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FINAL REPORT: HUNGARY; LOCAL GOVERNMENT and PUBLIC ADMINISTRATION PROGRAMS FOR CENTRAL AND EASTERN EUROPE; EUR-0018-A-00-2001-00

SUBMITTED BY

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A. Program

The program formulated two projects:

1. a skills transfer project of formal classroom instruction on theories and case studies of successful local government operation;

2. a model city development project establishing a cell of experienced people to support city management oriented toward fiscal management, revenue generation, economic development, privatization and financial planning.

B. Target Group and Beneficiaries

1. for the skills transfer project, participants would be executive and line managers of municipal governments; attendance would also be open to the business community and academics,

2. the model city development project would include municipal executives and line managers of local governments as well as selected members of the local business community, including bankers, industrial managers and local business organizations.

C. Qualitative and Quantitative Accomplishments Elements that would indicate forward progress include:

1. at least 250 classroom participants during the first year;

2. good breadth of coverage of classroom participants geographically and by sector: government or business;

3. increased public sector awareness of financial management issues and solutions: increased interest in program participation and discussion of case studies and models and requests for replication;

4. creation of a city master financial plan for model city;

5. short-term, measurable improvements in model city financial management, spending controls and privatization revenue generation.

D. Accomplishments

1. Skills transfer: This project was terminated half way through the project at the suggestion of USAID. The progress on this project was reported in the "Six Months' Report . . ." and is repeated as follows:

a. objective (train at least 250 classroom participants during first year): 233 were trained in the Budapest area and a class of eight was trained in budgeting systems in Szekesfehervar during the first six months;

b. objective (good breadth of coverage): officials from local and national government, academia and research institutions including police research were trained;

c. objective(increased public sector awareness of financial management and request for continued use of case studies and models); courses were requested and delivered to the Ministry of Interior, City of Budapest, Budapest University of Economic Sciences, School of Public Administration regarding financial matters such as financial management, intergovernmental management, local government and services management; case studies and models were introduced such as the cable contract in Szekesfehervar, a model for public utilities and environmental management (urban water works, cemeteries, public parks, surface water channels and sewers, dams and embankments) was delivered to the City of Budapest, courtesy of the Los Angeles Department of Water and Power; a model to form an alliance of local governments was presented to the Budapest University

of Economic Sciences which thereafter was presented by professors Gyorgy Jene; and Helga Repassey in Aggtelek to a group of Hungarian and Slovak mayors

(Aggtelek is near the Slovak border) with appreciative success.

2. Model City. Funds not utilized in the skills transfer portion were reprogrammed to the model city portion during the second six months' period of the contract.

a. objective (create a City master financial plan); a strategic and financial plan was presented to Szekesfehervar by consultant Joseph McGavick as stated in my January 10, 1992 report as follows:

1) develop a contracting approach toward the selection of a cable television company or companies;

2) develop a comprehensive, computerized information system, particularly in reference to financial systems, land use and ownership of public services;

3) develop data regarding infrastructure capability particularly regarding water supply, sewer disposal, natural gas distribution, power lines and capacity, telephonic communications, streets and highways, railroad lines;

4) discuss privatization or public ownership of municipal services and utilities;

5) explore a working relationship with the County which has residual property ownership despite jurisdictional change inserted in the Local Government Act (drastically reducing jurisdiction and responsibility);

6) explore remedies for unemployment problems;

7) explore remedies for a housing shortage;

8) explore the recreational attraction of the City due to its proximity to Lake Balaton and location on a major east/west highway;

9) explore possible strategies for addressing environmental problems;

10) explore potential for an institution of higher learning;

11) work collaboratively to develop a strategic plan for the City.

At this point in time, however, the financial aspects of the city's plan were to require continuing analysis and consideration. Various revenue sourcing as well as potential collateral pursuit of equity positions in resources presumed to be City property continued throughout the contract. Since some 80% of the City's revenue emanated from the central government and since City expenditures tended to exceed current revenues (the prospect of utilizing "float money", money sent in advance by the central government, if used for current expenditures, simply postponed the debt) the discussion continued throughout the contract. In part, this was caused by legal uncertainty regarding central government revenues, in part, due to uncertain legal support for encouraging the City to accept an equity position in local public enterprises (the law changed on this matter during the contract) and, in part, due to any number of uncertainties regarding former central government responsibilities such as former Soviet facilities, housing, welfare and education. In any event, the team assisted by addressing components of the financial plan as economic, political and legal constraints unfolded. As will be reported later, the team was effective in enhancing productivity, thus, spreading costs over greater activity and, in some cases, suggesting cost savings.

b. objective (short term, measurable improvements in financial management, spending controls and privatization, revenue generation); this became a major activity of the team leading to the following outcomes (please see Zoltan Szigethy's excellent description, "New Governments in Old Cities:, appendix A, which describes fiscal constraints and numerous other complicating structures and processes as well as which

explicates current political and administrative conundrums set within the Hungarian historical cultural experience):

1. budget training sessions were conducted for officials of the City as well as for the "finance committee" of the City Council; the City department head for budgeting took the lead in initiating a performance budget format as well as in producing a loose leaf notebook manual regarding the "new budgeting system (performance budgeting)"; thus, the budget director stated that she would present the entire 1993 budget in the program format utilizing, where possible, performance indicators developed jointly with our team;

2. program budget development was furthered by examination of one agency, the City's Varosgondnoksag(see Appendix B for the program format which was expanded to include all City agencies); the Varosgondnoksag is responsible for animal control, town road and bridge maintenance, indoor swimming pool, surface water management, public area cleanliness, park maintenance, cemetery maintenance, public market financial management support, mosquito/bug abatement, public school cleanliness, maintenance of agency facilities, operation of sports facilities, financial management of the agency, improvements to residential sites-Council allocation; since contractors were utilized for various agency functions, the Director promised to obtain contractor performance information not already possessed by the agency;

3. economic development planning: the team held numerous discussions with the Mayor, Deputy Mayor and Director, Mayor's Property Development and Management Department regarding potential opportunities for economic development as well as the mechanism for coordinating management of internal resources, for example, former Soviet

facilities, and linked City officials to five investment brokers and/or banks as well as a representative of the Japanese Export-Import Bank; the team deliberated with City officials regarding creation of an Asset Management Agency the stock of which would be wholly owned by the City and whose charter directs that its activities would be directed toward certain public purposes and which would operate independently of daily oversight of the Mayor's office and/or the City Council; the Mayor and City Council indicated that an agency in this form would be created by the end of 1992.

4. computer systems: the team inventoried the information system and existing hardware which led to a recommendation of soft and hardware on behalf of the top four City officials which led to a commitment by USAID, Hungary to provide two PC's, one laser printer and software dedicated to the top officials; the team recommended inclusion of 50 PC's to support the needs of the larger information system although the sourcing for this hardware was still inchoate by the end of the contract;

5. efficiency and effectiveness: this work was enhanced by the regimen of performance budgeting derived from performance indicators; in pursuing evaluations of City activities, questionnaires to review the service clientele, responsibilities and accomplishments of over 90 institutions, for the most part, found, for example, that costs per pupil differed in various institutions prompting further analysis which revealed important program differences.

6. public service brochure: the team had suggested the creation of a citizens informational brochure which would inventory and describe City services thus providing a useful guide to citizens; though approved in principle, the City never acted upon this

recommendation.

7. intra-organizational capacity building: the team deliberated at some length with the Mayor and three other top officials (two deputy mayors and the Notar) regarding needed improvements in delegation and delineation of authority as well as addressing weaknesses in the formal and informal communication system; the problem was caused, in part, by the absence of statutory responsibility for the two deputy mayors causing some confusion on behalf of the Notar whose authority and responsibility has been defined; the team introduced a policy process in which a "lead" person would have responsibility for presenting proposed policies and potential decision options to enlarge the reservoir of available thinking and to draw the participation of others in building the comprehensiveness of the options.

8. dissemination to other cities: the team extended knowledge of certain information to other cities (for example, with the mayors in Pecs, Kecskemet, Nyiregyhaza and Szolnok) and introduced information into Szekesfehervar from other cities particularly analyses regarding general obligation and revenue bonds (authored by visiting professor Roger Vaughan) which had relevance toward Szehesfehervar's concerns toward future financing of housing, infrastructure, and, perhaps, higher education facilities; the team linked the Urban Institute to Szekesfehervar for possible future collaboration.

9. housing: the team assisted the City in devising a strategy for disposal of some public housing units, balancing of increased rents and public subsidies to those unable to pay increase, renovation of historic buildings used for public housing, and the construction of new units; the team linked the USAID office of Housing and Urban Programs which

approved technical assistance to the City by the Urban Institute through its subcontractor; Varosketatas kft.

10. finance: the City's "float". The City's "float" constitutes funds advanced by the central government from which expenditures would be forthcoming; the "float", now managed manually, fluctuates between 600 and 700 million HUF and the team advanced the suggestion that computerization of the daily investment might produce additional interest to the City's account.

11. finances: general: consultant Jim Anshutz prepared a summary of "financial Information - City of Szekesfehervar, Hungary" which is attached as Appendix C and "Report on the Budget of Szekesfehervar, Hungary," Appendix D.

