

Central and Eastern Europe Local Government and Housing Privatization

FINAL REPORT

LOCAL GOVERNMENT REFORM IN BULGARIA CURRENT ISSUES, CONSTRAINTS & OPPORTUNITIES

September 1994

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



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**United States Agency for International Development
Bureau for Global Programs, Field Support, and Research
Office of Environment and Urban Programs**

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Local Government and Housing Privatization**

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ABSTRACT

Local governments in Bulgaria are experiencing fiscal strain and increased dependence on transfer payments from the national government to meet their obligations. Adverse economic conditions, unfavorable policy changes, and administrative limitations pose difficulties to the advancement of local self-government and the promotion of fiscal autonomy for municipalities in Bulgaria. This report presents the findings of the diagnostic evaluation of the institutional/legal environment and analysis of the fiscal condition of three local governments in Bulgaria. The report also puts forth specific recommendations for short-term and long-term projects. These projects are designed to assist municipalities in Bulgaria in the delivery of services to their citizens through the expansion of technical and policy development skills and increased citizen participation in the local self-government process. The project scope assumes that for effective democratic local government to transpire, decentralization must occur not only from the central government to local governments, but from local governments to citizens as well.

EXECUTIVE SUMMARY

This report achieves four principal objectives:

1. Provide a comprehensive diagnostic evaluation of current legal, institutional, administrative, and financial conditions affecting local governments in Bulgaria.
2. Develop a plan for short-term improvements in revenue enhancements and expenditure reductions and/or cost avoidance that can be accomplished without any change in existing legal or institutional requirements currently prescribed by the central government and that can be replicated and disseminated to other Bulgarian municipalities.
3. Develop a plan for application in any Bulgarian municipality for assistance that will produce long-term improvements in financial management, administrative performance, service delivery, transparent government, and citizen participatory processes. These improvements, however, may necessitate changes in legal/institutional requirements imposed by the central government, if benefits from the improvements are to be realized.
4. Identify pre-feasibility capital projects for each city in the study that demonstrate strong potential for further feasibility analysis and the possibility of funding and implementation assistance from public/private donor agencies.

The local governments included in this study are those of Blagoevgrad, Bourgas, and Rousse. Also participating were officials from the Ministries of Finance and Regional Construction and Development. The officials from the local governments and the ministries are listed in Appendix A. Their cooperation, enthusiasm, and commitment to implement acceptable recommendations for the improvement of local self-government were unequivocally outstanding.

This report complements the findings from the report prepared for the World Bank, *The Decentralization of Local Government in Bulgaria*. It is the opinion of the consulting team that these two reports provide the factual and strategic framework and context for a long-term assistance program for local government reform in Bulgaria.

The Constitution of the Republic of Bulgaria considers the municipality a core element of local administration within the legal framework of the Constitution. Article 5 of the Local Self-Government and Local Administration Act (LSGLAA) states that "the Bulgarian municipality is a principal administrative and territorial unit where local self-government is exercised." Yet, the consulting team found little evidence that local self-government as envisioned and expressed by the Constitution and this Act was occurring. However, positive action did occur on July 5, 1994, with an amendment to the Council of Ministers Decree

No. 69 wherein municipalities were given authority to establish certain fees and charges for services within upper and lower limits. This new authority is described in Appendix B.

With the exception of the recent amendment mentioned above, the central government has complete control over the character of the taxes, fees, and charges imposed, the rate of tax and level of fees and charges, and the collection and disposition of the revenue. The central government also prescribes the "norms" for the spending plan which may or may not reflect the needs of the citizens and elected officials of the municipalities.

The budget process is used principally as a negotiating tool between the local governments and the central government to determine the amount of subsidy for the municipalities. Budgets are prepared manually with a format established by the Ministry of Finance. Accounts are uniformly coded, and precise requirements are set forth for completing and reporting on the budget process. The budgeting methods used to allocate governmental revenue and expenditures are determined by the MOF, which also sets specific standards and targets for all expenditure and revenue categories that are given in the annual budget instruction. This is described in Chapter 2.2.

The accounting system described in Chapter 2.3 is based on cash transactions and, therefore, does not reflect accurately current financial or economic activity, nor does it account for payables and receivables and the level of uncollectible revenue.

The principal revenue sources are described in detail in Chapter 3, with graphic illustrations in Appendix C. The income tax is the largest source of municipal revenue, but the current allocation to municipalities is diminishing. Initially, the tax revenue was entirely assigned to municipalities; in 1992 the allocation became 30 percent for the central government and 70 percent for the municipalities; in 1993 the allocation was modified to 50 percent for the municipalities. The turnover tax was being paid by businesses on the sale of goods and provided about 15 percent of local revenue. However, on April 1, 1994, the value added tax (VAT) was enacted and replaced the turnover tax; the revenue proceeds go entirely to the central government. The real estate and property tax currently provides minimal revenue, but could be a substantially important source, if the Local Property Tax and Rates Bill (described in Appendix D) now before Parliament passes. It would allow a valuation method based on market principles rather than gross area and allow the municipalities to establish and adjust the rate of taxation.

While the principal expenditure categories for municipalities prescribed by the central government include science and education; culture and arts; health care; construction and development; social support services; tourism and sports; land division and marking; and youth activities, 70 percent of the expenditures go to education and health. Accordingly, the consulting team concentrated most of its attention to these areas. Appendix E illustrates the cumulative expenditure budgets for the three cities. As has been stated above, the municipalities have virtually no authority or flexibility to develop a spending plan based on local needs or preferences.

Chapter 4 provides recommendations for revenue enhancements, expenditure reductions, and/or cost avoidance which can be accomplished without any change in existing legal/institutional requirements imposed by the central government. Moreover, while the team recommends a specific project to be undertaken within a specific municipality, these improvements can be replicated and disseminated to any municipality in Bulgaria.

Recommendations for revenue enhancements include: a) perform a cost of service study for municipal services related to the management of building permits; b) revise property tax rolls to add property not now recorded; c) create a financing mechanism for capital improvements of municipal property; d) install a computerized real estate system; e) create a system for registering and monitoring commercial activity of small businesses; f) provide technical assistance for improving the municipal information system; g) establish rate setting capability, billing and collection capacity, and credit criteria for financing a wastewater treatment facility for an unserved portion of Bourgas; h) develop a system for the accounting and management of municipal assets; i) computerize personal income tax records for individuals and sole-proprietor businesses.

Recommendations for expenditure reductions and/or cost avoidance include: a) develop management techniques for current repairs to educational facilities; b) develop software to computerize medical records; c) develop a system of asset management and methods for analyzing educational building systems and structural problems caused by defective material and workmanship.

Chapter 5 recommends long-term improvements applicable to any municipality. However, for optimum benefit, changes in legal/institutional requirements may be necessary. Recommended improvements include: a) develop an automated accounting system that incorporates accrual accounting methods; b) revise the operating budget process and format to allow the budget to be useful as a decision-making tool for elected and appointed local officials, a financial tool for management and accountability, and a communication tool for increased citizen understanding and support of local priorities; c) implement a capital budgeting process and format that will allow capital investment priorities to be made on a rational basis and with the clear identification of methods for project financing; d) develop a cash management system; e) conduct a cost of service analysis in order to establish a rational basis for setting fees and charges for services with the objective of full cost recovery for the service; f) conduct a health care system analysis in order to effectively coordinate the medical services provided by the regional hospitals, the military hospital, and the Ministry of Transportation's hospital; g) conduct a service delivery analysis on selected municipal activities in the area of education and street maintenance in order to improve the allocation of resources and the measurement of expected performance outcomes; h) implement various techniques to improve the democratization of the political process and to strengthen the citizen participatory and advocacy processes.

Chapter 6 identifies several pre-feasibility capital projects which the consulting team has concluded have merit for further feasibility analysis.

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Local Government Reform in Bulgaria Current Issues, Constraints & Opportunities

1 INTRODUCTION

This report responds to USAID Request for Services 94 and is based upon a review of documents, interviews, observations, and their analyses, from two site visits in three Bulgarian municipalities: Rousse, Bourgas, and Blagoevgrad. The principal objectives for this project required that the consulting team:

1. Conduct a comprehensive diagnostic evaluation of current legal, institutional, administrative, and financial conditions affecting local governments in Bulgaria.
2. Develop a plan for each city that will produce short-term improvements in revenue enhancement and expenditure reductions that can be accomplished without any change in existing legal or institutional requirements currently prescribed by the central government. Moreover, these improvements must be capable of replication and dissemination to other Bulgarian municipalities.
3. Develop a plan for application in any Bulgarian municipality for assistance that will produce long-term improvements in financial management, administrative performance, service delivery, and citizen participatory processes. It is understood that these improvements, for optimum benefit, may necessitate changes in legal/institutional requirements imposed by the central government.
4. Identify pre-feasibility capital projects for each city that demonstrate strong potential for further feasibility analysis and the possibility of funding and implementation assistance from public/private donor agencies.

This report meets or exceeds the above objectives and other conditions specified in RFS 94. Factual issues have been confirmed, and all recommendations for further actions are distinguished between those possible within current legal/institutional limitations imposed by the central government and those which will require modifications to such to effect optimum benefit for the local governments and the citizens. Moreover, this report has considered in full measure, and complements the findings from, the report prepared for the World Bank, *The Decentralization of Local Government in Bulgaria*. It is the opinion of the consulting team that these two reports provide the factual and strategic framework and context for a long-term assistance program for local government reform in Bulgaria.

The cooperation received from the officials and staff within the three municipalities and representatives from the Ministries of Regional Development and Construction (MRDC) and the Ministry of Finance (MOF) was outstanding. Documents and data were readily available to the team and staff time was willingly made available, which optimized the team's

productive time within each municipality. Such cooperation; energy; and the willingness to innovate, perhaps take a risk, and attempt creative approaches are essential for the success of this project. Also required are a high level of effective communication and understanding among the municipalities, the ministries, and the consulting team to design and effect workable solutions. It is indisputably clear that while accountability for delivering services and implementing capital investments rests with the municipal governing bodies and the mayors, the authority and responsibility to fund services and projects rest principally with the central government and the Council of Ministries. Accordingly, any effective change needed to strengthen local self-government will require the cooperation, collaboration, and effective communication among the municipalities and the central government. The officials at the local and central level have a historic opportunity to design and implement the essential elements of democratic local self-government, which is essential for the efficient operation of a market economy. This report is intended to contribute to this important objective.

The methodology employed throughout this project has five components:

1. Each member of the team submitted a list of documents/information needed for review prior to each site visit. These requests were given to Dimitar Doukov, ICMA's local consultant in Sofia, and Anatoli Beltchev, ICMA's consultant from the office of Deloitte & Touche in Sofia, which has a subcontractual relationship with ICMA. Mr. Doukov and Mr. Beltchev made contact with each of the cities by telephone and made on-site visits to gather the material and establish interviews with key personnel. The municipal finance legal environment in Bulgaria is described in Appendix F. Lists of collected documents with respect to the municipal finance legal environment, on both the state and municipal level, are available in Appendix G and Appendix H, respectively.
2. The translated documents and information were available to the consulting team upon arrival. This established a productive foundation of information for the team which optimized the effectiveness of time on-site. The legal environment with respect to local self-government and local administration, as well as the Bulgarian accounting policies and procedures, were studied carefully.
3. The consulting team conducted two on-site visits, each with a duration of 2-3 days, and reviewed documents, interviewed key personnel, and toured the municipalities to develop the diagnostic description of each municipality, answer questions, address pertinent issues, develop questions for further investigation, and determine appropriate technical assistance and potential capital investment projects.
4. After completing the first on-site examination, the consulting team met with AID and World Bank officials to present initial findings and discuss technical assistance prospects. As a result of these meetings, a list of short-term and long-term improvement assistance projects was compiled.

5. The team visited the three municipalities again to confirm initial findings, answer additional questions, and discuss in detail proposals for specific improvement programs. These discussions resulted in specific recommendations for both short- and long-term programs at each site. These programs were designed to address specific needs in each municipality and to be applicable and easily transferable to other municipalities in Bulgaria facing similar problems. The municipalities discussed the process in detail with team members and selected what they deemed important and feasible. Each municipality submitted a letter to the team describing the programs and expressing local government support for the project (see Appendix I). The programs for technical assistance are described later in this report.

2 DESCRIPTION OF THE CURRENT CONDITIONS

2.1 Legal/Institutional Issues

The Constitution of the Republic of Bulgaria¹ establishes the foundation for the development of local self-government. The municipality is considered a core element of the local administration within the legal framework of the Constitution.

The major legal document with respect to local government and municipal administration is the Local Self-Government and Local Administration Act (LSGLAA).² It details the issues regarding the rights and responsibilities of the local government bodies. The basics of the municipal financial regulatory environment are introduced in compliance with the major activities of the municipality.

Article 5 of the LSGLAA states that "the Bulgarian municipality is a principal administrative and territorial unit where local self-government is exercised." The team found evidence during the on-site visits that self-government is not in fact occurring as envisioned and expressed by this Act. In fact, the team found evidence that some administrative functions have been shifted from the local government to the central government.

The Local Tax and Charges Act³ is the single most important piece of legislation covering the taxes and charges collected locally. Two types of taxes are considered to be local: the building tax and the inheritance tax. The building tax is also imposed on lots and yards and is referred to elsewhere in this report as the "property tax." The local charges imposed, as of the last amendment of the Act (in July 1993), are collected for:

- property acquisition, either as a donation or against payment

¹State Gazette No. 56 of June 13, 1991.

²State Gazette No. 77 of September 17, 1991.

³State Gazette No. 104 of December 28, 1951.

- technical services
- the right to use a vehicle
- use of quarry materials
- use of markets and market-places
- use of water and sewage systems and solid waste disposal
- use of resorts, kindergartens, homes, boarding houses
- veterinary services
- certification and other services of an administrative nature
- leisure and recreation centers of state and local significance

The rates of the charges are determined by the Council of Ministers Decree No. 69.⁴ The latest update of the Decree was on July 5, 1994. Apart from the charge for acquisition of property (donated or purchased) where the rate increases progressively, all other charges are established on a simple pro rata basis. Municipalities have been given upper and lower limits with respect to some of the charges, and the municipal council can determine the appropriate rates within the given range. The most current, as of July 1994, can be found in Appendix B.

The greater part of the municipal revenues arise from tax sharing between the state and the local budgets. The State Budget Act for each particular year establishes this relationship. The most important source of revenue for the municipality is **income tax**. Income tax is paid by individuals earning income either employed by companies or self-employed. Employees' companies have income tax withheld each time they get paid. Self-employed individuals file annual income tax returns and submit appropriate payments. Both classes of income earners file a year-end tax return form. The Ministry of Finance regional tax office monitors and collects income tax payments. It also transfers to the appropriate municipal account each municipality's share of the income tax. Half of the revenues from this tax are currently transferred to the local budget account. For the municipalities the team examined, over the last three years income tax comprised 20 to 50 percent of total revenues. The latest scales for both types of income tax enacted since May 6, 1994 are shown in Appendix J.

The second most important contribution to the municipal budget source is **profit tax**. Decree No. 56 on Economic Activities,⁵ and the rules for its implementation elaborate on the scheme for calculating and adjusting profits for taxable purposes, the profit tax levels for different types of companies, as well as the method by which the tax is computed and paid.

The third category of the municipal budget revenues is direct transfers from the state budget. The subsidies for all 255 municipalities are approved by the National Assembly. The

⁴State Gazette No. 45 of June 13, 1975.

⁵State Gazette No. 4 of January 13, 1989.

1994 State Budget Act specifies the methodology for determination of the subsidy amount. This methodology is explained in detail in Appendix K.

Control over the municipal financial system is exercised by both the local government and the state. Because of the close relationship between the state and the local budget, the Ministry of Finance (which is entitled to compile and implement the state budget after its approval by Parliament) is the main central government body coordinating the local finances in compliance with the overall state financial system.

The Ministry of Finance is entitled by the Tax Administration Act⁶ to collect taxes, fees, and other state claims. In performance of its duties, the local tax office of the Ministry of Finance works together with the municipality financial officers with respect to forecasting and collection of the local taxes, fees, and charges and their transfer to the state and the municipal budgets.

More than half of the of the municipal revenues are spent on wages for services provided locally. The people paid out of the municipal budget, such as doctors, teachers, city administrators, etc., bear the status of government employees, and control is exercised over their wages and social security contributions. Decree No. 30 of the Council of Ministers⁷ regulates the average salary of the persons paid by Ministry budget organizations. It sets the average salary amount for the local government employees for the first quarter of 1994 and the maximum salaries of different personnel categories in respect to the minimum wage of a Bulgarian employee. Salary negotiations for employees of the hospitals and the schools involve union representatives and officials from appropriate ministries. Municipal officials are not involved in the salary negotiation process. Similarly, most of the local government expenses are regulated at the state level.

In the course of the municipal budget preparation and approval, the State Expenditures Department of the Ministry of Finance issues advisory documents to municipalities with respect to their expenses. The branch ministries work closely with the municipality in establishing service standards in their area of expertise in order to facilitate the service activities of the municipality.

2.2 The Budget Process

The budget process as prescribed by the MOF is as follows:

- 1. Instructions.** In late July the MOF sends instructions to the local governments that give detailed explanations for the approach to calculating the expenses for each item of the budget. The instructions establish the:

⁶*State Gazette* No. 59 of July 9, 1993.

⁷*State Gazette* No. 16 of February 22, 1994.

- a. Number of people that must be on the payroll;
 - b. Manner in which the salaries are to be calculated;
 - c. Rate of inflation;
 - d. Exchange rate to be used for imported goods;
 - e. Extent and nature of travel by local officials;
 - f. Methods for determining the maintenance and repair expenses for municipal assets;
 - g. Priorities to be pursued for the capital investment budget and the operating budget.
2. **Expenditures.** The budgeting department of the municipality prepares the budget in compliance with the MOF instructions and in consultation with each municipal department and the corresponding branch ministry that has considerable influence over the final recommendations. Again, however, the municipality has little say over the spending plan.
3. **Revenues.** Information on all taxes, fees, and charges is estimated by the MOF regional tax office. Access by the municipality to the information that would enable it to prepare its own forecast of revenues is practically impossible; thus, while municipalities can challenge the estimates of the regional tax office, they typically accept them.
4. **Capital Budget.** The municipalities prepare a separate capital investment plan. The plan must reflect the priorities of the central government, which currently include: water supply, health care, education, and environment and ecology. Only the projects in the priority fields have a chance for funding. The budget proposal also includes estimated costs for the projects funded with the local allocation and the requested state subsidy. Typically the state funds less than one third of the requirement. More details on the capital investment program and process are provided in a later section of this report.
5. **State Subsidy.** The total amount to be distributed to the municipalities through transfers from the state budget is determined by the National Assembly and currently amounts to approximately 3.8 percent of the gross domestic product (GDP). The amount to be distributed to each particular municipality is established through a formula prepared by the Local Budgets Department of the MOF. The computation formula is contained in Appendix K.
6. **Budget Approvals.** The MOF Budget Department receives all proposed municipal budgets, prepares a proposed consolidated budget for the Republic of Bulgaria, and presents it to the Budget Committee of Parliament. After approval by Parliament it becomes law. After the approval of the state subsidies by Parliament, the MOF Budget Department notifies the municipalities of the subsidy for both operating and capital budgets. The municipal council has to approve the final budget within one month and submit it to the MOF. If the municipal budget is not approved and submitted on time, the MOF can suspend subsidy transfers.

The municipal budgets the team examined do not fit any Western European or U.S. standard of format or process. The budget process is used principally as a negotiating tool between the local governments and the central government to determine the amount of

subsidy for the municipalities. Budgets are prepared manually with a format established by the Ministry of Finance. Accounts are uniformly coded, and precise requirements are set forth for completing and reporting on the budget process. The budgeting methods used to allocate governmental revenue and expenditures are determined by MOF, which also sets specific standards and targets for all expenditure and revenue categories.

The State Budget Act requires that the central government provide at least 90 percent of the determined subsidy annually, but the same Act states that the subsidy is provided within the limits of the actual collections of the state. Other expenditures have higher priority on the state list than the local budgets, and for this reason the municipalities in many cases do not receive the subsidy they are entitled to. The review of 1993 financial statements in the three municipalities reveals an average subsidy receipt in the range of 75 to 90 percent.

It is possible to expand and embellish the municipal budget into a format which is suitable as a management tool and an instrument of public participation. By using cost of service criteria, trending of expenditures and revenues using bar graphs and pie charts, narratives about service needs and delivery levels in non-technical Bulgarian, and simplified descriptions about how municipal budgets ought to be developed and administered, municipal administrators will be better able to convey to interested citizens and the media the issues facing them as they adapt to increasing program responsibilities and shrinking subsidies from the central government.

In order to increase interest on the part of citizens, the presentation of detailed, "user friendly" budget information at the mayor's periodic press conferences could be a first step in effective dissemination of budget materials. Coordination with local non-governmental organizations (NGOs) to distribute the budget more widely and to sponsor forums to discuss the annual budget's components could supplement efforts on the part of municipal officials to put the document in the hands of as many people as possible through traditional means such as posting it and putting copies in libraries and other public buildings.

In order to phase in a public awareness of spending and revenue issues, and to promote the concept of local self-government as more than just the election of a mayor and council, some of the descriptive, program-oriented elements of budgeting should be introduced. This will have a positive effect on the administrators of the budget and of municipal departments, in that each will have a stake in long-range financial planning, each will adopt a more outcome-oriented approach to expenditure allocation and revenue forecasting, and each will have a more complete understanding of all the operating units of local government.

The current system for estimating expenditures is best described as "modified incremental." That is, the prior year's figure is used as a base for each spending category, and after adjustment for inflation, a figure is plugged in which is dictated by the MOF's budget analysts (after some discussion with local budget estimators). While the ultimate budget figure in each category takes local conditions somewhat into account, that figure is a reflection of nationally-imposed norms or target amounts available to all municipalities,

yielding 90 percent or less of the funds which are theoretically distributed by formula from the MOF to the municipalities.

The lack of reliable forecasts leads to a distrust of budget projections in general, and cynicism as norms are ignored and informal ways are found to deal with shortfalls. In order to prepare a more locally-oriented system of budgeting, steps should be taken to develop a program-oriented budgeting system which uses output measures rather than arbitrary norms for arriving at expenditure projections and for predicting revenue needs. Having such practices in use in a few municipalities, even if the program-oriented budgets need to be "shadow budgets" used only unofficially as planning tools until true reform and economic recovery come about, will demonstrate that self-government will be rewarding for municipalities that can cut appropriations in areas which will need less support over time. With fiscal decentralization, municipalities can use those savings to start new programs deemed necessary by local elected officials, outside the purview of the MOF.

2.3 The Accounting System

The Accountancy Act,⁸ the National Chart of Accounts,⁹ and the National Accounting Standards¹⁰ constitute the basis of the accountancy practices in Bulgaria. Bulgarian municipal accounting systems operate under the regulations and controls set by this legislation.

One of the problems identified in the accounting system is that the current accounting method prescribed is based on recording cash transactions only. As such, it often does not reflect current financial or economic activity and thus does not provide accurate or timely information about a municipality's fiscal condition. For example, local governments will often delay payment of accrued liabilities when no cash is available. This has resulted in unfunded deficits being "rolled over" from one period to the next. Revenues are recorded when funds appear on a municipality's bank account. Deposits are made to the municipal bank account by the regional tax collection office and are based on the pre-determined revenue sharing formula. Some revenues, such as fees and fines, are transferred to the municipal accounts weekly. The municipality waits for the bank statement to acquire information for the accounting system. Cash accounting, therefore, does not reflect the revenues that have accrued to the municipality as taxes and other fees and charges become payable according to law. Municipalities, therefore, cannot account for receivables and uncollectible revenues.

Municipalities account for expenses when the forms used to transfer funds to the vendors who provide goods and services are processed. Often when funds are unavailable,

⁸State Gazette No. 4 of January 15, 1991.

⁹State Gazette No. 26 of April 2, 1991.

¹⁰State Gazette of January 15, 1993.

the municipalities simply do not process the form for payment. At the end of the fiscal year, unprocessed expense forms are reported to the MOF and are paid from the next fiscal year's funds. When budgeting for the next fiscal year, however, no allowances are made for past payables. This results in the "rolling over" of deficits and accrued liabilities and can have a catastrophic effect on the municipalities' finances. This annual "rolling forward" of unfunded payables and other liabilities is metaphorically like a tidal wave rolling toward the beach which will add substantially to inflation, an already unstable currency, and the inability to achieve creditworthiness within any forum for long-term credit markets. These fiscal deficiencies for Rouse and Blagoevgrad for 1991, 1992, and 1993 are shown in Appendix L.

3 CURRENT REVENUES AND EXPENDITURES

3.1 Principal Revenues

Local governments rely on four categories of revenues: taxes, charges, other revenues, and relations and financing. The last category, "relations and financing," represents transfers from the central government to the local governments, often referred to as a "subsidy." For 1993, total revenues in the studied municipalities were comprised as follows: taxes 61.11 percent; charges 7.39 percent; other revenues 5.97 percent; and transfers 25.53 percent. See Appendix M for a cumulative summary of revenues for the three municipalities for 1991, 1992, and 1993; and Appendix C for a graphical presentation of major revenue sources.

The following is a description of the principal local revenue sources:

- 1. Income Tax.** The tax on personal income is the largest source of municipal revenue. Legislative changes have adversely affected the local allocation. Initially, the tax revenue was entirely assigned to municipalities. In 1992 the allocation became 30 percent for the central government and 70 percent for the municipalities; since 1993 the allocation has been 50 percent for the central government and 50 percent for the local governments.
- 2. Turnover Tax.** This tax was being paid by businesses on the sale of goods in compliance with the *Turnover Tax Act*. Revenue from this tax collected within a municipality from private and municipally owned businesses was returned to the municipality. This source provided a substantial portion of local revenues (approximately 15 percent). However, on April 1, 1994, the value added tax (VAT) was enacted and replaced the turnover tax. The proceeds from the VAT go directly to the central government. The 1994 State Budget Act provides for the possibility of some additional transfers to the municipalities if the VAT State Budget Account shows a surplus at the end of the year.
- 3. Real Estate and Property Tax.** This tax produces insignificant revenue and is based on a valuation method primarily focused on gross area without consideration of market value. However, there is an indication that the assessing unit of the regional tax office has not been including all new additions to property in the valuation base. Including such additions could

produce additional revenue. Also, there is a bill in Parliament, supported by the MOF, which would modify the valuation method to incorporate market based factors and would give the municipalities authority to adjust the tax rate. A draft of this Local Property Tax and Rates Bill is included in Appendix D.

4. Excise Tax. This revenue comes from the excise paid by private individuals on spirits and wine production for their own consumption. The importance of this source is negligible.

5. Profit Tax. Profit tax is regulated by Decree No. 56 of Economic Activity. Banks and other financial institutions pay 50 percent tax on their profit. Companies with less than one million levs taxable profit pay 30 percent tax on their profit. Companies with more than one million levs profit pay 40 percent tax on their profits. The above taxes are all paid to the central government. As for municipalities, they receive the profit tax from three types of companies: general partnerships, companies that have at least 50 percent municipal ownership, and companies that are branches of foreign persons. In addition, companies that are owned at least at a 50 percent level by the state or a municipality pay an additional 10 percent tax on their profit to the municipality. Because of the poor state of the economy, the profit tax transferred to the municipality does not account for more than 10 percent of total municipal revenues. There is strong concern among some government officials that many private companies are understating profits and/or are not paying the appropriate amount of tax.

6. Municipal Property Rent. While not a substantial portion of local revenues currently, municipal property rent is a source controlled by the municipality in terms of the payment level and indexing to inflation during the period of the lease. This field of municipal activity has a high potential for revenue enhancement once an appropriate and efficient system for claiming, maintaining, tendering, and control of municipal property is in place.

7. Technical and Administrative Services. The municipal administration provides several different types of services with respect to: approval of construction, issuing drawings for construction sites, legalizing properties that have been built without proper permits, etc. The collections made for these services account for about 25 percent of total municipal charges. The rates of these charges are determined on a simple pro rata basis by the MOF. In most cases the rates are updated annually but do not reflect in full the cost of the provided services. This is even more so with the high and unpredictable current fluctuations of the rate of inflation.

8. Use of Vehicles. The local charge is imposed on all motor vehicles. It is collected annually, and the rates are set by the Council of Ministers. The rates depend on the volume of the engine, the number of seats, and the tonnage of the vehicle. This charge represents about 1 percent of the total municipal revenues; it is very dependable and relatively well established in terms of monitoring and collection. The charge is also expected to show a trend of growth with the fast increase of the number of vehicles throughout the country.

9. Interest-free Loans. The Bulgarian government extended interest-free loans to most of the municipalities in 1992. Because of the inability to pay, the 1994 State Budget Act has rescheduled these loans for payment by the end of 1995. Practice proved the high level of subjectivity in extending this type of loan, and the central government is very reluctant to continue providing this type of support to the municipalities.

10. Subsidies. The subsidies are the main means for transfer of funds from the state to the municipalities. The total amount of a subsidy takes into consideration the overall revenue-expenditure requirements of the municipalities, the prescribed requirement of the international financial institutions supporting the Bulgarian financial system transition, and the ability of the state budget. As already discussed, a formula for distribution of the subsidy to all 255 municipalities has been established to consider both the structure of the subsidies distribution in previous years, as well as a set of objective criteria. The weight of the historical structure is diminishing starting from 1992 with 100 percent, through 85 percent in 1994, and is expected to reach 50-65 percent in 1995, in order to ensure smooth transition giving way to entirely objective criteria determination in the near future.

