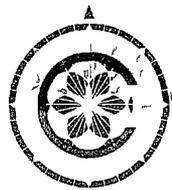


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CHEMONICS INTERNATIONAL INC

MARKET-ORIENTED FARM SUPPORT ACTIVITY

RATIONALIZED MODEL FOR  
HOUSING AND UTILITY SERVICES,  
GRYASOVETS RAION, VOLOGDA OBLAST, RUSSIA

Submitted to  
U S Agency for International Development  
Under Contract No EPE-0006-C-00-6007-00

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## **EXECUTIVE SUMMARY**

The original intent of developing this rational management model for housing and utilities was to improve the management skills of housing and utility directors in order to reduce operating costs and improve the quality of services. However, field interviews and site visits indicated that the greater need was in developing a more comprehensive model. The current structure of housing and utility services is highly decentralized, with each housing and utility authority operating independently, although highly subsidized through the raion budget. Although the current structure is fundamentally sound, it does not provide the mechanisms to manage change, especially in difficult economic and market conditions.

During the review and analysis phase of model development, two critical problem areas were identified. First is the need to insure that public funds are used in the most cost-effective, efficient manner. Second, given that the demand for public funds always exceeds the level of funding available, the raion administration needs a planning method to control and prioritize competing requests for public funds, especially regarding capital improvements.

The proposed model retains much of the organizational structure and is based on local self-determination. This model recognizes that local areas often lack capacity--both in terms of human and physical capital--to operate effectively under such a degree of decentralization. Under this model, local areas will continue to exercise primary authority in providing day-to-day oversight of housing and utility services and in annual and long-range plans. The raion administration will consolidate planning, capital improvements and cash flows. The model also reinforces the notion of a unified tariff structure.

## I INTRODUCTION

### BACKGROUND

The Gryasovets Raion lies in the south-central portion of the Vologda oblast. The raion administrative center, Gryasovets, lies 43 kilometers south the city Vologda. The raion's population is 47 000, of whom 25 000 live in the city of Gryasovets and 8 000 in the town of Vokhtoga. The raion has a significant proportion of pensions—approximately one-fourth of the population. There are over 550 villages throughout the raion, 19 of which are central villages. There are 17 collective farms and 47 individual farms. There are 16 rural administrations. The raion has an elective representative body, the Raion Council. This council in turn elects the Raion Administrator from its rank.

### HOUSING AND UTILITY SERVICES

Housing and utility services are a component of an extensive social net. These services are part of a highly integrated system of social support that included the barber, the kindergarten, road maintenance, among other activities. These social services were essentially imposed and were available. While there were user fees generally associated with these services, these fees were not expected to cover the full cost of providing the service.

In the Gryasovets Raion, the social services of providing housing and utility services is primarily a physical network organized in terms of function. The net effect is that separating these different functional areas into discrete, economically based units is difficult and expensive. From the consumer's viewpoint, the costs would far outweigh any perceived advantages.

The original intent of developing this rational management model for housing and utilities was to improve the management skills of housing and utility directors and to reduce operating costs. However, field interviews and site visits indicated that the greater need was in developing a more comprehensive model, consolidating certain functions at raion level. The current structure of housing and utility services is highly decentralized, with each housing and utility authority operating independently, although highly subsidized through the raion budget. Although the current structure is fundamentally sound, it does not provide the mechanisms through which changing economic and market conditions can be managed.

During the review and analysis phase of model development, two critical problem areas were identified. First is the need to insure that public funds are used in the most cost-effective manner. Second, given that the demand for public funds always exceeds the level of funding available, the raion administration needs a planning method by which to control and prioritize competing requests for public funds, especially regarding capital improvement planning.

The proposed model retains much of the organizational structure and is based on local self-governing. This model recognizes that local areas lack capacity—both in terms of human and physical capital—to operate effectively under decentralization. Under this model, local areas will continue to exercise primary authority in providing housing and utility services. The raion administration has a strong interest in making sure that the level of subsidy provided to these services is minimized and that public funds are used in the most cost-effective manner. Consolidating planning, capital improvements and cash flows will increase efficiencies in management throughout the model. The model also reinforces the notion of a unified tariff structure.

### ASSUMPTIONS

This model is based upon a number of assumptions concerning the role of the raion administration, de-monopolization of services, privatization of housing, nature of the relationships among consumers, municipal enterprises/contractors, and the raion administration, and the development of housing and utility policy over time.

*Rationalized Model of Housing & Utility Services  
Gryasovets Raion*

*The Role of the Raion Administration* The proposed model assumes that the raion administration will maintain an active role in the provision of housing and utility services. This is based on two premises:

- the raion administration will retain an ownership interest in the physical housing and utility assets and
- the raion will continue to provide some level of subsidy to housing and utility authority budgets

*De-Monopolization of Services* Developing a competitive environment is critical. Creating municipal enterprises was the first step, however, this process will be on-going. The ME Central Purchasing will encourage further de-monopolization by (1) creating municipal enterprises, (2) seeking contractors for services, supplies and materials, and (3) encouraging municipal enterprises to sub-contract where possible. The model provides decision points which will guide the decision to create municipal enterprises, contract out services or sub-contract services.