12. wastewater management and treatment: the infrastructure needs of the City were evaluated and, upon consultation with USAID, it was determined that a primary need centered upon wastewater management and treatment not only from the standpoint of existing needs whether residential or industrial but from the expected increase in the future needs of both; thus this project became major and involved several parts as follows:

    a. Definitional Mission Report: this report made an initial evaluation of the potentialfeasibility of technical expansion of the City's system which became the prospectus for preparing a comprehensive feasibility study; thus, this analysis discussed both technical and economic aspects of the proposed expansion from both an engineering and a financial standpoint from which an agency such as TDP (Trade and Development Program) might issue a comprehensive RFP; the definitional report

found that expansion was needed and supported the need for the feasibility study (the "Definitional Report" is shown as Appendix E).

b. Financing for wastewater management and treatment: despite the critical nature of wastewater management and treatment, the continuing dilemma became that of isolating a strategy for generation of funds which would sustain the feasibility of the expansion; one set of analyses examined the City's cash flow, the size of the debt, the City's experiences with bond issuance and potential options for financing the expansion; a primary concern was that of funding the reconnaissance study, the best alternative for which appeared to lie with TDP which, upon application, if approved, would issue a grant to perform the study (thus,potentially stimulating possible future work for U.S. firms during the implementation phase); the team produced an "options paper" which delineated the financing alternatives and their implications(see Appendix F).

c. companion financing which might enhance the City's revenue position: it had been hoped that the City might benefit from joint venture opportunities particularly should the City be able to assume an equity position in such ventures; or, if in possession of the land, might act as a lessor to the venture as mentioned earlier, the law removed the City's ownership of the land during the contract which dampened enthusiasm for revenue enhancements of this nature,; other public assets, however, were scheduled to revert to the City from the central government thus, constituting a resource which would require asset management (such assets have

resulted from the restructuring of public enterprises by the State Property Agency).

d. Privatization and restructuring: it became necessary to examine laws affecting privatization and restructuring to better advise Szekesfehervar regarding rights and obligations of the city, evaluation of companies still to be re-structured and potential options for the city's consideration; a law firm was retained to examine past, current and prospective assets undergoing privatization paying attention to benefits accruing to the city in the process; having completed its examination the law firm explained to the City the changes which had occurred and the effect upon the City's legal rights.

e. Budget, City of Szekesfehervar: having analyzed the budget as a planning operational and evaluation document, it now became incumbent upon the team to examine revenues, and expenditures and debt with a view toward feasible options for financing water and sewer capital expenditures; a major consideration was the plausibility of incurring additional debt and, if so, in what form (see "Report on the Budget of Szekesfehervar, Hungary, September, 1992," included as Appendix D. As observed earlier, the national government provides 80-85% of funding to Szekesfehervar derived form personal income taxes and "normative" allocations based upon a formula constructed from a general allocation based upon population and other targeted populations such as school children, elderly, cultural programs and others. The city generated local revenue from fees

and fines yet, the officials often lamented, expenditures exceed total revenues, made possible perhaps by a judicious use of "float" money. Capital improvements had been financed by other sources such as the sale of city assets. Some 52% of the city's budget must be allocated to the school system, 7.1% to programs of public assistance, 7% for roads, parks and public area maintenance and the remainder to general operating costs.

An examination of debt in Szekesfehervar revealed a not altogether gloomy condition. The City reported only three outstanding debts: two loans and one bond issuance (the latter for the city's swimming pool). An appraisal of debt incurred by Szekesfehervar suggests a conservative approach influenced, perhaps, by Hungarian statutes which do not provide for additional property tax assessments to fund capital projects as is customary in the U.S. (endorsed by a public vote). In fact, Hungarian local government pursues the U.S. option of issuing bonds <u>without</u> public vote as is done, for example, in Washington State (capped at 3/4 of one-percent of the state's assessed valuation). Szekesfehervar, following Hungarian law, issued bonds (100 million HUF), having secured cash from a local drive (selling tickets for future use), (31 million HUF) a donation of materials/components from corporate sources (100 million HUF) and the remainder form the city budget. The bond package depended on approval of the national Ministry of Finance which had to guarantee the bonds; the actual sale and redemption of the bonds was performed by the national bank (OTP). Szekesfehervar has two outstanding loans: one to the County as an additional contribution to the water/sewer operation, and one to the national government for loans made to

the City to enable local citizens to purchase their own housing (citizens must repay only the principal; the city pays the interest), however, since the principal is repaid to the city, it may invest these proceeds at the market rate which has tended to exceed the initial borrowing rate of 3-7.35%. Finally, the City has demonstrated its ability to meet its scheduled debt repayment utilizing a combination of its limited revenue sources.

f. Future Options for funding a project such as a feasibility study of a water and wastewater treatment project (see Appendix F). The team examined various funding options in order to make possible a feasibility study for construction of an expanded water/wastewater system. The team had initially believed that the United States Trade and Development Program (USTDP) offered the best alternative since it would, unlike most other sources, provide a grant rather than a loan for the feasibility study; the team assisted the city in submitting its application to USTDP, however, as the team's work came to a close, USTDP gave indications that the grant would not be approved in view of its existing priorities and the presumption that construction of wastewater treatment plants do not offer a competitive advantage to U.S. equipment suppliers and consulting services. The team, thus found it necessary to apprise the city of other potential funding agencies primarily in the form of loans, though cost sharing existed as an alternative, presuming either that the City would cost share or that the engineering or construction company would cost-share. In certain cases, funds must be earmarked for U.S. resources (USTDP, United States Export/Import Bank) or that loans may only be

made to a private company (Sanders International, International Finance Corporation) or other complications exist. Szekesfehervar had indicated that it was unable or unwilling, at this date, to allocate funds toward the feasibility study, precluding, for the moment a city cost sharing arrangement; thus, a World Bank loan would be precluded since such a loan would require cost sharing by the city. Lyonnaise des Eaux would form a joint venture with the city yet they declined acceptance in view of potentially inadequate revenue from Szekesfehervar unless conceivably, linked with another municipality. The European Bank for Reconstruction and Development predicted a possibility of a partial grant, and ECPHARE is currently examining national needs of individual cities.

Szekesfehervar thus, has been advised regarding current financing options for water/wastewater development; has been presented with a Definitional Mission Report which would be necessary in preparing a request for bids for a feasibility study and has been advised regarding various financing alternatives. It possessed none of this information prior to the team's involvement.

E. Problems

1. The one year grant period seemed to limit the effect of what might be accomplished over a longer period of time. That is not to say that USAID should have funded the project for three years, priorities existing, as they must, for other projects, it is to say that the first year of technical assistance to local government (or even national

government) will be spent substantially in (a) establishing trust, (b) establishing credibility, and (c) constructing the foundation for further development.

2. Although a one year grant seems constraining, several accomplishments occurred which seem well suited for the short run: short and long term training; introduction of performance indicators and program budgeting; conceptualizing a management information system; advising regarding organization structure, process and evaluation; opening communications; establishing responsibility and accountability; establishing decision making and administrative systems; exploring financial options; preparing the city for financing a major expansion of its water/wastewater system; guiding the city through local; national and international requirements for financing alternatives and in reviewing the impact of the new Civil Service Law upon local jurisdictions (See Appendix G). All of these things, and more were accomplished yet there were problems incumbent upon local government in Hungary as well as upon the national government most of which is occurring elsewhere in Eastern Europe and in the former states of the Soviet Union. These act as constraints which are real and will require time to ameliorate:

   a. mistrust of government

other having endured years of one-party in-fighting, Soviet domination, and Stalinist organizational principles;

b. political rivalry among the parties of a new multiparty system in which the majority party (MDF) controls the national government and growing and apparently formidable opposition party (SzDSz) controls most of the cities;

c. a struggle between the national government and local government for resources, potential revenues, divided responsibilities, and new conceptualizations particularly via-a-vis privatization and restructuring;

d. a mind numbing and bone fatiguing regimen which the upper echelon of local government (Major, Deputy Mayors and NOTAR) have brought upon themselves in attempting to provide democratic process (for example, access to the citizens), care and feeding of the city council and its committees, enormous avenues of responsibility which are still being defined regarding the city's responsibility for functions formerly funded by the national government as well as uncharted territory in establishing city

property rights, equity positions and other opportunities for joint venture positions with according gains in revenue matched against increasing expenditure responsibility. The top leadership in Szekesfehervar seemed exhausted from daily activities, having to sort out political, economic and administrative priorities and remain accessible to the citizenry which seemingly had continuing problems brought about by unemployment, health coverage, housing, education and to some extent, inflation (about 20%). That the team was able to keep these officials sane may have been a not insignificant accomplishment. The team offered hope that certain system changes, certain structural changes and certain outside agencies might be able to assist during this period which might be described as a "vacuum" which has evolved between national and local government relations.

e. in the last analysis, the Hungarians must do things themselves. The team offered alternatives, opened possibilities, encouraged personnel both at the top and middle to share information, and in some cases found itself counseling regarding major policy dilemmas illustrating

that, within one year, trust and credibility can be achieved. The team helped in building a psychological and professional foundation. Yet, more time will be necessary extend the fruits of this foundation.

NEW GOVERNMENTS IN OLD CITIES
A stroll through Hungarian municipal administration

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by

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INTRODUCTION

The setting

Hungary is in the throes of a great social dynamic in regard to the proper relationship of its new central government to more than 3,000 new local governments. The twin stars in this dynamic are authority over domestic policy and responsibility for its execution, while taxation and the distribution of tax revenues give form to the tension between them.

Coursing through this charged field are the interests of a half-dozen major political parties, differing views on the speed and the style with which state ownership and control of economic entities should be let loose in a free market, a sense of national pride and identity that are muddled by the necessity to be part of the new international order, tremendous entrepreneurial motivation, and a bedrock of conservatism stemming from a debilitating national debt, double digit unemployment, no less from the threat of conflagration on the nation's borders with war-torn Yugoslavia, nationalistic Rumania, emergent Slovakia, and unstable Russia.