The above represent the main municipal revenue sources. Again, it is emphasized that the central government establishes the rate or the range of the rate for all taxes, fees, and charges. It is expected that pending legislation in Parliament and described earlier, would give increased authority to municipalities to set the rates.

The collection of all taxes, fees, and charges is exclusively under the control of the MOF and its regional tax offices. There are currently 28 tax collection offices. Municipalities are not allowed to have a collection process. This is an area of "recentralization." Before the reform, municipalities could and did collect some of the local revenues. There is considerable concern among the officials that improvements to the enforcement and compliance area are necessary. For instance, if a person under-reports income for a specific activity and is caught, in most cases, the only payment required is the tax liability at the regular rate plus the market rate of interest.

The municipalities own a substantial number of businesses which, if privatized, could provide a source of capital for other capital investments. Privatization has been slow; however, the recent changes of the Transformation and Privatization of State and Municipal Enterprises Act¹¹ create serious incentives for the municipalities to view the sale of municipal companies and assets as an attractive option in raising additional revenues.

3.2 Principal Expenditures

The principal expenditure categories as prescribed by national law include:

¹¹State Gazette, July 1994.

1. Science and Education
2. Culture and Arts
3. Health Care
4. Construction and Development
5. Social Support
6. Tourism and Sports
7. Land Division and Marking
8. Youth Activities

Appendix E illustrates the cumulative expenditure budgets for the three cities. Education and Health Care comprise approximately 70 percent of the entire budget; therefore, the team concentrated its efforts in those two areas.

3.3 Budgeting Process

As has been stated before, the municipalities have virtually no authority or flexibility to develop a spending plan based on local needs. The respective ministries set the standards and norms based on demographic factors not always reflective of local conditions and needs.

Financial analysts and program managers in the municipal governments are called upon to give expert opinions about the appropriate levels of salaries and other expenses to request in the annual budget presented to the Ministry of Finance. While some amount of negotiation takes place between the MOF and the municipality, the imposition of norms prescribed by the various national ministries will predominate over local need in most cases. This means that there may be over-appropriations in some budget areas and under-appropriations in other areas if one defines needs using subjective, locally-derived criteria.

The use of objective, standardized, inflexible nationwide criteria for setting appropriation levels leads to inequities and shortages. The resulting curtailment of services causes crises at certain times of the year in certain locales; failure to remove snow and ice due to lack of funds is one example.

It must be mentioned, however, that municipal officials have been creative and ingenious in mitigating this set of restrictions on their ability to budget effectively. Much "off the books" activity takes place in some municipalities, invoices are delayed or not paid in some cases for municipal services, and statistics are used to the advantage of the municipality whenever possible. Sometimes with the tacit cooperation of ministry officials, ways are found to accommodate a very serious shortfall in funds and the inability to reduce municipal expenditures prescribed from above or to find new sources of revenues in the absence of enabling legislation.

The effect of this adaptation is almost all negative, however. Aside from promoting a distrust of government in general, such practices tend to alienate vendors and potential bidders for municipal contracts, to inflate prices municipalities must pay (informal insurance

against default), and to weaken the case for more central government subsidy of local government.

The overall effect of this blurring of municipal service needs, and the lack of accurate or complete statistics on populations served or supplies and equipment used, is to prevent the clear identification of service costs and the setting of fees for those services on some objective criterion, such as the approximate cost of providing the service.

In that the relationship of municipal fees for services to the cost of producing the service has not been documented, this report proposes that cost of service analyses be conducted. These analyses would form the basis for the establishment of appropriate fees derived from local costs. The need for this cost/fee relationship to be defined and measured is discussed later in the report.

Another method by which municipalities can recover the cost of services they provide is to find a way for municipal hospitals to receive payment for treating patients from other jurisdictions. Currently, municipal hospitals serving citizens who pay taxes in other jurisdictions cannot collect fees from those jurisdictions. This is especially costly in those municipalities with high itinerant populations. The MOF is aware of and sensitive to this problem. The solution may ultimately rest with the regional administrative offices, wherein revenues would be collected regionally and related to the specific service activity that "cuts across" several municipal boundaries.

The accounting for and treatment of municipal funds are prescribed by national law; therefore the charts of accounts, reporting mechanisms, budget cycles, etc. were the same in all municipalities studied. There was some variation in the internal reporting of expenditures with respect to the timing and form of data collection from the accountancy offices throughout the municipality. In most municipalities the reporting system is manual, with many cost centers reporting to the office of the Chief Accountant. Such a system has inherent inefficiencies, yet there did not seem to be a widespread problem with identifying of accounts in danger of being overspent.

Funds from under-expended accounts may be carried over into the next fiscal year, but must be distributed among all budgetary accounts rather than channeled to activity accounts that are considered to be local priorities. This is a disincentive to reduce expenditures through increases in productivity and direct reductions in cost.

Special fund accounts, referred to as "off-budget," are allowed, but most of them are established or approved by the Council of Ministers or the MOF. Operating surpluses may not be transferred into them to build up fund balances or capital reserves. Some of these accounts must be expended in the current year, or the fund balances must be returned to the particular account of the central government. Local officials need more control over the off-budget accounts, especially when they are established for infrastructure purposes.

As with the situation for revenues, the high and variable inflation rate made a trend analysis of expenditures difficult. While budget requests are adjusted for inflation, the process of doing so is not well understood outside the central budgeting office of the municipality, and the need for long-term revenue and expenditure forecasting is not considered valuable or necessary in this environment of shrinking revenue sources and increasing administrative responsibilities for municipalities.

4 RECOMMENDATIONS FOR SHORT-TERM IMPROVEMENTS

This chapter provides recommendations for revenue enhancements, expenditure reductions, and/or cost avoidance that can be accomplished without any change in existing legal/institutional requirements imposed by the central government. Moreover, these improvements are not uniquely beneficial to the city specified, but can be disseminated to any municipality in Bulgaria.

4.1 Revenues

Revenue administration for local governments in Bulgaria faces two types of impediments—legal and administrative. Legal limitations are imposed by national law and do not provide for direct taxation by local governments in Bulgaria. Rather, the legislative body of the central government taxes citizens for both national and local taxes. The Ministry of Finance and the Council of Ministers govern the execution of the laws and provide certain functions of revenue administration to the local governments. Recent issuance of a decree by the Council of Ministers regarding certain local government charges, and interviews with pertinent officials of the executive branch of the central government, indicate that there are plans to liberalize certain revenues for local governments and assign revenue raising powers to localities.

Administrative limitations exist at the local level because of misapplication of personnel resources and the employment of manual, antiquated systems for record keeping and registering activities and assets. The short-term improvements this report recommends address administrative issues only. Improvements suggested can be implemented, with technical assistance, under current regulations and resource restrictions. Long-term improvements, addressed later in this report, deal with issues that would require changes in existing law and may be effected later in the development process of local government control over financial functions.

For the short-term revenue administration improvements, the team examined all sources of income for Bulgarian municipalities listed in the uniform budget employed by all municipalities in Bulgaria (budget item codes 1-61). To arrive at the recommendations for short-term improvements, the team examined the legal and administrative structure of revenue management as it exists currently and identified areas where revenue enhancement is possible without requiring legal or legislative changes.

The Ministry of Finance recently issued a decree allowing municipalities to set a number of charges and fees related to municipal services, within certain ranges. Currently, municipalities do not have capacity for calculating proper charges for various categories. Training on rate setting mechanisms and techniques for monitoring and enforcing compliance will assist municipalities to demonstrate that they are capable of establishing their own fees and administer collection procedures.

This report focuses on projects for short-term revenue enhancement that are within the existing legal parameters, are likely to generate additional revenue quickly and effectively, and are feasible and desirable to each municipality.

Rousse

- a. Conduct a cost of service study for municipal services related to management of building permits and tendering process with respect to development of municipal property.** Assist the municipality with calculating the cost of inspections, registration, and monitoring of the building process to establish appropriate charges. This is expected to raise revenues immediately, since construction activity is increasing. Currently, the municipality does not calculate, monitor, or enforce collection of fees associated with building management.
- b. Update property tax rolls.** This will include computerization of property tax records, training of assessors to inspect property characteristics, and classifications under existing property tax law. Create records of municipal property and privately owned property in the jurisdiction to assist with property tax collections and management of rents. This will increase revenues immediately, since many properties are not currently on the property tax rolls, or are recorded with outdated characteristics.
- c. Create a financing mechanism for capital improvements of municipal property.** Make the financing mechanism self-supported rather than tax-supported (revenue bond financing). Examine pledging a portion of rental income or another dedicated revenue source to service debt for acquisition of capital to fix existing properties in need of repairs.

Of particular interest is the financing of repairs of the downtown performing arts building. This historic building is located on the main square of Rousse and is currently unusable. It is possible to establish a mechanism under which financing for necessary repairs can be obtained by either a bond issue or a direct loan to repair the facility and put it to use. The facility will generate revenues once put to use, and a large portion of these revenues can be pledged to service the debt. It will be necessary to pledge another source of revenues to provide adequate debt service coverage. In this case, the municipality can institute an additional charge on the rents it charges for use of municipal property. This pledge of a portion of the rental income will cover debt requirements and will result in instituting the concept of revenue association with specific government outlays. In addition, it can be shown

that the businesses and individuals contributing to the improvements of the performing arts building will derive direct benefits by having it in operation.

Bourgas

a. Institute real estate property computerization. For this project, it will be necessary to improve and update real estate property information through entry of existing property records into a database and verification of existing information through inspections. Finally, the project will compare information with the database available at the MOF regional tax office and make updates, as necessary.

b. Create a municipal department for registering and monitoring commercial activity of small businesses and ensuring payment of fees and taxes. Currently, local tax authorities are responsible for assessing and collecting fees and taxes from all businesses. Since the fees and taxes from local businesses all go to the municipality, typically are not large amounts per business, and regional authorities do not possess the necessary information or enough resources, local tax people do not focus their efforts on this revenue category. Regional tax authorities usually spend most of their time monitoring and collecting taxes from large industrial and commercial enterprises. Interviews with pertinent officials from municipal administration and regional tax authorities revealed that estimates for uncollected taxes and fees from local businesses reach 90 percent.

The municipality possesses the registration records for local businesses and can create a database of such enterprises, calculate pertinent fees and taxes, and assign personnel to work with regional tax authorities to enforce collection of appropriate fees and taxes. This area of commercial activity is expected to grow rapidly in the near future. The proposed program, in addition to providing additional revenues to municipalities, will assist local businesses with understanding tax compliance and fairness issues.

c. Perform a technical and economic study and analysis of the water purification plant development for the "Meden Rudnik" subdivision. The Meden Rudnik subdivision in Bourgas is a section of the city with approximately 70,000 inhabitants. It is the only section of the municipality that does not have wastewater treatment facilities. All wastewater transmitted to the Black Sea is untreated. The municipality has explored wastewater treatment options for this section of the city and has selected the most appropriate method for this situation. The municipality has also examined the legal and regulatory issues related to this project and has determined that the project is feasible under existing laws and regulations. The municipality has prepared preliminary engineering studies and has concluded that the project would require approximately four million U.S. dollars for completion. The team recognizes the importance of this project to the municipality and proposes a feasibility and rate study and formulation of a proposal for financing the project. The team recommends assistance that will create a method for setting rates and hook up charges for users of the system and will establish credit criteria for financing the project. Emphasis will be placed on achieving self-reliance for the project for both operating and capital amortization require-

ments. Consideration will be given to acquiring donor agency funds for leveraging project's revenue stream. If such funds are necessary for the completion of the project, technical assistance will include recommendations and preparation for the donor agency funding request.

d. Provide technical assistance for improving the municipal information system (IS) and its capacity. Conduct research to establish the IS function in municipal administration. Create system requirements in specific areas (finance, procurement, asset management, etc.). Provide support for the acquisition process of IS requirements. Create technical courses for municipal employees in IS usage and administration.

Blagoevgrad

a. Assist the municipality with accounting and management of its assets. Focus on creating a balance sheet that reflects the municipality's fiscal position and on accurate accounting of municipal property, including municipal corporations. (See Appendix N for balance sheets of the three municipalities.) Currently, the municipality is the sole owner of 12 municipal corporations. The value of each corporation has not been established; as a result the municipality does not carry the proper asset values on its balance sheet. Balance sheet data are important when evaluating a municipality's creditworthiness and borrowing capacity. This proposed program will assist the municipality with accounting for all property it owns and provide for methods to evaluate strategic planning for asset divestment. It will also increase the municipality's ability to raise funds for capital projects by pledging certain assets as collateral.

This program will develop a consistent methodology and reliable systems for asset management. There exist sporadic examples of computerized asset management systems, especially in the area of municipally owned property that is rented out. Technical assistance should focus on helping the municipality create a fixed asset system that can be tied to its general ledger accounts for better tracking of purchases, disposal, management, and losses of fixed assets and inventories. Fixed asset management should include accounting for initial cost, length of service, salvage value, and unpredictable losses of governmental fixed assets. A review of existing practices revealed that no such accounting exists today. The information may exist in some form, but it is not updated to reflect changes in a local government's fixed asset composition.

b. Computerize personal income tax records for individuals and sole-proprietor businesses. Currently, the municipality maintains manual records of these two categories of taxpayers. This makes monitoring of tax records difficult and comparisons with collections with records from the MOF regional tax office cumbersome and unreliable. The proposed program would make records available to the regional tax office on a timely basis and would allow for cross-checking declared income information against business activity registrations.

4.2 Expenditures

Health care and education are the two principle categories of expenses for the municipalities examined. Education and health care accounted for over 70 percent of all municipal expenses for the last three years. Central government mandates on the nature of expenses and the establishment of "norms" for each type of expenditure provide for little flexibility at the municipal level for determining spending plans. As a result, the team focused its efforts in areas where cost avoidance and preventive measures can provide cost savings to the municipalities.

Since local governments do not have the authority to decide the amount of resources to be applied to specific categories of municipal services, improvements in the administration and management of the acquisition and maintenance processes were examined by the team. The recommendations developed assume no legal or institutional changes in the local governance and can be implemented immediately. In addition, the recommended projects can produce immediate cost savings and be easily applied to other municipalities in Bulgaria.

Bourgas

1. Develop management techniques for "current" repairs to educational facilities. Education administrators stress the problem of school maintenance for their 100 buildings. Chronic under-funding of "current" repairs (repair jobs costing less than 100,000 levs) has created a situation where the municipality's property managers cannot keep pace with deteriorating building systems and components or the damage caused by vandals. While there are private firms willing to bid on school repair jobs, the municipality has found that those firms have only recently been formed, and as such, few have any record of achievement in the repair business.

School building managers have few staff to deal with the problem of building deterioration, and they lack confidence in their own ability to award contracts to the most qualified firms in terms of relevant background and the skills of the firms' workers and tradespeople. While the general tendering process is well-established in Bulgaria, and the mechanical aspects of solicitation and bid evaluation are generally in place, Bourgas officials feel that their limited repair funds could be used to more effect if programs were implemented in the following areas:

a. Train officials in methods for analyzing the qualifications and backgrounds of bidders. These would involve, among other measures, a demonstration on the part of bidders that they are qualified as a firm by prior experience, or as individuals by trade or skill credentials. Bid documents would be modified to take into account equivalent experience to the type of work being bid, and would be designed to permit valid comparisons by skill category of workers, numbers and types of complaints from previous contract administrators, and a verification method as to the firms' histories, perhaps through tax records and purchase orders for the prior jobs cited in the qualifications documents.

b. Create a greater management capacity for monitoring the quality of repairs. With only five staff dedicated full-time or part-time to the repair and upkeep of about 100 structures, the municipality has a problem not only in supervising contractors, but in planning how to allot repair jobs among critical areas of need. There are serious problems in plumbing, wiring, roofs, and windows that require immediate attention just to keep certain buildings habitable.

Routines should be established for rank-ordering and scheduling the most critical repair needs of buildings and providing appropriate training to the municipal personnel assigned to the supervision of repairs. That is, basic training of repair supervisors in the particular trades they are most likely to supervise, as well as in the rudiments of construction scheduling, materials selection, and cost accounting from a contractor's perspective would enable the municipality to direct its repair efforts and to create a better working relationship between the repair supervisors and the firms they will supervise. In addition, such a heightening of municipal capacity will encourage bidding beyond the current average level of 15 bidders per job.

c. Develop a preventive maintenance program (methods and materials). The problem of aging structures that are not capable of being repaired adequately with existing budget allocations (six million levs in 1994) is exacerbated by a high level of vandalism. This increases the need to use durable materials and other measures which will free up scarce funds for repairing the buildings' critical systems (plumbing, wiring, etc.). Increasing the life expectancy of windows and other components is essential to turning the tide on vandalism and in the long run increasing public respect for the buildings. A standard approach to preventive maintenance should be incorporated into an overall repair program for school staff, including a detailed examination of durable materials and equipment to replace those that are damaged by wear and by vandalism.

2. Develop software to computerize medical records. The greatest expressed administrative control problem in the Health Department of the municipality is the lack of comprehensive records on patient care costs, facilities usage, and the prescription of medicines. While handwritten records are kept for each inpatient, there is no centralized database, either computerized or manual. Such a database is needed for measuring various unit costs and for gauging the overall effectiveness of the staff.

In terms of costing of services, the greatest need is for comprehensive, computerized information on cost by type of illness, by length of stay, and by treatment(s) administered. From these data a cost per bed figure can be obtained for budgeting and planning purposes. These data will lead to policies which will monitor and control certain costs of operation, and will over time provide a basis for replacing the current system of ministry-imposed norms for assigning numbers of beds and physicians to regional hospitals. Such norms are currently based on demographic criteria, such as the overall permanent population of the region served, rather than the need of the region for medical services.

Just as importantly, having a computerized database that includes complete histories of each patient stay will lead to the creation of measures of effectiveness of individual physicians and types of treatment administered. For example, a well-designed database and software will provide regression analyses for quality of care which would be based upon such measures as:

- frequency of complications after treatment
- the coincidence of the diagnosis by the admitting physician and the attending physician, by patient
- in cases of death, the coincidence of the diagnosis by the attending physician and the autopsy results.

The Ministry of Health (MOH) has begun to install medical software in some jurisdictions and in some areas of record keeping, but not yet in Bourgas. There will be a need, therefore, to single out those areas of database creation and management that will augment or supplement the MOH's applications, and also conform to existing MOH reporting formats. If such software is developed and implemented, then the effort now carried out by 25 clerks at year's end to create and submit summary reports to the MOH will be greatly reduced. Future staffing needs will be reduced as a result of such automation.

Blagoevgrad

a. Develop Health Department software and applications. The regional hospital in Blagoevgrad serves the municipality and an outlying area, with a combined population of about 300,000. While the number of beds in the hospital is stipulated to be 764, the actual number funded and in use is 300. In order to control what is perceived as a crisis in regional health care, hospital administrators have adopted an aggressive policy of reducing the average stay for patients. In 1993 that average was 9.7 days. This year to date it is 8.5. In order to reduce this number further, administrators need to assemble and organize information about types and frequencies of illness, and to develop treatment policies which most efficiently use bed space, thereby containing costs. For example, the Deputy Medical Director cites the goal of establishing procedures for one day treatment of certain medical problems. This will consist of minor surgery, performed in the morning with the recovered patient leaving in the afternoon. Thus hospital staff and facilities will be tied up only minimally.

In order to establish this type of "same-day" treatment, certain policies will need to be developed which provide for best practice surgical techniques and follow-up procedures. There is no effective way to track and control this volume of minor surgery and follow-up care with a manual system. As noted above, the Ministry of Health has produced and applied software in some municipalities, namely for record keeping in polyclinics, for managing partially and totally disabled outpatients, and for tracking medication.

Software designed and tested in Blagoevgrad could be applied to other regional hospitals in Bulgaria. Most important among these applications aimed at cost containment would be:

limiting length of stay; maintaining training and other personnel records; monitoring and controlling medication; and analyzing total cost based on per bed cost, per stay cost, and cost by type of treatment. Eventually, highly quantifiable units of service derived from these software applications will provide the basis for abolishing the MOH norms currently in effect, and regional hospitals, all with different caseloads and demands for various kinds of treatment, will enjoy budgets more reflective of their true needs for space, equipment, and staff.

b. Analyze building systems and structural problems caused by defective materials and workmanship: Education Department and Invest Engineering Company/asset management. As in Bourgas and other cities, the age and quality of school buildings in Blagoevgrad are causing maintenance problems beyond the financial ability of the municipalities to deal with effectively. Many of the structures are of the panelized type, with defects in roofs, plumbing and wiring, sewer connections, windows, and panel joints causing severe problems. Many defects in workmanship and materials are appearing even before the end of the warranty period for the buildings (often seven years), and even then the municipality has difficulty in collecting damages from contractors and materials suppliers.

The Invest Engineering Company, a municipal enterprise, is responsible for contracting school building construction, for monitoring building construction, and for seeking compensation from contractors who have erected buildings of substandard workmanship or with poor materials. Invest Engineering officials report that poor quality materials no longer are permitted in school construction, but that construction skills of contractors are sometimes inadequate, and poor workmanship often slips through the understaffed inspection workforce. Moreover, construction contracts have not been written tightly enough to favor the municipality (the "owner") in disputes with contractors.

Several major initiatives need to be taken in this area to bring about maximum cost avoidance in the future. First a detailed program should be established for identifying defects in existing school buildings and setting a schedule for repairs and for recovering funds where possible from the contractors and suppliers for each building in question. While it is unlikely that a great deal will be recovered for defects in buildings more than a few years old, it will be useful to ascertain which firms have presented problems in the past, in order to screen them out of bidding on future projects. Also, the identification and costing of repairs for defects will enable the Invest Engineering staff to incorporate such estimates in a unified capital improvements program for all municipal buildings, a program of considerable merit for the next several years.

A construction scheduling program for the buildings which are now under construction is clearly needed, in conjunction with a plan to complete the construction of some of the buildings and to abandon other partially-completed structures. Under the previous regime as many as ten school buildings were begun in one year. With diminishing capital funds available, the practice arose of apportioning some funds to all the buildings each year and to proceed with construction as long as funds lasted.

A capital improvement plan (CIP) could readily be developed based upon well-defined assumptions about the availability of national funding and local resources. This program would enable the municipality to complete the most urgently needed school facilities on a timely basis.

A preventive maintenance program for the new buildings should be coupled with the CIP. This would be based upon the use of the best available materials, through redesign of buildings where still feasible, avoiding the use of any materials and building techniques which were problematic in the past. For example, specifying new roofing techniques and window systems would appreciably lessen future maintenance. Adding ventilation systems would not only provide a healthier environment for students and teachers, but would reduce moisture problems as well.

Technical assistance should include the development of contract language to protect the owner against contractor defaults and to ensure better contractor performance in constructing municipal facilities, including the requirement that tradespeople be licensed once a licensing program is in place.

Municipal officials report that there are no legal impediments to devising and enforcing contracts which clearly set out rigid standards for builder warranties for workmanship and materials, and which specify penalties for non-timely performance. Also, there is a need to protect the municipality from liquidated damages for hidden defects which appear after building occupancy. Training of municipal staff in all such contract matters, with model contract language and procedures, would aid greatly in establishing a better regulatory function for municipal oversight of construction. In addition, municipal staff members should be given training in building systems and construction management to ensure proper testing of materials and building systems, conformance to plans, and daily contractor performance.

Blagoevgrad's building officials are actively working toward the requirement that all tradespeople working on municipal building projects be licensed in their respective trades. Such a requirement would eventually be made a part of all contract specifications, so that bidders would enlist the services of only those tradespeople who have demonstrated their qualifications. Instituting such a program will be a lengthy process, and while perhaps beyond the scope of this project, advice should be given to municipal officials pioneering in this area of building construction quality control.

5 RECOMMENDATIONS FOR LONG-TERM IMPROVEMENTS

This chapter will recommend long-term improvements applicable to any municipality in Bulgaria. However, for optimum long-term benefit, changes in legal/institutional requirements imposed by the central government may be necessary.

5.1 Develop an Automated Accounting System

A parallel system of accounting that employs accrual accounting methods, to be used along with the cash transaction system currently mandated by the central government, will allow the municipality to make management decisions based on figures representing economic activity, rather than cash transactions. It will provide for monitoring of uncollected revenues and accounting of accrued expenses that currently pose an unfunded deficit problem. This part of the technical assistance program should focus on providing local governments with an understanding of system design and creation of software specifications for accounting applications that take into account principles of accrual accounting. The program should create fund structures that take into account the different activities in which a local government is involved. Specifically, the program needs to address the concept of the general fund accounts, which are used for paying for general government services and are funded mainly by taxes, and enterprise fund accounts that serve specific functions and are funded by dedicated, separate revenue sources.

Currently, the software used by all Bulgarian municipalities the team examined is designed by MOF. It is a dBase application that relies on a pre-set database structure to record cash activity after the related forms have been processed. The technical assistance program should focus on providing finance officers of local governments with an understanding of the benefits of having a software program that records accounting entries that reflect actual economic activity.

To evaluate the benefits of automating the accounting and budgeting processes, the technical assistance program should develop a series of questions to investigate in detail the following areas in which a computer-based accounting system can provide efficiencies:

- Improved information and accountability
- Cost savings/control
- Plans for growth
- Citizen services
- Citizen participation

Next, the technical assistance program should focus on determining which application systems offer the greatest potential benefits for a government. The following are among the areas commonly automated by governments:

- Fund ledger
- Budget preparation and reporting
- Accounts payable/encumbrances
- Revenue/cash receipts
- Fixed assets
- Utility billing

- Word processing
- List management
- Electronic spreadsheet
- Graphics
- Communications

The program should also provide local finance officers with guidance to develop a list of questions to examine the government's structure and identify potential problem areas. The program should offer suggestions on how to address any common problematic areas associated with automation. The goal of this technical assistance program should be to create a system of automated accounting that local governments can use to administer their finances and demonstrate that the system currently mandated by national law does not meet their requirements for effective decision-making, management, accountability, and citizen participation.

5.2 Revise the Operating Budget Process and Format

It is essential to provide technical support in budget preparation to develop a format that is conducive to using the budget as a decision-making tool for local officials, a financial tool for fiscal accountability, and a communication tool for citizen understanding and support. Currently, budget documents and the budget process are designed to assist central planning for economic activity and resource allocation. Reliance on Ministry of Finance data for revenue budgeting and on national laws and standards for service levels leaves local governments with little room or incentive for preparing budgets that reflect regional differences in economic conditions, or take into account citizen preferences for public resource allocation.

The proposed technical assistance program will focus on alternative methods for preparing local government budgets. Its purpose will be to provide local government officials with a good understanding of the benefits of locally-prepared budget documents and the basic skills required for initiating a budget process that is compatible with market economies and effective local self-government.

The diagnostic analysis of existing budgeting practices of Bulgarian local governments indicates that a need exists to introduce new ways of thinking and new skills for officials responsible for preparing budgets. It was encouraging to witness in this initial evaluation a desire by local budget officers to learn more about preparing budget documents that reflect local economic and political conditions rather than centrally-planned policies. This desire for change has been heightened by recent allocation crises caused by the inability of local officials to shift appropriations within budgets, for example, from doctors' salaries (too many doctors) to medicine (barely enough funding to cover inflation).

At present the municipal budget document is set out in a line item format, with no description of the programs the municipalities are to carry out with allocated funds, no enunciation of local spending policies or goals, and no description of the various steps involved in developing a budget document which is a spending and revenue-raising plan for the public's money.

As such, the budget is a contrived document which reflects line item amounts negotiated with the MOF, and for the most part the figures are derived from arbitrary norms based on demographics rather than a perceived, quantifiable local need for services. The lack of a vibrant national economy and a balanced national budget contribute to an attitude at the local level that there will be deficits for many years, and the best way to budget is to submit requests based on the previous year's amounts and hope for the best outcome. This view unfortunately contributes to a lack of preparedness for the time when municipalities will once again have adequate revenues to execute the programs mandated to them. Unless training in budgeting techniques begins soon, there will be no cadre of municipal financial officials who can analyze programs by using realistic and meaningful output measures; nor will municipal financial officials be able to develop revenue generation programs reliable enough over time to create an atmosphere within municipal financial circles that will, among other things, promote the practice of debt financing.

It is unrealistic to assume that better budget formats will lead immediately to greater subsidies from the central government or more realistic funding for any particular line item or set of accounts. The intent here is rather to develop a document which department heads will find useful as a planning and fiscal control tool, and to enable the public to gain a better appreciation for how its tax dollars are being spent locally. For example, descriptive materials could be produced which describe a rational school building program and how decisions are made about which schools to finish and which ones to defer. There will of course not be enough funding to complete all the buildings, but the citizens will become better informed about the need for classrooms, gymnasiums, and other critical building components if such materials are included with the budget. Through wide dissemination of budget documents, municipal officials may stimulate an interest in public affairs which will lead to more informed and coherent dialogues with citizen interest groups and individuals.

In addition to the desire for change, the skills necessary for learning new methods of preparing budgets appear to be in place. What is needed is training for budget officers in new budgeting methods. In order to be more reflective of current conditions, the operating budget process must have a consistent, specific form. This form starts with the establishment of a budget cycle, and that budget cycle concept should be the focal point of technical assistance. The components of the budget cycle will be introduced and discussed, and a form for preparing an effective budget cycle will be prepared.

The budget cycle contains four stages: preparation by appropriate authorities, typically the executive branch of government; consideration by citizens and their elected legislators; execution; and review, audit, and evaluation. In the proposed training, examples of each

stage would be provided and exercises would be used to demonstrate the functionality of each stage, as well as the relationships among the stages.