*Privatization of Housing* Although the model does not directly address privatization of housing, it does assume that privatization of housing will remain a priority. The model recognizes there are two factors working against privatization in the Gryasovets raion. One is the physical condition of the housing plant and the other concerns the tenants' ability to assume ownership responsibilities. By making the tenants more active participants in housing and utility management, the model will further encourage the process of housing privatization.

*The Nature of the Relationships among Householders, Municipal Enterprises/Contractors and the Raion Administration* The model assumes that the relationships among householders, municipal enterprises/contractors, and the raion administration will be characterized as one of mutual cooperation based upon contractual (or other formal) agreements. In general, these agreements will be initiated at the local level. The ME Central Purchasing Office will develop and make contracts. The responsibility for monitoring contract performance will be described in the contract. The ME Central Purchasing Office may elect to consolidate certain related services (i.e. contracts for materials and supplies, transportation and distribution) into one larger contract to reduce costs and increase operational efficiencies.

*Housing and Utility Policy* By 2003, the federal goal is that user fees will cover 100 percent of operating costs for housing and utilities. The political reality is that providing access to housing and utility services is part of the social contract between the government and its citizens. The Russian Federation government guarantees it will subsidize housing and utility costs exceeding 15 percent of income. Such policy will impact upon the future of housing and utility services in that it reduces the incentive for both consumers and producers to utilize their resources efficiently. Only the raion administration is strongly interested in reducing the costs on services delivered.

## **II RATIONALIZED MODEL FOR HOUSING AND UTILITY SERVICES**

### **ORGANIZATION**

The rationalized model of housing and utility authority management is represented on the chart at appendix 1. It is based on three levels of management--the first level is represented by raion administration, represented by ME Central Purchasing Office; the second level is the municipal enterprises and other contractors; and the third, the householder associations. Other components are the local administrations which perform a planning function.

*Raion Administration* The primary task of the raion administration is the development of the legislative and economical basis of providing housing and utility services. The ME Central Purchasing Office will have the responsibility of carrying out the policies established by the raion administration, establishing norms, approving tariffs, developing standards for contracts and contract services, and for reviewing contracts to make sure that the services provided are in actuality the most cost-effective alternatives. More specifically, the ME Central Purchasing will

- Provide for the maintenance of municipal property under its jurisdiction to include the provision of utility services to residents and enterprises of the raion,
- Act as the contracting authority for capital improvements in housing and utility infrastructure
- Report to the raion administration the status of the need and progress of capital improvement projects,
- Prepare financing municipal enterprises from the raion budget
- Elaborate necessary special rules, statements, regulations, etc. concerning the sphere of housing and utility services
- Grant subsidies to residents to cover user fees and register tenants
- Collect user fees,
- Consolidate financial flows and payments to municipal enterprises for services delivered
- Develop business opportunities related to housing and utility services,
- Perform analyses of cost-effectiveness of the delivery of services
- Field customer complaints concerning provision of housing and utility services and
- Perform technical inspections of housing and utility assets,

At the local level, the ME Central Purchasing will be represented by the Inspection/Clearing Centers. They will be primarily responsible for monitoring operations and serving as a central point for collecting user fees. This level is responsible for collecting user fees, for overseeing the day-to-day operations of housing maintenance, for fielding complaints, etc. These offices coordinate with the municipal enterprise and contractors' technical staff for services and with local administrators for planning. They are part of the administrative structure of the ME Central Purchasing.

### *Municipal Enterprises and Other Contractors*

The model supports the notion of unified municipal enterprises and other contractors providing housing and utility services throughout the raion. This includes the liquidation of present rural

*Rationalized Model of Housing & Utility Services  
Gryasovets Raion*

housing and utility authorities on a schedule determined by ME Central Purchasing and correspondingly transfer of assets to current and potential municipal enterprises and other contractors. The ME Central Purchasing will solicit bids for housing and utility services.

In particular, the Housing and Utility (Vokhtoga) should be re-organized into a municipal enterprise and the assets transferred accordingly as soon as possible.

*Householder Associations*

The householder associations, composed of occupants, provide the mechanism to assist households to move into ownership roles. These associations are responsible for the upkeep, maintenance and repair of their units and common areas. They may contract directly with municipal enterprises or other contractors to provide housing maintenance and utility services. Their relationship with ME Central Purchasing is through the Inspection/Clearing Centers to provide any subsidies. Where there are non-privatized units, the ME Central Purchasing will be represented by the local Inspection/Clearing Center.

*Local Administrations*

The administrations of Gryasovets and Vokhtoga and the rural administrations have a planning function. They collect information to assess the relative need for maintenance, capital improvements and other issues relating to housing and utility services in their respective areas and forward this information to ME Central Purchasing with recommendations.

