April 1, 1993.

The following is a detailed description of the steps in this process:

The Request for Bids. The request for bids for the management of 114 pilot project units was advertised in the local newspaper. The Asset Management staff received information from an attorney on Hungary's legal regulations regarding competitive bidding procedures. Asset management staff and consultants met with several firms to discuss the bidding process. Bid packages were distributed to seventeen contractors. After the bidding packages had been distributed, the City decided to expand the Pilot Project to include an additional staircase of the ten-story highrise building, Orosz György 11. This increased the number of units from 114 to 158. A draft budget was developed for Orosz György 11 and was added to the instruction to bidders. After training by consultants, asset management staff designed, scheduled, and held a seminar for bidders in order to answer questions that the potential management contractors had with respect to the bid package and the contract.

Bids were due at City Hall by the beginning of the last week of February, 1993. Six bids were submitted. Of the six, five were from large firms (Tiszaber, L&L, Univex, IKV, and Epulet Karbantartos Kft.), and one was from an individual (Béla Kalman). Tiszaber, L&L, and especially IKV had had extensive experience in building management, although IKV was the only one of these which had managed municipally owned housing. UNIVEX was a branch of the former state-owned construction company in

Szolnok. Epulet Karbantartos Kft. provides building maintenance services for both residential and commercial properties. Béla Kalman, although he has some maintenance experience, was the only bidder who did not have a specific building-related background. The budgets proposed by each firm were fairly similar, if not identical, to the sample budgets provided to them in the bid package, with the exception of Tiszaber's and L&L's. The budgets from these two firms contained a lot of qualification and explanation, which demonstrated that they spent a lot of time reviewing the proposed budgets to determine whether or not they were realistic.

The bids from Tiszaber, L&L, Univex, and IKV were fairly long (at least ten pages). Béla Kalman's was approximately six pages, and the one submitted by Epulet Karbantartos Kft. was very short (three pages). The bids from Tiszaber, L&L, Univex, and IKV each responded to all of the issues raised in the bid package. However, the bids presented by Univex and IKV were merely regurgitations of the management criteria included in the bid package, and did not express any original ideas nor creative thinking about how to address the problems of managing the pilot project units. L&L's bid was very thorough from a financial standpoint — its budgets were thoroughly revised versions of the sample budgets. However, Tiszaber's bid (included in Annex D) was the most thorough and creative. It was obvious that the individual(s) who prepared the bid made a considerable effort to determine how to improve tenant-management relations and rent collections, for example, while these important aspects were dealt with cursorily in the other bids, if at all.

The bid from Epulet Karbantartos Kft. was quite sketchy, did not address many of the items listed in the bid package (management criteria), and was generally unprofessional. Béla Kalman, however, while the bid he submitted was not as professional as that of the four mentioned in the previous paragraph, demonstrated that he had really thought about the management criteria and practical ways in which to address tenant relations and maintenance problems.

The Selection Process. The selection committee responsible for choosing the management company finalists was to include five municipal staff members and two tenant representatives. The municipality staff — from the Housing Department, the Operations Department, and the Asset Management Department — were designated and letters of invitation were sent to them.

Posters were created and put up in the pilot project buildings in which tenants were solicited to run for the two tenant representative positions on the management company selection committee. Unfortunately, there were no responses.

The USAID team argued strongly that tenant representatives for the selection committee had to be found for a number of reasons. First, the current lack of rental mobility means that tenants have no recourse when quality of rental housing declines; control over management quality can substitute for this inability to "vote with their feet." Second, tenant involvement in management provides a monitoring function

of use to the housing stock owner as tenants are both the most interested parties in management quality and those best placed to monitor performance.³ Third, for political reasons improvements in management should be made as visible as possible as the principal justification for the new higher rents.

Piroska Ihasz, a new member of the Housing Department and the wife of one of the members of the Selection Committee, said that she would personally visit some of the tenants and try to get two people to agree to be representatives. It was agreed that she visit those who had initially indicated interest in participating in the committee when the original survey was done in the summer of 1992. She found two tenants who agreed to be on the committee, although one was disqualified when it was learned eventually that he was an employee of IKV. The Committee decided to have Mrs. Ihasz become its seventh member.