In order to implement a program budgeting training program it will be necessary to spend time in one or more of the cities and go over the details of budget preparation as now practiced, and to identify critical budget estimation decisions and the process whereby the MOF and the municipality "negotiate" the final outcome of expenditure levels and the budget total. A program budgeting manual should also be provided. An important byproduct of analyzing the current budget preparation process would be the constructive involvement of the MOF in program delineation and design. That is, inviting the MOF to take an active role in designing a budgeting system that encourages decision-making at the local level would help greatly in discovering what proof of "financial maturity" municipalities will need to demonstrate to the MOF to obtain liberalizing laws and procedures. Delegation of MOF powers to the municipalities implies partial abandonment of arbitrary norms, development of output measures, encouragement of new programs and general innovativeness, etc. If the MOF simply plans not to delegate such powers wholesale, the budget process exercise will probably ascertain that crucial fact.

Technical assistance should initially take the form of seminars where all top administrators within the municipal government develop and record, in systematic fashion, mission statements for their various departments, and from that begin to develop a long-term spending plan in addition to and independent of the MOF norms and regulations now in effect. Thinking through departmental goals and missions in a program-based context will translate into financial documents which, through desktop publishing techniques, can easily be drafted and disseminated for comment among elected officials and by officials of the MOF.

In addition to instilling a program budgeting orientation into local government thinking, a prime objective of a technical assistance program should be to get pertinent local government officials to focus on the methodology that needs to be employed to create reliable forecasts. Simple steps to analyze the size, timing, characteristics, and predictability of revenue and expenditure categories need to be identified. These steps will assist local government officials to attain the knowledge required to design and implement an effective and reliable revenue and expenditure forecasting and management system for local governments in Bulgaria.

The curriculum used in an initial training effort could be derived from a basic program budgeting format. This would be supplemented by best Bulgarian practice, as enunciated by Bulgarian experts who would be called upon to advise program developers. A fairly small training development effort would do much to demonstrate how allocations of scarce resources can be optimized if the old central planning concepts of arbitrary norms are thrown out in favor of carefully-designed program output measures and carefully-analyzed trends in service delivery needs and available technology.

5.3 Revise the Capital Budgeting Process and Format

The current capital budgeting process is dependent to a large extent on central government policies and decisions. Municipalities propose capital projects to the Ministry of Finance; the MOF makes a selection from the list of projects and gives the municipality a "subsidy" to cover the cost of construction. Funds are allocated on a project-by-project basis; the MOF approves each project. While funds may be reallocated within projects, this requires MOF approval. Given the difficult economic conditions at present, it is not surprising that only a fraction of the funds requested have been forthcoming. At one extreme a municipality requested 170 million levs and only received 23 million levs.

One major type of capital project is the extension of utility lines (water, sewer, gas, electric) into new service areas; these are done on an annual basis as funding permits. These are considered routine, although the resulting revenues do not pay back the capital investment the municipality must make for construction. Another major type of capital investment is for projects which benefit the public at large, such as hospitals and wastewater treatment plants.

It would be useful to identify the routine capital expenditure history in one municipality and cost out the appropriate user fee structure necessary for the repayment of the capital expense and for the operation of the utility, showing all direct and indirect costs. An investigation should be made of the system-wide cost of annual upgrades or extensions, showing how a surcharge on all users of the utility could pay for each incremental increase in service. This would show the true relationship between cost of service and appropriate fee structure.

Of specific interest is the user fee system for water and for wastewater treatment environmental utilities, in the event that legislation will soon permit municipalities to operate their own utilities. The current practice is that municipalities construct the facilities and turn them over to the state for operation and maintenance and collection of user fees. Information should be developed which plots a break even operating budget for a major utility, and provides differing methods for financing all the factors that comprise an operation which is kept current in its technology and plant condition. Included in the analysis would be a demonstration of the advantages of debt financing and the ways in which interest costs and the time value of money are treated in depreciation schedules.

Indications are that in the past there was a bias in favor of planning and starting projects rather than completing them. Many capital projects were started, but funds were inadequate to complete the projects in a timely fashion. Projects are in a state of construction over many years. This combined with falling revenue to municipalities has resulted in a capital budget which is mainly composed of very old projects to be completed. The overwhelming majority of projects in the three cities the team studied were begun before 1990. Municipalities are trying to complete projects planned and started years earlier. Many of the expenditures are being used just to maintain the projects in place while awaiting adequate funds to complete them. Stretching out the project completion during periods of inflation is not cost effective,

and the risk of continuing obsolete projects is increased, if abandoning the project is not evaluated as an option. Under the centrally planned economy there was little incentive to plan and build facilities efficiently and on a timely basis other than some amorphous feeling that the public good is being served by providing some service which promotes public health or welfare. Now there is difficulty in deciding which projects to fund to completion and which ones to put into a "state of conservation."

The team identified the need to create a technical assistance and training program for capital budget preparation. Capital project planning needs to be integrated with financial planning to avoid circumstances that create incomplete projects due to lack of funds. The concept of a capital improvement plan needs to be introduced and established. The CIP, as a multi-year financing and physical facility plan, forms the basis of the capital budget. The interrelationship between physical and fiscal requirements needs to be a basic element of the capital budgeting process. In addition, the capital budget technical assistance program will facilitate the selection of capital projects from a pool of alternatives, the determination of the timing of expenditures and the means to finance them, and the effect of the change in capital stock on a local government's finances.

5.4 Develop a Cash Management System

Currently, cash management techniques employed by local governments in Bulgaria are not consistent with generally accepted cash management practices. For example, delaying processing of payable invoices and waiting for deposits to accrue can cause serious problems. The lack of cash management systems and viable credit markets for short-term borrowing and investments causes the majority of cash management problems.

The cash management technical assistance program should focus on creating technical expertise at the local government level to ensure that local governments can monitor their liquidity by providing estimates of the amount of cash on hand available for timely disbursement. This will provide an additional analytical tool, objective in nature, that can be used to assist in the preparation of annual budgets. Another goal of an effective cash management system is that it should encourage the use of "what if" analysis to assist officials in performing policy analysis. The cash management system needs to incorporate and facilitate the sizing and timing of short-term borrowing that local governments require due to the cyclical nature of their cash flows.

Finally, the cash management system should be able to provide advance warning of impending problems with the annual fiscal budget through the identification of revenue shortfalls or unexpectedly large disbursements and promote better government responsiveness and accountability.

5.5 Conduct a Cost of Service Analysis

The examination of current mechanisms for setting the levels of fees and charges revealed that there is no relation between fees and charges and the cost of providing services or citizens' ability to pay. This program proposes the development of criteria for calculating fee levels and establishing monitoring mechanisms to ensure compliance with legislative and administrative rules. It will also provide methods for differentiating between social services (recreation, infant care, etc.) and individual benefit services (issuance of building permits, leasing of public space for commercial purposes, etc.). The former class of services typically has fees and charges calculated based on a citizen's ability to pay. The latter type of service should have charges calculated on the basis of the cost of providing the service. The program would also require the development of a manual describing the process and workshops for municipal employees involved in providing municipal services associated with fees and charges and employees administering fees and charges.

At present, fees for services are almost entirely controlled and set by the central government, have neither risen with inflation nor been calculated with consideration for localized cost variations. The result is that municipal and state enterprise fees have no relationship to the cost of providing the service or regulatory activity for which they are being charged.

The most rational treatment of fees is to set their rates at the break even level. That is, for basic services such as building permit issuance, the fee should pay for the labor, supplies, and overhead that go into the field work and the document preparation necessary for the issuance of a permit to construct, renovate, or demolish a building. This "pay as you go" system works in jurisdictions where there are not great fluctuations in building activity, or where administrators can lower fixed costs when building activity drops off.

Officials interviewed for this program expressed an interest in having a cost of service study done for the array of typical services and activities for which municipalities now receive fees, although in minor amounts. The intent would be to determine whether charging fees at the break even point would turn this minor source of revenue into a significant, or perhaps even major source. Moreover, carrying out this study, in cooperation with the MOF, would serve as a practical introduction to the concepts of break even financing and of charging only the user, and not the entire public, for certain elective services.

Fee calculations for utility services run into more complex variables. Not only must the fee cover the direct and indirect costs of operation and maintenance of the utility, but it must cover the capital cost and the depreciation cost of the utility in the absence of any outright grants to the utility from outside sources. And to avoid short-term deficits, the fee should include an amount for a reserve fund to cover emergencies and revenue shortfalls caused primarily by the loss of large industrial customers either through non-payment or plant closings.

5.6 Conduct a Health Care System Analysis

Municipal officials in Bourgas recognize the need to coordinate the medical services provided by the regional hospital, the military hospital, and the Ministry of Transportation's hospital. Of the three facilities only the regional hospital is under the municipality's budget.

A long-term need exists for management assistance to Bourgas as it takes the lead in providing medical services based upon the volume and type of need for services of the population the municipality must serve by law. The short-term project to install and use software for developing reliable cost and care information will establish a reliable database for presenting to the Ministry of Health a supportable argument for combining facilities (perhaps with the recommendation to close the Ministry of Transportation's hospital).

A reliable cost of service database and an analysis of the equipment, facilities, and staff capabilities of each hospital will enable decision-makers at the ministry level to consider new methods for establishing norms for staffing and the number of beds per hospital. Demographic sampling methods exist for measuring medical service needs for the general population served by the regional hospital and the specific populations served by the military hospital and the Ministry of Transportation's hospital. Methods exist for measuring the efficiency of equipment usage and the optimum occupancy rates for beds in the various wards of the hospitals.

Medical care and hospital administration experts could be placed on site to assist in optimizing the use of the three facilities, and to recommend future criteria for developing budgets which responsively staff the remaining facilities, however configured. In addition, as private medical practices are developed on a broad scale, assistance should be provided to determine how equipment and facilities owned by the municipality could be shared with private practitioners on a fee basis, perhaps adding significantly to municipal revenues over time.

Medical administrators in Bourgas are aggressively attempting to cut costs by reducing the length of stay of patients and controlling the dispensing of medication in the specialized wards, among other measures. They are fully aware, however, that the greatest cost factors over which they must have control are the number and proper deployment of staff. As the Ministry of Health currently exerts great control over the number of doctors, nurses, and support staff, new ways must be found to ensure that each office and function within the facility has the most economical and effective assignment of staff, both in number and in job type.

While there are strong inhibitions against laying off doctors, nurses, and other medical staff, or even instituting hiring freezes, medical administrators know that in the long run the medical workforce will have to be "rightsized" in order to prevent shortages in the non-salary accounts, including prescription medicine and outpatient care.

A complete job classification and pay plan is proposed for Blagoevgrad's regional hospital, to identify the nature of each position currently filled and to project staffing needs for the future based on the following assumptions:

- that norms for hiring will be revised by the Ministry of Health to take into account the actual population being served, and not simply the census figure for the municipality and its surrounding region,
- that the norms will be based in part upon the medical demographics of the population served; for example, those working in heavy industry, those susceptible to lung disease (smokers and the indigent), number of seasonal residents, and percentage of elderly residents,
- that those services being provided by private practitioners have been identified and factored into the planning for levels of service to be provided by the regional hospital, and
- that a working relationship has been established with the medical unions (through participation of the municipal government in collective bargaining via the Ministry of Health) to define the degree to which regional hospitals will have the ability to alter workforce size and composition without approval from a higher authority.

A second long-term effort will take place in the area of accounting and financial control. A primary problem which exists for regional hospitals is their inability to account for non-resident patients and to bill the municipalities of those patients for services rendered. At present the Constitution guarantees free medical care, and patients will gravitate toward certain regional hospitals for specialized care. The patients cannot be billed, and some regional hospitals suffer excess losses as a result. The law at present does not provide for billing other municipalities, and so certain legal and procedural changes need to be instituted for regional hospitals to recover losses in this way.

5.7 Conduct a Service Delivery Analysis

For this program, the team proposes a study to determine benchmarks for evaluating delivery of municipal services. This study would require the identification of two or three services identified with local government management (i.e., education, street maintenance) and the establishment of performance measures and criteria. The purpose of the study will be the creation of methodology that will provide local government policy makers and administrators with a concrete mechanism for making resource allocation decisions.

An area where service delivery analysis may produce immediate results is human resource allocation and the overstaffing problem today in some departments of local government. This is due in part to the lack of office automation, and also the absence of an incentive to consolidate and coordinate the numerous cost centers. This area lends itself well to analysis, and some staffing economies might be realized if the political will is there. At the least a computerization needs analysis could be done. The municipality now has only minimal or rudimentary database management in place.

Another possibility is in the area of privatization, where many staff are involved at this time in managing the vast array of municipal enterprises and properties. As the municipality succeeds in divesting itself of the bulk of this property, the need for management staff will diminish accordingly. As the administration downsizes, the staff who remain to manage the retained properties and enterprises will need to be highly competent and profit-oriented.

This area is rich for analysis, with possibilities for recommending significant economies in staffing and operations. For example, as the agricultural sector is privatized, the office that plans crop production levels and livestock husbandry, as well as performing inspections for farm hygiene, etc., will lose its rationale for existing. Moreover, agriculture takes place in the outlying settlements of the municipalities, and citizens of the municipality might see the benefits of bringing more resources to bear on urban problems as outlying agricultural enterprises become more attuned to the laws of supply and demand.

5.8 Implement Democratization and Citizen Participation Programs

Local self-government in Bulgaria appears to consist of 1) a citizenry with basic civil rights, including the vote, 2) municipal councils with many minor powers and no fiscal autonomy, and 3) mayors who struggle to survive in a system of ambiguous laws concerning their powers and the councils. Combined with no history of inquiry into the workings of government, no recent expertise on the part of citizens in issues management, and destructive partisanship at both levels of government, local self-government in the true sense seems decades away.

The techniques of political transparency and encouragement for citizens to participate are well known outside Central and Eastern Europe (CEE). One reason not many of those techniques are being used in Bulgaria is that citizens perceive government as being in a dangerous mode of retrenchment in these hard economic and political times. This means that politicians may, if necessary to balance the budget, take away the "free" services people had enjoyed under socialism and still have today. Thus there is a tendency for citizens not to become too strident about their cause in such circumstances lest they lose even more of the services they have taken for granted for so long.

Another reason that citizen participation is not flourishing is that mayors must cater to the agendas of political parties, and they have not mastered the technique of appearing to satisfy all of the people some of the time. That is, where some mayors have set up unstructured citizen visiting hours, for example, they are deluged by organized party groups with very specific (and often unreasonable) demands, or by individuals with requests for services that available funds cannot support. Mayors become discouraged and sometimes estranged from the hostile groups and individuals they see as the "public."

For citizen participation to take root, mayors and councils should see the "public" as a resource and not a full-time enemy. To bring citizens into the process and to keep them interested, they must be given definable tasks and goals that are capable of being met through

collective action. Win-win situations are not as easily accepted in CEE as in some other places, and so the tendency is for mayors and councils not to delegate powers to citizens as individuals or organized groups. Letting citizens "win" is often considered a "loss" to the politician.

One exception to this is the use of standing committees of municipal councils—in some CEE countries those committees are comprised in part of private citizens. The extent to which these are used, and their composition, should be closely examined in Bulgaria, and impediments to their use removed wherever possible.

Secondly, the use of *ad hoc* committees in some CEE countries has been widespread, to good effect. Progressive mayors see the trend toward citizen participation increasing greatly in the long run, and are using *ad hoc* groups of experts and specialists to solve problems in quasi-democratic settings. Where not specifically prohibited by law, such appointed committees of experts should be formed and encouraged to study discrete problems of a technical or cultural nature and recommend solutions to the mayor and council. As minor win-win victories pile up, councilors and mayors may see that managed citizen participation, in which critics are made part of the "solution," sometimes make seemingly intractable problems disappear. This approach of course calls for a change in attitude on the part of sometimes autocratic mayors and councilors, but the alternative is continued strife. Those officials will need to see that it is to their advantage to spend more time managing volunteers and less time debating the issues they have not been able to bring to closure.

Programs designed to increase citizen activism will be slow in taking hold from the bottom up, so it may be best to use the powers of the office of the mayor and councilors to make progress from the top down. Technical assistance could be in the form of public relations training in such areas as dealing with the press, making effective presentations and managing forums, delegating to volunteers, and making documents and regulations more available to, and readable by, the public.

If, for example, citizens believe that the processing of permits and documents in general is being done fairly and without corruption (which is often not the case), they will have more faith in the governmental system. Mayors and administrators, then, have to clean up those operations by instituting due process and reasonable treatment of applicants and then make the whole process as public as possible.

Examining the construction of Bulgarian law and making some statutes more permissive might help greatly with transparency and openness. Where something is not specifically provided for in a statute or the Constitution, it is not done. A survey of laws pertaining to municipal accounting and budgeting practices may show where some liberalization could be effected, perhaps in the form of preambles to statutes pertaining to billing practices of municipal entities, the establishment or abolition of municipal enterprises, and contracting out for services or personnel. Similarly, statutes pertaining to open meetings should be examined for language which unduly limits citizen participation. For example, if there is no law which

prohibits citizens from examining minutes of executive council meetings, does that mean that they may not because there is no law that specifically says they may examine them?

A major approach to instituting some of the major techniques for increasing citizen participation in debates on municipal issues, and generally increasing the public's knowledge of municipal operations and decision-making processes, would be the encouragement of non-governmental, non-partisan organizations to monitor the workings of government on an informal basis, to sponsor forums, and to receive and pass on information about those techniques. For example, local "green groups" in other CEE countries have formed task forces aimed at solving specific pollution problems, and they have convened meetings of government officials from both levels of government, volunteer consultants, and citizens at large. These groups benefit from outside funding to carry out training in information dissemination and issues management.

6 CAPITAL INVESTMENT ISSUES/OPPORTUNITIES

The purpose of the inquiry was to identify potential pre-feasibility investment projects in Rousse, Bourgas, and Blagoevgrad. As part of this study, the team considered both the revenue and expenditure side of municipal budgets, as well as capital projects which may be of interest to donor institutions such as the World Bank or possibly private investors.

Current practice with respect to capital budgeting reflects the transition from the former non-market era to a market economy. As such, many of the practices are evolving, and the institutions are not fully compatible with the goals and needs of municipal governments. The most clear-cut example is water supply and wastewater treatment.

The current system has evolved from the pre-1989 situation when municipalities had greater control over tax revenues. Fees for services were less important as potential mechanisms for raising money and to promote conservation. There are at present 44 water companies in Bulgaria. The original 26 regional water districts were privatized with 51 percent central government ownership and 49 percent municipal ownership, and 18 municipal companies were created from parts of the original 26. The important aspect of the current arrangement is that municipalities are responsible for making the capital investment necessary to build new water and sewer systems, but the operation is under the water supply company. The fees are set by the company and are paid to them. Preliminary results indicate that the fees for water are inadequate to cover maintenance and replacement costs of the existing infrastructure and certainly not adequate to cover service expansion. Only 10 companies were reported to have made a profit last year, and that may be an erroneous figure, depending upon how depreciation was accounted for in the calculation of profit.

This decoupling of responsibilities for capital investment and operation/pricing exists for other services such as transportation and electric service. The only area where the municipalities have control over both the capital budgeting and the operation and pricing is in the area of municipal solid waste. At present these projects may be the only ones which could be

undertaken without institutional changes. Some municipalities have privatized part of this functions, and cost-based pricing may support investment in this area.

In each of the three cities investment opportunities were identified. The team's focus was primarily upon environmental projects although other projects are reported if they were identified by the municipality as important infrastructure projects. Many projects which are undertaken by municipalities may have positive environmental impacts; there are funds available from the Ministry of Environment for funding specific projects. In the three cities the team studied, only one city was currently receiving funds specifically identified as environmental.

The following is a brief description of the opportunities within each city.

Rousse

There are approximately 31 factories in Rousse, almost all state owned. They produce a broad range of products, including plastics, leather goods, ships, and agricultural machinery. The city leases about 320 properties to private business. The capital budget for 1994 is 82 million levs: 60 million subsidy from MOF and 22 million from local sources.

The major environmental problems in Rousse are direct discharge of municipal sewage into the Danube, the current landfill for municipal solid waste which is about to reach capacity, and trans-boundary air pollution from the Romanian chemical plant located near the border. The solution to the discharge problem is a treatment plant which has been planned at an estimated cost of about one billion levs. The landfill with improved equipment may last 15 more years; then a new one will be needed. Trans-boundary air pollution problems are not potential investment opportunities; progress has been made on this issue with Romania.

One attractive feature of the landfill is that fees for street cleaning, including use of the landfill, are collected by the city. While this may not be a large revenue source, there is no problem of overlapping jurisdictions.

Other investments which the city is interested in completing are: restoration of the fire damaged historic performing arts theater, completion of a regional hospital, and completion of a sports complex begun by a state company which has abandoned the project. The regional hospital suffers from the problem that revenues do not match the services provided, so a return on the investment would be difficult to realize. More information on feasibility, including potential private investors for the sports arena and theater, is required.

Recommended Projects for Further Investigation:

A sewage treatment plant is the highest priority from the environment perspective, but the separation of function and revenue stream requires some new solutions. This project

should be investigated further. Improvements to the municipal landfill should also be investigated further, particularly a transfer compaction facility.

Developing a program to help the municipality manage and liquidate its assets combined with a small business loan fund to "develop stronger tenants" for municipal properties may be an effective means of promoting economic development in the city. USAID/ICMA has a model for such a fund developed and ready for implementation in Stara Zagora.

Bourgas

The economic activity in Bourgas centers around the oil refinery and the port and ship yard. The city leases 309 shops to small business, operates 2 underground parking garages, and has 17 parcels of land which it wants to develop and/or sell. There are municipal companies operating hotels, restaurants, and department stores. The capital budget for 1994 is 90 million levs.

The major environmental problems are air and water discharges from the oil refinery, bilge water discharge from ships, water discharge from tankers, discharge of municipal sewage, emissions from space heating, and auto emissions. Controlling emissions from the port and oil refinery is outside the authority of the municipal government; however, the refineries contribute to the economic health of the city and may provide investment opportunities. The port is going to expand using private capital and as part of the expansion will be required to install a wastewater treatment plant to handle bilge and sewage discharges from ships in the port. The plant could be located and designed to handle water from tanker cleaning as well. It should be noted that the port of Bourgas is located in a different place from the oil terminal for the refinery.

The refinery paid about 17 million levs last year in fines and fees, 11 million of it for spills. The city receives only a small portion of this, with the majority going to the central government. In addition to the discharges into the water from the refinery and ships servicing it, a major concern of the municipality is discharges into the air of aromatic hydrocarbons, some of which are carcinogenic. A mechanism which would bring the port, the city, and the refinery together to solve these problems would be desirable. A loan to improve these facilities may be an effective catalyst.

There is a housing area of about 67,000 people which is cut off from the rest of the city by an industrial area; this housing area does not have a sewage treatment plant or district heating. A sewage treatment plant has been discussed with Lemna (a U.S. firm), and the mayor is interested in looking more closely at a co-generation facility which would burn refinery sludge and municipal waste. The cooperation of the refinery would be critical.

Improvement to the existing sewer system and extending water supply to neighboring towns are important. These projects, however, suffer from the separation of function and revenue generation between the municipality and the water company described above.

In the area of solid waste the existing landfill was well designed and constructed; it may provide an opportunity for bio-gas recovery and power generation from the recovered methane. In addition, cost savings may be realized by transfer stations in the city to sort municipal waste and compact it for transfer to the landfill. In combination with the transfer station a fleet of more efficient vehicles could further reduce cost.

Outside of the issues associated with the refinery, improvements in air emissions can be realized by expansion of district heating in the city, conversion of existing heating plants to gas, and an inspection and maintenance program for vehicles in the city. Gas conversion may prove to be a viable project for a private sector company. The inspection and maintenance program could be financed through fees.

Recommended Projects for Further Investigation:

A program which would encourage the port, the refinery, and the municipality to cooperate on projects that solve environmental problems common to all should be investigated. This may mean loans contingent on cooperation or using leverage so that expansion plans include solutions to the common problems. Areas of cooperation to be investigated include: water discharge from ships and shore installations, disposal of refinery sludge, and monitoring of air emission.

A more in-depth investigation of the housing area needs for a sewer treatment plant and the co-generation possibilities, using refinery sludge and solid waste, should proceed.

Improvement in solid waste management including transfer stations, improved vehicle fleets, and bio-gas recovery at the landfill should be investigated.

The city is interested in going beyond the most common solution for vehicle emissions, electric trolley busses, to consider traffic management and vehicle inspection. The needs of the program and possible assistance should be evaluated.

The water supply issues are critical enough in the city that water rationing has been proposed. The need to overcome the obstacles set up by the combined responsibilities of the city and regional water company should be investigated, and a team should try to fashion a new solution in this area as a demonstration project. How this might fit in with the World Bank loan to the water sector needs to be investigated.

Blagoevgrad

The capital budget for 1994 is 23 million levs from central government subsidy and 6 million levs from local sources. The city does not have a strong industrial base, and most enterprises are small. There are 12 municipally owned enterprises, and all but one are losing money. The city wants to improve the tourist base by developing some recreation areas it owns.

The major environmental problems facing Blagoevgrad are: the current landfill is contaminating the Strouma River; domestic space heating, which takes place in each house, is causing deterioration in air quality; municipal sewage goes directly into the river; and needs exist to acquire electric trolley busses (now that the overhead lines are almost completed) and monitoring equipment for vehicle testing.

The present landfill is located in an area of recharge for groundwater, which then flows into the Strouma River. The landfill has been operating for 20 years and is close to capacity; improper closure could result in continued contamination of the river. A site for a new landfill has been identified, and preliminary discussions have been held with a German firm regarding construction. The city has privatized part of the "street cleaning" function, which includes waste pick-up and park maintenance. Because of labor protest the new private company was forced to hire one half of the old work force; the other half remained with the municipal company. Cost savings were not fully realized.

Municipal sewage is discharged directly into the Bistritsa River, which in turn flows into the Strouma. The combined population which should be served by a wastewater treatment plant is 80 to 100 thousand people; a number of large agricultural facilities could also be served.

Improved air quality should be achieved when the electric trolley busses are placed in service. The overhead lines are 60 to 70 percent completed, but there has been no subsidy for the busses. Converting present space heating to gas would reduce emissions, also improving air quality. The BULSOFGAZ company has made a preferability study of gas conversion in the city. There is an existing gas trunk pipe line in the area. Absent gas conversion, converting the city to district heating may be an option. A third air quality project is to provide monitoring equipment for the local municipal environmental authority. Mobile equipment to monitor vehicles and mandatory repair of large polluters or a "green tag" program could be used to reduce vehicle emissions. Only vehicles which meet standards would get a green decal for the windshield, and only cars with decals would be allowed to drive in the center of the city or other restricted zones. This concept was also discussed in Bourgas, and they are considering its implementation.

In the areas not directly related to environment there were two additional projects identified: power generation from the city water supply coming from the mountains and a tourism project along the Strouma River on municipal land. The city receives part of its water from the mountains through an existing pipe. The vertical drop is about 1,000 meters, and flow rates in peak periods (April-August) are about 350 to 500 liters per second and in low flow periods as low as 30 to 50 liters per second. A preliminary study suggested a number of small plants totaling 6 megawatts and an estimated total annual output of 30 to 50 million kilowatt hours. Local rates per kilowatt hour are 0.88 levs during the day and 0.6 levs at night for residential use; 1.5 levs for commercial use at any time. The estimated cost for the projects is four million U.S. dollars.

A section of the river has been dredged in the past to a depth of 18 to 20 meters. The municipality owns 20 acres in this area and has considered developing the land for recreation. In addition the municipality owns another 20 acres in a local ski area. This land could be used in a joint venture with a private company or leased for development.

Recommended Projects for Further Investigation:

A further evaluation of the two potentially commercial projects—the conversion of space heat to gas and the small scale hydroelectric project—is advisable. These may be commercially viable or at least able to be developed under current institutional constraints.

A program to help the municipality develop small enterprises, restructure current municipal companies to make them profitable, and better manage existing assets would seem appropriate. KPMG has a program to assist in privatization, but this type of program would complement theirs. This was the consensus of the municipal officials the team spoke to, since they suggested the program.

Revenue potential and approximate cost of a new landfill should be determined to see if this is feasible.

7 CONCLUSION

Local government reform in Bulgaria is in its beginning stages. Laws and regulations governing the affairs of local governments are fairly new, and the legislative process is far from completed. Currently local governments are experiencing economic hardships and have limited room to maneuver out of official difficulties under the existing legal environment. There are, however, steps that local governments can take to acquire administrative independence and some degree of economic autonomy in the short run. These steps deal primarily with increasing revenues by encouraging compliance with existing laws and by building skills and administrative capacity at the local level to provide policy makers with necessary information and substantive skills for implementing reform.

In the long run, demonstrations of success in providing services and involving citizens in the local self-government process can provide guidance to policy makers on the direction of institutional reform and the gradual decentralization of managing public affairs. For decentralization to be effective, technical assistance and training can help build the necessary skills at the local government level, while providing demonstrable benefits to citizens in the process. The most encouraging finding of this diagnostic evaluation was the demonstration of enthusiasm for change among the local government officials interviewed and the cooperation of officials at the Ministry of Finance and the Ministry of Territorial Development and Construction. This project would not have been possible without the input and support of the local and national government officials. The same, of course, is true for follow-up projects that may result from this project.