**PLANNING/BUDGET PROCESS**

Under this model, planning and budgeting are closely related (Appendix 2). The plans developed and reviewed at the local levels provide the information needed for the raion administration to develop its annual budget. Also, with long-range planning, the raion administration can estimate the revenues it will need in future years or the types of cost containment measures that may be necessary to meet shortfalls.

The planning process under this model flows from the lowest level. The ideal scheme is that each householder association will develop both an annual and long-range plan. These individual plans will then be consolidated into annual and long-range plans at ME Central Purchasing. The local administrations will then review the consolidated plans and then forward them to the raion administration. None of the levels, except for the raion administration, can disapprove any annual or long-range plan. Consolidating and coordinating levels can approve, approve with comments, or recommend disapproval.

All levels can communicate with each other for assistance in preparing the annual and long-range plans. The ME Central Purchasing will develop standard formats and instructions in preparing the annual and long-range plans.

Both annual and long-range plans will be composed of an operating component and a capital improvement component. The operating component will provide cost estimates for normal operating costs (i.e., labor, fuel, maintenance and repair, etc.). The capital improvement component will form a "wish list" of capital improvement activities. In addition to the cost estimates, this component will include a general description of the capital improvement, a justification for the project, and any other related information. During the initial planning phases, this information can be very broad and general. However, more specific details will be added as the project moves closer to funding. The ME Central Purchasing Office will have the discretion to forward capital improvement requests in its submission to the raion administration for any particular year. The decision not to forward must be based on lack of information or failure to follow procedures. The initiating level can make corrections (but not substantive changes) without re-submitting the documentation to the intervening levels.

Once the ME Central Purchasing Office has passed the annual and long-range plans to the raion administration, the planning process then moves into the budget process. It will prepare a

*Rationalized Model of Housing & Utility Services  
Gryasovets Raion*

schedule of those capital improvement projects which have been *approved* for submission to the raion administration. Approval in this instance only indicates that the necessary information is available for further budget action.

The Department for Construction will review the annual and long-range capital improvement plans. This department will have the authority to recommend future funding, or disapprove. Those capital improvement projects which were recommended for funding (either current or future) will be placed on an *authorized* list and will be forwarded, with relative funding priorities, to the Budget Committee. This committee will make the final determination of which projects to fund. These projects will then be referred to as *funded*.

Once a project is funded, the ME Central Purchasing Office will begin the contracting process and serve as project manager.

Under this model, the ME Central Purchasing Office will have a central role in ensuring that housing and utility activities are carried out in the most cost effective manner possible. During the initial phases of implementation, the ME Central Purchasing Office will have broadly defined responsibilities to include transferring the housing and utility service facilities to their administration. This office will then be responsible for transitioning management of these facilities to municipal enterprises or other contractors.

ME Central Purchasing Office provides the raion a cadre of trained specialists who will be actively involved in preparing the instructional guidelines in preparing reports and other documentation generated at local levels, as well as developing contract review and monitoring policies and procedures. It also provides a resource to local administrations to assist in planning, cost estimating, and contractual issues. Over time, the ME Central Purchasing Office will change its focus from an active administrative function to one more focused on reporting and oversight.

#### **IMPLEMENTATION SCHEDULE**

Implementation of the model will occur in successive phases, with full implementation expected for the 1998 budget year. The legislative basis for implementation will occur during the first quarter of calendar 1997. Concurrently, training courses for ME Central Purchasing Office staff and other municipal entities will be scheduled. Transferring assets and establishing the clearing centers will occur during 1997, that schedule to be developed by the raion administration. (Appendix 3)

#### **ECONOMIC VALUE OF THE MODEL**

The developed rationalized model of housing and utility services offers advantages over the current structure. In particular, this model provides a unified planning process for housing and utility services throughout the raion. Secondly, the consolidation of financial flows allows the ME Central Purchasing Office to manage changing economic conditions. Also, such consolidation improves the funding of major capital improvements. Next, unified tariffs provide the financial basis of future development of housing and utility infrastructure. Fourth, establishment of the Inspection/Clearing Centers provides for greater financial control. Also, implementation of the model would reduce the number of management positions by 13. Last, the ME Central Purchasing Office can contract with other raion administration entities to provide various information services.

The estimated total economic value of the model in its first year of implementation would total 700 - 1000 million rubles. Of this, Electrotepletset would save 72 million rubles in bank fees through the use of a clearing center for collecting user fees.

Additional savings can be achieved adopting a total quality management program, reinforcing business process improvement, and using activity-based cost management. While these ideas are not directly stated in the model, their methods and procedures will improve implementation of the model. The three are further described in Supplemental Recommendations. As an idea of the potential cost savings generated through these management techniques, implementing total

*Rationalized Model of Housing & Utility Services  
Gryasovets Raion*

quality management programs typically reduces maintenance costs by 10 percent. This alone could "save" approximately 2 billion rubles.

Through long-range planning, the raion administration can establish cost reduction targets which can then be built into contracts. The sources of cost reduction can be improvements in operating efficiency (i.e. reducing waste or loss) or improvements in management.