Final selection committee members were as follows:

Klára Nagy Kun, Housing Department (asset management staff)
Erzsébet Varga, Housing Department (asset management staff)
Magda Meszaros, Operations Department/Utilities
Tibor Ihasz, Operations Department/Utilities
Tibor Kanyassi, Asset Management Department
Piroska Ihasz, Housing Department (asset management staff)
Mihaly Nasz, tenant (selected later; see below)

The criteria by which the bids were to be judged and the contractors to be ranked was developed for use by the selection committee. (A copy of the Bid Ranking Criteria used is attached and is labeled Annex C.) One meeting of municipal representatives of the Selection Committee was held so that the USAID consultant could explain the bid process (submission, evaluation, finalists, interviews, selection) on Tuesday, February 23.

On March 1 a preliminary translation and review of the bids was done. A bid ranking score sheet to be distributed to the members of the selection committee was also prepared. On March 2 the selection committee met to discuss the bids and prepare a list of interview questions. On March 3 and 4 the selection committee met and interviewed the six bidders.

The selection committee met on March 8 to tabulate bid ranking scores. The committee was either to decide on one bidder to which the contract would be awarded, or two to three finalists. The final score of the bidders was thus that one bidder clearly stood out among the others, although a case could have been made to choose the two top-ranking bidders as finalists. The USAID team pushed to have finalists

These two arguments are discussed in greater detail in Struyk, Mark, Telgarsky (1991).

chosen, and to have the final decision rest with the tenants. The tenants could have been asked to come to City Hall and witness a presentation of the finalists, and then vote for the firm which would be awarded the contract. The members of the selection committee were vehemently opposed to this option. After an argument which lasted more than two hours, it was finally decided that the top ranking contractor would be awarded the contract. The top ranking contractor was Tiszaber. A meeting was held with all the bidders on March 10 during which the winning contractor was announced.

Establishing the New Contractor. During the following two weeks, the USAID team, staff from the Office of Housing, and the principals of Tiszaber met extensively to finalize the contract. The sample management contract was used as a basis, and was modified slightly and signed by both parties. During this time, site plans, financial information, and relevant documents needed by Tiszaber as the new management company for the Pilot Project units was transferred to them by IKV.

On March 26, 1993 at 6:00 p.m., Lajos Csala, president of Tiszaber, held an assembly with the tenants of the Pilot Project units to discuss the company's new responsibilities. Dr. Ferenc Probáld of Szolnok's Housing Office gave a brief background description of the Pilot Project and introduced Mr. Csala. Mr. Csala discussed how the relationship between the tenants and Tiszaber was to proceed, for example, with respect to maintenance complaint procedures and the payment of rent and other charges. After Mr. Csala spoke, there was a question and answer period in which the tenants were able to voice their concerns. The staff of the City's Housing Office reported that the tenants seemed pleased with the presentation and were anticipating positive changes in the level of management and maintenance services provided to them. In addition, approximately 75 percent of the families were represented, which the Housing Office staff said was an amazingly high percentage.

Monitoring and Follow-up

The new management contract between the City of Szolnok and Tiszaber commenced on April 1, 1993. Since then, the USAID team has met with the Asset Management staff on a weekly or bi-weekly basis to help them review financial reports submitted by Tiszaber, and to discuss other ways in which staff can monitor Tiszaber's performance. Staff has inspected the buildings of the pilot project units twice since the commencement of the contract. Although no major work has been done at this point, due to financial constraints, staff was generally pleased with the appearance of the buildings.

One of the most encouraging signs of Tiszaber's performance is the company's relatively high percentage of rent collection and collection of other charges, which is much higher than IKV's. If tenants do not come to Tiszaber's office to pay rent, Tiszaber sends staff members to the individual units to attempt to collect the money or at least to ascertain why it is not being paid. Tiszaber's collection rate for the period since May 1, 1993, when a hefty rent increase went into effect along with the Housing Allowance program, was as follows: 85 percent in May, 90 percent in June, and 78 percent in July.