APPENDIX A

LIST OF ESTABLISHED CONTACTS

USAID

1. Mr. Brad Fujimoto Project Officer
2. Mr. Bozhil Kostov Project Officer
3. Ms. Ivanka Tsankova Program Specialist

World Bank

1. Mr. Felix Jacob Urban Planner
2. Ms. Adriana Damyanova Technical Assistance Manager
3. Mr. Yavor Stoyanov Technical Assistance Manager

Ministry of Territorial Development & Construction

1. Mr. Petko Evrev Deputy Minister
2. Mr. Belin Mollov Head of Local Government Department
3. Mr. Konstantin Galabov Head of Unit
4. Mr. Brian Harris Know-How Fund Advisor

Ministry of Finance

1. Mr. Ilya Martsolov Head of Tax Department
2. Mr. Boyko Georgiev Head of Local Budgets Department

Rousse Municipality

1. Mr. Vangel Pavlov Deputy Mayor
2. Ms. Julia Angelova Municipal Secretary
3. Mr. Yordan Tepavicharov Head of Financial Departments Unit
4. Ms. Rumyana Nikolova Head of Budget Department
5. Ms. Galia Dimova Chief Accountant
6. Mr. Petar Beshliiski Head of Rental Relationship Section
7. Ms. Tamara Petkova Contracts Expert

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8. Ms. Irmia Aleksieva Accountant
9. Ms. Snejana Christova Accountancy Computer Expert
10. Mr. Arkadii Denizov Deputy Head Health Care Department
11. Mr. Konev Head of Environment Department
12. Mr. Denev Head of Investment Section

Regional Tax Office Rousse

1. Lyubomir Dimitrov Head of Regional Tax Office
2. Plamen Lambev Deputy Head of Regional Tax Office

Bourgas Municipality

1. Mr. Prodan Prodanov Mayor
2. Mr. Georgy Georgiev Deputy Mayor
3. Ms. Diana Peneva Municipal Secretary
4. Mr. Yuri Kopach Finance Director
5. Mr. Dimitar Mandrov Head of Building & Construction Department
6. Mr. Angelin Bratanov Chief Architect
7. Mr. Atanas Mihov Head of Budget Department
8. Ms. Ganka Daradanova Deputy Head of Budget Department
9. Ms. Maria Stoykova Chief Accountant
10. Ms. Madgarova Deputy Chief Accountant
11. Mr. Apostol Apostolov Environment Director
12. Mr. Pavlin Mihov Head of Section for Environmental Programs
13. Mr. Sirekov Head of MIS Section
14. Mr. Doychev Port Complex
15. Ms. Milka Dineva Head of Municipal Assets Management Activity

Regional Tax Office Bourgas

1. Mr. Georgi Michaelov Deputy Head of Regional Tax Office
2. Ms. Tashaka Manova Chief Expert

Blagoevgrad Municipality

1. Ms. Eliana Maseva Mayor
2. Mr. Ilian Popov Municipal Secretary
3. Ms. Vania Chobanova Head of Economics Department
4. Mr. Dimitar Uzunov Head of Budget Department
5. Mr. Emil Perov Chief Investment and Construction
6. Ms. Roza Bakalska Expert Budget Department
7. Ms. Rumiana Arabadjieva Manager Economics Department
8. Ms. Anastasia Christova Chief Expert Investments
9. Ms. Nadezhda Stoicheva Chief Expert Contracts & Rents Department
10. Ms. Velichka Mitova Chief Accountant
11. Mr. Milcho Iiiev Chief Personnel Expert
12. Ms. Veelichka Kaynakchieva Chief of Education
13. Mr. Boris Maskrachki Head of Administrative Services Department
14. Mr. Rumen Pantaziev Chief Expert MIS
15. Mr. Metodi Mitov Chief Account of Regional Hospital
16. Mr. Nikolov Head of Invest Engineering Co.

Blagoevgrad Regional Tax Office

1. Boyan Andreev Head of Physical Persons Taxes
2. Milka Kovacheva Chief Tax Inspector Physical Persons Direct Taxation
3. Lyudmila Yancheva Tax Inspector Information & Programming

APPENDIX B

DECREE No. 69 OF THE COUNCIL OF MINISTERS

on Local Charges in Compliance with the Local Taxes and Charges Act (*the State Gazette No.45/1975 with all amendments as of August 1994*)

Chapter One

Charges for acquisition of property as a gift or purchase

Article 1 (1) For acquisition of movable and non-movable property as a gift, including money, valuables, etc. when property right is constituted as a gift, a charge is collected on the price of the property:

up to BGL10,000	2%
from BGL10,000.01 up to 20,000	BGL200+4% on the sum above BGL10,000
from BGL20,000.01 up to 50,000	BGL600+6% on the sum above BGL20,000
from BGL50,000.01 up to 100,000	BGL200+8% on the sum above BGL50,000
from BGL100,000.01 up to 200,000	BGL6,400+10% on the sum above BGL100,000
from BGL200,000.01 up to 300,000	BGL16,400+20% on the sum above BGL200,000
from BGL300,000.01 up to 800,000	BGL36,400+30% on the sum above BGL800,000
above BGL800,000	BGL186,400+50% on the sum above BGL800,000

Article 2 For purchase - sales transaction and exchange of property and property rights constitution of real estate property a charge of 10% is collected

Chapter Two

Charges for technical services

Article 3 For technical services the following charges are to be collected:

1. For approval of projects for construction of a building, for concrete, wooden and steel constructions of the buildings, for lift systems, heating installations, repairs and refurbishing - 20% on the cost of the project;
2. For construction approval of projects on agricultural land, where construction is permitted, a charge per square meter of construction is paidBGL50
3. For initial drawings of streets and yards regulation changes, when elevations and horizontals are drawn for one site:
 - a) for cities BGL40;
 - b) for villages BGL30.
4. For reapproval of drawings, if they have been issued 6 or more months earlier BGL12;
5. For issuing copies of construction plans, installations, etc. BGL12;
6. For giving construction lines (permits):
 - a) for buildings - per square meter BGL0.50;
 - b) for buildings - per linear meter BGL0.50;
7. For water supply and sewage:
 - a) for investigation, project preparation and calculation of water supply or sewage system in a building with one sanitation point - BGL30.; for every additional - BGL5;
 - b) for approval of water supply and sewage system - 0.10% of cost;
 - c) for drawings and approvals for partial extension of the water & sewage system BGL8
 - d) for investigation, project preparation and calculation of water supply or sewage system in a yard BGL20
8. For legalizing constructions of seasonal use, warehouses and villas built until April 1987 without construction papers or not within the requirements of the legal framework in agricultural and villa areas, depending on the type of construction of building, a charge is paid:
 - a) for construction of seasonal use and warehouses, including those with basement with built-up area up to 35 sq. m. - from 1000 to 3000 leva.

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- b) for constructions of seasonal use and buildings from 35 sq.m. to 60 sq.m. with one floor - from 2000 to 5000 leva.
- c) for constructions of seasonal use and buildings with built-up area from 35 sq.m. to 60 sq.m. with more than one floor - from 4000 to 8000 leva.
- d) for constructions of seasonal use and buildings with built-up area more than 60 sq.m. with one floor - from 6000 to 12000 leva.
- e) for buildings with built-up area more than 60 sq. m. with more than one floor - from 10000 to 25000 leva.

When for the non-legal construction a charge was paid under Paragraph 3 from the transitional and conclusive articles of the Territorial and Settlement Planning Act (State Gazette No 102/1977) charges on legalization under the above points can be reduced with the amount paid.

- 9. For issuing fo drawings when performing transactions with agricultural land a charge is collected which amounts to 50 leva.
- 10. When putting into possession under the conditions of Article No 32(4) of the Instruction for Implementation of the Agricultural Land Use and Care Act (ΠΑΛΥΚΑ) a charge is collected which amounts to 300 leva for each separate property.

Chapter Three

Charges on the Right to Use a Vehicle

Article 4

The following annual charge is collected on the right to use a vehicle:

1. Cars with engine capacity:

a) up to 800 cu cm. inclusive	200 leva
b) up to 1300 cu cm. inclusive	300 leva
c) up to 1800 cu cm. inclusive	500 leva
d) up to 2500 cu cm. inclusive	1500 leva
e) over 2500 cu cm. inclusive	3000 leva

2. Trailers for cars

a) freight trailers with loading capacity up to 400 kg inclusive	100 leva
b) freight trailers with loading capacity over 400 kg inclusive	500 leva
c) camping trailers	150 leva

3. Moped (up to 50 cu cm.)	50 leva
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4. Motorcycles

a) up to 125 cu cm. inclusive	100 leva
b) up to 250 cu cm. inclusive	150 leva
c) up to 350 cu cm. inclusive	200 leva
d) up to 490 cu cm. inclusive	450 leave
e) up to 750 cu cm. inclusive	700 leva
f) over 750 cu cm.	1500 leva

5. Tricycle weighing up to 400 kg inclusive

120 leva

6. Buses

a) up to 11 seats including the driver's seat and tourist buses	500 leva
b) up to 22 seats inclusive	800 leva
c) up to 35 seats inclusive	1200 leva
d) over 35 seats	2000 leva
e) Charges on buses for city transport amount to 10% of the charges stated in point 6.	

7. Lorries with loading capacity:

a) up to 1.5 tons inclusive	3000 leva
b) up to 3.5 tons inclusive	3500 leva
c) up to 6.0 tons inclusive	4100 leva
d) up to 10 tons inclusive	5100 leva
e) up to 16 tons inclusive	6100 leva
f) over 16 tons	7100 leva

8. Trailers and semi-trailers with loading capacity over 30 tons inclusive - 170 leva per ton.

9. Towing vehicles - normal and tractive units

2000 leva.

10. Specialized construction machines (concrete-carrying trucks, concrete pumping trucks), power shovels, specialized trailers for transport of heavy and oversize loads etc.

5000 leva

11. Tractors (only in the cases when they are registered to move on road network):

a) from 15 to 25 h.p. inclusive	800 leva
b) up to 50 h.p. inclusive	1200 leva
c) over 50 h.p. inclusive	3000 leva

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12. Other self-propelled machines which are registered to move on road network

1100 leva

Article 5 (1) Yearly charge per gross ton or part of it amounting to 50 leva per ton is collected for the right to possess a ship registered in the book of small ships according to Regulation No 1 to register the ships in the books of the harbors and the books of the municipalities sailing on the internal lines without connection to the Black Sea and the Danube river.

(2) The following charges are collected for the right to possess aeronautical vessels:

1. Airplanes with max mass at take-off:

a) up to 10 tons inclusive	400 leva
b) up to 20 tons inclusive	700 leva
c) up to 40 tons inclusive	1200 leva
d) up to 60 tons inclusive	2000 leva
e) up to 100 tons inclusive	3000 leva
f) up to 150 tons inclusive	3500 leva
g) up to 200 tons inclusive	4000 leva
h) up to 250 tons inclusive	5000 leva
i) over 250 tons	

2. Paraplane	250 leva
3. Hang glider	250 leva
4. Motodeltaplane	350 leva
5. Balloon	1200 leva
6. Glider	1200 leva

Article 6 (1) Automobile which is not going to be used the next year is not collected charge for under the condition that by the end of the current year the owner gives back the registration license of the automobile.

(2) For automobiles out of order at the date of purchase charge is collected under the conditions and amounting to the charges for new automobiles depending on the period they are going to be in movable condition.

Article 7 Payment of taxes under this chapter is a condition for bringing automobiles in movable condition and a requirement at the annual technical check of the last.

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Chapter Four

Charges for Exploitation of Quarry Materials

Article 8 The following charges are collected for the use of quarry materials:

1. River, quarry and sea sand, gravel and rubble per 1 cu m - from 2 to 8 leva
2. Quartz sand for glass-making and sand for cleaning metal articles - from 5 to 20 leva per ton
3. Sandy-clay materials to make bricks, roof tiles, inside and outside wall plastering - from 1 to 4 leva per 1 cu m.
4. Clay
 - a) for pottery, fuller's earth - from 4 to 16 leva per 1 cu m;
 - b) for stoneware pipes and floor tiles - from 5 to 20 leva per 1 cu m;
5. Casting earth - from 1.5 to 6 leva per 1 cu m;
6. Crushed and mosaic stones - from 1 to 4 leva per 1 cu m;
7. Stones for inside & outside tiling - from 4 to 16 leva per 1 cu m;
8. Limestone and other materials to make lime - from 1 to 4 leva per 1 cu m;
9. Limestone, marl, clay-sandy materials to make cement - from 1.5 to 6 leva per cu m.
- 10 Stones for:
 - a) paving stones for roads - from 3 to 12 leva per 1 cu m;
 - b) rolls, millstones, grindstones, hones etc. - from 12 to 48 leva per 1 cu m;
 - c) coping, staircases, etc. made of segment rocks - from 4 to 16 leva per 1 cu m;
 - d) coping, staircases etc. made of eruptive rocks - from 7 to 28 leva per 1 cu m;
 - e) paving stones for pavement and roofs - from 1 to 4 leva per 1 cu m;

Chapter Five

Charges for the Right to Use Market Places', Fairs', Side Walks', Street Spaces etc.

Article 9 (1) The following charges are collected from individuals and legal entities when selling at open markets agricultural products or wild fruits or mushrooms:

1. per sq. m:
 - a) per day - from 5 to 20 leva
 - b) per month - from 75 to 300 leva
2. Sale from cart pulled by horses etc - from 30 to 120 leva

3. Sale from motor car, per day - from 60 to 240 leva;
4. Sale from truck or trailer, per day - from 90 to 360 leva;

(2) When selling goods outside the places specified in Paragraph 1 charge collected is increased from 3 to 8 times.

(3) Charge is collected for the sale of cattle and birds - from 30 to 120 leva.

Article 10 For space during fairs, celebrations etc a charge for the sale of goods is collected daily per sq. m - from 10 to 40 leva.

Article 11 For places on panorama grounds, shooting grounds, motor boats etc a charge is collected per sq. m per day - from 3 to 9 leva.

Article 12 (Amendment - State Gazette No 50/1993, Decision of BS No 5/25.01.1994, cancelled State Gazette No 56/1994)

Article 13 For the use of pavement, square, road spaces when carrying out economic activities charge is collected per sq. m per day - from 10 to 40 leva.

Article 14 (1) For the use of pavements, squares, roads etc for building sites, charge : collected according to the type of zone per sq. m per month or part of the month:

1. Towns with population over 100 000 people:

- a) in zone one - from 25 to 35 leva
- b) in zone two - from 15 to 25 leva

2. Towns with population less than 100 000 people:

- a) in zone one - from 15 to 25 leva
- b) in zone two - from 10 to 15 leva

3. Villages - from 6 to 12 leva

(2) The zones in (1) are determined by the by the chairman of the Municipal Council.

Article 15 For use of side walks, streets, squares etc. for storage, including agricultural products a charge is collected at the amount of BGL5 to BGL15 per month or part of the month;

Article 16 The charges in this chapter are collected regardless of the time throughout the day or the month when the particular space was occupied or business was

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conducted at the market place, the side walks etc.. The Municipal Councils or the Mayor's Office can take away the permit for space use, when the space is not use for the agreed purpose, or is not used by the person to whom permission is, or when public affairs require this action.

Chapter Six

Part I

Charges for Water System Use

Article 17 For water supply system use the following charges are to be collected:

1. Per cu m of water measured by the water-meter, at a price, determined in compliance with the pending regulations for pricing of industrial production;
2. For properties supplied with water but not having a water-meter the charge priced in accordance with (1) and the monthly quantity as follows:
 - a) for permanent and temporary inhabitants - 10 cu m per person when the lodging is centrally heated and 7 cu m water in all other occasions;
 - b) for every 100 sq m of a productive lot - 15 cu m water;
 - c) for every cu m construction - 5 cu m water;
3. A charge for use of tabs and wells belonging to the Municipal Council - 10 cu m per person annually, in accordance with (1).
4. For check on the appropriate functioning of the water supply system, upon a request of the user, a charge is paid on a cost basis;
5. For installation, testing and dismounting of a water meter a charge is paid on a cost basis;
6. For renting a water meter for a month or a part of the month a charge is paid on a cost basis;

Article 18 While a water meter is out of order a charge is determined based on the average monthly consumption for the previous three months. If the number of inhabitants has changed the charge is determined based on (2) of the previous article.

Part II

Charges for Sewage System Use

Article 19 For sewage system use the following charges are to be collected:

1. Per cu m of sewage water, or sewage water processed a charge is paid at a price,

determined in compliance with the pending regulations for pricing of industrial production;

2. For properties tied to the water supply system with or without water-meter, if water is not consumed in production, the quantity of waste water, or waste water taken away and processed is determined based on the quantity of consumed water, determined as prescribed;
3. In the case when water is consumed in production, the quantity of water taken away or taken away and processed can be determined by installation of measuring equipment;
4. The quantity of water taken away, or taken away and processed when own water supply is used is determined in compliance with (2) & (3);
5. For properties not tied to the water system and using municipal taps and wells the charge is based on the quantity as determined in Article 17 (3);
6. For cleaning fecal ditches and pumping out of water, charges are determined on a cost basis;

Part III

Garbage Disposal Charges

Article 20 (1)For garbage discharge a charge is collected annually and determined by the Municipal Council:

1. For the buildings and yards of building belonging to citizens - based on the tax value;
 2. For the building and yards of building belonging to organizations, excluding the housing units - based on their balance sheet value;
 3. For housing unit and yards belonging to them belonging to institutions - based on the half of their balance sheet value;
- (2) When spacial equipment for garbage measurement is installed the charge is based on cu m of garbage and determined by the Municipal Council;

Article 21 (1)For the newly constructed buildings the garbage discharge charges are to be collected from the month following the month when the building was finished, and if the usage of the building started before it has been finished - from the beginning of the month following the one of the start of its usage;

- (2) For the buildings to be teared down the garbage discharge charge is collected till the month when the usage of the building has been discontinued.
- (3) Charges relating to this part are to be collected when the buildings are not in use.

Chapter Seven

Charges for Use of Nurseries, Kindergardens, Summer Camps, Boarding Houses for Aged People, Boarding Houses etc.

Article 22 (1) For use of kindergardens, day cares and nurseries the following charges are collected per month:

1. for weekly care - BGL200 to BGL600;
 2. for whole-day care - BGL150 to BGL450;
 3. for half-day care - BGL100 to BGL300;
- (2) If two kids of one and the same family stay in one and the same or different entities, for the second child 50% of the charge in (1) is collected.
- (3) 50% of the charges in accordance with (1) are paid for children, whose parents are full-time students, for children in single-mother families, as well as from parents with three and more children;
- (4) In times of absence of the children charges are not to be collected, when the parents inform before hand the director for the period of absence;

Article 23 (Revoked, State Gazette No.50/1993)

Article 24 For children staying in sanatorium (recovering) gardens and groups, with heavy chronic diseases, listed by the Ministry of Health, charge is not to be paid;

Article 25 For students staying in summer camps a charge of BGL15 to BGL 60 per day is paid.

Article 26 For use of summer kindergardens, play grounds and fields a monthly charge is collected at the amount determined by the Municipal Council.

Article 27 (1) People taken care of by the Social Care System, pay for all social care activities and forms a monthly charge in compliance with the real cost per person;

- (2) The real cost per person is determined every month for every entity and form of care and includes all expenditures made of the serviced people excluding those for salaries of the engaged personnel;

Article 28 (1) The charge to be paid is subtracted by the personal income of the person.

- (2) To people staying in social care homes, for personal expenses a sum is left at the amount of at least 20% of their personal income, and to the ones participating in different social care forms - not less than 40% of their personal income. When the sum

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that is left is not enough to cover the real cost, the difference is covered by the budget of the social care system.

- (3) For people, who support children, the sum for personal expenses and the one with respect to the real cost for services is determined after subtracting the support for the children.
- (4) Charges are not to be collected from people who have no personal income, including savings.

Article 29 (1) For children up to 16 years of age, serviced by the social care system, a charge is collected at the amount of the average income per person in the family, but not more than the real cost of the service. After being more than 16 the charge is paid in compliance with Articles 27 & 28.

- (2) A charge is not to be collected for children with health and social problems, for their temporary stay for recovery in children's settlements;
- (3) A charge is not to be collected for people for their temporary preliminary stay in home of the social care system;

Article 30 The people admitted to the social professional education entities pay a monthly charge at the amount of 50% of their personal income, if any, but not more than the real cost for services. To the ones admitted personal expenses are to be provided to the amount not less than 40% of the social pension.

Article 31 (Revoked, the State Gazette No.50/1993)

Article 32 People staying in private boarding houses and social entities pay charges on a contractual basis.

Chapter Eight

Charges for Veterinarian Services Provided to Animals and Birds not for Agricultural Use (Revoked: the State Gazette No.50/1993)

Chapter Nine

Charges for Veterinarian Certification and Others

Article 36 For providing veterinarian-sanitary control (appraisal by expert, tests, certification etc.) and issuance of veterinary medical certificates or invoices while transporting livestock, products, raw materials of animal origin inside the country and for the transportation in the very settlement the following charges are to be collected:

1. for cattle - 4.50 leva for each animal;

2. for pigs:

- a) up to five animals - 15 leva;
- b) for each animal above 5 - 3 leva;

3. for sheep, goats and lambs:

- a) up to ten animals - 15 leva;
- b) for each animal above 10 - 1.50 leva;

4. For rabbits and other small animals:

- a) up to ten animals - 15 leva;
- b) for each animal above 10 - 1.80 leva;

5. For bee families:

- a) up to 10 families - 15 leva;
- b) for each family above 10 - 2.40 leva;

6. For birds:

- a) for waggon, truck or container - 60 leva;
- b) for a cage - 3 leva;
- c) for small chickens up to 3 days in a box of 50 - 3 leva; in a box of 100 - 50 leva;

7. For slaughtered animals per animal - 5 leva;

8. For dogs and cats - 15 leva,

9. For alive snails, frogs, rapans, shells etc.:

- a) up to 10 kg - 15 leva;
- b) for each kg above 10 - 0.60 leva;

10. For food products of animal origin, meat and meat products, bird meat and bird products, fish and fish products, honey, bee products etc.:

- a) up to 10 kg - 18 leva;
- b) for each kg above 10 - 0.24 leva;

11. For milk:

- a) up to 10 kg - 6 leva;
- b) for each kg above 10 - 0.05 leva;

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12. For dairy products:
- up to 10 kg - 18 leva;
 - for each kg above 10 - 0.20 leva;
13. For kg of tinned dairy based products - 0.12 leva;
14. For kg of tinned fish based products - 0.18 leva;
15. For wool, hides, intestines and other raw material of animal origin:
- up to 10 kg - 15 leva;
 - for each kg above 10 - 0.24 leva;
16. For bones, horns, hoofs, animal and fish origin flour, incinerator fat, mixes, milk substitutes, broths and sterilized kitchen garbage to feed animals with; small value and other animal products permitted to be used as food for animals - for a truck, waggon or trailer 60 leva;
17. For eggs:
- for a waggon 30 leva;
 - for a cage with 180 eggs - 1 leva;
 - for a cage with 360 eggs - 1.50 leva;
 - for a cage with 720 eggs - 2.40 leva;
 - for a cage with 1440 eggs - 3 leva;
18. For eggs for hatching:
- for a cage of 180 eggs - 1.50 leva;
 - for a cage with 360 eggs - 2.40 leva;
19. When it is necessary to slaughter animals, for the remainings or meat, of these animals and birds:
- for cattle per animal - 12 leva;
 - for pigs per animal - 6 leva;
 - for sheep, goats and lambs per animal - 6 leva;
 - for birds per cage - 4.50 leva.
- (2) For providing veterinarian-sanitary tests of live animals, and for meat tests of slaughtered animals in regulated meat companies (meat and slaughter houses), and for expert appraisal of killed wild animals the following charges are to be collected:
- for cattle for each animal - 7.50 leva;
 - for pig with trichinella tests per animal - 30 leva;

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3. for sheep, goats and lambs per animal - 5 leva;
4. for expert appraisal of shot game:

- a) for big animals - 30 leva;
- b) for small animal - 15 leva;
- c) for birds - 3 leva;

- (3) the veterinary charges are determined based on the net weight of the products and subproducts;
- (4) The charges in (1) & (2) are to be collected from the person breeding of the animals or the producer of the products.
- (5) Charges are not to be paid for veterinary services:
 1. in case of transportation of the animal corpses, parts of spoiled corpses and subproducts to the state incinerator for their technical usage;
 2. for milk transportation of raw milk from the farms and the collection centres to the milk processing plants, as well as from one company to the next;
 3. for carrying or transporting milk products from the milk processing plants to the refrigeration houses and warehouses for a stay while a process of maturing is taking place;
 4. when fish material is moved in a fish farm that is technologically integrated;

Article 37 For registration of dogs in the cities a charge is collected at the amount of 300 leva, and in the villages - 50 leva per dog;

Article 38 Charges are not to be collected for registration of one house dog in the far away mountainous settlements, for the registered dogs used to guard business entities and buildings, for army dogs, for dogs belonging to the Ministry of Interior and the ones belonging to blind, handy capped and lonely living citizen more than 70 years of age, and for dogs held for test purposes of the scientific and medical organizations.

Chapter Ten

Charges for Notary Certification and for Services of Administrative Origin

Article 39 For notary certification of signatures, contracts, power of attorney etc. done by the Municipal Council or the Mayor's Office charges are collected as requested by Articles 37, 38, 39, 40 & 42 of the Rates Instruction No.1 of the Ministry of Justice in compliance with the State Charges Act.

Article 40 In compliance with the Leasing Relationships Act for accommodation enacting the following charges are to be collected:

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1. for an accommodation order of housing premisses 4 leva;
2. for an accommodation order of non-housing premisses 8 leva;

Article 41 For administrative services the following charges are to be collected:

1. for inheritance certification used to claim sums from the inheritance 50 leva;
2. for ownership of property certification 50 leva;
3. for issuance of copies of marital and birth papers 20 leva;
4. for issuance of copies of protocols, decisions etc., when they are not issued officially, for every two pages A4 format 5 leva;
5. for certification of an invitation for a private visit of a foreigner in Republic of Bulgaria 500 leva;
6. for ownership certification at a cattle purchase for an animal - 300 leva;
7. for issuance of certificate for sale of tobacco products in compliance with Article 30 point (1)1 of the Tobacco and Tobacco Products Act - 500 leva;
8. for issuance of certificate for warehousing and retailing of wines, spirit, and spirit products the following charges are to be collected:
 - a) for premisses used for whole sale and related warehousing, care and stay of wines, spirits, and spirit products per square meter for the whole area of the premisses regardless of what space is used for storage of other goods - 10 leva;
 - b) for retail sales of wines, spirits, and spirit products: for super markets, CUM, GUM, specialty stores for wines, spirits, and spirits products and for delicacy products stores, fish and fish products in Blagoevgrad, Bourgas, Varna, Veliko Turnovo, Vidin, Vratca, Gabrovo, Dobrich, Kyustendil, Kurdgelii, Lovech, Montana, Pazardgik, Pernik, Pleven, Plovdiv, Razgrad, Rousse, Silistra, Sliven, Smolyan, Sofia, Stara Zagora, Turgovitse, Haskovo, Shumen, Yambol and in the national resorts, air ports, sea and river ports, as well as motels, camping grounds etc., on the state high ways, at stalls, sections and separate premisses, trading with wine and spirits - 5000 leva;
 - c) for the trade units in the settlements with population over 2000, as well as the trade units not included in (b) - 1000 leva;
 - d) for the trade units in the settlements with population bellow 2000 - 200 leva;
 - e) for doing trade with wines and spirits in public food units depending on their category:

5 stars	20000 leva;
4 stars	10000 leva;
3 stars	5000 leva;
2 stars	2000 leva;
units with no category - canteens, buffets etc.	1000 leva;
 - f) for a temporary stall for sale of wines and spirits at fairs, meetings, advertising campaign of companies and other similar activities per day:

without tasting	50 leva;
with tasting	300 leva.

9. for issuance of other certificates and copies - 30 leva;

Chapter Eleven

Charges for Announcements and Advertisements

Article 42 For announcements and advertisements the following charges are to be collected:

1. for handing out leaflets, brochure, samples and others for advertising purpose at public places - BGL50 to BGL150 per person per day;
2. for use of automobile with a loud speaker for advertising purposes - BGL250 - BGL750 per day;
3. for a group marching with advertising purposes - BGL1000 to BGL3000 per day;
4. for use of tables to hand out advertising materials - BGL30 to BGL100 per day per square m of occupied space;
5. for advertising on posters, boards, fences, walls, etc. - BGL20 to BGL60 per month per square meter, but not less than BGL240 per month;
6. for advertising using neon lights, bulbs etc. on posters, boards, fences, walls, etc. - BGL50 to BGL150 per square meter per month, but not less than BGL600 per month;
7. for shop windows used for advertising - BGL400 to BGL800 per sq m per year, but not less than BGL1000. If light is used the charge is doubled;
8. for plates with instructions about company name, logo, address, telephone, field of activity, pointers, distances etc.:
 - a) if attached to walls, fences etc. - BGL170 to BGL500 per year;
 - b) when they are installed separately on stands, in green areas, side walks etc. - BGL500 to BGL1500 per year;
9. for one lamp or torch giving light to an advertisement - BGL100 to BGL300 per year;
10. for loud speakers used on stalls, pavilions, tables and temporary buildings with advertising purpose - BGL500 to BGL1500 per year;

Chapter Twelve

Resort Charges

Article 43 The resort charges collected in compliance with the Local Taxes and Charges Act are to be collected at the following rates:

- a) for resort of state significance per person - BGL5 to BGL15 per day;
- b) for resort of local significance per person - BGL3 to BGL9 per day;

- (2) The charges in (1) are not to be collected from persons staying in a resort for less than 5 days, the ones on a business trip, and for children less than 8 years of age, students and people on pension.
- (3) The foreigners pay a charge of BGL15 to BGL45 per person per day.