Using the information from the project description/authorization request forms allows the budget committee to assess the economic impacts of capital improvement projects. For example, the capital improvement sub-committee is reviewing three projects--one to insulate hot water pipes, another to replace the roofs on three buildings, and another to replace a lift pump. The amount requested for the insulation project equals that requested for the roof replacement and the lift pump. However, the cost-benefit analyses show that insulating the hot water pipes will reduce heat loss by 60 percent and that the savings would be sufficient over two years to cover the costs of the roofs and the lift pump. The cost-effective decision would be to fund the pump insulation project.

### **III SUPPLEMENTAL RECOMMENDATIONS**

The development of the rationalized operational model did not directly address any particular management technique. When implementing the model, adopting the management techniques of total quality management (TQM), business process improvement (BPI) and activity-based management (ABM) will significantly improve the cost efficiencies of the model. TQM has been very effective in reducing errors and defects. It also provides management a very effective tool to identify sources of error, thus making corrections where and when needed. Another benefit to TQM is that it lends itself to developing incentive programs so that workers are rewarded for performing their jobs above standard. BPI starts with the assumption that improvement is always possible and lays out a process through which management can incorporate the idea of continual improvement into their work. Activity-based management (together with activity-based costing) is a management tool which allows managers to make more accurate economic decisions.

#### **TOTAL QUALITY MANAGEMENT (TQM)**

A recurring point was the desire to provide "quality housing and services". There are four factors which distinguish quality management from traditional management styles:

- Customer-driven
- Statistically aided
- Management led
- Constantly changing, focused on continuous improvement

TQM focuses on analyzing work systems and on preventive and continuous training for ongoing improvement.

First, management must define quality in quantitative terms. Under TQM, quality has two aspects: the absence of defects and the perception of excellence. Perception of excellence is measured through benchmarking (comparing performance to some standard) and through surveying customers to determine the impact of various defects upon their perception of the quality of service provided. Second is the development of a system to measure quality through target levels. For example, in responding to work requests, customers indicate they are satisfied with two-day response. The target level would be that 5 percent of the responses to work orders would take more than two days. Third, monitoring is continuous. Again, the issue is not to eliminate defects but to identify management patterns and correct the management system.

This reinforces the idea that under TQM, the process is managed and that managers are looking for patterns of problems. Quality measurements can be made at the employee level, charted on a monthly basis.

Implementing such a system of defining goals, measuring performance, and training for continuous improvement takes time. However, within six months, the cost benefits should be visible. An effective quality program increases productivity, lowers costs, and results in more satisfied customers.

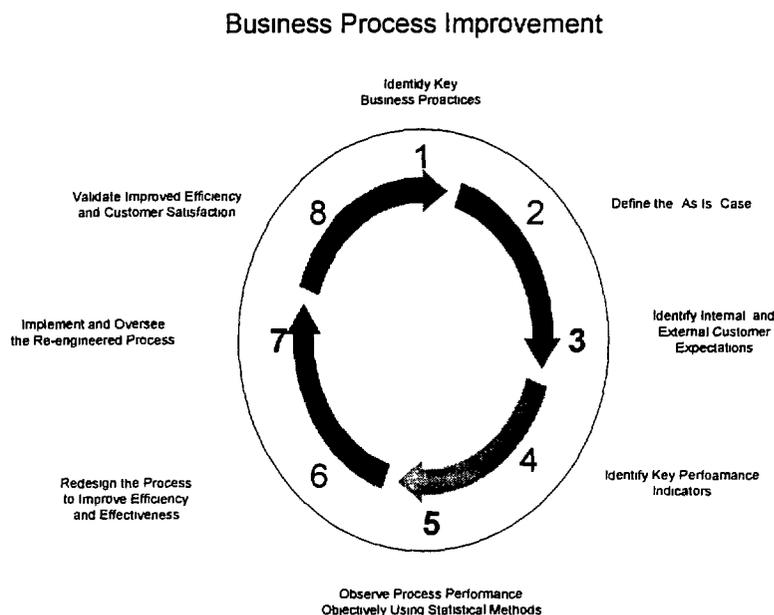
#### **BUSINESS PROCESS IMPROVEMENT**

Business process improvement is another management tool that will increase the effectiveness of the model. The objective is to improve effectiveness, efficiency, and adaptability of a business process. In order to achieve cost savings, the raion administration through the ME Central Purchasing Office and the municipal enterprises will have to adopt a business orientation. Figure 1 illustrates the process.