Some disclaimers

This paper is commissioned by the United States Agency for International Development as a primer for others fortunate enough to work with large Hungarian cities. Ambit Development, Inc. is a subcontractor to Deloitte & Touche, which is a subcontractor to the University of Southern California on its contract with USAID, Contract No. EUR-0018-A-2001-00, Local Government and Public Administration Programs for Central and Eastern Europe.

Having accepted the commission, let me lead off with several caveats.

For starters, this paper is not a scholarly text, but presents a subjective and anecdotal guide.

We must remind ourselves that much of what happens within city administration is analogous to rearranging deck chairs on the Titanic. True, Budapest and two dozen other large cities are crucial to the evolution of Hungarian society, since this one percent of all local jurisdictions encompasses half of the nation's population. We must not forget, however, that they are also buffeted by powerful national and international forces.

My observations stem largely from working for seven months in 1992 as an adviser to the Mayor's office of an historic Hungarian city with 120,000 residents, where I provided technical assistance across the full range of its public administration. Since Hungarian Mayors have far broader authority than United States Mayors with respect to education, health and social services, and since Hungarian local governments are engaged in commercial ventures that are typically the domain of private enterprise in the United States, my consultation likewise ranged beyond issues that would ordinarily fall within local government public administration in America.

Wile many of my views grew out of experience in this one city, it would be misleading to think that examples are drawn solely from here; in fact, they are drawn from a variety of local experiences.

Finally, of course, the views and opinions expressed here are my own and do not speak for anyone else. Should there be any errors, I acknowledge them to be mine.

CITIES WITHIN THE NATIONAL STRUCTURE

Young governments in old cities

We must first turn to events in the recent past if we are to describe the present. In particular, let us recall that after four decades of manipulated, one-party elections in Hungary, free elections for local City Councils and Mayors took place on September 30, 1990 in 3,092 localities.

These local governments had the following population ranges on that date, according to the Ministry of the Interior: 2,930 had less than 10,000, 122 from 10 to 50,000, 26 from 50 to 100,000, 9 from 100 to 150,000, 3 from 150 to 200,000, and 2 above 200,000. The last two include Budapest, with about 2.5 million, or one quarter of the nation's population.

Election rules stipulated that the ninety-five percent (2,930) of localities which had populations less than 10,000 directly elected Mayors and City Council members, while the remaining five percent (162) directly elected City Council

members, who then chose the Mayor, Chief Administrator and Deputy Mayor(s).

The eligible electorate in September 1990 was approximately 7,870,000 from a national population of about 10,600,000, but local elections were not sterling examples of citizen participation. Since the preceding tumultuous eleven months already witnessed two national referenda and two votes to select members of Parliament, only forty percent of the electorate turned out. Only twenty-nine percent bothered to vote in follow-up elections on October 14, 1990 in instances where either the required two-fifth of the electorate failed to vote the first time or no candidate received the required minimum one quarter of the vote.

Political control of towns and villages smaller than 10,000 was generally won by independents, whereas it was generally won by a coalition of the Alliance of Free Democrats (SzDSz) and the Federation of Young Democrats (FIDESZ) in larger cities, including Budapest. This outcome is not only interesting in its own right, but stands in contrast to Parliamentary elections held just six months earlier. Control of the central government was captured by a moderate coalition headed by the Hungarian Democratic Forum (MDF) allied with the Independent Smallholders' Party and the Christian Democratic People's Party.

Much of the daily tension between the central government and larger cities stems not only from their natural, organic tug of power, but from the polarity of political control in the two camps.

Given our 250 year history of democratic existence, it is tempting to view these new democratic changes in Hungarian cities in patronizing terms. Yet we must not forget that our cities were but small nomadic campgrounds when the larger Hungarian cities were already thriving centers of a Magyar nation-state. For example, the city with which I am most familiar was founded 1,020 years ago, has housed the coronation of 37 kings over the centuries, and at one time or another has probably experienced most permutations of public administration known to mankind.

Cities versus counties

The old system of county, city and community governing councils, which numbered 1,607 throughout the nation, has now been replaced by the 3,092 local governments. Theoretically one might add 22 more, since Budapest not only has a central city government, but also 22 districts with their own Mayors and City Councils.

In addition to the two-tiered structure found in Budapest, the other interesting compromise in establishing new local

governments is that between county governments and "cities with county powers". The latter are cities having at least 50,000 inhabitants, by virtue of which size they can petition Parliament for this special status.

Much of the flux in Hungarian public administration centers on the relationship between these two sub-groups. Whereas counties previously had a hierarchical superiority over the core cities, they now have equal standing before the law and, in the case of cities with county powers, most county powers are being transferred to the core cities. The transfer is fraught with risks for the cities, since they are not convinced that their new authority is accompanied by sufficient funding to meet their new responsibility.

An example of transfer of authority

A case in point is the transfer of basic health services by the end of 1992. Cities with county powers are not convinced that county health administrations have revealed true operating costs for the city portion of their activities. The cities have therefore been reticent to complete the transfer of authority, staff and facilities. In an attempt to obtain accurate cost data, they turned to the central government's national health insurance agency, which has oversight for health financing (as distinct from health services standards, which falls within the purview of another central agency), only to be told that the central government would not reveal its data for fear of violating confidentiality and because it does not want to come between the local governments.

Under these circumstances, cities have to make the best bargain possible with limited knowledge. In one case, the bargain resulted in transfer of basic health care at roughly 8 percent less funding than thought needed by the recipient city on the basis of financial data available to their analysis. Only future operating experience will demonstrate whether they accepted a pig in a poke.

The association of cities with county powers

Nineteen of the original twenty cities with county powers have been joined by two more to form an Association of Cities with County Powers, whose Mayors represent their cities. They speak for approximately one quarter of the nation's population and form a support group with two principal objectives: to identify and share information on effective local public administration strategies; and to lobby on behalf of cities' interests vis-a-vis the central government, Parliament and other associations.

4

There is apprehension about what is perceived to be a gradual recentralization of public powers and a preference by the majority Parliamentary coalition to grant more authority to counties. As a counter to this development, there is an attempt to build a loose confederation comprised of this Association, the Association of Towns and Villages, and the Budapest Mayor's Office.

Central ties that bind

Notwithstanding the apparent independence of cities, three governmental instruments restrain them.

First is the basic right of the Parliament, by a two thirds vote of those present, to restrict the fundamental rights of local self-governments. (Act No. LXV of 1990 on Local Self-Government, Third Part, Chapter IX, Section 44/C.)

Next comes the interpretive regulatory power of the central government, whose Ministries implement national policies established by Parliament. Though all Ministries impact local governments, the paramount ones are the Ministries of the Interior and of Finance.

Finally, operational restraint is exercised through nineteen Regional State Budget and Public Administration Information Service agencies (TÁKESZ) and one more in Budapest. These are hour-glass conduits to and from local governments for population data, financial information, tax data and accounting information, not to mention their role as distributors of funds. As an example in 1991, some 6 billion HUF normative funds flowed down through that 110 person TÁKESZ which serves a county of 105 local governments and 420,000 people, including its core city of 120,000.

These agencies are administrative arms of the Ministry of the Interior and represent professional interests of both the Ministry of the Interior and of Finance. They therefore are significant players in ensuring local adherence to standardized record keeping, accounting, budgeting, and data collection; all of which precondition eligibility for the distribution of centrally collected tax revenues on a formula grant basis.

MUNICIPAL GOVERNMENT STRUCTURE

The pattern of checks and balances

Let us turn to the structure of government as generally found in larger cities, excepting Budapest.

Hungarian local government is an eclectic mix of governing solutions, wherein:

Political deal-making takes shape as a coalition of parties within City Council;

Representative leadership appears in the form of a Mayor elected for a term by this coalition from its own members, who then chairs the City Council, gives direction to his executive office, and guides city institutions outside of the executive office;

Administrative expertise and continuity is in the form of a Chief Administrator who must be an attorney, is elected for an indefinite term by the City Council, and who manages the Mayor's executive office; and

Legal guidance to the body politic comes from the same Chief Administrator, who must document and warn both Mayor and City Council in the event they engage in actions he deems to be illegal or outside their scope of authority.

Into this mix are thrown one or more Deputy Mayors elected for a term by the City Council. They assist the Mayor and are generally given policy portfolios for "economic development" or "culture and education", but in reality they are in limbo, since their responsibility derives from the Mayor and they have no direct supervisory authority over the Chief Administrator.

The City Council

Organization of the City Council is analogous to United States cities, including the frequent use of a finance committee through which budget issues must pass before reaching the full Council, bylaws that specify issues which require simple majority or greater percentage of affirmative votes for enactment, as well as the use of Robert's Rules of Order.

A startling characteristic is the sheer number of City Council members. Large cities are required to elect at least 27 representatives for 50,000 inhabitants and 2 more for each additional 10,000. This leads, for example, to 37 City Council members for a city of 100,000. In contrast, consider that Seattle, Washington has 9 representatives for its 500,000 population.

Budapest has its own unique apportionment, which results in 66 City Council members for the central city government. In spite of Budapest's roughly 2.5 million population, not only is this still greater representation per capita than in Seattle, but each of the 22 city districts have additional City Councils!

One result of such generous per capita representation, coupled with a desire to encourage citizen participation, is the tendency to overpopulate City Council committees with elected

representatives and appointed outside experts. While not bad in itself, the demands of regular employment and the frequency of meetings required by many issues facing these committees during the current transitional period make it difficult to achieve committee quorums; a difficulty frequently mirrored in full City Council meetings that require more than a simple majority of affirmative votes to enact legislation dealing with matters such as the divestiture of real property, passage of the annual budget, or enacting new bylaws.