Chapter Thirteen

Charges for Purchase of Grave Yard Space

Article 44 (1) For purchasing a grave yard spot for more than 8 years the following charges are collected:

1. up to 15 years: for zone I - 100 to 300 leva; for zone II - 50 to 150 leva, for zone III - 25 to 75 leva;
 2. forever - 5 times the charge in (1).
 3. for family grave spots:
 - a) for 10 years and for every next 10 years: for zone I - 150 to 450 leva; for zone II - 100 to 300 leva, for zone III - 50 to 150 leva;
 - b) forever - 5 times the charges in (a);
 4. for additional small grave within regulation - the respective part of the charge determined for the main grave.
- (2) for urn grave charges are to be collected as in (1)1 & (1)2 with 50% reduction;

Additional and Final Instruction

§1 Related to the above rates:

1. (Revoked by Decision No. 5 of the Supreme Court of 25 January 1994)
2. "Regular bus lines" are the lines conducting transport on a predetermined basis with respect to routes and time schedule;
3. "Taken away water" is the water, which by means of pipes system is taken to a particular destination (river, sea, lake, stream etc.) and pours into it.
4. "Taken away and processed water" is the water in (3), which before pouring is purified in compliance with the category requirements of the destination;
5. "Personal income" for determining the charges in the social care home and social care forms of care of the social care system are all types of income excluding:
 - a) additional payments for support by an other person, included into the pensions of the handy capped of group I with the right of personal support, excluding the people staying in social care homes;

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b) the sums that the people from the social care homes receive as a compensation for participation in labour-therapy treatment.

§2 (revoked in the State Gazette No.50/1993)

§3 These rates are enacted from January 1, 1976 and the following instructions and decrees of the Council of Ministers are revoked:

.....

Decree No.102 of the Council of Ministers - (the State Gazette No.50/1993)

Transfer and Final Instructions

§37 Point No.9 of Decision 246 of the Council of Ministers of 1979 for determination of the norms of raising prices for losing services is revoked.

§38 The Decree is enacted from 1 June 1993

§39 The owners of transport vehicle, who have not paid the right to use charge by June 1 1993, pay the full amount of the annual charge, determined in this decree, and the lawful interest for the delay;

§40 (revoked in the State Gazette No.50/1993)

Decree No.124 of the Council of Ministers - (the State Gazette No.56/1994)

Transfer and Final Instructions

§1 The new rates of Article 22 are to be enacted from the beginning of the month following the month when this Decree has been published.

§2 The changes in Article 4 (7) and Article 25 are to be enacted starting 1 January 1995

§3 The changes in Article 43 are to be enacted starting 1 October 1994

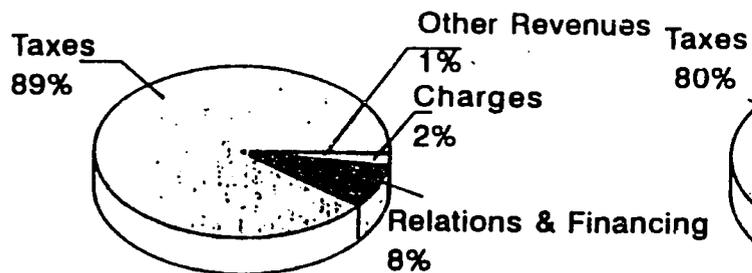
B18

APPENDIX C

BUDGETED REVENUE SOURCES

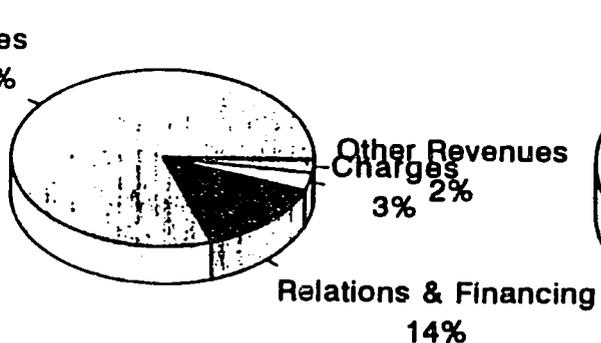
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BGL949 mln



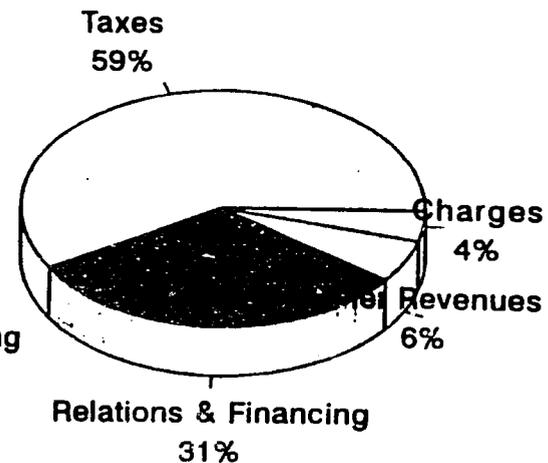
1991

BGL1,136 mln



1992

BGL2,045 mln



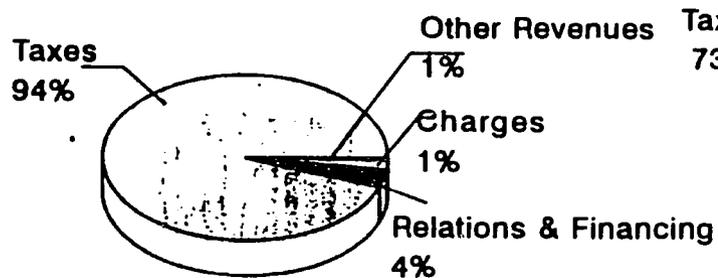
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ACTUAL REVENUE SOURCES

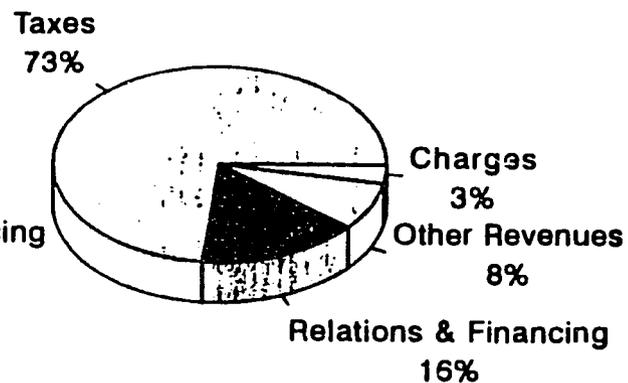
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BGL1,016 mln



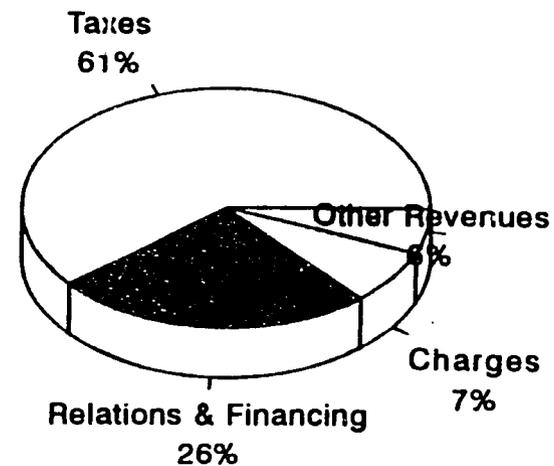
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BGL1,409 mln



1992

BGL2,123 mln



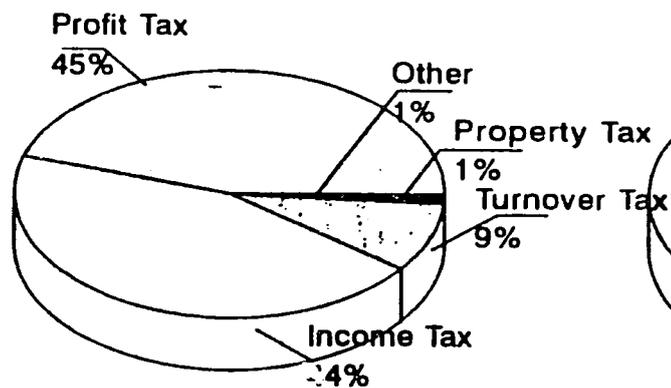
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BUDGETED TAX REVENUES

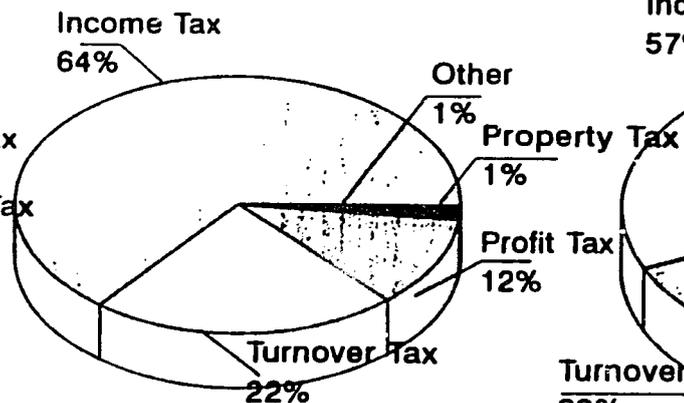
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BGL837 mln



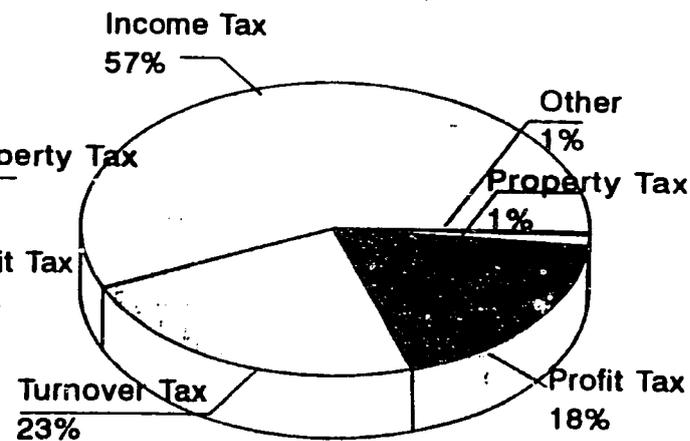
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BGL911 mln



1992

BGL1,200 mln



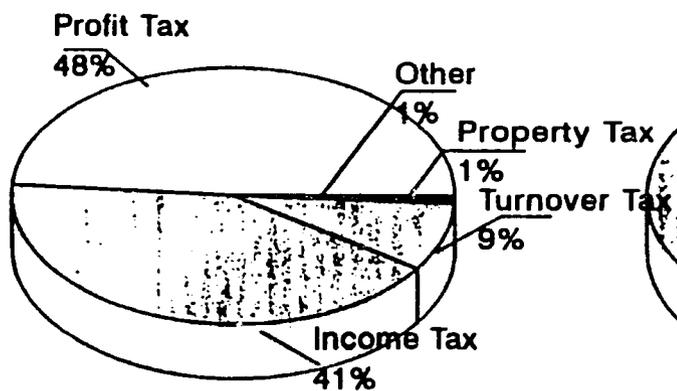
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ACTUAL TAX REVENUES

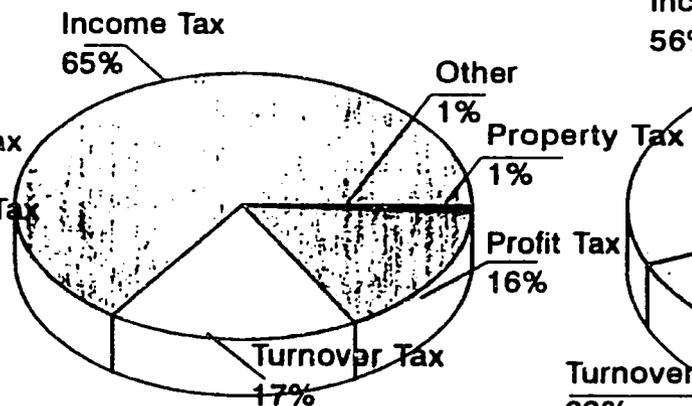
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BGL959 mln



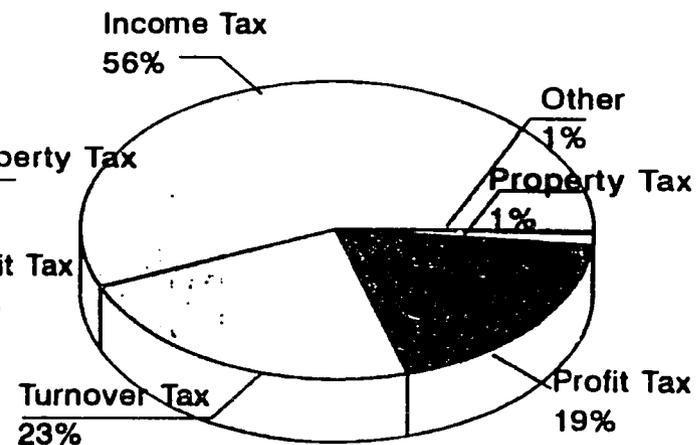
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BGL1,035 mln



1992

BGL1,297 mln

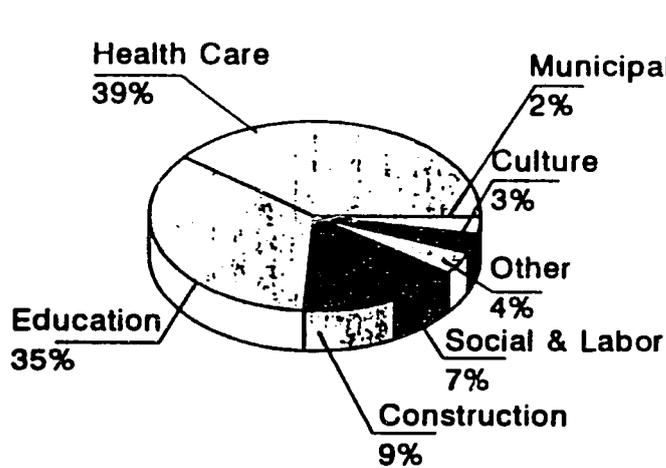


1993

BUDGETED EXPENSES

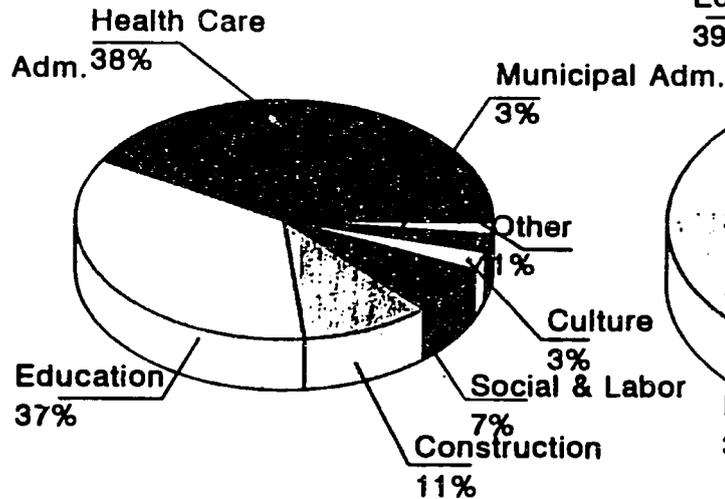
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BGL873 mln



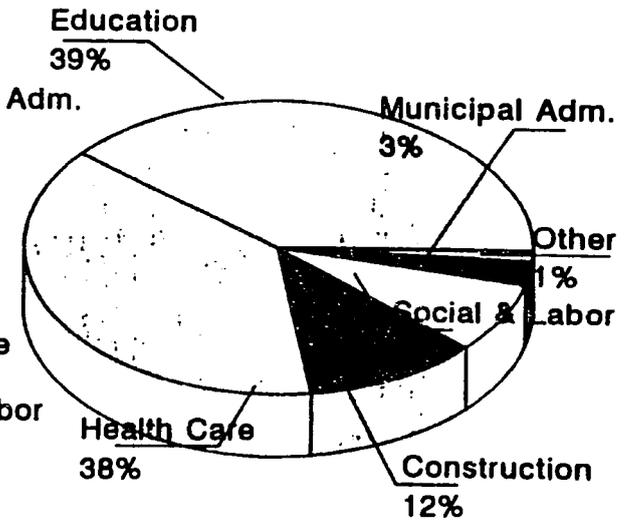
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BGL1,132 mln



1992

BGL2,157 mln



1993

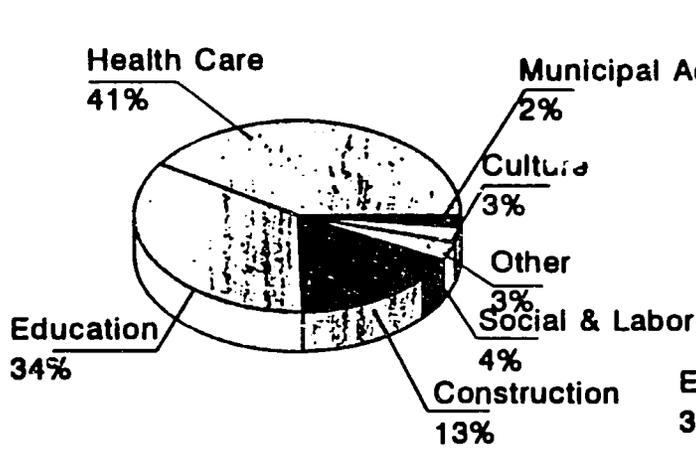
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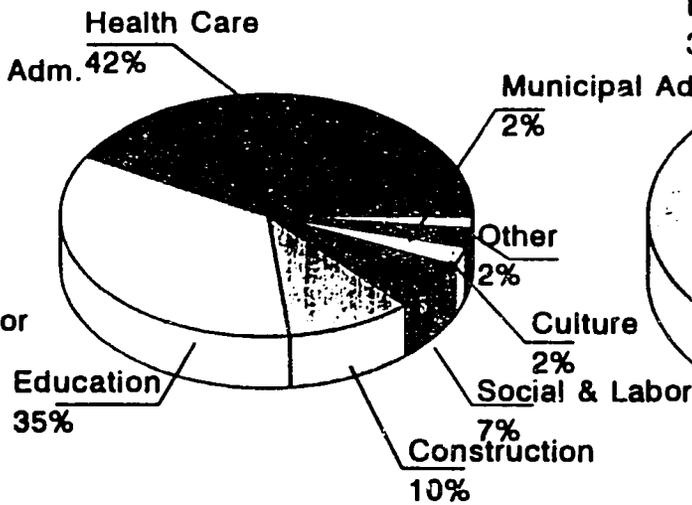
BGL873 mln

BGL1,407 mln

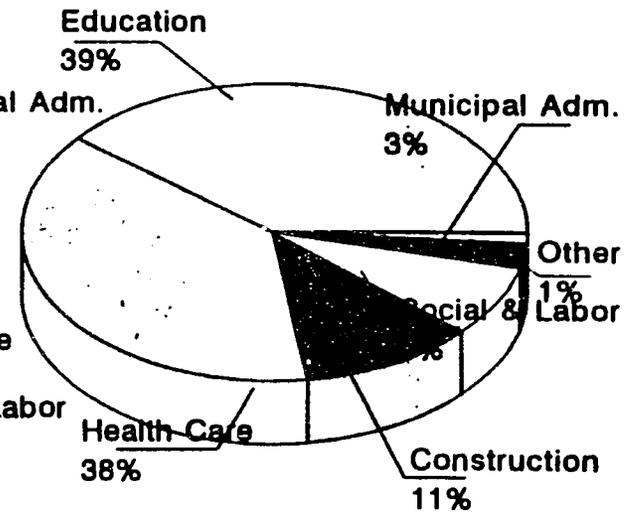
BGL2,122 mln



1991



1992

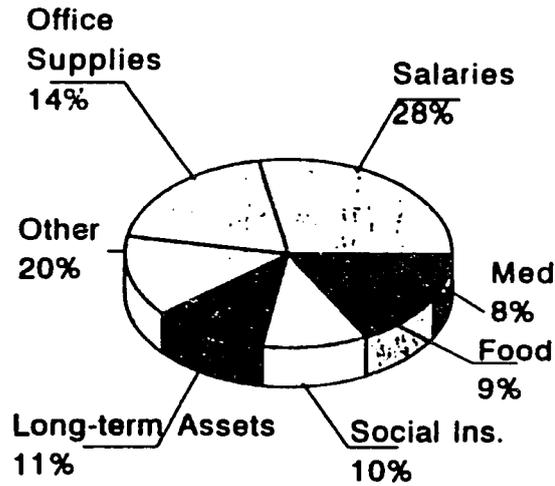


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BUDGETED EXPENSES

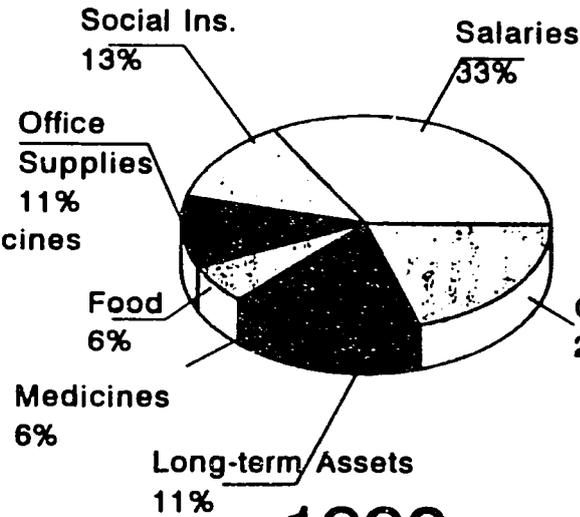
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BGL873 mln



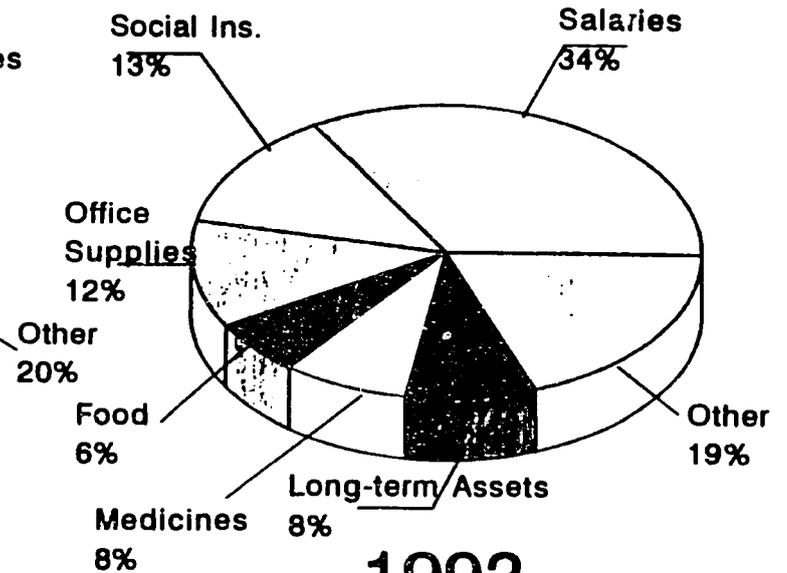
1991

BGL1,132 mln



1992

BGL2,156 mln



1993

70

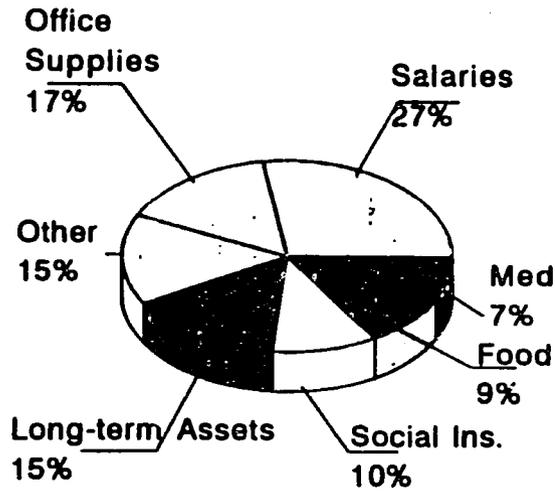
ACTUAL EXPENSES

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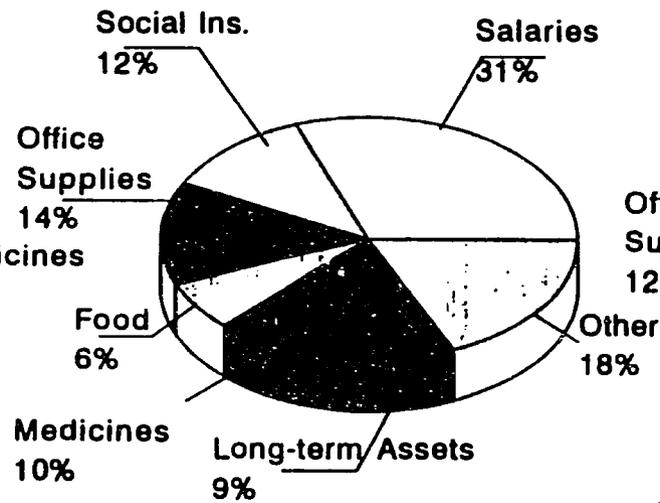
BGL873 mln

BGL1,407 mln

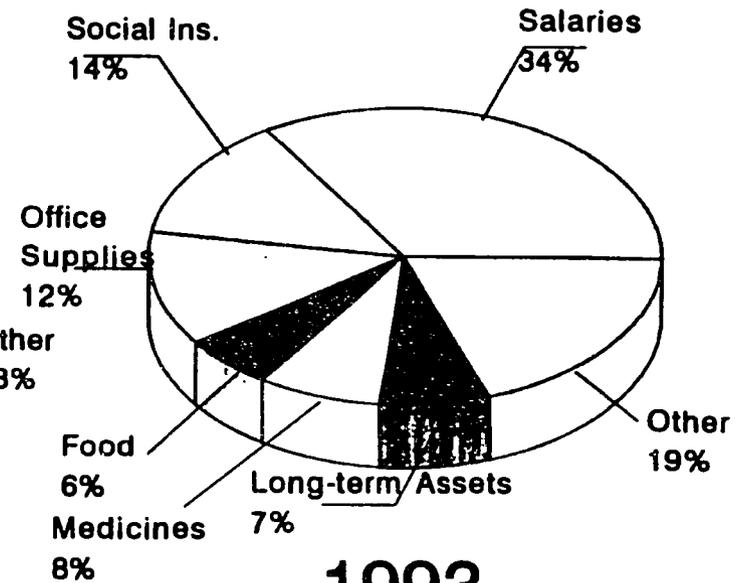
BGL2,122 mln



1991



1992



1993

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APPENDIX D

DRAFT
LOCAL PROPERTY TAXES AND RATES BILL

CHAPTER ONE
GENERAL PROVISIONS

Article 1. This Act regulates property taxation and determination of local rates payable by Bulgarian and foreign natural and legal persons on the territory of the Republic of Bulgaria.

Article 2. In pursuance of this Act, the property taxes are obligatory payments without compensation by natural and legal persons to the local budgets.

Article 3. Property taxes are as follows:

1. Real estate tax - tax on land and buildings.
2. Taxation on property acquisition - inheritance tax, gift tax, and property transfer against payment.
3. Vehicle Tax
4. Dog Tax
5. Use of resort tax

Article 4. In pursuance of this law, the rates are charging payments for cross-actions or services rendered by the Local Government Administration to natural and legal persons.

Article 5. Local Rates are payable for:

1. Rendering of administrative and legal services.
2. Use of Stone, Gravel, and Sand-Pit materials.
3. Use of market-places.
4. Garbage Disposal.
5. Use of budget-funded establishments, day-care centers and welfare nursing homes.
6. Purchase of graveplots.
7. Cattle Sales.

Article 6. Specific amount of the local rates is determined by the Local Government Authorities to the maximum amounts, provided for by a by-law of the Council of Ministers, excluding the rates per Article 5, Paragraphs 1 and 4.

CHAPTER TWO
PROPERTY TAXES
SECTION I
LAND TAX

Article 7.(1) Subject to land taxation is Land intended for farming which is

1. Not located within the town planning construction limits;
2. Not included in the state-owned forest stock;
3. Free of buildings of: industrial and other businesses, vacation or health care facilities, religious associations or other public organizations, neither are yards or warehouses to such buildings;

(2) Tax exemptions are as follows:

1. Newly developed and reclaimed land - for a period of 10 years;
2. Land rendered unsuitable for use as a result of natural calamities;
3. Land planted with perennials - until their first fruit crop;
4. Land used as experimental and training field by educational and research organizations.

Article 8. Farming land owners are land taxpayers.

Article 9. Land Tax is levied annually and it is fixed on the basis of the land market prices, approved by the Council of Ministers. Assessment is performed by specialized technical authorities at the Municipalities.

Article 10. (1) The tax rate is as follows:

1. For land planted with perennials -0.50%;
2. For other land -0.15%

(2) The tax for watered areas is increased by 25%.

(3) Tax on land in mountainous and low mountain areas is reduced by 50%.

Article 11. The land owner will file a tax form at the tax authority at the location of the land within one month from its acquisition.

Article 12.(1). The annual tax amount due is fixed by the chief tax inspector of the tax authority at the location of the land by a taxation form not later than 3rd March of the current tax year.

(2) The tax amount fixed is advised in writing to the taxpayer.

(3) When land has been acquired in the calendar year, the tax would be fixed within one month from filing of the tax form and it is proportional to number of months until the end of the year.