The benefits are achieved through

- Reduction of bureaucracy Implementation of the model would result in the reduction of 13 positions
- Elimination of duplication As the control point for all contracts the ME Central Purchasing Office will be responsible for monitoring expenditures Where feasible the CPO may combine similar contracts for services
- Process simplification
- Error reduction
- Standardization
- Contracting for goods and services

Figure 1 Business Process Improvement Methodology



Source: Ronshaw et al. *Activity Management* 1995

### **ACTIVITY-BASED MANAGEMENT**

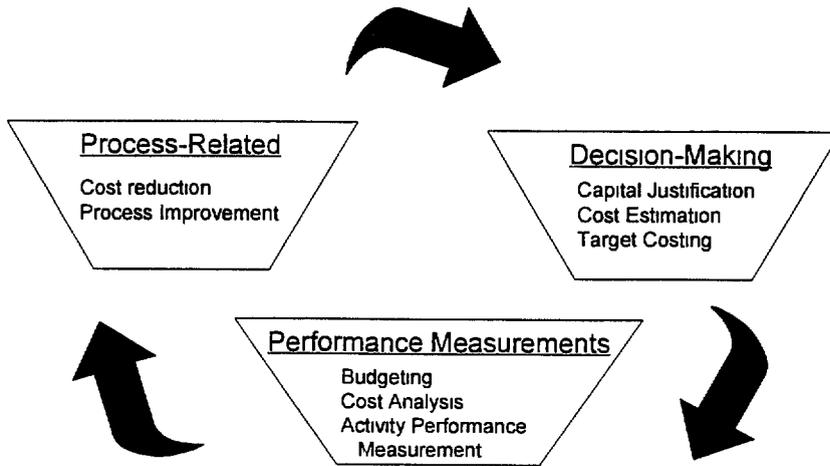
Activity-based management (ABM) is a cost management system that provides information needed to make economically-based decisions set priorities allocate resources and monitor actions taken Among its many applications cost reduction is particularly applicable for this model ABM provides a structured way to select and examine key activities select those with potential for improvement and to monitor the success of the improvement initiatives Other applications include

- Evaluate the economic benefit of contracting
- Manage projects
- Budget
- Set target costs
- Consolidate operations

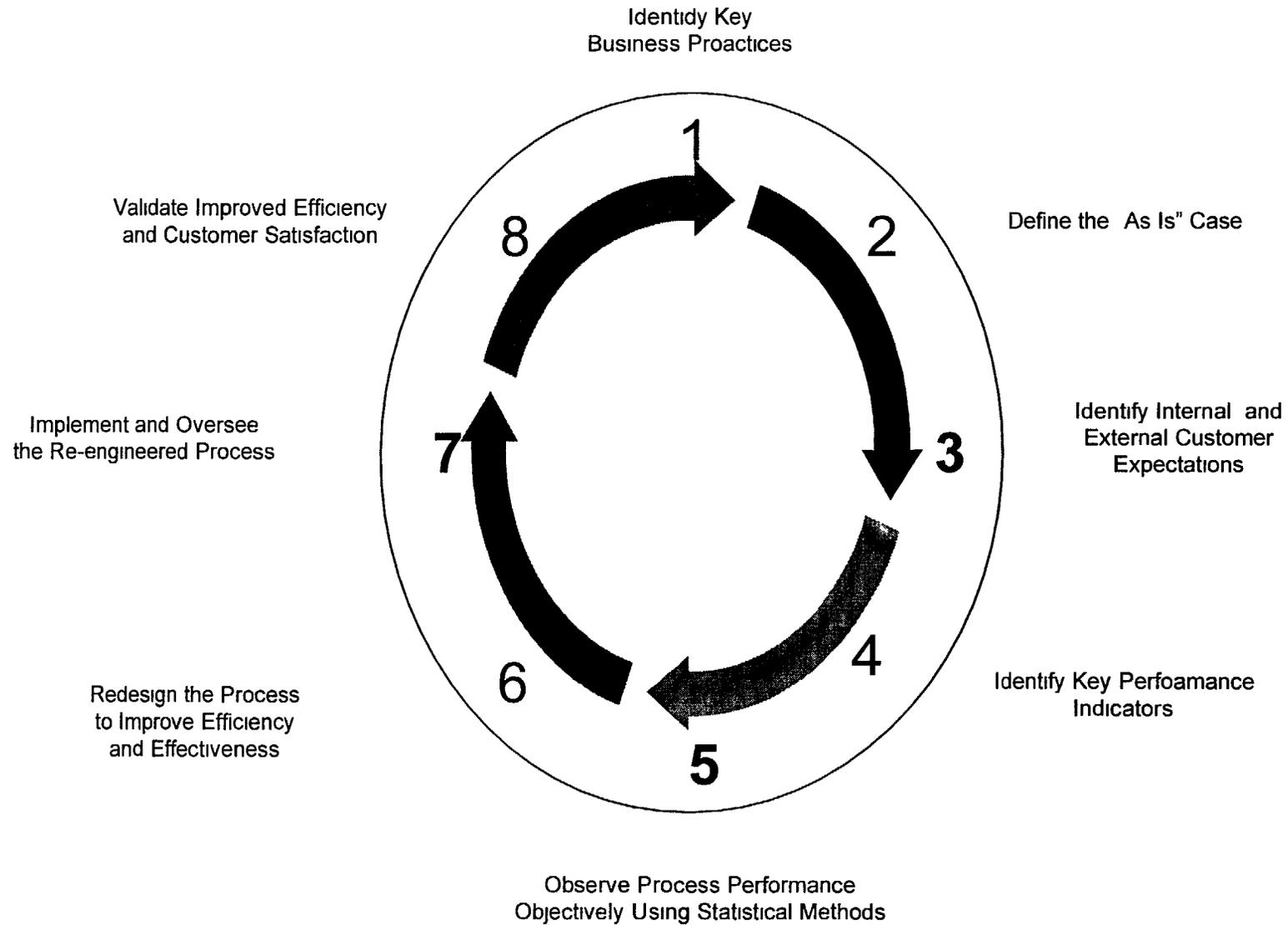
A full description of ABM is beyond the scope of this report. Figure 2 illustrates the benefits and values of using ABM.