City Council committees and local institutions

City Council committees play a significant role in this structure because they provide policy (and often, operational) oversight of public agencies.

This is particularly striking in regard to institutions that are not part of the Mayor's executive office, but are quasi-independent because their Executive Directors are appointed by the City Council.

A large city may operate as many as a hundred public institutions, mainly comprised of daycares and preschools, elementary and secondary schools, and a variety of institutions dealing with culture, public housing, public health, street and park maintenance, retirement homes, cemeteries, not to mention commercial ventures such as movie theaters and the public market.

The budgets of these institutions are reflected in the city budget, yet their daily activities and internal operations are in a twilight zone where periodic fiscal and policy audits are the main instruments of supervision by the Mayor and Chief Administrator. In much the same way that our Congressional committees play central roles in the lives of many of our public agencies, so do these City Council committees assume importance to local institutions.

The Mayor and local institutions

The tenuousness of direct control over institutions by the Mayor's office is further weakened by powers vested with the Minister of the Interior on behalf of the central government.

Among other powers, the Minister determines, by decree, the professional rules of the execution of the state administrative tasks of the Mayor ... and supervises their reinforcement. He also regulates, by decree, the professional requirements pertaining to the operation of the institutions maintained by the local governments, the qualification requirements of the staff members of these institutions and supervises the enforcement of these regulations. (Act No. LXV on Local Self-Government, First Part, Chapter X, Section 97.)

It is not surprising that Mayors struggle to live up to the public perception and expectation of their overall accountability for governmental services within city boundaries, given that the preceding Ministerial powers are coupled with centralized minimum wage requirements pegged to professional qualifications and/or tenure, regional professional standards committees are staffed with appointees of the central government, and the bulk of local funding comes from centrally disbursed tax revenues.

The Mayor has several weapons at his disposal in this struggle, including chairmanship of the City Council, the power to appoint staff within his Executive office, ability to represent the City Council vis-a-vis the institutions, and guidance of the annual budget process.

BUDGETING

Normative funds

City budgets use a calendar year cycle. They must be balanced and therefore seem to err towards conservative estimates of revenues. They are difficult to compile because of their heavy dependence on central government formula grants (the so-called normative funds) and because of shifting forecasts of demographic economic conditions, as well as late Parliamentary decisions on allocation totals and distributions formulae.

Normative revenues are allocated on both a per capita basis for general city government costs, and on the basis of various formulae for specific program populations. Examples of the latter include participants of kindergartens, elementary schools, vocational schools, secondary schools, cultural programs, as well as per capita allocations for the poor and elderly.

It should be noted that a curious alchemy takes place when normative funds enter the city budget. While national law uses specific program populations to calculate formula entitlements, it does not require cities to use the funds to support specific programs. These monies therefore become part of the local general fund. Yet the appearance of independent action by municipal government once again is a chimera, since local interest groups know about the calculation, lobby for the formula amount as their minimum bargaining position, and in most cases their needs exceed normative funding.

Local revenues and expenses

Actual 1991 revenues for cities with county powers was 62 billion HUF (from a national total of 417 billion HUF for all local governments), of which 26 percent came from local sources, 14 percent from the return of half of personal income taxes collected by the central government, and 60 percent from other

central sources, the largest of which were formula grants. (I am indebted for these national statistics to Zoltán Mádi, the Mayor of Nyíregyháza, from his article entitled "Onkormányzati gazdálkodás és nagyvárosok" in the August 1992 issue of Magyar Közigazgatás.)

As a cross-check to national figures, the anticipated 1991 revenue distribution by the city with which I worked was similar, albeit on a base of 3.46 billion HUF. Its actual revenues were 4.42 billion HUF and were distributed as 37, 16 and 47 percent from local sources, income tax and central funding, respectively. In short, this city had a greater return from local sources than planned; much of it from the non-recurring sale of public housing units.

These statistics stand in contrast to our experience with United States cities, where the ratio of local to national revenues tends to be the inverse of the Hungarian situation. This contrast speaks volumes about the relative independence of United States cities from central control and also about the tenacious legacy of recent Hungarian public administration, within which cities were held in an even more suffocating embrace.

These same cities spent 58 billion HUF in 1991, including 77 percent for operations, 2 percent for repairs, and 21 percent for capital improvements, debt repayment and miscellaneous items. My referent city planned to spend 3.46 billion HUF, but actually spent 3.65 billion HUF, distributed by 72, 7 and 21 percent in the cited categories.

It is my impression from 1992 budgets and discussions about 1993 that carryover funds from 1991 were used to partially balance the books in 1992 and will essentially be used up within the 1993 city budgets.

A look ahead

This emerging trend of insufficient currently generated funds to cover current expenses is compounded by central government proposals to make two major changes in the tax and revenue sharing structure: to reduce the local income tax revenue pass-through to cities from 50 percent to roughly 30 percent of the total; and to change the three-level value-added tax system, which now exempts some items and taxes the remainder at either 15 or 25 percent, to a two-level system by eliminating the exemptions.

In 1991 terms, the former change would eliminate 3.44 billion HUF, or 40 percent, of the 8.6 billion HUF cities with county powers get from personal income taxes; with the reduction amounting to 5.5 percent of their total revenues. Furthermore,

since the returned taxes are calculated on the basis of income taxes paid two years previously, a reduction to 30 percent of the total collected is further diminished by the recent massive loss of jobs.

The latter proposal, if enacted, would take more disposable income from people's pockets and would make it difficult to enact new local taxes and fees. In both cases, the central government would benefit financially.

Although it seems that these proposals are motivated by the central government's larger-than-expected 1992 deficit and its international credit mandate to limit the national deficit to 5 percent, there is likelihood that some withheld funds will be used to prop up unemployment compensation in depressed areas of the country.

The irony of this scenario is that centrally encouraged free market forces are partly to blame for increasing unemployment. Cities are the most directly impacted governing entities, because the unemployed petition them for housing, fail to pay their local utility bills, ask for social assistance grants, and urge the creation of jobs. Yet if recentralization of fiscal authority is chosen to address the social upheaval attendant with unemployment, it will take place at the expense of decentralized local governments and will diminish their ability to cope with municipal needs.

A SHORT LIST OF BURNING ISSUES

Introduction

The budget is but a framework for considering many local concerns and a symptom of social attitudes. For example, it is the context for resolving the allocation of public resources to subsidize local public transportation, but its strategic characteristics derive from the participants' views on relative public and private responsibility for covering increased operating costs. (In my referent city, the increase was passed on to riders of local busses through higher ticket prices.)

The following list of local issues is neither exhaustive, nor is it in priority order. Although each one would benefit from richer explanation, they can at least offer a taste of what is on the minds of local representatives and public administrators at this time.

Schools

Teacher salaries and school maintenance eat up half of operating budgets. There is constant pressure on City Councils to keep salaries in tandem with inflation, especially since

national guidelines set salary targets that become local bargaining points. Notwithstanding that City Councils appoint school principals, that they also allocate school budgets, and they thereby have auditing authority, it is nevertheless true that schools tend to be run independently from and competitively with each other without a cohesive local education strategy. This comes from excess decentralization following the 1988-89 political transition from central control.

Moreover, national teacher associations are forming with consultative help from United States teacher associations; bringing a strong lobby to bear on what is already the 800-pound gorilla of local expenditures.

Incidentally, this summary is silent about the cost of local police and firefighters -- so integral to United States city budgets -- because they are controlled by central government organs in Hungary.

Conversion of public institutions

A host of nationally chartered public institutions will lose their legal basis by the end of 1993 and revert to local control. This is the case, among others, for public housing agencies and sewer and water utilities. Cities are trying to unilaterally resolve the future composition, authority and legal form of these entities by the end of 1992, since thereafter the central government also has some role in determining their fate.

The process is complicated by decisions on whether to keep part or all agency functions within the fold of local government, or spin them off to specially chartered private companies where local government retains only a stockholder's prerogative.

Indeed, these transformations are rife with personal agendas, personnel decisions and lobbying by those wishing to gain financial advantage. Especially problematic is the attempt to "cream off" profitable components while leaving non-sustaining components to local government. A case in point is the transformation of funeral and cemetery service agencies, where private entrepreneurs want to capture profitable funeral services, while leaving cemetery maintenance with local government.

Privatization

The preceding topic leads naturally to the privatization debate, which in turn takes place within the broad concern for energizing the economy, creating jobs and joining western market-driven economies.

The point agency for privatization -- read this term to mean refinancing and sale of public assets, typically in the form of parts of the nation's vertically integrated industrial, commercial and agricultural monopolies -- is the central State Property Agency. Its decisions on the restructuring and/or sale of enterprises located in cities has a direct bearing on life in those cities and can arguably be considered the greatest influence on local economic development.

Nevertheless, cities also play a role in the privatization of local enterprises such as movie theaters, funeral and cemetery management, and public housing units. These actions are driven partly by a desire to introduce competition into the system, and partly from a desire to avoid future public subsidies.

Economic development planning

Even more difficult is the broader issue of devising a local economic development strategy, because it requires guesswork about forces beyond the control of local government.

Components of a development strategy include means to attract foreign equity and debt financing for local enterprises, ideas to encourage small business formation, tactics for using public assets to prime private entrepreneurial pumps, creation of local financing institutions that could somehow provide below-market-rate loans to local enterprises, and struggles with zoning, permitting and infrastructure attendant to new businesses.