Article 13. (1) The tax due is to be paid in equal parts within the following due dates - until 30th September and until 31st December of the current tax year.

(2) Land owners who have fully paid up their tax until 30th September would have 10% allowance.

SECTION II

TAX OVER INHABITED HOUSES AND PLOTS

Article 14. /1/ The inhabited house duty is levied upon:

1. Dwellings (residential premises)
2. Villas and summer/week-end houses;
3. Garages
4. Atelier and studios
5. Other types of property in residential and out-of-town areas - farm buildings, auxiliary and temporary buildings, etc.;
6. Business and administrative buildings;
7. Built-up and empty plots.

/2/ In pursuance of this Law:

1. A building is a group of rationally adjoining premises, comprising of, at least, ante-room, a room with an adjoining kitchen box, bathroom, toilet, needed for proper habitation.
 2. Villas and country houses are buildings, which from their very construction were designed to satisfy specific needs for rest and health recovery;
 3. A country/summer house is a building within a town or a village, which from its initial construction was designed for habitation, but, due to various reasons, migration, inheritance, etc., is temporarily inhabited - seasonally or during week-ends;
 4. Garages are buildings, constructed in accordance with the operative layout and elevation plans for parking of vehicles;
 5. Atelier and studios are premises designed for specific - creative, designing and other activities;
 6. Other properties in residential and out-of-town buildings or plots, built up in accordance with the standard regulations:
 - farm buildings - with farming, production or servicing purposes;
 - auxiliary buildings - with servicing household purposes.
 7. Plots are: - built up or empty territories, included in the layout boundaries and differentiated by regulation lines.
- (3) The type of property is determined on the basis of the approved architectural designs. If such designs are missing - depending on the prevailing purpose they have been used for the last three years.

Article 15. (1) The following are tax exempted:

1. Buildings owned by the state and the municipalities, with the exception of

the rented ones;

2. Buildings owned by other states, used by the diplomatic corps, appointed to the Republic of Bulgaria, consuls and other persons given diplomatic immunity by international legislation, provided they are not citizens of the Republic of Bulgaria, and if this is given on a guaranteed mutual basis.

3. Buildings and parts thereof, owned by the church or by other religious associations, recognized by the state;

4. Residential buildings, newly built by natural persons, to serve as a permanent residence place of the owner, are tax-exempted for a period of three years from the date of their final completion;

5. Buildings purchased by natural persons from the state and the municipalities, which will serve as a permanent residence place of their owner for a period of three years from the date of acquisition;

6. Heritage buildings

7. Buildings properly used for the purposes of public transport, excluding residential and rented ones;

8. Buildings or parts thereof, serving exclusively for environmental improvement, which have been determined by regulations of the Ministry of Environment, in coordination with the Ministry of Finance

(2) Tax exemption per items 3, 4, 5 and 6 of the preceding paragraph of newly built and newly acquired buildings does not include buildings or parts thereof, which are used for business activities, or rented.

Article 16 (1) Buildings which are completely or partially demolished, pulled down or destroyed are not subject to taxation.

(2) Taxation is discontinued from the month when the change occurred.

(3) The Owner of the demolished, pulled down or destroyed property will inform within 14 days in writing the specialized technical authority at the Municipality. In the same period the Owner will file a tax form at the Tax Office at the location of the property.

Article 17. Taxpayers are natural and legal persons who own buildings at the territory of the Republic of Bulgaria, whether they use them or not.

Article 18.(1) The tax base is the developed built-up area in square meters where buildings are concerned and per a square meter area concerning plots as at 1st January of the tax period.

(2) Tax base assessment is performed by the specialized technical authority at the municipalities, by rates, approved by the Council of Ministers.

Article 19. This tax is an annual one and it is fixed at the following rates:

1. Residential buildings and residential buildings plots - 0.5% from the assessment;
2. Villas, villa plots and weekend houses, suitable for habitation throughout the whole year - 0.7% of the assessment;
3. Garages, ateliers, buildings or parts, thereof for business and administrative activities in residential and villa buildings and lots - 2% from the assessment;
4. Auxiliary, temporary and other buildings in housing plots - 1% from the assessment;
5. Buildings intended for business and administrative activities:
 - A) Buildings used in the primary farming; buildings used in forestry and water supply facilities - 0.8% of the assessment;
 - B) Buildings used for industrialized construction, power generation; for other farming purposes - 2% of the assessment;
 - C) Buildings of other types - 5% of the assessment.

Article 20.(1) Tax is payable in 4 equal part - until 31st March, until 30th June, until 30th September and until 30th November of the current tax period.

(2) Owners who have paid the annual tax prior to 31st March of the current year would be granted 10% allowance.

Article 21.(1) Tax form should be filed by 31st January of the current tax year at the tax office at the location of the property.

(2) Where newly built or newly acquired properties are concerned, the Owner will file a tax form within one month from completion of the construction, from property acquisition, respectively. Tax is assessed in 1 month from filing of the tax form and is proportional to the number of months until the end of the year.

Article 22.(1) The annual tax due is determined by the Head of the Tax Office at the property location by a taxation document by the end of February of the current tax year.

(2) The amount of the tax fixed is advised in writing to the taxpayer.

**SECTION III
INHERITANCE TAX**

Article 23 (1). Inheritance Tax is levied on properties which are transferred into inheritance in accordance with the Inheritance Act.

(2) Properties are as follows: real estates, and movables, rights and receivables, sums of money, valuables, and securities.

Article 24. Taxpayers are Bulgarian and foreign natural and legal person with regard to properties in the country.

Article 25.(1). The inherited property is assessed as follows:

1. Real estates and property rights on them - per base market prices, as approved by the Council of Ministers as at the date of the death of the testator.

2. Movables and valuables at their market price.

3. Rights - at the value to be achieved on their realization.

4. Securities - at their rate at the Stock Exchange.

(2) Property valuation per Item 1 of the preceding Paragraph is performed by the specialized technical authorities at the Municipalities.

Article 26.(1). The following is deducted from the value of the inheritance:

A) Receivables waived by the inheritors in favor of the State;

B) Costs incurred by the funeral of the testator, to the amount fixed by the respective local administration.

(2) Liabilities of the testator which are in existence at the time of finding out of the inheritance are deducted from the assets of the inheritance.

(3) The liabilities are to be substantiated by documents which could serve as evidence in a lawsuit.

Article 27. The following shall be exempted from tax:

1. Direct line descendent inheritors up to 18 years of age.

2. Properties inherited by the state, municipalities, Bulgarian arts, research, educational, and social institutes, which are budget-supported; foundations, budget-supported schools, and disaster aid funds, and funds for historical and cultural heritage restoration.

3. Inheritance shares to:

A) Direct line descendents and spouses - to the amount of 40 thousand Leva;

B) Other lawful inheritors - up to 20 thousand Leva.

4. Household belongings and small tools; objects of art and collections, and also objects of historical and archeological value (artifacts), etc., when they are transferred to the direct line descendents and to the live spouse.

5. The pension of the testator for the month when the testator died.

6. Debenture bonds.

7. Deposits, saving accounts, and Life Insurance to the amount of 40 thousand/Leva to the direct line descendents and the spouse.

8. If the testator had been taxed for inheritance of real estate acquisition, not less than 3 years prior his/her death, the inheritors will be taxed for such property at its half price.

Article 28.(1) The inheritors will file a tax form within 6 months from the date when the inheritance was found out. The tax form is filed at the tax office at the municipality, where the latest place of residence of the testator was. If he/she has had a place of residence overseas, the tax form would be filed at the tax office of the country where the bigger portion of the property is located.

(2) The tax form is completed in accordance with the Exhibit attached to this Act.

Article 29.(1). For persons who are not inheritors by law and inherit property under a will, the period fixed in the preceding Article starts from the date they are informed about the will in their name.

(2) For inheritors resident abroad the period for filing a tax form starts as of the date they are informed about the death of the testator.

(3) For underage inheritors, who have no other co-inheritor neither a survived spouse, the period starts running from the establishment of the guardianship.

(4) For the properties of the persons declared absent at the death announcement, the period starts from the date of accession to the property.

Article 30. (1) The taxable part of the inheritance is determined by deducting from the inheritor's share the tax-exempted amounts under Article 27.

(2) The tax is calculated by the following table:

- under 60 000 leva - 3 per cent
- 60000 to 100000 lv. 1800 lv. + 5 per cent for the excess over 60 000 leva
- 100000 to 150000 lv. 3800lv. + 10 per cent for excess over 100 000 leva

- 150000 to 200000 lv. 8800 lv. + 15 per cent for the excess over 150 000 leva
- 200000 to 300000 lv. 16300 lv. + 20 per cent for the excess over 200 000 leva
- 300000 to 500000 lv. 36300 lv. + 30 per cent for the excess over 300 000 leva
- 500000 to 1000000 lv. 96300 lv. + 40 per cent for the excess over 500 000 .leva
- over 1000000 lv. 296300 lv. + 50 per cent for the excess over 1 000 000 leva

(3) For a share of inheritance acquired by a spouse and direct line descendants, the tax is reduced by 50%.

(4) For a share of inheritance acquired by the lateral branch relatives of the family, the tax is increased by 20%.

(5) For inheritance acquired by persons beyond the ones provided for in Paragraphs 3 and 4 the tax is increased by 50%.

Article 31.(1) The tax is assessed individually for each inheritor or devisee by a tax assessment notice from the Head of the Tax Office and an appeal may be lodged as provided for in Article 93 of the Act.

(2) In cases when such an appeal is resulting from the market valuation of the property, the Chief of the respective Local Revenue Office will appoint a committee for the assessment.

Article 32. Tax shall be paid in 2 months from receiving of the tax assessment notice.

**SECTION IV
GIFT TAX**

ARTICLE 33. Gift tax is levied on real estates, movables, receivables, sums of money, valuables and securities received as a gift.

Article 34.(1) Gift Tax is assessed and levied on gifts made in this country.

(2) Tax payers are natural or legal persons who acquire the property.

(3) In case of receiving gifts from abroad, the gift taxpayer is the donor.

Article 35.(1) The tax is calculated on the base of the price of the property, which is assessed as follows:

1. For real estate - per base market prices, fixed by the Council of Ministers.

2. For other properties - per their market price.

(2) Assessment of real estate properties, subject of a gift, is performed by the specialized technical authorities at the municipalities.

(3) The tax to be paid is assessed after deducting all liabilities related with the gift.

Article 36. The gift tax is calculated by the following table:

from 2000 lv. to 10000 lv. 4%

from 10000 lv. to 30000 lv. 400 lv. + 6% for the
excess over 30000 leva

from 30000 lv. to 50000 lv. 1600 lv. + 16% for the
excess over 30000 leva

from 50000 lv. to 80000 lv. 3600 lv. + 15% for
the excess over 50000 leva

from 80000 lv. to 120000 lv. 8100 lv. + 20% for
the excess over 80000 leva

from 120000 lv. to 200000 lv. 24100 lv. + 30% for
the surplus

from 200000 lv. to 300000 lv. 48100 + 40% for
the surplus

over 300000 lv. 78100 leva + 50% for the surplus

Article 37.(1) The tax to be paid is fixed by the Head of the Tax Office by a tax assessment notice upon tax form filed by the person who is acquiring property as a gift.

Article 38. The following are exempted from gift tax:

1. Persons who have received gifts amounting up to 10000 leva.
2. Gifts in favor of the state and the municipalities.
3. Gifts between budget-based institutions.

Article 39. The tax on gifts in favor of spouses and descendents is levied by 25% reduction.

Article 40. In case of concealment of information and circumstances which have led to tax evasion, the avoided tax shall be paid jointly by the parties.

SECTION V

REAL ESTATE TRANSFER TAX

Article 41. This tax is levied on real estate acquisition against payment.

Article 42. Taxpayers are as follows:

1. Recipients of the real estates in case of sale or in case of establishing of servitudes or superficies.
2. The person who in exchange transaction receives the more expensive real estate.

Article 43.(1). When tax assessment in case of a real estate sale is made, the price agreed upon between the parties will be used as a tax base, which shall not be lower than the base market price at rates established by the Council of Ministers.

(2) Real estate assessment per base market prices shall be performed by the specialized technical authorities at the municipalities.

(3) In case of exchange of real estates the tax assessment is determined on the price difference between the properties.

Article 44. This tax is determined by the following table:

- up to 20000 leva 3%
- from 20000 to 300000 leva 6000 leva + 4% for the surplus over 200000 leva
- from 500000 to 1000000 leva 18000 leva + 5% for the surplus over 500000
- from 1000000 to 2000000 leva 43000 leva + 6% for

the surplus over 1000000
from 2000000 to 5000000 leva 103000 + 8% for
the surplus over 2000000
from 5000000 to 10000000 leva 34300 leva + 10% for
the surplus over 5000000
from 10000000 to 20000000 leva 843000 leva + 12%
for the surplus over 10000000 leva
from 20000000 to 30000000 leva 2043000 leva + 15%
for the surplus over 20000000
from 30000000 leva 3543000 leva + 20% for the
surplus over 30000000

Article 45. The following is exempted from this tax:

1. Institutions on full budget support.
2. State-owned enterprises, successors-in-title of the acquired real estate upon liquidation of other state-owned enterprises.
3. Municipalities - upon dividing, splitting and changes of their territory.
4. Foundations, churches, religious associations, cultural, research, educational, health care, social, environmental, and sports organizations or transfer of property from legal persons, when the transferor has not acquired the property without payment.

Article 46. When transfer is made to descendents, the tax is levied by 50% reduction.

Article 47.(1) The tax is determined by the Head of the Tax Office by a tax assessment notice in case of tax form filed by the person who acquires the real estate, and in case of exchange of property - by the person who acquires more expensive property.

(2) The tax is payable prior to the transaction.

Article 48. In case of concealment of the prices, the tax on the concealed part shall be jointly paid by the parties.

**SECTION VI
VEHICLE TAX**

Article 49. This tax is levied on motor vehicles, farming motor vehicles, boats, motor vessels, and aircrafts, which have a state licence number or registration.

Article 50. Taxpayers are as follows:

1. The owners of motor vehicles, farming motor vehicles, motor vessel, or aircraft registered in their particulars.

2. The motor vehicle users in the country - drivers, pilots, motor vessel-masters/captains in case of foreign motor vehicles for international transportation.

3. In case of motor vehicles whose owner has a permanent residence or stay abroad and the case of international transport motor vehicles is not applicable, when such vehicles were set going as roadworthy by the Traffic Police after their registration, the vehicle taxpayer is as follows:

A) the organization to which the foreign owner of the vehicle belongs, if registered in this country;

B) the user of the motor vehicle in this country;

C) if there are several owners or taxpayers per one and same vehicle, the tax is payable jointly.

Article 51. The vehicle tax is determined as follows:

1. For passenger cars and pick-up vans:

based on engine capacity in cu.cm.

2. For cargo trucks, trailers, half-trailers, farming machines and buses - based on their load capacity.

3. For buses - based on number of seats.

4. For motor vessels and boats - based on their gross tonnage.

5. For aircrafts - based on tonnage weight.

Article 52. The tax amount is determined as follows:

1. For passenger cars and pick-up vans:

up-to 800 cu.cm, inclusive 200 leva

up to 1300 cu. cm, inclusive 300 leva

up to 1800 cu. cm, inclusive 500 leva

up to 2500 cu. cm, inclusive 1500 leva

above 2500 cu. cm. 3000 leva

2. For passenger car trailers:

- A) cargo trailers with load capacity less than 400 kg., inclusive 100 leva
- B) cargo trailers with load capacity above 400 kg. 500 leva
- c) camping trailers 150 leva
- 3. For mopeds (less than 50 cu.cm.) 50 leva

- 4. For motor bikes:
 - up to 125 cu.cm., inclusive 100 leva
 - up to 250 cu.cm., inclusive 150 leva
 - up to 350 cu.cm., inclusive 450 leva
 - up to 750 cu.cm., inclusive 700 leva
 - above 750 cu.cm. 1500 leva

- 5. For three-wheeled vehicle with overall weight up to 400 kg., inclusive 120 leva

- 6. For buses:
 - up to 11 seats, including the driver's seat, as well as tourist vehicles 500 leva
 - up to 22 seats, inclusive 800 leva
 - up to 35 seats, inclusive 1200 leva
 - over 35 seats 2000 leva

- 7. For trucks with load capacity:
 - up to 1.5 t, inclusive 3000 leva
 - up to 3.5 t, inclusive 5000 leva
 - up to 6.00 t, inclusive 8000 leva
 - up to 10 t, inclusive 10000 leva
 - up to 16 t, inclusive 12000 leva
 - over 16 t 14000 leva

- 8. For trailers and semi-trailers with load capacity up to 30 t, inclusive 170 leva/ton

- 9. Truck tractors - ordinary and saddled 6000 leva

- 10. Specific construction equipment

(concrete delivery agitator trucks, concrete pumps, etc.), truck cranes, special purpose trailers and heavy or oversize carriers 5000 leva

11. Tractors (only if roadworthy):
15 to 25 h.p., inclusive 800 leva
up to 50 h.p., inclusive 1200 leva
over 50 h.p. 3000 leva

12. Other automotive machines, if roadworthy 1100 leva

Article 52. (1) For the right to use motor vessels, registered as small motor vessels and at the municipalities, for the motor vessel domestic navigation and the Danube River Navigation, an annual tax of 50 leva is levied per each gross ton or part thereof.

(2) For the right to use aircrafts the following rates are levied:

1. For airplanes with maximum weight at take-off:
 - up to 10 tons, inclusive - 400 leva
 - up to 20 tons, inclusive - 700 leva
 - up to 40 tons, inclusive - 1200 leva
 - up to 60 tons, inclusive - 2000 leva
 - up to 100 tons, inclusive - 3000 leva
 - up to 150 tons, inclusive - 3500 leva
 - up to 200 tons, inclusive - 4000 leva
 - up to 250 tons, inclusive - 5000 leva
 - above 250 tons - 7000 leva
2. For paraglider - 250 leva
3. For hang-glider - 250 leva
4. For motor hang-glider - 350 leva
5. For balloon - 1200 leva
6. For glider - 1200 leva

Article 54.(1) The tax on foreign motor vehicles of the international transport per a vehicle or road train is determined as follows:

- for stay in the country not exceeding 24 hours - $1/50$ of the amount of the tax fixed for such vehicles, but not less than 400 leva;
- for stay in the country 7 consecutive days - $1/20$ of the amount of the tax

fixed for the country, but not less than 800 leva;

- for stay of 300 consecutive days - 1/5 of the amount of the tax, fixed for such vehicles in the country, but not less than 2400 leva;

(2) For the period of temporary stay in the country of the international transport motor vehicle, provided the same is not equal to 24 hours, 7 days, or thirty days, the tax will be calculated as a sum multiple by the tax rates fixed for 24 hours, 7 days, or thirty days, respectively.

Article 55. This tax is paid by the user of the motor vehicle of the international transport.

Article 56.(1) By 31st January the motor vehicle owner shall file a tax form at the tax office at the location of his place of residence.

(2) Upon purchase of a new motor vehicle, the owner will file a tax form within one month from the date of its acquisition.

(3) For foreign motor vehicles of the international transport, such tax form is filed upon its crossing the border.

Article 57. If as a result from engineering improvement the vehicle falls in a higher tax rate, the obligation to pay the additional taxation will arise.

Article 58. Vehicles owned by owners listed below are exempted from tax:

1. Government institutions and the units of the Ministry of Defence and the Ministry of Internal Affairs, which do not carry business.

2. State-owned enterprises which carry out road network repairs and maintenance.

3. Owners of vehicles fitted with catalyst exhaust gas afterburner and vehicles operating by LPG or electric power.

4. Handicapped, when used personally by them.

5. Embassies and diplomatic representations on the basis of mutual provisions.

Article 59. Vehicle tax is fixed by a tax assessment notice from the Head of the Tax Office and it is payable in 2 equal parts - by 31st March and by 30th June of the current tax year.

Article 60. The owner or the driver of the vehicle, the master of the vessel or the aircraft captain must present papers substantiating tax payment, such as tax receipt, remittance receipt, at request by the tax and custom office authorities.

SECTION VII

DOG TAX

Article 61. This tax is levied on owners of pet dogs and of hunting dogs whose owners are members of the Hunting and Fishing Union.

Article 62. This tax is levied annually and it is determined as follows:

1. For a pet dog in towns 300 leva
2. For dogs in villages 50 leva
3. For hunting dogs 100 leva

Article 63. The owners of dogs listed below are tax exempted:

1. Pet dogs in settlements of 5th functional type and above.
2. Dogs used as guards of sites and herds.
3. Army and police dogs.
4. Dogs of blind and handicapped people.
5. Dogs owned by lonely citizens over 70 years old.
6. Dogs for testing purposes, for research and medical purposes and life-saving operations.

Article 64.(1) The dog owner will file a tax form by 31st January of the current tax year in the respective tax office at the location of residence.

(2) The tax is fixed by the head of the tax office by a tax assessment notice.

Article 65. The tax will be paid in 2 equal installments - by 31st March and by 30th June of the current tax year.

Article 66. For the newly acquired dogs over the year, the owner will file a tax form within one month from the acquisition. The tax is determined proportionally to the months until the end of the year and should be paid in 15 days from the date of filing of the tax form.

SECTION VIII

RESORT TAX

Article 67.(1) Resort tax is levied on persons who stay more than five days in the resorts of the country.

(2) This tax is paid also by foreign tourists, excluding the ones on package

tours.

Article 68.(1) The tax rate is 10 leva per day per person.

(2) Legal persons who deal in resort business will be taxed by the above amount for each natural person who uses the resort.

Article 69. This tax is payable in three days from commencement of the stay of the person(s) in the resort to the respective tax office.

Article 70. The persons listed below are tax exempted:

1. Persons who are on duty trip.
2. Persons less than 18 years of age, and if they are students - less than 25 years of age.

**CHAPTER THREE
LOCAL RATES**

**SECTION I
LEGAL AND ADMINISTRATIVE RATES**

Article 71. The taxpayer of the legal service rate is the natural or legal person who has received a service such as: notarial attestation of signatures and contracts, power of attorney, etc. provided by the municipalities, and payable in accordance with Schedule of Rates No. 1 of the Ministry of Justice per the State Rates Act.

Article 72.(1). The rates for administrative services are paid by legal and natural persons to whom the following services have been rendered:

1. Providing a housing by the municipal housing committees.
2. Issuance of certificates, attestations, licences, permits, and transcripts which otherwise are not issued free of charge.
3. Advertisements and announcements

(2) Advertisement and announcement rates of cultural club-houses, public libraries and public records office which are budget supported are levied by 50% reduction.

(3) The following are exempt:

1. Applications, petitions, complaints, etc. which are filed through and to the municipality.
2. Papers for official use and budget institutions,
3. Papers related to guardianship law suits,
4. Papers related to public support
5. Papers related to protection of the interests of the underaged and children's allowance awarded by the court.
6. Announcements and advertisements of budget-supported institutions.

**SECTION II
RATES FOR USE OF STONE, GRAVEL, AND SAND-PIT MATERIALS**

Article 73. The rates are payable by natural and legal persons who use quarry materials such as rocks, clay, sandstone, limestone, sand, gravel, stone, etc.

Article 74. The following are exempted:

1. Materials intended for public, road, railway and harbor construction.
2. Materials which are mined by the mining enterprises themselves, within their boundaries or near to them, which are necessary for construction, maintenance, and supporting of the mines and the adjacent land.
3. Material for use in construction of dams, irrigation canals, and other hydro-construction projects.
4. Materials intended to be used in construction and for needs, directly used by or intended for budget-based institutions.
5. Materials intended for project which will improve the environment.

Article 75. The amount of the rates is determined separately for each type of material per a cubic meter, on the gross product, which is established by:

1. The production records which are kept obligatory by each pit.
2. The quantities fixed in a temporary or one time permit for mining of quarry materials.

Article 76. The rates for use of quarry materials are credited in favor of the local environmental protection funds.

SECTION III

RATES FOR USE OF MARKET-PLACES

Article 77. These rates are payable by natural and legal persons for:

1. For trade at market-places, fairs, exhibitions, etc.
2. For use of space for entertainment parks, etc.
3. For space occupied by street vendors.

Article 78. The rates are determined per day, month, or quarter per sq.m. of the occupied space and are payable prior to use of the space. When such spaces are used longer than 3 months, the rates may be paid in time scales as agreed upon between the parties.

**SECTION IV
GARBAGE DISPOSAL TAX**

Article 79. This tax is payable by natural and legal persons who are users of the Garbage Disposal Service.

Article 80. The rates are determined in accordance with the expenses incurred for garbage disposal and on the basis of the Local Government budget.

Article 81. The following are exempted from Garbage Disposal Tax:

1. Buildings serving as prayer houses.
2. Areas where municipality has not provided for garbage disposal services.

Article 82. The tax is due at the same time when Tax on buildings is due.

**SECTION V
RATES FOR USE OF BUDGET-FUNDED ESTABLISHMENTS, DAY CARE
CENTERS AND WELFARE NURSING HOME**

Article 83. Such rates are payable for use of creches, day-care centers, camps, holiday resorts, sites, pensions, and hostels for the elderly, mentally and physically handicapped nursing homes, etc.

Article 84. The rates should be paid by the parents whose children are accommodated in the children's establishments, or in children's holiday camps as well as by the persons who use the social services.

Article 85. The following are exempted from rates for use of creches and day-care centers:

1. Handicapped parents who have over 50% loss of ability to work.
2. The third and each following child of parents having many children.
3. Orphan children.

Article 86.(1) The amount of the rates is fixed per month or per a shift.
(2) The rates are collected by the children establishments and social service nursing homes.

SECTION VI
RATES FOR PURCHASE OF GRAVEPLOTS

Article 87. This rate is paid by natural persons for purchase of graveplots or cremation spaces.

Article 88.(1) Different rates for purchase of graveplots are used, depending on the period for which the graveplot is purchased, and the zone where it is located.

(2) Periods of validity of purchase: over 8 years, and forever.

Article 89. The rate is payable only once upon purchase of the plots.

SECTION VII
CATTLE SALES TAX

Article 90. This tax is levied on natural and legal persons on cattle sales.

Article 91. The tax is fixed as percentage of the selling price agreed upon.

Article 92. Procedure and method for collection of this tax are determined by the local government authority.

CHAPTER FOUR

FILING OF APPEAL AGAINST THE TAXES AND RATES

Article 93. The assessed taxes are subject to appeal under the provisions of the Tax Procedures Act.

Article 94. With regards to the tax appeals the provisions of the Tax Procedures Act will apply.

CHAPTER FIVE

ADMINISTRATIVE AND PENALTY REGULATIONS

Article 95. In case of failure to file tax forms, in the time, as provided for by law, the taxpayers shall be penalized with a fine, three times the amount of the tax due, but not less than 300 leva.

Article 96. (1) For concealment of part of the price on tax assessment, per Articles 40 and 48, a fine of up to three times the amount of the tax due, but not less than 1000 levi will be imposed on the parties.

(2) The fine is charged by separate injunctions for each of the parties.

TRANSITIONAL AND FINAL REGULATIONS

1. This Act comes into effect from January 1st 1994, and supersedes:
 1. Local Taxes and Rates Act
 2. Tariff Schedule of Local Rates as per the Local Taxes and Rates Act
 3. Decree on establishing a housing reserve at the Ministry of Defence.
 4. Decree of the Council of Ministers No. 271/1952
2. Taxation on buildings until January 1st, 1995, will be performed in accordance with Article 9-14 of the existing Local Taxes and Rates Act.
3. Within 6 months from coming of this Act into effect, the real estate owners must file their tax forms again at the tax office at the location of the property.
4. Owners of vehicle and dogs must file their tax forms within one month

from coming of this Act into effect at the tax office at the location of residence.

5. For inheritances found out as at the time of effectiveness of this Act, the procedures, more favorable for the inheritors, will apply.

6. Within one month from coming of this Act into effect the Council of Ministers will approve a Tariff Schedule for determination of the amount of local rates.