During 1992, the City decided that IKV would be reorganized into a private limited company, in which the City would have substantial financial interest. The transformation of IKV to Szollak Kft. was completed in June. The City also decided that Szollak would have to adhere to the same reporting requirements, and have the same relationship with the Asset Management staff/Housing Office as Tiszaber or any other new management contractor. The USAID team has been helping Asset Management staff to prepare for this transition and increased workload; for example, together they reviewed Szollak's draft contract with the City, which was finalized at the beginning of August.

For the month of May, Szollak's collections were quite dismal, 54 percent, although for the months of June and July they were roughly 80 percent per month. However, Szollak's figures do not take into consideration accrued delinquencies. Much of the money Szollak collected in June and July actually consisted of funds due in prior months. Szollak has yet to make any distinction between the current and past due balance owed by tenants. Therefore, while the total amount collected by Szollak for July may have equalled 80 percent of the gross potential for July, it does not mean that the cumulative delinquency is only 20 percent. In fact, it appears that this amount is much higher, although Szollak has not yet been able to provide the amount of past due arrears.

Finally, the USAID team and Asset Management staff are beginning to make plans for the City to competitively bid a contract for the management of an additional 1,500 units of municipally owned housing.

The City of Szolnok has been pleased with the Pilot Project, not only because the level of management services provided by Tiszaber seems to be higher than that of the former IKV, but because it appears that Szollak is attempting to emulate Tiszaber's management practices. In fact, Szollak purchased the software that Tiszaber developed for bookkeeping/accounting, and production of financial reports. In addition, representatives of the City had been skeptical that any firm would be interested in bidding for a contract to management municipally owned rental units. The Pilot Project proved that this assumption was not valid.

PROJECT RESULTS AND LESSONS

The Pilot Project has been successful in several areas. One, the City is beginning to understand that it must 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, rather than being dictated to by Szollak as has been the case for many years. Lastly, and most importantly, the

level of property management services provided to the municipally owned housing in Szolnok appears to be improving.

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. It is critical to the success of the rental sector reform to improve the level of property management and maintenance services, and tenant participation in the decision making process will both increase the probability of improvement and assure tenant awareness of the change. Although the City reluctantly allowed a tenant representative to be on the contractor selection committee, they did everything they could to avoid this, and they would not allow the final selection to be made by tenant vote. This is an attitude that will only change slowly, but full tenant participation will be an important ingredient in improving housing management in Szolnok.

The Asset Managers must take a more **proactive** role and direct more activities, rather than continuing to merely react to events. For instance, instead of using the model Management Contract which was developed for use between the City and the property managers, the Asset Managers allowed Szollak to submit its own contract. Although the Asset Managers reviewed the contract extensively and demanded changes to it that would make it similar to the model contract, it would have been better if the Asset Managers had been the ones to submit a draft contract to Szollak, rather than the other way around. Furthermore, the Office of Housing needs to be more strict in forcing Szollak to adhere to the Management Criteria and Financial Reporting Requirements. Szollak will not submit its first financial reports in the recommended format until October, and still has not submitted its budgets on a per building basis, although IKV had promised to do so as early as December of 1993.

Although in principle the Asset Managers and Office of Housing agree that a contract to manage another group of units should be bid competitively, it appears that they will not begin this process independently, and that the USAID team will need to continue its involvement in this sphere to ensure that this process is carried out and to give additional guidance.

It is not surprising that these attitudinal changes are slow in coming. That sort of change is by far the most difficult to make. It is expected, however, that with the new procedures in place irrevocably and convincingly, and the positive results of the change in evidence, thinking patterns and attitudes will also begin to change. For example, the theory that the owner (the City) is responsible for monitoring management performance may have sounded reasonable at the start, but it only became real as the staff spent time thinking about what management criteria they should establish in order to let potential firms know how they would be judged, discriminating between the bids submitted, and preparing the financial reporting forms that they would require of the new property management firms. As they become accustomed to the monthly routine of checking those forms and assessing the performance of the management firms, they will become more comfortable with their role as owner of the housing stock with the responsibility of

safeguarding its condition and therefore more confident vis-à-vis both other municipal staff and the property managers. It is critical for these reasons that the city staff be a full partner during the entire process, that is, in the development of all materials and procedures and not just in training in the use of a final product.