Not the least of local concerns is how to pull all these considerations into a coherent, communicable strategy; something that is hard to achieve because many cooks are in this broth and most of them are focused on narrow, parochial preoccupations.

Infrastructure financing

Hungarian cities are not unlike United States cities in being confronted with the fiscal undertow represented by major infrastructure modernization and repair. This includes everything from better telecommunication systems (cable television, telephone service) and storm-water separations, to the repair or construction of public housing, roads and sewer systems.

The national debt does not give much leeway to the central government for massive infrastructure borrowing on behalf of local needs, but cities appear to have a relatively low per capita indebtedness. This could lead to wider use of revenue and general obligation bonds, but there is hesitancy to encumber local budgets for fear of inability to raise adequate local taxes

and user fees to cover not only projected regular expenses, but also new capital outlays.

The current tendency is to limit local capital improvement obligations to the amount of revenues derived from non-recurring sale of assets, such as disposed public housing units, and from central government discretionary grants in such instances as competitively available matching funds for constructing school gymnasiums.

Housing

Housing is a major headache. It was not atypical for public housing to constitute a third of a large city's housing stock just two years ago; a ratio that has decreased to perhaps a sixth through the privatization of many units. Sales strategies and prices differ from city to city (even from district to district in Budapest), but they are typically sparked by tenants exercising purchasing rights within broad guidelines established by central decrees.

Much of the remaining public stock is in poor condition, is occupied by tenants less able to pay market rates, or are in historic buildings whose physical rehabilitation is relatively expensive. National law makes eviction difficult even in the instance of rent and utility bill delinquency, and earlier sales were frequently at prices substantially below market levels, which makes it politically difficult to now demand market rates even if a city wants to sell units.

Compounding these difficulties is the high cost of new construction. This argues for cities to retain some units for future social programs even if their maintenance is costly and if it will take years to get the units into circulation after satisfying the compensation or relocation rights of current tenants.

On the bright side, a number of cities have opportunities related to units constructed or appropriated by Soviet occupying troops. These opportunities, however, must be developed in concert with the central agency which oversees the disposition of past Soviet properties.

Reversion of church properties

Another real property category that presents challenges to cities are church properties confiscated by the state after World War II. Churches now have the right to reclaim them or to accept other compensation. This is no small matter, since churches (particularly the Catholic church) had extensive properties, many of which have in the interim been improved at public expense to house museums, music academies, public housing and schools.

The reversion of schools seems to go fairly smoothly, since education continues with but a minimal infusion of clerics into the faculty. However, there are occasions for concern about the relocation of other public services. In one instance, return of a long-standing and well developed county museum (specializing in Roman and Hungarian artifacts) resulted in the resignation of its Curator because the church is squeezing the museum into ever smaller space to make room for its own staff.

Evaluating public services

Evaluation of the efficiency and effectiveness of public services is a surprisingly lively topic of discussion, particularly with respect to oversight of quasi-independent institutions. This undoubtedly stems from widespread acknowledgement that local government will have to do more with less.

The discussion becomes focused during budget deliberations, but most budgets are in the form of line items that are not strictly tied by performance measures to the achievement of program objectives and overall goals. Consequently, fruitful areas for technical assistance are the clarification of goals, the identification of practical efficiency and effectiveness indicators, their relation to revenue and expense targets, and their use in program monitoring and evaluation.

Responsiveness to citizens

Political leaders go to great lengths to be responsive to the concerns of individual citizens. They also want to document their responsiveness.

There are many examples of how these two tendencies play out, but undoubtedly most telling is the practice in my referent city of holding private receptions for citizens from 8:00 am to 6:00 pm on four Wednesdays each month. The Mayor, Chief Administrator and the two Deputy Mayors take turns hosting the receptions. Petitioners are logged in, get a private audience, the listener immediately records his findings and suggestions, these are transcribed and serve as guidance to city staff for follow-up, and a written report is eventually mailed to the petitioner about action taken on his behalf.

This process transforms 5 percent of each leader's monthly work schedule into a citizen service bureau and creates a fantastic paper trail. Use of their time for this purpose is problematic partly because many of the petitions would appropriately have been made at a lower governmental level (e.g. pleas for priority listing for available public housing). What's more, this practice supplements similar open houses held regularly by line agencies.

On the other hand, the practice is an exemplary way for leaders to keep in touch with the public, it is sensitive to historic belief that you must go to the priest, teacher, physician or Mayor in the community to get definitive action, and it acts as an internal audit on the administrative machinery of government. Above all, it humanizes the relationship between public servant and the public.

Political posturing

This list could easily continue, but let us end it with a national upheaval that has profound local implications, namely, political realignment. This is a roiling issue and will undoubtedly remain so.

I have previously alluded to the dynamic between the dominant central government majority, led by the MDF, and generally contrasting local majorities, led by the SzDSz and FIDESZ. The tension of this dynamic was heightened in September by exclusionary, ethnic and xenophobic comments from a Vice President of the MDF party; comments that were only partially disavowed by that party's leader, who also serves as the nation's Prime Minister.

These events may eventually lead to a split in the MDF, a realignment of the national majority coalition in Parliament, and the ascendancy of political parties more closely allied with local majorities. Then again, it may lead to a less middle-of-the-road and more conservative majority in Parliament by the 1994 elections. In either case, political posturing is very much underway at all governmental levels and there is unceasing jockeying to present a favorable profile to the electorate. As one would expect, this posturing frequently leads to gridlock in reaching policy and operational compromises.

A WORD TO WOULD-BE ADVISERS

Some considerations about Hungarians

At the risk of appearing trite, allow me to point out a few defining characteristics of Hungarians.

> Hungarian students recently scored first or among the top three of all nations on Student Aptitude Tests in geography, science and mathematics. United States students ranked down in the pack.
>
> At one point, four of five United States Atomic Energy Commission board members had Hungarian ancestry -- and rumor has it that they conducted sessions in Hungarian during absences of the fifth member!

Hungarian "goulash" economics mixed state monopolies with independent small businesses in commerce and agriculture for two decades. Indeed, it served as the model for Gorbachev's early transformation of the Soviet economy and society.

Hungarian politicians and public administrators, supported by the public at large, engineered a peaceful transition in 1988-89 to an open society with skill, bravado and effectiveness; no small feat at a time when others tried to achieve similar results with either chaos and guns, or through national dismemberment.

In brief, this is a western nation with a highly educated work force and the bad luck to have been excluded from western Europe after World War II.

A few corollaries

Their collective determination to arrive at practical solutions for the nation is only surpassed by their individual ingenuity for survival in adverse circumstances. Employed workers who anticipate unemployment develop skills to take on a second job; unemployed workers scramble to establish themselves in the so-called second and third economies (the ones that do such a good job of evading taxes that it is estimated a quarter of potential personal income tax revenues are missing from national coffers); and new small businesses and joint ventures appear like mushrooms after the first fall rain.

Unlike their ex-Warsaw Pact allies, they have not asked forgiveness of their national debt, yet have consistently met repayment schedules in spite of their nearly $20 billion debt, which is the highest per capita burden of any of the former Soviet satellites. At the same time, they have about $12 billion in bank accounts; much of which is sitting there because of high interest rates (tied loosely to the high, but decreasing, inflation rate) and because of uncertainty about alternate secure investment opportunities.

And quixotically, though this is clearly a time of opportunity for many, it is a time of despair for others, particularly the elderly on fixed pensions.

A word to the wise

These, then, are some of the flavors, emotions and characteristics of Hungarian cities and their people.

They are a hardy, intelligent and purposeful people -- and would-be advisers would do well to tread carefully when dealing with them.

True, they are eager to adapt, without losing their identity, and are fast to learn, without aping ideas presented to them, but they are also a bit disoriented and frightened by the pace of change which they have to internalize and accommodate.

Also true, their local governments have made great strides since the election two years ago -- but it would be a mistake to think that they started from ground zero. In fact, they have a long history of municipal administration. Only their relative freedom and their new public mandate distinguishes them from the past. Yet it is this same freedom that brings on new anxieties!

It's a wonderful place to be for someone who cares about these people. It's even more delightful and you can be even more effective if you need no interpreter. After all, if the three basic rules of real estate are "location, location and location", it is not far off the mark to argue that the three basic rules of being more than a hamstrung adviser are "language, language and language".

If you do have the chance to work with them, don't forget that they are not looking for handouts, but a hand; or, as told to me innumerable times, they don't ask to be given fish, but to be shown how to catch them.

ATTACHMENT 1

CITY OF SZEKESFEHERVAR
VAROSGONDNOKSAG AGENCY

PROGRAM: ANIMAL CONTROL

SERVICES: Lets contracts to a) collect stray/wandering dogs and collect dead animals from the street, and b) organizes and provides for the annual vaccination of pets owned by the citizens of Szekesfehervar.

PURPOSE: To prevent animals unattended animals from presenting health and safety and safety concerns to city inhabitants, to prevent the health danger to animals and citizens presented by animal diseases.

GOALS: Maintain the streets free from wandering dogs and dead animals and ensure that all dogs are vaccinated to eliminate major diseases.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of wandering dogs picked up:		
Number of dead animals removed from the streets:		
Number of animal inoculations given		

AGENCY STAFF POSITIONS:

All work performed by contract.