Figure 2

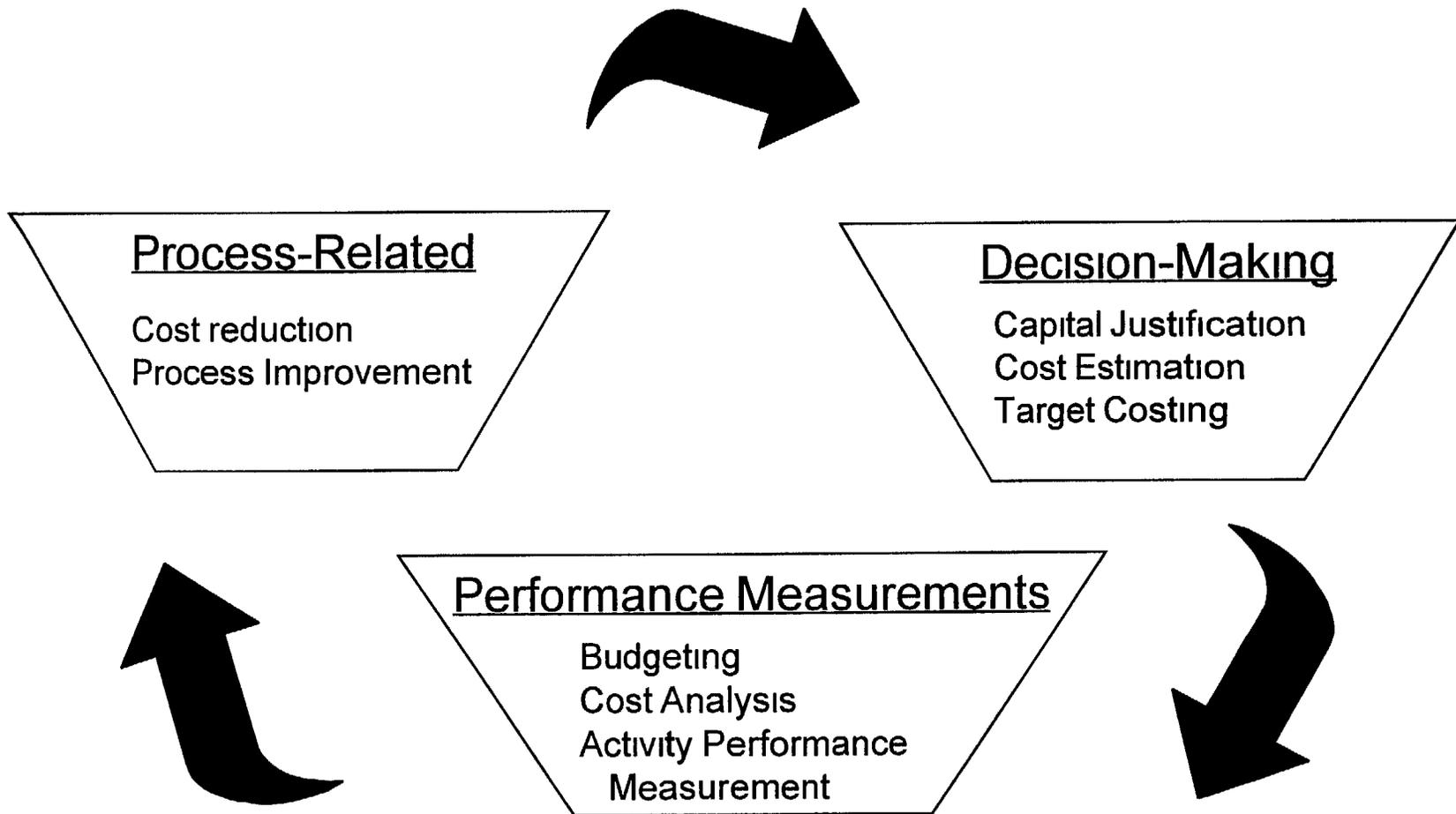
### Activity-Based Management Value System