For that reason it was a problem that asset management staff was hired too late to benefit from early stages of work or the asset management training course. This underlines the importance of obtaining commitments early from municipal leadership especially with regard to personnel changes, and of specifying and holding to the timetable, so that staff participates fully in the technical assistance and costs such as the repeated training are not incurred.

The Szolnok management project makes clear that some of the important ingredients of successful technical assistance are a comprehensive approach, clear commitment up-front, and a long-term relationship between donor and recipient. While the process shows that attitudinal changes are the most difficult, it also demonstrates that changing actual procedures can assist that process, especially when there is a strong sense of teamwork between the providers of technical assistance and the recipient staff from the beginning of the design phase through the successful implementation.

The comprehensive nature of the assistance in Szolnok has been an important component of its success. The project was comprehensive in three different senses. First, it embraced a broad policy agenda, starting with the development of a housing strategy and addressing the rental sector as a whole with reforms to the rent structure and the forms of subsidy as well as housing management. Second, the assistance has embraced different phases of activity, from policy design to the drafting of legislation to program implementation, and will also include program evaluation. This was made possible by the long-term commitment between USAID and the city, and continuity in project staffing. Finally, the project involved both leadership and staff in the municipal government, obtaining input and consent from both groups throughout the project. While these are demanding tasks and agreement has not always been easily obtained, both groups have been essential to the forward movement of the project and to the feasibility of the systems designed and implemented.

RECOMMENDATIONS

The USAID team needs to offer continuing guidance for a fixed period of time to Szolnok's Asset Management staff to ensure that the performance of the property management firms which are in charge of maintaining the municipally owned housing stock is adequately monitored and regulated. Assistance should be given to the Asset Managers in organizing the competitive bidding process for the management contracts of an additional 1,500 rental units (three contracts of approximately 500 units each). Obviously, this assistance can proceed at a much less intensive level than the first phase of assistance.

The USAID team should be involved in the following activities:

- ! Providing assistance to the Asset Management staff in the review of the financial reports provided by the contractor managing the original pilot project units.
- ! Developing a survey for a random sampling of municipally owned rental units to determine the tenant's satisfaction with the level of services provided by the newly contracted property manager and the former IKV (Szollak). This will strengthen the value of the pilot project as a demonstration project for other interested municipalities.
- ! Providing assistance in the development of the competitive bidding process for an additional three clusters of rental units. The USAID team should aid in the development of sample budgets for the buildings in the three clusters, in the compilation of new bid packages, and should supervise the review of bids and the selection process.
- ! Helping the Asset Management staff enforce Szolnok's new management contract with Szollak.

Therefore, it is recommended that USAID be involved in the further development of the municipality's Asset Management capability in a fairly active way for a period of about four to six months. It is anticipated that subsequently, continuing activity by the team will be reduced to periodic performance evaluation of the Asset Management staff and to being available to offer guidance and support on an as-needed basis.

Finally, this highly successful project is of great interest to other cities in Hungary, which have been struggling with the same issues of deteriorated municipal rental stock, poor management, and insufficiently developed asset management skills on the municipal staff. It is strongly recommended that USAID support the use of this demonstration project as a model for other cities through dissemination of written materials and the offering of a training program.

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LIST OF ANNEXES

ANNEX A: Building Survey and Unit Survey

ANNEX B: Bid Package

Call for Tender

Management Criteria

Sample Management Contract

Sample Operating Budgets for the Pilot Project Units

Budget Notes

Sample Financial Reports

ANNEX C: Criteria and Ranking System for Selection of Management Contractor

ANNEX D: Bid from Tiszaber