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended
Collection of Animals			
Vaccinations			
TOTAL		1.700	
REVENUES			
Vaccinations		.174	
City Contribution		1.526	
TOTAL		1.700	

1993 BUDGET HIGHLIGHTS:

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1993 GOALS AND OBJECTIVES:

1992 ACCOMPLISHMENTS

PROGRAM: TOWN ROAD AND BRIDGE MAINTENANCE

SERVICES:

ROAD/SIDEWALK MAINTENANCE: Repair of holes and hazards in town streets and sidewalk pavements, apply gravel to non-paved roads, and spray a substance on roads to make roads dust free and waterproof. Maintains bridges by painting railings and maintaining earthen bridges.

ROAD OPERATIONS: Applies striping to roads, maintains traffic signals and lights, repairs and replaces signs.

TRAFFIC PLANNING: Plans for the City's road system by conducting traffic counts, plans for traffic light/signals and signs, and reviews traffic accidents on city roads and bridges.

ROAD USE LICENSES: Issues permits to use or alter road/sidewalk right-of-ways, monitors work and inspects to determine if license requirements were complied with.

PURPOSES/GOALS:

Road Maintenance: To protect the City's 270 Km.road assets, to make driving more efficient and comfortable, to make walking less hazardous.

ROAD OPERATIONS: To ensure the safe use of city roads and sidewalks

TRAFFIC PLANNING: To ensure the safe and efficient use of City roads and sidewalk network.

ROAD USE LICENSES: To protect the City's road/sidewalk assets by ensuring compliance with licensing requirements, to minimize the hazard and inconvenience to the public during licensed work.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
ROAD MAINTENANCE:		
Number of square meters of road surface patching applied		

Number of cubic meters of gravel applied

PERFORMANCE INDICATORS Cont.: 1992 est. 1993 est.

Number of km. of surface sprayed with waterproofing materials

Number of bridges repainted (gallons of paint applied?)

Number of complaints responded to.

ROAD OPERATIONS:

Number of signals maintained

Number of km. of road restriped

Number of signs repaired

Number of new signs installed

Number of complaints responded to.

TRAFFIC PLANNING:

Number of traffic studies

Number of accidents reviewed

Number of complaints responded to.

ROAD USE LICENSES:

Number of licenses issued.

Number of complaints investigated.

AGENCY STAFF POSITIONS:

Road Maintenance: positions and contracts for services.

Road Operations: positions and contracts for services.

Traffic Planning: positions.

Road Use Licenses: positions

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended
Maintenance			
Roads			
Sidewalks			
Bridges			
Sub total			
Operations			
Traffic Planning			
Road Use Licenses			

REVENUES

Work costs reimbursed	50
Value added tax (expenditure offset)	11.95
Carry over from prior year fund balance	10.30
City contribution	95.353
Total	117.653

1993 BUDGET HIGHLIGHTS:

Road Maintenance

Road Operations

Traffic Planning

Road Use Licensing

1993 GOALS AND OBJECTIVES:

Road Maintenance

Road Operations

Traffic Planning

Road Use Licensing

1992 ACCOMPLISHMENTS:

Road Maintenance

Road Operations

Traffic Planning

Road Use Licensing

PROGRAM: INDOOR SWIMMING POOL

SERVICES: Lets contracts to operate and maintain the City's indoor swimming pool.

PURPOSE: To provide City residents and other users with the opportunity for year-around aquatic recreation opportunities.

GOALS: To enhance the leisure time and recreational opportunities for citizens of the City, to increase the number of citizens who know how to swim, to operate the pool to insure user safety and to operate the pool efficiently.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of paid admissions		
Number of contract hour use of pool:		
Number persons taught to swim		
% Fees collections of costs		

AGENCY STAFF POSITIONS:

All work performed by contract.

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended
Indoor Pool			
TOTAL			47.352
REVENUES			
Fees from paid admissions			5.000
Rental fees			2.750
Value added tax (offset to expenditures)			1.286
City Fund Balance (carry-over)			1.352

City Contribution	36.964
TOTALS	47.352

1993 BUDGET HIGHLIGHTS:

1993 GOALS AND OBJECTIVES:

1992 ACCOMPLISHMENTS:

PROGRAM: SURFACE WATER MANAGEMENT

SERVICES: Lets contracts to clean out plant growth and removes sludge from open surface water drainage ditches, develops new drainage systems and does improvements to increase flow capacity of existing systems.

PURPOSE: To remove water run-off and lead it away from City and private assets.

GOALS: To maintain and improve current surface water drainage systems to minimize the damage to public and private property, to ensure new development does not interfere with natural drainage systems and has adequately prepared for dealing with surface water drainage.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number km. drainage ditches cleaned of plant growth and other obstructions		
Number of km ditches cleaned of sludge		
Number of meters of ditches improved in capacity		
Number of new building projects reviewed for surface water management concerns		

AGENCY STAFF POSITIONS:

One staff position, rest performed by contract.

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended

Routine ditch cleaning

Sludge Removal

Improvements

Program Administration

TOTAL

BUDGET INFORMATION CONT.
(Millions)

REVENUES	1991 Actuals	1992 Budgeted	1993 Recommended
Sale of products(?)		.700	
Value added tax (offset by expenditures)		4.000	
City Fund Balance (carry-over)		4.000	
City Contribution		27.000	
TOTALS		35.700	

1993 BUDGET HIGHLIGHTS:

1993 GOALS AND OBJECTIVES:

1992 ACCOMPLISHMENTS:

PROGRAM: PUBLIC AREA CLEANLINESS

SERVICES: Contracts to clean public green areas, sidewalks and roads in heavily used areas of the City.

PURPOSE: To keep City streets, sidewalks and open spaces free of dirt and litter.

GOALS: To maintain a clean public area environment that does not distract from the beauty of the City, to provide street sweeping jobs for citizens in need of work.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of km of street cleaned by machine		
Number of hours of streetsweepers		

Number of waste containers maintained

Number of complaints

AGENCY STAFF POSITIONS:

One-half staff position, rest performed by contract.

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended
Machine sweeping			
Other cleaning			
Garbage disposal costs			
All other costs			
TOTAL			33.000
REVENUES			
Value added tax (offset by expenditures)			.200
City Contribution			32.800
TOTALS			33.000

1993 BUDGET HIGHLIGHTS:

1993 GOALS AND OBJECTIVES:

1992 ACCOMPLISHMENTS:

PROGRAM: TOWN CLEANLINESS ENFORCEMENT

SERVICES: Contracts to enforce laws related to litter, illegal dumping of garbage on City property.

PURPOSE: To keep City streets, sidewalks and open spaces free of dirt and litter.

GOALS: To maintain a clean environment for citizens in residential areas of the City of work. To decrease the 5.0 million fl annual costs to the City for removing garbage illegally dumped within the City.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of tickets written		
Number of complaints		
Costs of removing garbage from City property		

AGENCY STAFF POSITIONS:

Work done by contract.

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended
Residential area public cleanliness			

REVENUES

Fines	.150
City Contribution	.177
TOTALS	.327

1993 BUDGET HIGHLIGHTS:

1993 GOALS AND OBJECTIVES:

1992 ACCOMPLISHMENTS:

PROGRAM: PARK MAINTENANCE

SERVICES: Contracts to maintain public park and plantings in the City. Maintenance services include mowing of grass in parks, building estates and along roads, maintaining and watering flowers and plantings, treating trees and collecting leaves and twigs from trees.

PURPOSE: To provide all city residents and visitors with attractive, well maintained park facilities and building estates to enhance their enjoyment and recreational use of these areas. To enhance the beauty of the City with plants and flowers and keep these areas clean from plant litter and keep tall grass mowed along the sides of roads.

GOALS: To increase the public use and enjoyment of park areas,

to maintains plants and seasonal plantings in a healthy condition for the enjoyment of city residents and visitors.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of hectares of grass mowed during growing season once every two weeks		
Number of hectares of grass mowed less frequently		
Number of sq. meters of flower/plant high maintenance planting areas.		
Number of hectares of park area cleaned of trash		
Number of Complaints		

AGENCY STAFF POSITIONS:

One staff position, rest performed by contract.

BUDGET INFORMATION
(Millions)

EXPENDITURES	1991 Actuals	1992 Budgeted	1993 Recommended
Park Maintenance			
REVENUES			
Sale of Products		.080	
Value added taxes (offset by expenditures)		.100	
City Fund Balance (carry-over)		.200	
City Contribution		44.820	
TOTALS		45.200	

1993 BUDGET HIGHLIGHTS

1993 GOALS AND OBJECTIVES:

1992 ACCOMPLISHMENTS:

NOTE: The following program pages were prepared to indicate suggested statement of services, purpose, goal and performance measures. Rather than listing recommended components of the budget to display to the Council, I have made a narrative recommendation.

PROGRAM: CEMETERY MAINTENANCE

SERVICES: Contracts to maintain public park and plantings in the City.

PURPOSE: To provide city residents and visitors with attractive, well maintained park facilities to enhance their enjoyment of city parks, to enhance the beauty of the City with plants and flowers and keep these areas clean from litter.

GOALS: To increase the public use and enjoyment of park areas, to maintains plants and seasonal plantings in a healthy condition for the enjoyment of city residents and visitors.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of hectares of grass mowed during growing season		
Number of sq. meters of flower/plant high maintenance planting areas.		
Number of hectares of park area cleaned of trash		
Number of Complaints		

OTHER COMMENTS

You might consider displaying cemetery costs by new and old cemetery categories.

I believe the staffing is 1/2 position with other work done by contracts.

PROGRAM: PUBLIC LIGHTING

SERVICES: Contracts for street illumination.

PURPOSE: To improve the safety to motorists and pedestrians during the night.