7. The execution of this Act is entrusted with the Minister of Finance.

APPENDIX E

CONFIDENTIAL

CONSOLIDATED 1982 BUDGET EXPENSES OF
BLASOEVGRAD, BOURGAS AND ROUSSE MUNICIPALITIES

TYPE OF EXPENSE	CODE	0000		0700		0800		1100		1400		2800		4300		5400		6500		6200		6800		7000		7300		TOTAL		
		MINISTRY OF EDUCATION		MINISTRY OF CULTURE		MINISTRY OF HEALTH CARE		MINISTRY OF CONSTRUCTION		MINISTRY OF LABOUR AND SOCIAL CARE		COMMITTEE FOR TOURISM		CHIEF ABOVE OFFICE		IN FEDERAL LAND COMMITTEE		LOCAL ENTERPRISES		YOUTH ACTIVITIES		RECREATION AND SPORTS		MUNICIPAL AND REGIONAL ADM.		POLICE				
		BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
I. Expenses																														
Salaries	01	184,030	311,457	12,898	14,563	168,148	181,845	1,845	1,812	9,235	7,746	0	0	882	1,037	477	488	0	0	714	858	81	81	8,785	11,318	0	0	377,888	431,087	
Social Insurance Payments	02	75,425	80,358	4,548	5,073	55,804	63,843	575	855	2,822	2,785	0	0	313	354	185	183	0	0	248	218	28	21	3,417	3,632	0	0	143,208	167,101	
Scholarships	03	18,122	20,284	0	0	3,353	3,318	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22,477	23,804
Food	04	33,803	48,277	150	169	28,680	41,700	0	0	5,318	5,842	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	87,542	95,788
Medicines	05	12	2	0	0	71,274	145,545	0	0	58	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Business Trips	06	891	774	265	275	520	569	21	5	85	37	0	0	41	38	28	34	0	0	11	5	5	0	288	287	0	0	71,345	142,588	
Office Supplies	07	42,957	57,481	2,823	3,254	45,345	82,585	18,402	31,837	4,047	5,884	0	0	453	437	157	218	0	0	430	702	94	88	7,782	8,988	0	22	2,115	1,885	
Clothes	08	2,748	1,888	41	28	5,288	4,778	82	8	458	423	0	0	14	0	18	11	0	0	0	0	0	0	0	0	0	0	0	0	0
Library Expenses	09	8,358	8,888	581	870	80	88	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs	11	21,388	18,514	220	70	3,857	3,885	8,318	5,888	272	282	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	12	20,880	27,154	10,880	11,013	18,338	27,883	18,878	25,543	38,110	38,305	0	0	153	88	278	283	0	0	0	0	1,427	884	13,178	8,880	7,731	8,843	127,131	147,871	
One-time Benefits when a Child is Born	22	0	0	0	0	0	0	0	0	285	128	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Compensation for Child Care	23	0	0	0	0	332	418	0	0	28,484	27,884	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Children's Allowances	24	0	0	0	0	157	78	0	0	2,880	1,978	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Budget and Public Enterprise Subsidies	25	0	0	0	0	0	0	0	0	0	0	171	201	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses		407,388	482,858	32,277	35,085	381,738	555,001	44,718	68,088	88,258	82,300	171	201	1,881	1,854	1,121	1,175	0	0	1,858	1,884	1,758	825	34,014	34,314	7,731	8,888	1,132,105	1,487,347	
II. Subsidies																														
Subsidies for Stimulating Production	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail Subsidies	47	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Subsidies and Payments	48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Subsidies		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
III. Amortization of Long-Term Assets																														
Amortization of Long-Term Assets	10	8,525	7,588	878	817	23,888	24,837	28,777	28,214	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses		415,913	490,446	33,155	35,902	405,626	579,838	73,494	96,302	88,258	82,300	171	201	1,881	1,854	1,121	1,175	0	0	1,858	1,884	1,758	825	34,014	34,314	7,731	8,888	1,132,105	1,487,347	
Percentage of Total Expenses		28.74%	24.85%	2.81%	2.55%	37.80%	41.82%	10.22%	10.12%	7.80%	8.54%	0%	0%	0%	0%	0%	0%	0%	0%	0.15%	0.12%	0.18%	0.07%	2.00%	2.44%	0.84%	0.73%	100.00%	100.00%	

BEST AVAILABLE DOCUMENT

8b

**CONSOLIDATED 1983 BUDGET EXPENSES OF
BLAGOEVRAD, BOURGAS AND ROUSSE MUNICIPALITIES**

TYPE OF EXPENSE	CODE	600 MINISTRY OF EDUCATION		600 MINISTRY OF HEALTH CARE		6800 MINISTRY OF AGRICULTURE		1100 MINISTRY OF CONSTRUCTION		1400 MINISTRY OF LABOUR AND SOCIAL CARE		2600 COMMITTEE FOR TOURISM		4200 CHIEF ARCHIVE OFFICE		6800 LOCAL ENTERPRISES		8200 YOUTH ACTIVITIES		6800 RECREATION AND SPORTS		7800 MUNICIPAL AND POLYFORMAL AGEN.		7300 POLICE		TOTAL			
		BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL	BUDGETED	ACTUAL
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
1. Expenses																													
Salaries	01	388 812	360 721	317 458	318 282	833	886	1 831	1 567	16 204	12 778	0	0	0	108	0	0	882	837	177	168	20 888	21 711	0	0	0	0	726 884	722 788
Social Insurance Payments	02	154 818	163 808	111 648	113 815	270	283	514	483	5 315	4 587	0	0	0	88	0	0	233	223	80	80	8 878	7 780	0	0	0	0	726 884	722 788
Scholarships	03	28 137	28 398	4 185	4 378	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	32 332	30 778
Food	04	80 577	81 781	81 307	84 878	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	128 900	124 162
Medicines	06	3	3	188 008	183 858	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Business Trips	08	1 255	1 280	1 042	845	57	48	13	4	87	34	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office Supplies	07	87 847	87 280	84 575	84 421	358	288	55 038	52 748	6 708	7 455	0	0	0	100	0	0	761	710	40	38	15 448	15 878	5 840	5 830	0	0	172 001	168 503
Clothes	08	4 074	2 012	5 006	3 832	72	4	17	8	354	144	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Library Expenses	08	5 885	5 574	88	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs	11	38 837	37 778	8 253	8 858	0	0	16 180	8 082	1 087	888	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	12	86 431	86 418	37 188	34 738	306	314	58 510	58 588	51 336	74 038	0	0	0	320	0	0	106	65	828	443	14 808	10 888	10 718	9 583	0	0	84 843	84 808
One time Benefits when a Child is Born	32	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Compensation for Child Care	33	0	0	482	584	0	0	0	0	0	372	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Children's Allowances	34	0	0	106	102	0	0	0	0	48 807	50 874	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Budget and Public Enterprise Subsidies	43	0	0	0	0	0	0	0	0	4 246	3 888	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses		818 778	820 715	794 558	784 778	2 008	1 931	131 814	122 478	144 723	184 553	375	280	0	881	0	0	2 006	1 873	1 640	882	58 021	58 310	18 868	18 523	1 872 547	1 868 712		
2. Relationships																													
Subsidies for Stimulating Production	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail Subsidies	47	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Subsidies and Payments	48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Relationships		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
3. Acquisition of Long-Term Assets																													
Acquisition of Long-Term Assets	10	17 885	6 885	25 971	24 337	0	0	127 052	114 884	0	0	0	0	0	0	0	0	0	0	0	0	180	300	0	0	0	0	163 200	148 801
Total Expenses		837 875	828 600	820 529	809 068	2 008	1 931	258 867	237 462	144 723	184 553	375	280	0	881	0	0	2 006	1 873	1 640	882	58 201	58 610	18 868	18 523	2 188 247	2 121 713		
Percentage of Total Expenses		39.85%	39.10%	39.48%	38.13%	0.08%	0.08%	12.01%	11.18%	8.21%	7.78%	0%	0%	0%	0%	0.00%	0.00%	0.02%	0.09%	0.07%	0.02%	2.78%	2.87%	0.77%	0.72%	100.00%	100.00%		

BEST AVAILABLE DOCUMENT

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APPENDIX F

MUNICIPAL FINANCE LEGAL ENVIRONMENT

1 CONSTITUTIONAL PROVISIONS FOR MUNICIPAL SELF-GOVERNMENT

The Constitution of the Republic of Bulgaria¹ establishes the foundation for the development of local self-government. The municipality is considered a core element of the local administration within the legal framework of the Constitution.

Article 136

- (1) A municipality shall be the basic administrative territorial unit at the level of which self-government shall be practiced. Citizens shall participate in the government of the municipality both through their elected bodies of local self-government and directly, through a referendum or a general meeting of the inhabitants.
- (2) The boundaries of the municipality shall be established following a referendum of the inhabitants.
- (3) A municipality possesses legal personality.

Articles 138 to 141 of the Constitution define the governing bodies within the municipality and the basis for the financial independence of the municipality.

Article 138

The body of local self-government, within the municipality, shall be a municipal council elected directly by the population for a term of four years by a procedure established by law.

Article 139

- (1) The mayor shall be the body of executive power within the municipality. He shall be elected by the municipal council for a term of four years by a procedure established by law.
- (2) In his activity the mayor shall be guided by the law, the acts of the municipal council, and the decisions of the inhabitants.

¹State Gazette No. 56 of June 13, 1991.

Article 140

A municipality shall be entitled to own municipal property, which it shall use in the interest of the territorial community.

Article 141

- (1) A municipality shall have its own budget.
- (2) The municipality's permanent sources of revenues shall be established by law.
- (3) The state shall ensure the normal operation of the municipality through budget appropriations and other means.

2 MUNICIPAL FINANCIAL AND BUDGETING ENVIRONMENT

The major legal document with respect to local government and municipal administration is the Local Self-Government and Local Administration Act (LSGLAA).² It details the issues regarding the rights and responsibilities of the local government bodies. The basics of the municipal financial regulatory environment are introduced in compliance with the major activities of the municipality.

Article 20 of the LSGLAA, referring to the competencies of the municipal council, outlines the major areas of activities of the municipality.

Article 20

The municipal council sets the policy of the municipality as to its formation and development and settles local problems related to the economy, environment protection, health care, social activities, education, culture, public utilities, town planning and development, municipal property, traffic regulation, and public peace. It also settles problems of local importance which are not within the exclusive competence of other bodies. In the cases provided by law, it also performs functions delegated to it by the central government.

The clauses referring to the municipal financial environment are set out in Chapter No.7 of the LSGLAA. The articles of this chapter define:

- The right of the municipality to ownership of property that is acquired and registered under the terms and procedures specified in the Property Act;
- The municipal council can set up municipal enterprises and carry on economic activities both jointly with other parties or independently;

²State Gazette No. 77 of September 17, 1991.

- The budget of the municipality is independent from the State Budget. The main sources for funding of municipal activities are its own revenues and state subsidies. The central government provides funding for development of particular regions of the country. The municipality may use bank loans or interest-free loans from the budget and issue municipal bonds. The municipality does not have the right to borrow for costs of a general nature.
- The revenues of the municipal budget consist of: (1) the full amount of local taxes and charges; (2) parts of other taxes and charges which are due to the municipality, established by law; (3) rents and other income from municipal property; (4) subsidies and other earmarked funds from the State Budget; (5) Bank loans and interest-free loans from the State Budget; (6) shares and bond issues; and (7) other sources, specified by law or by acts of the Council of Ministers.
- The expenditures of the municipality cover the local needs and the performance of state functions. The cost of performing state functions is covered by the State Budget. The municipal council can provide financial assistance to enterprises if their activities are related to servicing the community.
- The major expenses covered by the municipal budget are: (1) costs and wages related to municipality-supported health, social, educational, and cultural activities; (2) public utilities, construction, expansion, reconstruction, maintenance and repair of municipal property, and the acquisition costs of municipal property; (3) joint ventures with other councils and district municipalities' councils; (4) municipal administration costs; (5) free administrative and technical services, town planning, and cadastral records; (6) loan redemption; (7) environmental protection activities; and (8) capital investments in economic activities.
- The municipal budget is adopted by the municipal council every year. The budget can be modified throughout the year, and where the budget for a new fiscal year has not been endorsed by the beginning of the year, until its endorsement revenues are collected and expenditures are made in accordance with the budget for the respective period of the previous year.
- The municipal budget is public and is under the control of the community.

2.1 Local Taxes and Charges

The Local Tax and Charges Act³ is the single most important piece of legislation covering the taxes and charges collected locally. This act has been amended more than 25 times in the last 43 years. Two types of taxes are considered to be local: the building tax and the inheritance tax. The local charges imposed, as of the last amendment of the Act (in July 1993) are collected for:

- property acquisition both as a donation, as well as against payment;
- technical services;

³State Gazette No. 104 of December 28, 1951.

- the right to use a vehicle;
- use of quarry materials;
- use of markets and market-places;
- use of water and sewerage system, and solid waste disposal;
- use of resorts, kindergartens, homes, boarding houses and other;
- veterinarian services;
- certification and other services of an administrative nature;
- leisure and recreation centers of state and local significance.

The building tax rates differ based on the type of the building, site and lot, and their use and are based on an estimate of the buildings' value:

- Tax exempt are the buildings used by the state, the Bulgarian National Bank, the State Savings Bank, the State Insurance Institute; those belonging to political parties, trade unions, social, professional, cultural, educational, and sports institutions; the buildings of the foreign embassies and consulates; places of worship; buildings belonging to the Ministry of Transport and Communications and for operation by rail, air, and water transport; parks and sports fields, and others;
- 2 percent on the estimated value for the buildings or the parts of the buildings used for housing purposes, as well as the yards and lots dedicated for housing construction, if they belong to the state, co-operative and social welfare companies, entities, and organizations;
- 4 percent - for all other buildings, yards and lots;
- 6 percent - for summer houses and the adjacent sites and lots.

Additional rates for housing over 120 square meters and summer houses over 60 square meters are established depending on the area and the location.

The tax paid for the buildings, yards, and lots belonging to companies and other institutions is determined by the same entities and is based on their book value. The tax paid by physical and legal persons is determined by the head of the local tax department based on a written application. The estimated value in this case is determined in compliance with the cubic meter and square meter norms set by the Council of Ministers for different categories of property.

The Inheritance Tax is collected on properties (real estate, non-real estate, rights, claims, rents, securities, valuables, etc.) inherited by law or bequeathed. The value of the property is estimated for movables based on the real price at the time of inheritance; vehicles - at their insurance value; rights - at time of receipt; enclosed real estate - at current tax value; and farm estates - at norms determined by the Council of Ministers. Certain types of property are tax exempt.

The inheritance tax rate for spouses, children, and parents increases progressively in the range of 2 to 50 percent. For inheritance from relatives of indirect lineage the tax is increased by 20 percent and in all other instances - increased by 50 percent.

The rates of the charges are determined by the Council of Ministers Decree No. 69.⁴ The latest update of the Decree was on January 7, 1994. Apart from the charge for acquisition of property (donated or purchased) where the rate increases progressively, all other charges are established on a simple pro rata basis.

2.2 Shared Financing of the State Budget and Municipal Budgets

The greater part of the municipal revenues arises from tax sharing between the state and the local budgets.

The State Budget Act for each particular year establishes that relationship. In terms of municipal finance, the State Budget Act of the Republic of Bulgaria for 1994⁵ determines:

- Based on Article 53, para.2 of LSGLAA, the revenues from Income Tax will be shared in proportion of 50 percent for the municipality and 50 percent for the state budget.
- The municipalities approve and expend their budget resources in compliance with the following priorities:
 1. Medicines, salaries, scholarships, pensions, social support, food, and heating, as well as the costs related to the social, health, and education entities.
 2. Acquisition of long-term assets for projects in educational, health, and social activities, water supplies, waste treatment plants, and other ecology-related projects.
- The share of the assets rented out by the municipal companies.
- Additional transfers of the surplus revenues of the Turnover Tax and the Value Added Tax to the municipal budget.
- Deadlines for interest-free government loans repayment and rescheduling, and the period after the State Budget Act publication for presenting the local budgets to the Ministry of Finance.

The most important source of revenue for the municipality is **income tax**. Half of the revenues from this tax are currently transferred to the local budget account. The Income Tax Law⁶ divides personal income into two major categories: income as a result of a labor contract—salaries, wages, etc. and all other types of personal income. The first type is paid in by the employer monthly and the second one is declared and paid by the individual on an annual basis. The latest scales for both types of income tax enacted since May 6, 1994 are shown in Appendix H.

⁴State Gazette No. 45 of June 13, 1975.

⁵State Gazette No. 22 of March 15, 1994.

⁶State Gazette No. 132 of June 6, 1950.

The second most important contribution to the municipal budget source is **profit tax**. Decree No. 56 on Economic Activities⁷ and the rules for its implementation elaborate on the scheme for calculating and adjusting profits for taxable purposes, the profit tax levels for different types of companies, as well as the method by which the tax is distributed and paid:

- Profit tax is set at 40 percent. Banks and persons operating under the Bank and Credit Act pay 50 percent tax, and the State Savings Bank pays 70 percent.
- Legal persons, with state and municipality participation exceeding 50 percent, must make an obligatory payment to the municipalities of 10 percent of the taxable profit.
- Legal persons without state or municipal participation pay profit tax of 30 percent, if their annual profit does not exceed 1 million BGL.
- Legal persons with state and municipality participation exceeding 50 percent must pay an obligatory payment to the Melioration Fund at the rate of 2 percent on their profit.
- After payment of taxes and other liabilities of legal persons with state and municipal participation exceeding 50 percent, the remaining profit shall be distributed under terms and procedures determined by the Council of Ministers.

2.3 State Budget Funds and Transfers and Municipal Financing

The subsidies for all 255 municipalities are approved by the National Assembly. The *1994 State Budget Act* specifies:

- The total subsidy for each separate municipality including the capital budgeting dedicated to particular projects.
- The methodology for determination of the subsidy. The formula consists of three major elements:
 - 85 percent of the subsidy for the previous year;
 - objective criteria part weighted toward: the number of students in the secondary schools, the population of the municipality, the number of settlements within the municipality, and the number of patients in the regional hospitals;
 - project based subsidy.

The subsidy is modified by two corrective coefficients for per capita revenue of the municipality and the growth of the subsidy in comparison with the previous year. The methodology is explained in detail in Appendix K.
- The list of ecological projects that will be funded by the capital budget subsidy of the municipalities.
- The fund for construction of small water supply stations, which is determined by inter-departmental committee of the Council of Ministers.
- The expenditure of privatization revenues, which are accumulated on a special off-budget account, as determined by the existing legislation.

⁷*State Gazette* No. 4 of January 13, 1989.

2.4 Municipal Financial Control

Control over the municipal financial system is exercised by both the local government and the state. Because of the close relationship between the state and the local budget, the Ministry of Finance (which is entitled to compile and implement the State Budget after its approval by the Parliament) is the main central government body co-ordinating the local finances in compliance with the overall state financial system.

The Ministry of Finance is entitled by the Tax Administration Act⁸ to collect taxes, fees, and other state claims. The specific duties of the Central Tax Department of the Ministry of Finance are:

- tax registration of persons liable to tax;
- preparation of tax records of the taxpayers;
- determination of the specific amounts of tax liabilities;
- collection and reporting related to the determined taxes and other state claims and providing information to the municipalities on the implementation of revenues from local taxes and fees;
- acceptance of tax declarations and their inspection;
- performance of tax inspections and audits.

In performance of its duties, the local tax office of the Ministry of Finance works together with the municipal financial officers with respect to forecasting and collection of the local taxes, fees, and charges and their transfer to the state and the municipal budgets.

The Local Budget Department of the Ministry of Finance co-ordinates the preparation of the municipalities' budgets. It establishes the methodology for determining state subsidies, their division between the municipalities, and their presentation for approval. The capital budget projects for investment in the municipality during the budget period are negotiated and approved separately.

More than half of the of the municipal revenues are spent on wages for services provided locally. The people paid out of the municipal budget, such as doctors, teachers, city administrators, etc., bear the status of government employees and control is exercised over their wages and social security contributions. Decree No. 30 of the Council of Ministers⁹ regulates the average salary of the persons paid by budget organizations. It sets the average salary amount for the local government employees for the first quarter of 1994 and the maximum salaries of different personnel categories with respect to the minimum wage of a Bulgarian employee. Similarly, most of the local government expenses are regulated on a

⁸State Gazette No. 59 of July 9, 1993.

⁹State Gazette No. 16 of February 22, 1994.

state level. Laws and other documents comprising the legal environment for municipal finance and budgeting are listed in Appendix G.

In the course of the municipal budget preparation and approval, the State Expenditures Department of the Ministry of Finance issues advisory documents to municipalities with respect to their expenses. The branch ministries work closely with the municipality in establishing service standards in the ministry's area of expertise in order to facilitate the service activities of the municipality.

The Accountancy Act,¹⁰ the National Chart of Accounts¹¹, and the National Accounting Standards¹² constitute the basis of the accountancy practices in Bulgaria. The Bulgarian municipal accounting system operates under the regulations and controls set by this legislation.

¹⁰*State Gazette* No. 4 of January 15, 1991.

¹¹*State Gazette* No. 26 of April 2, 1991.

¹²*State Gazette* of January 15, 1993.

APPENDIX G

LIST OF DOCUMENTS

with Respect to Municipal Finance Legal Environment

- Local Self-Government and Local Administration Act, *State Gazette* No. 77, September 17, 1991.**
- State Budget Act of the Republic of Bulgaria for 1994, *State Gazette* No. 22/1994.**
- Decree No. 77 from April 14, 1994 for the Realization of the State Budget of the Republic of Bulgaria for 1994, *State Gazette* No. 34/1994.**
- Methods for Determining the Budget Relationship of the State Budget with the Municipalities' Budgets, *The Budget Magazine*, March 1994, Ministry of Finance, Sofia 1040, 102 Rakovski Str.**
- Consolidated Classification of the Income and Expenses of the State Budget for 1994, Ministry of Finance, Budgeting Department, January 1994.**
- State Budget Act of the Republic of Bulgaria for 1993, *State Gazette* No. 55/1993.**
- Decree No. 222 from November 18, 1993 for the Realization of the State Budget of Bulgaria for 1993, *State Gazette* No. 99/1993.**
- Preparation and Accomplishment of the State Budget Act, *State Gazette* No. 91/1963.**
- Instruction No. 4 for Cash Report of the State Budget, *State Gazette* No. 12/1980.**
- Decree No. 56 on Economic Activity, *State Gazette* No. 4/1989.**
- Rules on Implementing Decree No. 56 on Economic Activity, *State Gazette* No. 15/1989.**
- Decree No. 30 from February 10, 1994 on Working Salaries in the Budget Organizations and Activities and their Indexing in Accordance with the Inflation Rate in 1994, *State Gazette* No. 16/1994.**
- Income Tax Act, *State Gazette* No. 132/1950.**
- Local Tax and Charges Act , *State Gazette* No. 104/1951.**
- Decree No. 271 Approving the Norms of Valuation of the Buildings, Yards and Lots for 1952, *State Gazette* No. 28/1952.**

Decree No. 243 on Changes of Decree No. 271 Approving the Norms of Valuation of the Buildings, Yards and Lots for 1952, *State Gazette* No. 110/1993.

Decree No. 69 on the Rates of the Local Taxes and Charges, *State Gazette* No. 45/1975.

Tax Administration Act, *State Gazette* No. 59/1993.

Instructions for Charges in the Social Securities System, Ministry of Labor and Social Care, December 1993.

Transformation and Privatization of State and Municipal Enterprises Act, *State Gazette* No. 38/1992.

Instruction on the Valuation of the Entities Subject to Privatization, *State Gazette* No. 50/1992.

Auction Instruction Pursuant to the Transformation and Privatization of State and Municipal Enterprises Act, *State Gazette* No. 50/1992.

Law on Banks and Credit Activity, *State Gazette* No. 25/1992.

Commercial Code, *State Gazette* No. 48/1991.

Accountancy Act, *State Gazette* No. 4/1991.

National Chart of Accounts, *State Gazette* No. 26/1992.

National Accounting Standards, *State Gazette* No. 4/1993.

APPENDIX H

LIST OF DOCUMENTS COLLECTED IN THE MUNICIPALITIES

Blagoevgrad

- 1. Proposal of the Mayor of Blagoevgrad in relation to the 1993 budget results and the Budget for 1994.** The notes are assisted by four tables relating to the budget revenues and expenses and capital investment expenses for 1993 and 1994.
- 2. Detailed Approved Expenses Budget for 1994** with respect to types of activities and expense elements, and in compliance with the format required by the Ministry of Finance.
- 3. Order No. 223 of the Mayor of 27 April 1994** in relation to the priorities that are to be followed by the budget units and entities of the municipality.
- 4. Report of the Head of the Budget Department of Blagoevgrad.** The report deals with the revenues-expenses issues of the municipality's 1994 budget. The report is assisted by two tables relating to the budget revenues and expenses for the period 1991-1994.
- 5. Budget Report for the first 4 months of 1994** with respect to types of activities and expense elements.
- 6. Single sheet table with the Municipality Debt Figures by Types of Activity as of December 31, 1993.**
- 7. Management Structure of Blagoevgrad Municipality.** The structure was approved by the municipal council on April 6, 1993. The number of people included is noted.
- 8. Major Statistics of the municipality units providing public services in 1994.** This gives details on the number of schools, hospitals, kindergartens, libraries, child care centers, and number of people occupied with providing the services.
- 9. Table with Statistics on the Number of Residents of the Municipality for 1994:** divides the population into residents and people living in the municipality by location within the municipality.
- 10. List of construction, fixed assets acquisition, engineering research, and other capital budgeting activities.**
- 11. Privatization Program of Municipality-owned Units and Assets for 1994.**

- 12. List of municipality-owned units and assets for which a privatization procedure has been begun.**
- 13. Review of the current state of the municipality-owned companies and type of activities they are involved in.**
- 14. Economic Analysis of the state of the municipality-owned companies. A list of the companies is included.**
- 15. Order of the Mayor in relation to the decision of the local parliament of December 28, 1991. The order provides minimum rent rates for municipality-owned sites and space.**
- 16. Rates and Fees Charged in relation to services provided and spaces rented by the municipality's markets.**
- 17. Account of the revenues and expenses of the Municipality's Markets for 1993.**
- 18. Instruction in Relation to Maintaining Safety in the Territory of Blagoevgrad Municipality.**
- 19. Short explanations in relation to water consumption, water leaks, water processing plants, rates, and charges.**

Rousse

- 1. Decision No.170 for the Approval of the Municipality Budget for 1994 by the Local Parliament based on Protocol of the Meeting of April 8, 1994.**
- 2. Explanatory Notes in relation to the 1993 budget results and the Budget for 1994. The notes are accompanied by two tables relating to the budget revenues and expenses for 1993 and 1994.**
- 3. Instruction of the Department for State Expenses of the Ministry of Finance with respect to the preparation of the budgets of the ministries and other state budget related entities for 1994 (August 1994).**
- 4. Letter of the Department for State Expenses of the Ministry of Finance of March 3, 1993, stating the major principles to be followed by the Rousse municipality with respect to the preparation of the budgets of the ministries. Based on articles 7 & 21 of the State Budget Law for 1994 the Subsidies for Rousse Municipality are confirmed to be 288,703 thousand levs, including 60,994 thousand levs for fixed assets construction and acquisition.**

H-3

5. **B15 Form.** Report form for accounts No.081&091: Revenues and Expenses of the Municipalities and their Units (cumulative for the first four months of 1994.)
6. **Single sheet sample report** of a health care unit of Rouse municipality (cumulative for the first four months of 1994.)
7. **Management Structure of Rouse Municipality.** The structure was approved by the local parliament on December 17, 1993. Attached is a handwritten note summarizing the major public service entities of the municipalities and the number of employees related to these functions.
8. **Major Statistics of the Health Care System of Rouse Municipality in 1994.** This goes into greater detail with respect to the number of doctors, nurses, beds, children in child care centers, etc.
9. **Statistics on Education for 1994:** number of entities, class units, and students in the municipality.
10. **List of municipality-owned companies and type of activities they are involved in.**
11. **List of construction, fixed assets acquisition, engineering research, and other capital budgeting activities.**
12. **Environmental Issues.** Short explanations in relation to water consumption, water leaks, water processing plants, solid waste disposal, fees, rates, and charges.

Bourgas

1. **Explanatory Notes in Relation to the Budget for 1994.** The notes are assisted by two tables relating to the budget revenues and expenses for 1993 and 1994.
2. **Detailed Approved Budget for 1994** with respect to types of activities and expense elements, and in compliance with the format required by the Ministry of Finance.
3. **Budget of the Mayors' Offices.** In most case the municipality consists of one town and several villages. The villages have their own mayors, and budgets of their offices are approved by the municipal parliament.
4. **Detailed Preliminary Budget.** This budget was prepared by the municipality in August 1993 in compliance with the Instruction of the Department for State Expenses of the Ministry of Finance with respect to the preparation of the budgets of the ministries and other state budget related entities for 1994.
5. **Sample Balance Sheet of a State Budget Controlled Entity.**

- 6. Detailed Budget Report for 1994** with respect to types of activities and expense elements, and in compliance with the format required by the Ministry of Finance.
- 7. Management Structure of Bourgas Municipality.** The structure has been approved by the local parliament.
- 8. Short summaries of the software programs used by the municipality.**
- 9. List of all the computer hardware available in Bourgas municipality** and details on its department and room location and type.
- 10. List of construction, fixed assets acquisition, engineering research, and other capital budgeting activities.**
- 11. Instruction for Air Pollution Protection of Bourgas Municipality from Motor Vehicles.**
- 12. Instruction for Waste Treatment on the Bourgas Municipality Territory.**
- 13. Instruction for Keeping the Bourgas Municipality Territory Clean.**
- 14. Instruction for Protection of the Green Sites and Vegetation on Bourgas Municipality Territory.**
- 15. Sample bank statements of the accounts of Bourgas municipality.**
- 16. Ecological Program of Municipality of Bourgas.**

APPENDIX I

ПРЕДЛОЖЕНИЕ

I ДЪЛГОСРОЧНА ПРОГРАМА

1. ПРОЕКТ ЗА ОПТИМАЛНО УПРАВЛЕНИЕ НА ЗДРАВЕОПАЗВАНЕТО В СТРУКТУРАТА НА ОБЩИНА - РУСЕ.

2. ПРОЕКТ ЗА ОПТИМАЛНО УПРАВЛЕНИЕ НА ОБРАЗОВАНИЕТО В СТРУКТУРАТА НА ОБЩИНА - РУСЕ.

II КРАТКОСРОЧНА ПРОГРАМА

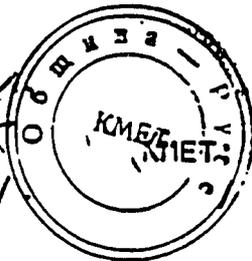
1. АНАЛИЗИРАНЕ НА ДЕЙСТВИТЕЛНО КАЛКОЛИРАНЕ НА ИЗВЪРШВАНИТЕ УСЛУГИ ЗА :

А-ИЗДАВАНЕ НА СТРОИТЕЛНО РАЗРЕШЕНИЕ

Б-ОБЯВЯВАНЕ НА КОНКУРС ПО ЧЛ.120 ПО ЗТСУ

В-КОНКУРС ЗА ОТСТЪПЕНО ПРАВО ЗА СТРОЕЖ.