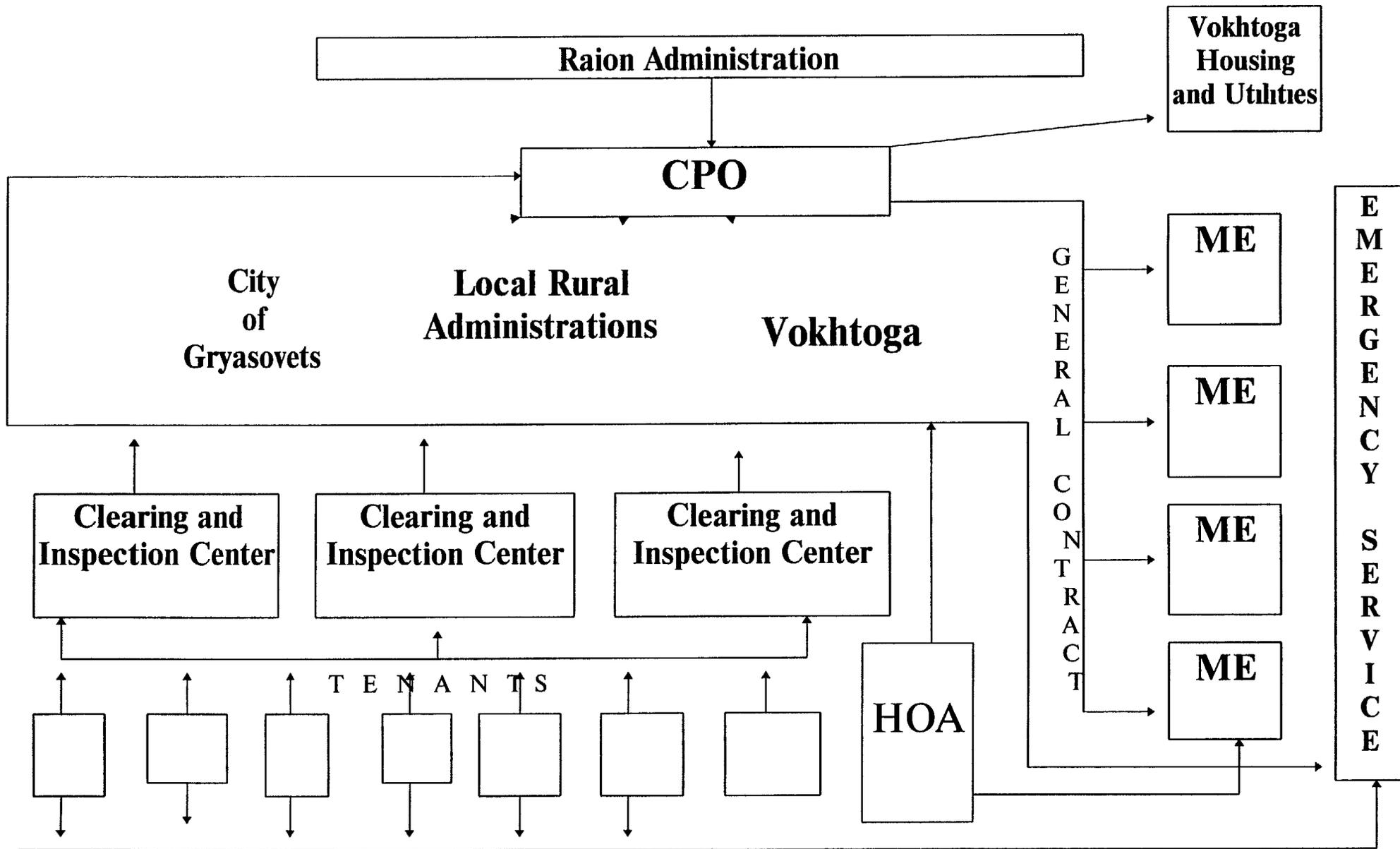
# Business Process Improvement



# Activity-Based Management Value System



ALTERNATIVE MODEL OF GRYASOVETS HOUSING AND UTILITIES CENTRALIZED MANAGEMENT





**Time Schedule  
of Activities re Implementation of Housing & Utility Authorities  
Management Model**

| Activities   | Date Prepared                                    | Responsible Person      |
|--|--|-------------------------|
| 1 Prepare the resolution of the Head of Raion Administration "Reorganization of Housing & Utility Authorities Management Structure"  | till 01/01/97                                    | J Shakhov               |
| 2 Develop the program of H&UA Management structure reorganization  | by 01/10/97                                      | J Shakhov               |
| 3 Make alterations to Raion Management Structure   | by 01/15/97                                      | G Morozova              |
| 4 Develop the statute "Municipal Entity "Central Purchasing Office" (ME CPO)   | by 01/15/97                                      | A Smirnov               |
| 5 Develop the statute "ME CPO Clearing Center"   | by 01/15/97                                      | A Smirnov               |
| 6 Make alterations to functional responsibilities of Deputy Heads of Raion Administration  | by 01/15/97                                      | G Morozova              |
| 7 Make alterations to MEs Charters "ETS", "H&UA", "Vodocanal", "Druzhba"   | by 02/01/97                                      | V Averkina              |
| 8 Establish the ME H&UA "Vokhtoga" on the basis of H&UA of Vokhtoga Administration   | by 02/01/97                                      | V Averkina              |
| 9 Prepare the resolution of Raion Administration "Rural H&UAs reorganization (liquidation), transfer of their property to the ME CPO   | by 02/01/97                                      | J Shakhov<br>V Averkina |
| 10 Develop the schedule of rural H&UA facilities transfer to the ME CPO and then to municipal enterprises for service  | by 02/01/97                                      | V Averkina              |
| 11 Carry out the transfer of rural H&UA facilities to ME CPO and then to MEs for service   | by 10/01/97                                      | V Averkina<br>A Smirnov |
| 12 Develop and adopt norms of output and tariffs on utility services delivered   | by 01/01/97                                      | J Shakhov               |
| 13 Make alterations to the statute " Assignment of user fees compensations to residents of Raion   | by 01/01/97                                      | J Shakhov               |
| 14 Develop the statute " Conducting business with user fee debtors"  | by 01/01/97                                      | J Shakhov               |
| 15 Establish clearing centers  | according to the schedule of rural H&UA transfer | A Smirnov               |
| 16 Establish the committee which would determine the readiness of H&UA facilities to be operated during winter period and would assess quality of utility services delivered | by 02/01/97                                      | A Smirnov               |
| 17 Carry out training courses for employees of the ME CPO and other MEs delivering services to H&UA  | 1st quarter of 1997                              | Project Specialists     |

*Notes*

The model of Gryazovets Raion H&UA Management will be successful and functioning throughout the raion if the existing problems are solved

- The apartments in Pertsevsckaya rural Administration are bought out by the employees of the former "Zarya" Farm using their property share and are considered to be their private property. These apartments are served by rural H&UA. We think, the housing should be returned to Closed Type Joint Stock Company "Zarya", make it establish the "Housing Owners Association", which would independently contract for maintenance and unity services delivery, the budget would compensate the payments with contractors.