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GOALS: To maintain the City lighting polls so that any light failure is quickly repaired and to reduce energy use and costs with more efficient equipment.

PERFORMANCE INDICATORS:

Number of KW hours annually
used for City illumination

Number of City light poles

Number of light poles made
more cost effective

Number of KW hours/costs
of illuminating public monuments

Average cost/kw hour

Number of Complaints

OTHER COMMENTS

I would suggest that the budget separately identify basic electrical costs and any other program costs. I believe that there is one staff position to manage this program.

PROGRAM: PUBLIC MARKET FINANCIAL MANAGEMENT SUPPORT

SERVICES: The Varosgondnoksag pays all operating expenses and maintains all accounting records of the Public Market.

PURPOSE: To handle bill paying and all other accounting services for the public market staff so that they do not have to hire staff for these purposes.

GOALS: To ensure bills are paid for goods and services delivered, to pay bills within eight working days, to accurately prepare payroll and tax information and ensure that all payments are in compliance with technical rules.

PERFORMANCE INDICATORS:

Number of invoices paid
(annually)

Number of payroll checks'
issues (annually)

PROGRAM: GENERAL CITY MAINTENANCE

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SERVICES: Contracts to clean other public areas of the City such as the bus station and bus stops, public bathrooms, public monuments and other larger public areas such as squares.

PURPOSE: To keep the City's public areas clean and free of dirt and litter.

GOALS: To maintain a clean and sanitary public area environment to not distract from the beauty of the City.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of public bathrooms maintained		
Number of waste containers maintained		
Number of complaints		

OTHER COMMENTS

You should discuss possibly breaking out budget by areas or types of services. There also may be other performance indicators that would be more meaningful.

PROGRAM: MOSQUITO/BUG ABATEMENT

SERVICES: Contracts to spray city with chemicals to kill mosquitos and other insects.

PURPOSE: To control quantity of insects in the City.

GOALS: To reduce the nuisance and public health hazard of insects to citizens of the City.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of times sprayed from aircraft.		
Number of hours of hand spraying		
Number of complaints		
Incidence of mosquito born disease for City residents (from County Health Department)		

OTHER COMMENT

May want to identify air spraying and hand spraying programs separately.

PROGRAM: PUBLIC SCHOOL CLEANLINESS

COMMENTS -- I FORGOT TO ASK ABOUT THIS PROGRAM SO I CAN NOT DRAFT A SUMMARY.

PROGRAM: MAINTENANCE OF AGENCY FACILITIES

SERVICES: Carries out maintenance work to City facilities such as the sports field and skating rink facilities. Also contracts our services to other agencies. There are eight workers in this program who provide electrical, locksmith, carpentry, welding, painting, bricklaying and general maintenance services.

PURPOSE: To handle building maintenance and minor improvement needs of this agency.

GOALS: To maintain the quality of current facilities and improve the condition and use of agency facilities.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of worker hours charged to improvements		
Number of worker hours charged to maintenance of different facilities (list major facilities)		
Number of hours charged to other agency/revenue collection		

OTHER COMMENTS
May want to incorporate this budget into the cost of running the skating rink and sports field.

PROGRAM: OPERATION OF SPORTS FACILITIES

SERVICES: Operate the City's indoor ice skating rink and its large sports park, develops plans for the operation of these facilities and manages improvements at these facilities. Maintains these facilities with part time and staff identified in the Maintenance of Spray Facilities program.

PURPOSE: To provide City residents and visitors with the opportunity for year-around recreation opportunities.

GOALS: To enhance the leisure time and recreational opportunities for citizens of and visitors to the City, to operate these facilities in an efficient manner at the least possible burden to City finances.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of paid admissions to ice rink facility		
Number of contract hours use of ice rink		
% Fees collections of costs		
Number of campers		

COMMENTS:

I would suggest that the budget and revenue sections of the budget page separately identify costs for the Ice Rink and the Sports Park.

PROGRAM: FINANCIAL MANAGEMENT OF THE AGENCY

SERVICES: Responsible for carrying out all financial management activities which include keeping records of all service contracts and making payments on all contracts, paying appropriate taxes, maintaining control of inventory, payment of all payroll and posting all payment information. Services also include maintaining an agency bank account, exercising financial control of the budget for the agency and coordinating the preparation of all budget requests and financial reports.

PURPOSE: To handle all financial and accounting functions for the agency.

GOALS: To ensure that expenditure control is maintained over budgets, to pay all approved contract payments within eight days of receipt of invoices, to maintain accurate expenditure and revenue information and ensure that all financial transactions comply with appropriate rules.

PERFORMANCE INDICATORS:	1992 est.	1993 est.
Number of agency contracts		
Number of invoiced payments processed		

Per cent of non-City contribution
revenue estimates collected

PROGRAM: IMPROVEMENTS TO RESIDENTIAL SITES - COUNCIL ALLOCATION

SERVICES: This program provides an allocation to each Council District to finance improvements of fund services within the twenty regional Council districts that are not financed in other City budgets.

PURPOSE: To provide funding for high priority projects requested by citizens within each Council District.

COMMENTS: This program should probably be treated differently. Perhaps a summary of improvements by type of improvements and a summary of contributions for social programs could be prepared but it is my understanding that these funds are distributed on the basis of each Council persons desires.

September 18, 1992

To: Kathryn I. Fleischer, Multinational Strategies, Inc.

Fr: Jim Anshutz

Re: Financial Information - City of Szekesfehervar, Hungary

The following discusses the information was prepared for Multinational Strategies, Inc. to support your work to in reviewing financial options for financing local water and sewer capital improvements. The information regarding the City's budget was obtained from work done for DRT in the general context of assisting the City in budgeting.

This report covers those items we agreed I would obtain. I have prepared 1) a description of the process and information supplied by the City in the issuance of bonds for their swimming pool with a citation of Hungarian law governing the issuing of bonds 2) a schedule of current outstanding City debt, 3) a summary of 1989-1991 actual city expenditures and revenues and a brief description of revenue and expenditure highlights, 4) a brief recap of City fiancial practices and policies and 5) the name and title of my primary contact used to obtain this information.

1. City's Experience with Bond Financing

I met with Felhosi Gaborne, Director of the City's Budget Office (Kozgazdasagi osztalyvezeto) to discuss the City's experience in using bonds as a partial source in constructing the City's 312 million fl swimming pool completed in 1990.

The City obtained 100 million in bond funds to finance the project after securing 31 million fl in a local drive which sold 50 fl tickets to use the facility, 100 million in donated materials/components by private sector companies. The balance of 81 million fl was contributed by the City's budget.

Summary Bond Process

The issuance of bonds is governed by law (28/1982 - in Hungarian - 1982, evi 28. tvr. "A Kotvenyrol" - oldal 1302). I gave a copy of the law and a copy of the Szekesfehervar bond mock-up (which contains information required by law for Hungarian bonds) to Don Fuller for delivery to you. If you did not receive it, you can obtain another copy from the City's Budget Director.

Briefly, as explained by the Budget Director, the Ministry of Finance manages the process and apparently guarantees bond repayment. The process involves completing a formal application to the Ministry of Finance. The application requires a

description of the project, estimated component costs, the need for the project, a projection of City revenues and costs with and without project bond redemption payments (to show the ability to finance the project).

The City contracted with the OTP to sell the bonds and handle the mechanics of bond redemption administration.

The City also prepared material identifying who would issue the bonds, who would sell the bonds, objectives of the bond, who will design the building, who will serve as general contractor with subcontractors also identified, the start and completion dates for the project and total planned costs of construction.

The Ministry of Finance had some objections to the project given its purpose but approved the City's request (the strong local support as evidenced by the citizens purchase of 31 million fl in use tickets- good for the first year of operation only) was undoubtedly a factor. The City issued 100 million in bonds maturing over a 7 year period and carrying an 11% interest rate (bond interest rate at time of issuance).

The Bank (OTP) required the City Council to agree to establish a separate account to manage bond redemption/interest payments and the City established a separate account with a local branch office.

The City negotiated a contract with OTP to sell and handle the mechanics of bond redemption.

One-Thousand 50,000 fl bonds and five-thousand 1,000 fl bonds were issued. The bonds were bought by private citizens/concerns. The bank asked that one-third be sold in the local area with two-thirds sold at branches of OTP in different areas of the County. Within one year, all bonds were sold.

The City had to make an annual detailed technical report to the OTP on the progress of construction during construction. The facility opened on schedule in 1990.

The City also made an application for qualification of the bonds as a public purpose per Hungarian Tax Law 38/1978(XI 22) PM Szamu rendelet. This tax provision enables purchase costs of the bonds to be deducted from taxable income. The Budget Director checked the law and believes it is still current.

2. Schedule of outstanding Debt

The City has used debt financing in the past and currently has three outstanding debts which at 6/31/92 totaled 194.298 million fl. This represents approximately 4.1% of the City's 1992 adopted budget of 4.698 billion fl and approximately 5.% of the

non-one time revenues supporting the adopted budget.

The outstanding debt payment schedule in millions of fl is as follows (principle payments only):

	Sewer pipe-line Loan	Housing mortgage Loan	Swimming Pool Bonds
1993	7.5	15.369	25.0
1994	7.5	15.369	25.0
1995	7.5	15.369	-0-
1996		15.369	
1997		15.369	
1998		13.869	
1999		11.775	
2000		9.475	
2001		6.851	
2002		2.883	
Total	22.5	121.698	50.0

Description - Debt

The City owes a balance of 22.5 million fl for 55 million fl loan made in 1989 for a sewer main pipe-line project. Interest payments, which are not included in the above, are currently approximately 26%/annum of the outstanding loan principal balance.