Н-к Управление "ОБ":
/А. ТЕПАВИЧАРОВ /



[Handwritten Signature]
ИНЖ. А. ТАСЕВ /

П Р Е Д Л О Ж Е Н И Е

От Община Благоевград за участие в съвместна дейност по разработване и реализация на проекти, осигуряващи по-ефективно управление на общинските

Уважаеми господа,

След проведените срещи с консултантски екип от ICMA и разгледаните на тях въпроси, общинското ръководство обсъди конкретните предложения за продължаване съвместната дейност с ~~Асоциацията на градските общински мениджъри~~ и съгласната планка и заявява участието си в следните проекти:

I. В КРАТКОСРОЧЕН ПЛАН

1. Подпомагане на общинската администрация при управлението и отчетността по използването на общинските активи (собственост), както за общинските фирми, така и за недвижимата общинска собственост.

2. Компютизиране на базата данни на данъчната администрация целящо повишаване на приходите за общинския бюджет чрез подобряване на наблюдението на обектите на облагане и контрол, като част от географската информационна система на общината (проект, реализиран със съдействието на Асоциацията на градските /общински/ мениджъри.

3. Разработване на система и начини за съкращаване на престоя в болничните заведения.

4. Проект за систематизация и процедури за контрол и стандартизиране на лекарствата, предписвани от специализираните отделения.

II. В ДЪЛГОСРОЧЕН ПЛАН

1. Разработване на система от критерии за оценка на дейността на общинските фирми, както и изготвяне на стратегия за бъдещото им развитие. Програма за приватизация на общинските фирми. Проект на оздравяване и приватизация на държавните предприятия.

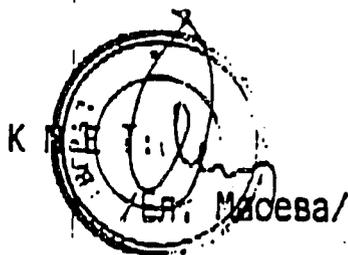
2. Разработване на програмни продукти за изчисляване на разходите за здравни услуги.

3. Препоръки за броя на шатове и уточняване на длъжностните характеристики.

4. Проект за приватизация на дейности в областта на здравеопазването.

5. Подобряване на общинската дейност по сметосъбиране и сметочистване.

6. Инвестиционна програма за екологични обекти.



ВЧ/ВВ

ПРОЕКТИ ЗА ТЕХНИЧЕСКА ПОМОЩ

А. Краткосрочен план

1. Компютризация на недвижимите имоти. Подобряване и осъвременяване на информацията за недвижимата собственост чрез проверка на тази информация. Сравнение на информацията с тази, съществуваща в Териториално данъчно управление.

2. Техникоикономическо проучване и анализ във връзка с изграждането на водопречиствателна станция в жилищен комплекс "Меден рудник". Подготовка на финансова обосновка и предложение.

3. Разработка на система за контрол и управление на текущите ремонти в училищните сгради.

а) Методи за анализ на референциите и качеството на досега извършените работи от фирмите, участващи в търговете за текущи ремонти.

б) Развитие на управленския опит за контрол на качеството на извършваните ремонти.

в) Осигуряване на информация за профилактичната поддръжка на училищните сгради включително и нови материали.

Б. Дългосрочен план

1. Проучване на разходите за общински услуги. Проучване на необходимата информация за работа по общинския бюджет и финанси.

2. Финансово-техническа помощ за подобряване на общинската информационна система и нейните капацитетни възможности.

3. Анализ на таксите за общински услуги, за които общината може да установи нивото на тези такси. Изследване на механизма за установяване нивото на таксите за съответните услуги. Критерии за калкулиране и наблюдение за системата от такси в границите на установените от закона норми за съответната такса.

4. Програми за медицински архиви и статистически анализ. Помощ за създаване на система за болнична документация, предоставяща информация за разходите с оглед на по-добър финансов контрол, отчетност и програмно планиране.

5. Управленска помощ за координация на дейностите в здравеопазването. Начини за максимално

ефективно използване на новата болнична база. Преглед на възможностите за реорганизация на болниците; персонал, структура, данове плюс препоръки за по-добра координация на болничните услуги в болниците, които не са към общината.

APPENDIX J

ARTICLES 4 & 13 OF THE INCOME TAX LAW

PART I

Article 4

People who receive income as a result of a labor contract—salaries, wages, or similar benefits and compensations, with the exemptions pointed out in Article 2—are to be taxed under the following scale:

MONTHLY INCOME (BGL)			TAX
from	0	up to 1,850	No tax
from	1850.01	up to 3,000	20% on sum above BGL1,850
from	3,000.01	up to 8,000	BGL230+ 24% on sum above BGL3,000
from	8,000.01	up to 15,000	BGL1430+ 28% on sum above BGL8,000
from	15,000.01	up to 25,000	BGL3390+ 32% on sum above BGL15,000
from	25,000.01	up to 50,000	BGL6590+ 36% on sum above BGL25,000
from	50,000.01	up to 150,000	BGL15590+ 40% on sum above BGL50,000
from	150,000.01	up to 300,000	BGL55590+ 45% on sum above BGL150,000
above	300,000		BGL123090+ 50% on sum above BGL300,000

PART II**Article 13**

The incomes of people who are not taxed under Part I, Article 1, are to be taxed under the following scale:

ANNUAL INCOME (BGL)		TAX
from	0 up to 22,000	No tax
from	22,000.01 up to 36,000	20% on sum above BGL22,000
from	36,000.01 up to 96,000	BGL2760+ 24% on sum above BGL36,000
from	96,000.01 up to 180,000	BGL17160+ 28% on sum above BGL96,000
from	180,000.01 up to 300,000	BGL40,680+ 32% on sum above BGL180,000
from	300,000.01 up to 600,000	BGL89,080+ 36% on sum above BGL300,000
from	600,000.01 up to 1,800,000	BGL187,080+ 40% on sum above BGL600,000
from	1,800,000.01 up to 3,600,000	BGL667,080+ 45% on sum above BGL1,800,000
above	3,600,000	BGL1,477,080+ 50% on sum above BGL3,600,000

APPENDIX K

METHODOLOGY

for Determination of the Budget Relationship of the State Budget and the Municipal Budgets at the Time of their Creation and Conduct

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The actual mechanism for determination of the subsidies and transfers from and to the State Budget is based on the following formula:

$$S = S1 + S2 + (KSMR + KK) + S3$$

Where :

- S** - is the volume of the budget relationship (subsidy) for the new budget year,
- S1** - 85% of the subsidy from the previous year, reduced with the volume of the long-term assets and cash flow resulting from structural changes on the expense side of the municipal budgets (reduction of activities);
- S2** - is the part of the total volume of the transfer from the state budget, determined on the bases of objective criteria. The volume of the subsidy for each municipality is calculated, based on the following objective criteria and base weights of the total amount to be distributed:

	weight out of <u>100.00</u>
• Annual number of patients in the regional hospital	8.3
• Annual number of patients in the municipal hospital	4.3
• Number of beds in a lung disease hospital	0.5
• Number of beds in a psychiatric hospital	0.6
• Number of places in a the orphanage homes	0.7
• Number of places in the social care homes	3.8
• Number of unemployed	3.0
• Number of unemployed and not working mothers living on social support	2.1
• Number burial ceremonies	0.4
• Number of culture house	1.1
• Number students in the secondary schools	18.2
• Population	23.0

- Number of settlements in the municipality 22.0
- Municipal territory in square kilometers 3.0
- Number of housing units in the municipality 3.0
- Number of settlements of IV & V functional type 3.0
- Weight of the subsidy compared to the total municipal budget for '93 3.0

The exact volume of the subsidy related to the objective criteria is calculated dividing the objective criteria (units) by the weight of each criteria at a state level.

KSMR - is corrective sum of marginal revenue

Depending on the occasion one of the two formulas is used:

$$\text{KSMR} = (\text{ARL} - \text{ULR}) * \text{P} \text{ or } \text{KSMR} = (\text{LRL} - \text{ARL}) * \text{P}$$

Where :

ARL - actual revenue level is determined dividing the local revenues from the last period to the population of the municipality;

ULR - Upper revenue level in BGL;

LRL - Lower revenue level in BGL;

P - Population number, with higher or lower revenues per capita compared to the ULR and LRL for the state;

KK - correction coefficient related to the growth of the subsidy compared to the previous year;

S3 - This is the part of the subsidy to the municipal budget dedicated to assets acquisition and capital budgeting. This relates to funds from the state budget for strategic government purposes in respect to investment, development of infrastructure, regional programs and other.

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APPENDIX L

**FISCAL DEFICIENCIES° OF BLAGOEVGRAD
MUNICIPALITY**

CATEGORY**	1992 BGL '000
Salaries	166
Scholarships	
Social Security Contributions	
Food	2,757
Medicines	2,182
Allowances for stimulating the birth rate	
Long-term assets	
Heating	
Loan from the state budget	30,500
Other Expenditures	3,937
TOTAL	39,542

CATEGORY	1993 BGL '000
Education	3,741
Culture	42
Health Care	11,413
Social Care	2,126
Long-term Assets	4,757
Heating	670
Loan from the state budget	30,500
TOTAL	53,249

- The term "deficiencies" is used meaning payables that have not been made for lack of funds at the end of the year. Bourgas does not have this type of payables and therefore does not appear in this Appendix.
- Deficiencies have been requested by the MOF in different format for 1992 and 1993

**FISCAL DEFICIENCIES* OF ROUSSE
MUNICIPALITY**

CATEGORY**	1992 BGL '000
Salaries	9,641
Scholarships	
Social Security Contributions	6,482
Food	16
Medicines	4,799
Allowances for stimulating the birth rate	
Long-term assets	
Heating	2,964
Loan from the state budget	23,000
Other Expenditures	146
TOTAL	47,048

CATEGORY	1993 BGL '000
Salaries	27,375
Scholarships	2,789
Social Security Contributions	10,493
Food	6,141
Medicines	5,689
Allowances for stimulating the birth rate	953
Long-term assets	3,046
Heating	2,964
Loan from the state budget	23,000
Other Expenditures	18,578
TOTAL	101,028

- The term "deficiencies" is used meaning payables that have not been made for lack of funds at the end of the year. Bourgas does not have this type of payables and therefore does not appear in this Appendix.
- Deficiencies have been requested by the MOF in different format for 1992 and 1993

APPENDIX M

**CUMULATIVE MUNICIPAL BUDGET REVENUES FOR 1991
/ BLAGOEVGRAD, BOURGAS & ROUSSE /**

TYPE OF REVENUE	CODE	1992 BUDGET (BGL '000)	1992 ACTUAL (BGL '000)	ACTUAL AS % OF TOTAL	ACTUAL - BUDGET	DIFFER. AS % OF BUDGET
1	2	3	4	5	6	7
1. Taxes						
Turnover Tax	01	77,264	83,277	8.20%	6,013	7.78%
Excise	02	485	542		57	11.75%
Rent Tax	03	400	571		171	42.75%
Profit Tax of Non-Financial Enterprises	04	40,595	28,422		-12,173	-29.99%
Tax on Salary Fund Increase	07	941	1,143		202	21.47%
Profit Tax Payments to the Municipal Council	09	332,189	439,200	43.23%	107,011	32.21%
Income Tax	11	378,960	400,123	39.38%	21,163	5.58%
Real Estate Property Tax	12	5,735	4,824		-911	-15.88%
Inheritance & Donations Tax	13	428	352		-76	-17.76%
Total Taxes		836,997	958,454	94.33%	121,457	14.51%
2. Charges						
Property Donation	20	1,899	2,786		887	46.71%
Use of Vehicles	21	3,746	2,622		-1,124	-30.01%
Kindergarten and Education	22	9,705	6,027		-3,678	-37.90%
Day Care and Other Health Care	23	480	560		80	16.67%
Camp Vacation and Other Recreation	24	2,590	1,751		-839	-32.39%
Old People's Homes and Other Social Care	25	2,442	3,625		1,183	48.44%
Quarry Materials Usage	26	585	224		-361	-61.71%
Technical & Administrative Services	27	417	325		-92	-22.06%
Market Places	28	0	0		0	
Patents	29	524	329		-195	-37.21%
Garbage Collection		0	0		0	
Total Charges		22,388	18,249	1.80%	-4,139	-18.49%
3. Other Revenues						
Municipal Property Sales Transactions	42	0	0		0	
Municipal Property Rent	43	10	1		-9	-90.00%
Bank Interest on Credits Balances of Subsidized Enterprises	47	101	156		55	54.46%
Activities of Subsidized Agencies	49	200	478		278	139.00%
Fines, Interests & Confiscations	50	1,458	2,361		903	61.93%
Previous Years Recalculations	56	0	0		0	
Not Self-Financing Activities	57	0	0		0	
Various Revenues	60	1,108	1,045		-63	-5.69%
Budget Surpluses	61	0	86		86	
Total Other Revenues		2,877	4,127	0.41%	1,250	43.45%

1	2	3	4	5	6	7
4. Relations and Financing						
Subsidies for Municipality and Regional Administration	77	87,069	35,200		-51,869	-59.57%
Subsidies from Superior Bodies	79					
Temporary Interest-free Loan Between Municipalities	80					
Temporary Interest-free Loans from the State Budget	81	0	0		0	
Temporary Interest-free Loans from the Regional Administration	82					
Temporary Interest-free Loans from Other Off-budget Funds Sources	86	0	0		0	
Bulgarian National Bank Loans	87	0	0		0	
State Savings Bank Loans	88					
Bulgarian Foreign Trade Bank Loans	89					
State Insurance Institute Loans	90					
Other Bank Loans	91	0	0		0	
Total Relations and Financing		87,069	35,200	3.46%	-51,869	-59.57%
TOTAL REVENUES		949,331	1,016,030	100.00%	66,699	7.03%

**CUMULATIVE MUNICIPAL BUDGET REVENUES FOR 1992
/ BLAGOEVRAD, BOURGAS & ROUSSE /**

TYPE OF REVENUE	CODE	1992 BUDGET (BGL '000)	1992 ACTUAL (BGL '000)	ACTUAL AS % OF TOTAL	ACTUAL - BUDGET	DIFFER. AS % OF BUDGET
1	2	3	4	5	6	7
1. Taxes						
Turnover Tax	01	105,329	166,187	11.79%	60,858	57.78%
Excise	02	724	272		-452	-62.43%
Rent Tax	03	774	671		-103	-13.31%
Profit Tax of Non-Financial Enterprises	04	25,230	25,909		679	2.69%
Tax on Salary Fund Increase	07	702	791		89	12.68%
Profit Tax Payments to the Municipal Council	09	178,194	160,783	11.41%	-17,411	-9.77%
Income Tax	11	587,094	675,448	47.94%	88,354	15.05%
Real Estate Property Tax	12	12,099	4,880		-7,219	-59.67%
Inheritance & Donations Tax	13	522	491		-31	-5.94%
Total Taxes		910,668	1,035,432	73.49%	124,764	13.70%
2. Charges						
Property Donation	20	5,890	13,690		7,800	132.43%
Use of Vehicles	21	9,499	3,715		-5,784	-60.89%
Kindergarten and Education	22	9,669	12,337		2,668	27.59%
Day Care and Other Health Care	23	1,130	1,447		317	28.05%
Camp Vacation and Other Recreation	24	2,550	3,995		1,445	56.67%
Old People's Homes and Other Social Care	25	5,720	5,764		44	0.77%
Quarry Materials Usage	26	182	167		-15	-8.24%
Technical & Administrative Services	27	625	930		305	48.80%
Market Places	28	100	731		631	631.00%
Patents	29	210	115		-95	-45.24%
Garbage Collection		0	0		0	
Total Charges		35,575	42,891	3.04%	7,316	20.57%
3. Other Revenues						
Municipal Property Sales Transactions	42	500	533		33	6.60%
Municipal Property Rent	43	5,709	18,539		12,830	224.73%
Bank Interest on Credits Balances of Subsidized Enterprises	47	500	383		-117	-23.40%
Activities of Subsidized Agencies	49	100	119		19	19.00%
Fines, Interests & Confiscations	50	5,541	20,416		14,875	268.45%
Previous Years Recalculation	56	8,803	43,229		34,426	391.07%
Not Self-Financing Activities	57	140	61		-79	-56.43%
Various Revenues	60	1,033	1,545		512	49.56%
Budget Surpluses	61	6,057	26,139		20,082	331.55%
Total Other Revenues		28,383	110,964	7.88%	82,581	290.95%

1	2	3	4	5	6	7
4. Relations and Financing						
Subsidies for Municipality and Regional Administration	77	161,577	161,200		-377	-0.23
Subsidies from Superior Bodies	79					
Temporary Interest-free Loan Between Municipalities	80					
Temporary Interest-free Loans from the State Budget	81	0	58,500		58,500	
Temporary Interest-free Loans from the Regional Administration	82					
Temporary Interest-free Loans from from Other Off-budget Funds Sources	86	0	0		0	
Bulgarian National Bank Loans	87	0	0		0	
State Savings Bank Loans	88					
Bulgarian Foreign Trade Bank Loans	89					
State Insurance Institute Loans	90					
Other Bank Loans	91	0	0		0	
Total Relations and Financing		161,577	219,700	15.59%	58,123	35.97
TOTAL REVENUES		1,136,203	1,408,987	100.00%	272,784	24.01

**CUMULATIVE MUNICIPAL BUDGET REVENUES FOR 1993
/ BLAGOEVGRAD, BOURGAS & ROUSSE /**

TYPE OF REVENUE	CODE	1993 BUDGET (BGL '000)	1993 ACTUAL (BGL'000)	ACTUAL AS % OF TOTAL	ACTUAL - BUDGET	DIFFER. AS % OF BUDGET
1	2	3	4	5	6	7
REVENUES						
1. Taxes						
Turnover Tax	01	280,378	300,807	14.17%	20,429	7.29%
Excise	02	458	656		198	43.23%
Rent Tax	03	970	510		-460	-47.42%
Profit Tax of Non-Financial Enterprises	04	98,267	44,794		-53,473	-54.42%
Tax on Salary Fund Increase	07	945	454		-491	-51.96%
Profit Tax Payments to the Municipal Council	09	121,614	201,814	9.51%	80,200	65.95%
Income Tax	11	681,854	731,272	34.45%	49,418	7.25%
Real Estate Property Tax	12	15,166	16,095		929	6.13%
Inheritance & Donations Tax	13	461	652		191	41.43%
Total Taxes		1,200,113	1,297,054	61.11%	96,941	8.08%
2. Charges						
Property Donation	20	24,270	42,325		18,055	74.39%
Use of Vehicles	21	13,253	16,499		3,246	24.49%
Kindergarten and Education	22	14,700	15,717		1,017	6.92%
Day Care and Other Health Care	23	1,863	2,479		616	33.06%
Camp Vacation and Other Recreation	24	5,000	5,434		434	8.68%
Old People's Homes and Other Social Care	25	5,770	7,451		1,681	29.13%
Quarry Materials Usage	26	81	820		739	912.35%
Technical & Administrative Services	27	7,006	38,951		31,945	455.97%
Market Places	28	11,008	11,110		102	0.93%
Patents	29	73	123		50	68.49%
Garbage Collection		0	16,000		16,000	
Total Charges		83,024	156,909	7.39%	73,885	88.99%
3. Other Revenues						
Municipal Property Sales Transactions	42	527	486		-41	-7.78%
Municipal Property Rent	43	29,810	43,121		13,311	44.65%
Bank Interest on Credits Balances of Subsidized Enterprises	47	294	335		41	13.95%
Activities of Subsidized Agencies	49	100	40		-60	-60.00%
Fines, Interests & Confiscations	50	22,280	29,228		6,948	31.18%
Previous Years Recalculations	56	50,550	41,513		-9,037	-17.88%
Not Self-Financing Activities	57	100	7		-93	-93.00%
Various Revenues	60	17,908	9,101		-8,807	-49.18%
Budget Surpluses	61	229	2,866		2,637	1151.53%
Total Other Revenues		121,798	126,697	5.97%	4,899	4.02%

1	2	3	4	5	6	7
4. Relations and Financing						
Subsidies for Municipality and Regional Administration	77	612,908	531,500		-81,408	-13
Subsidies from Superior Bodies	79					
Temporary Interest-free Loan Between Municipalities	80					
Temporary Interest-free Loans from the State Budget	81	-35,500	-5,000		30,500	-85
Temporary Interest-free Loans from the Regional Administration	82					
Temporary Interest-free Loans from from Other Off-budget Funds Sources	86	0	15,355		15,355	
Bulgarian National Bank Loans	87	57,732	0		-57,732	-100
State Savings Bank Loans	88					
Bulgarian Foreign Trade Bank Loans	89					
State Insurance Institute Loans	90					
Other Bank Loans	91	5,000	0		-5,000	-100
Total Relations and Financing		640,140	541,855	25.53%	-98,285	-15
TOTAL REVENUES		2,045,075	2,122,515	100.00%	77,440	3

APPENDIX N

BALANCE SHEET

of Blagoevgrad Municipality
as of year ending

ASSETS	1991 BGL '000	1992 BGL '000	1993 BGL '000	LIABILITIES	1991 BGL '000	1992 BGL '000	1993 BGL '000
A. FIXED ASSETS				A. EQUITY			
1. Tangible Assets				1. Transferred Capital			
buildings, lands, forests and perennials	25,353	47,725	53,796	fixed transferred capital	69,202	95,836	103,700
plant and equipment	41,757	44,086	45,327	previous year surpluses	1,095	229	22
other	2,092	4,025	4,526	off-budget revenues	6,122	4,391	4,081
tangible non-current assets in progress	249	1,594	6,126	Total Transfer Capital	76,419	100,456	107,783
Total Tangible Assets	69,451	97,430	109,775	2. Own Capital			
2. Intangible Assets				own capital			
incorporation and expansion costs				reserves	24	113	159
products of research and development				Total Own Capital	24	113	159
patents, licenses, concessions, know how, trade marks, goodwill and software			51	TOTAL EQUITY	76,443	100,569	107,942
Total Intangible Assets	0	0	51	B. BORROWINGS			
3. Financial Assets				1. Loans			
participation			195	short-term loans			
securities				debenture and bond loans			
long-term loans				Total Loans	0	0	0
Total Financial Assets	0	0	195	2. Payables			
TOTAL FIXED ASSETS	69,451	97,430	110,021	to suppliers			
B. CURRENT ASSETS				for participations			
1. Inventories				to employees	234	234	
materials	736	925	1,204	to the budget			
work in progress				for social security			
products, merchandise and containers		8	8	other payables			
young and fattening live stock				Total Payables	234	234	0
Total Inventories	736	933	1,212				

ASSETS	1991 BGL '000	1992 BGL '000	1993 BGL '000	LIABILITIES	1991 BGL '000	1992 BGL '000	1993 BGL '000
2.Receivables				3.Financing			
from customers				for investment		1,594	6,126
from participations				other financing	1,121	1,099	1,532
from shortages and deficiencies				Total Financing	1,121	2,693	7,658
from arbitration and judgment				TOTAL BORROWINGS	1,355	2,927	7,658
other receivables	13	14	45				
Total Receivables	13	14	45	C. DEFERRED INCOME			
3.Finance Assets							
cash at bank and on hand in BGL	7,574	5,006	4,163				
cash at bank and on hand in foreign currencies	24	113	159				
securities, bullion and gems							
Total Finance Assets	7,598	5,119	4,322				
4.Deferred Expenses							
TOTAL CURRENT ASSETS	8,347	6,066	5,579				
TOTAL ASSETS	77,798	103,496	115,600	TOTAL LIABILITIES	77,798	103,496	115,600
C. OFF BALANCE SHEET ASSETS				C. OFF BALANCE SHEET LIABILITIES			

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BALANCE SHEET

of Bourges Municipality
as of year ending

ASSETS	1991 BGL '000	1992 BGL '000	1993 BGL '000	LIABILITIES	1991 BGL '000	1992 BGL '000	1993 BGL '000
A. FIXED ASSETS				A. EQUITY			
1. Tangible Assets				1. Transferred Capital			
buildings, lands, forests and perennials	8,208	8,158	13,038	fixed transferred capital	20,419	25,318	71,550
plant and equipment	11,123	15,279	22,558	previous year surpluses	2,971	11,049	24,394
other	1,090	1,883	35,958	off-budget revenues	90,751	116,980	88,182
tangible non-current assets in progress	84,180	137,479	129,898	Total Transfer Capital	114,141	153,347	184,106
Total Tangible Assets	104,599	162,797	201,248	2. Own Capital			
2. Intangible Assets				own capital			
incorporation and expansion costs				reserves		12,489	18,825
products of research and development				Total Own Capital	0	12,489	18,825
patents, licenses, concessions, know how, trade marks, goodwill and software		9	241	TOTAL EQUITY	114,141	165,836	202,731
Total Intangible Assets	0	9	241	B. BORROWINGS			
3. Financial Assets				1. Loans			
participation securities	2,048	6,782	11,734	short-term loans			
long-term loans				debenture and bond loans			
Total Financial Assets	2,048	6,782	11,734	Total Loans	0	0	0
TOTAL FIXED ASSETS	106,647	169,588	213,223	2. Payables			
B. CURRENT ASSETS				to suppliers			
1. Inventories				for participations			
materials	880	2,612	3,109	to employees	268	529	837
work in progress				to the budget			
products, merchandise and containers				for social security			
young and fattening live stock				other payables		35	62
Total Inventories	880	2,612	3,109	Total Payables	268	564	899

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ASSETS	1991 BGL '000	1992 BGL '000	1993 BGL '000	LIABILITIES	1991 BGL '000	1992 BGL '000	1993 BGL '000
2.Receivables				3.Financing			
from customers				for investment	7,558		
from participations				other financing	74,088	158,930	145,547
from shortages and deficiencies	2	4	6	Total Financing	81,624	158,930	145,547
from arbitration and judgment		54	26	TOTAL BORROWINGS	81,892	159,494	146,446
other receivables	5,433	59,435	85,955				
Total Receivables	5,435	59,493	85,987	C. DEFERRED INCOME			
3.Finance Assets							
cash at bank and on hand in BGL	82,811	57,084	40,963				
cash at bank and on hand in foreign							
currencies	260	36,553	5,895				
securities, bullion and gems							
Total Finance Assets	83,071	93,637	46,858				
4.Deferred Expenses							
TOTAL CURRENT ASSETS	89,386	155,742	135,954				
TOTAL ASSETS	196,033	325,330	349,177	TOTAL LIABILITIES	196,033	325,330	349,177
C. OFF BALANCE SHEET ASSETS				C. OFF BALANCE SHEET LIABILITIES			

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BALANCE SHEET

of Rouse Municipality
as of year ending

ASSETS	1991 BGL '000	1992 BGL '000	1993 BGL '000	LIABILITIES	1991 BGL '000	1992 BGL '000	1993 BGL '000
A. FIXED ASSETS				A. EQUITY			
1. Tangible Assets				1. Transferred Capital			
buildings, lands, forests and perennials	6,944	12,214	29,595	fixed transferred capital	47,470	53,192	65,602
plant and equipment	32,228	32,376	33,162	previous year surpluses	18,101	(4,898)	4,030
other	1,392	1,845	2,717	off-budget revenues	1,780	1,461	7,057
tangible non-current assets in progress	4,143	2,987	5,413	Total Transfer Capital	67,351	49,757	76,689
Total Tangible Assets	44,707	49,422	70,887				
2. Intangible Assets				2. Own Capital			
incorporation and expansion costs				own capital			
products of research and development				reserves			
patents, licenses, concessions, know how, trade marks, goodwill and software		69	74	Total Own Capital	0	0	0
Total Intangible Assets	0	69	74	TOTAL EQUITY	67,351	49,757	76,689
3. Financial Assets				B. BORROWINGS			
participation				1. Loans			
securities			50	short-term loans			
long-term loans				debenture and bond loans			
Total Financial Assets		0	50	Total Loans	0	0	0
TOTAL FIXED ASSETS	44,707	49,491	71,011	2. Payables			
C. CURRENT ASSETS				to suppliers			
1. Inventories				for participations			
materials	1,376	1,335	1,362	to employees	22	318	656
work in progress				to the budget	4	1	134
products, merchandise and containers				for social security		3	219
young and fattening live stock				other payables	62	45	85
Total Inventories	1,376	1,335	1,362	Total Payables	88	367	1,094

ASSETS	1991 BGL '000	1992 BGL '000	1993 BGL '000	LIABILITIES	1991 BGL '000	1992 BGL '000	1993 BGL '000
2.Receivables				3.Financing			
from customers				for investment			47
from participations				other financing			5,413
from shortages and deficiencies				Total Financing	0	0	5,460
from arbitration and judgment			561	TOTAL BORROWINGS	88	367	6,554
other receivables	156	936	561				
Total Receivables	156	936	561	C. DEFERRED INCOME			
3.Finance Assets							
cash at bank and on hand in BGL	19,982	(3,308)	8,219				
cash at bank and on hand in foreign currencies	1,218	1,668	2,090				
securities, bullion and gems							
Total Finance Assets	21,200	(1,638)	10,309				
4.Deferred Expenses							
TOTAL CURRENT ASSETS	22,732	633	12,232	TOTAL LIABILITIES	67,439	50,124	83,243
TOTAL ASSETS	67,439	50,124	83,243	C. OFF BALANCE SHEET LIABILITIES			
C. OFF BALANCE SHEET ASSETS							

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