- The tenants in Idskaya and Kamenskaya rural Administrations are to be served by Tree Cutting & Lumbering Facility, providing compensation of costs, or the "Housing Owners Association" is to be established after the organization work is carried out.

## Questionnaire for Housing Authority Director

(to be filled in using the data current on September 1, 1996)

1 Name of Housing Authority \_\_\_\_\_  
phone \_\_\_\_\_

2 Director's full name \_\_\_\_\_  
age \_\_\_\_\_ education \_\_\_\_\_  
length of service in the position \_\_\_\_\_

### 3 Manning Schedule

| Personnel Category       | Number of Employees |
|--------------------------|---------------------|
| Management Personnel     |                     |
| Engineering Personnel    |                     |
| Junior Support Personnel |                     |
| Workers                  |                     |

### 4 List the physical assets of the Housing Authority

| Description                            | Quantity/Length | Capacity |
|--|-----------------|----------|
| Boilers                                |                 |          |
| Water plants                           |                 |          |
| Sewer plants                           |                 |          |
| Pumping stations                       |                 |          |
| Heat pipelines                         |                 |          |
| Water-supply pipelines                 |                 |          |
| Sewer pipelines                        |                 |          |
| Public baths                           |                 |          |
| Wood working shops                     |                 |          |
| Housing number of houses               |                 |          |
| total area, sq m                       |                 |          |
| total area of privatized housing, sq m |                 |          |

### 5 Provide organization chart for the Housing Authority

6 Housing Authority budget statement for the first half-year of 1996

a) Revenue

| Revenue items                 | Value(ths. roubles) |
|-------------------------------|---------------------|
| <i>transportation service</i> |                     |
| <i>public bath</i>            |                     |
| <i>rent</i>                   |                     |
|                               |                     |
|                               |                     |

b) Expenditure

| Expenditure items          | Value(ths.roubles) |
|----------------------------|--------------------|
| <i>housing maintenance</i> |                    |
| <i>heating</i>             |                    |
| <i>water</i>               |                    |
| <i>sewerage</i>            |                    |
| <i>gas</i>                 |                    |
| <i>new gas boiler</i>      |                    |
| <i>public bath</i>         |                    |
| <i>public works</i>        |                    |

7 Does your Housing Authority have contracts with other enterprises that deliver services, maintain and repair housing? Name them and the value of the services delivered

| Name | Service | Contractual Value of Service for 1996 |
|------|---------|---------------------------------------|
|      |         |                                       |
|      |         |                                       |
|      |         |                                       |
|      |         |                                       |

8 Do you have any connection with the other housing authorities? (Yes/No) If "Yes", describe them

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9 Are you a member of some kind of association, co-op or union? (Yes/No) If "Yes", describe it

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10 Describe your operational ties with the Central Purchasing Office in Gryasovets

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11 What are the functions of rural local administration in management of your Housing Authority

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12 What is in your opinion the optimum administrative scheme of management

*Thank you for your time and answers*