The City owes a total of 121.698 million to the National Government for loans made to local governments to enable local citizens to purchase their housing. Since 1980, the City has received a total of 149.484 million fl. from the OTP to subsidize the purchase of houses. The program loaned the money to the City at a 3% interest rate at its inception and current debt carries a fixed 7.35% interest which is not included in the above table.

The City owes 50 million fl for the retirement of Swimming Pool facility bonds discussed above. These bonds issued in 1987 carry a 11% per annum interest rate and the above schedule does not include interest payment requirements.

The City has an established practice of retiring debt.

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Attachment 1 is a list of debt current at 12/31/90.
Attachment 2 is a list of debt current at 12/31/89.
The City has made its debt payments and has retired per schedule, infrastructure development loans as noted in attachments 1 & 2.

3. Historic Revenue/Expenditure Trends

The following table summarizes City actual revenues and expenditures over the period of 1989-1991 and the 1992 adopted City budget.

	1989	1990	1991	1992 Adopted Budget
INCOME	[1]	2	3	4
Local Revenues	771.106	912.483	1,672.253	1,626.701
Nat. Sources				
Personal Income Tax	923.115	1,066.056	700.003	932.666
Car taxes				10.500

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[1] Includes one-time revenue of 161.595 m fl. comprised of $25.4 m fl in special project assistance and 136.195 in fund balance to finance carryover, uncompleted capital improvement project expenditures.

2. Includes 242.382 m fl. in one-time revenues. These are comprised of 47.659 m fl from the sale of City owned flats, 53.976 m fl from the sale of City owned land and 140.747 m. fl. from fund balance to finance carry-over, uncompleted capital improvement project expenditures.

3. Includes 831.739 m. fl. in one time revenues. These are comprised of 416.619 from the sale of flats, 4.960 m fl from the sale of parcels and 410.200 m fl. in the fund balance to finance uncompleted capital improvement project expenditures.

4. Includes 1,008.485 billion fl in one-time revenues comprised of 797.073 m fl in fund balance to support carry- over uncompleted capital improvement projects, 120 m fl from the sale of flats formerly used by Soviet army officers and an estimated 91.412 from the sale of flats.

5. Reflects decrease caused by significant drop in employment.

Normative Aide	658.104	1,211.708	1,874.799	2,112.489
other govt. aide			185.159	16.400
sub total national	1,581.219	2,277.764	2,059.958	3,072.055
TOTAL INCOME	2,352.325	3,190.247	4,432.214	4,698.756
EXPENDITURES				
Operating Expenses	1,420.570	1,895,153	2,615.316	3,623.888
Subsidies to Public Companies	125.148	138.500	68.427	-0-
Tax Payments	27.091			
Improvements to Facilities (capital improvements)	661.526	789.418	770.324	1.074.868
TOTAL EXPENDITURES	2,207.244	2,823.071	3,645.889	4.698.756

1. Includes 161.595 m fl in one-time revenues (136.195 m in fund balance to support capital improvement projects carried over from prior year and 25.4 m in special project revenues).

2. Includes 243.382 m fl in non-recurring revenues (140.747 m in fund balance to support capital improvement projects carried over from prior year, 47.659 m from the sale of flats and 53.976 m from the sale of City owned land).

3. Includes 831.739 m fl in one-time revenues (410.200 in fund balance to support capital improvement projects carried over in budget from prior year, 416.619 m from the sale of flats and 4.920 from the sale of city owned land).

4. Includes 1,008.485 billion fl in non-recurring revenues (797.073 in fund balance to support capital improvement projects carried over in the budget from prior year, 120.0 from the sale of flats used by the Soviet Army and 91.412 from the sale of flats).

The 1992 City Budget anticipates the receipt of approximately 3.073 m fl or 65% of their annual total budget from the National Government. National sources are primarily comprised of the

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return of 50% of personal income tax payments made by citizens of the City two years previously and "normative" assistance. Normative assistance revenues are allocated on both a per capital basis for general City government costs and on the basis of various formulas based upon specific program populations (separate formulas for kindergarten, elementary schools, middle schools, vocational schools, secondary schools, allocation for support of the poor, elderly and cultural , theater programs. While the law does not earmark normative revenues to support these specific programs, the needs in these areas usually exceed normative funding.

Of the City's 3.624 Billion fl operating budget, approximately 52% is allocated to support schools. Approximately 7.1% is allocated for public assistance like programs for the poorer population (low income retired persons, allowances for poor families), 7% for roads, parks, public area maintenance. The balance is allocated for the other general costs of operating city government expenses such as building maintenance, operation of central city functions. (The latter category includes 19.981 million fl for the City's TV costs, presumably cable TV).

4. City Financial Practices/Policies

The City has established a practice of identifying one-time revenue sources to finance improvement budgets. In addition they have recently passed ordinances earmarking receipts from the sale of public housing to be used for housing purposes. They have also earmarked revenue received from the sale of their property to be used solely for investments promoting economic development in the City.

The City maintains only one fund for all City operations. They have a balance of $680 million fl at 12/31/91 that they have invested and is an important revenue source in 1992. In addition the City recognizes carry over balances in their annual budget to support uncompleted capital improvement projects that are part of their annual improvement budgets.

In the four years reviewed, the Capital Improvement budgets have been roughly equivalent to the revenue received from one time sources. The actuals program expenses would indicate that they have not used one time revenues to support on-going operational costs.

The transition in government has obviously presented difficulties to the City and the local economy. Personal income tax revenue received from the national government (based on 50% of the two-years prior payments) has dropped in real terms since 1989 (one very large local employer went out of business with the transition in government).

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It is very difficult to forecast future budgets, financial difficulties with any precision given the heavy reliance on nation revenue sources. The Budget Director expects that the personal income distribution will be reduced to 30% of the amount received from City residents in 1991 versus the historic rate of 50%. It is expected that this could have a 400 Million fl impact on the City's revenues. The Budget Director also expects that this decrease will be offset by some increases in normative assistance, especially for programs to support increase social service needs.

5. Conclusion

The City has established and followed conservative financial policies that has displayed their ability to manage their budget well within available resources. Their outstanding debt is very low and they have an established practice of debt repayment.

If you need any additional information, copies of other City budgets, other financial reports or have the need to clarify or follow up on information contained in this report, please contact Felhosi Gaborne, City Budget Director. Her telephone number is [redacted] her address is

Felhosi Gaborne
8000 Szekesfehervar,
Varoshaz ter 1
Rahoi u. 6., Hungary

I would also suggest that you may want to have this memo translated and reviewed by Felhosi Gaborne.

Thank you for the opportunity to work on this project and feel free to call me to discuss any items in this report. Again, my work number is [redacted] and my home phone number is [redacted].

Attachments

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1990 - 1991 ATTACHMENT I

List of am

18. sz. melléklet

Hiteltörlesztés és kamat

ezer Ft-ban

	Megnevezés	Felvett hitel időpont	összeg	1990.XII. 31-én hiteltart.	1991.évi teljesítés törlesztés	kamat	Hiteltartozás 1991. XII.31.	Kamat %
3	Szennyvíztisztító telep építés	1989	55.000	47.500	17.500	11.860	30.000	36
4	Palotaváros elő-közművesítés	1986	20.000	4.000	4.000	835	-	
5	Uszodaépítésre kiadott kötvény	1987 1988	40.000 60.000	100.000	25.000	8.250	75.000	11
6	Lakástámogatás	1985	15.000	10.500	1.500	281	9.000	3
		1986	20.940	16.752	2.094	455	14.658	3
		1987	23.000	20.700	2.300	569	18.400	3
		1988	26.244	26.244	2.627	727	23.617	3
		1989	39.713	39.713	-	4.121	39.713	9,6
		1990	28.828	28.828	-	2.264	28.828	9,6
7	Palotaváros közművesítés	1990	10.000	10.000	10.000	717	-	
8	Összesen:		338.725	304.237	65.021	30.079	239.216	

ATTACHMENT 2

Hesteria Bond Retention Schedule

Sopron — 1985-1990 Plan

1 TIGELTÖRLESSZES [illegible] KAMAT

12.sz.melléklet

Adatok: ezer Ft.

11	2 Hitel megnev.	3 Felvett hitel időpontja	4 összege	5 1989.december 31-ig tűrl.	6	7 1990. évi kamat	8 Hitel tart.	9 Kamat %	10 Hit lej.
12	[illegible] szennyvíztisztító [illegible] Sopron Kft. =	1981.	40.000	11.520	[illegible]	22	-	11	1990
		1982.	55.000	-	[illegible]	[illegible]			
13	[illegible] Sopron [illegible] Városüzemeltetési [illegible]	1986.	20.000	2.500	2.500	1.250	11.5%	11	1990
		1990.	10.000	-	4.000	380	4.000	11	1991
14	Öregheqyi szennyvíztisztító telep építésére	1987.	20.000	12.000	-	1.353	10.000	11	1991
15	Uszoda építésére	1987.	20.000	-	8.000	210	-	11	1990
	Kiadott kötvény	1989.	60.000.-		-	89.év.kamat 11.000			
16	[illegible] építésére	1985.	[illegible]			90.é.kamat 11.000			
		1986.	[illegible]		[illegible]	[illegible]			
		1987.	23.000	-	[illegible]	[illegible]			
		1988.	26.000	-	2.500	[illegible]			
		1989.	20.000	-	-	787	26.[illegible]		2000.
		1990.	[illegible].300	-	-	1.876	20.000	7.35	2001.
17	Fekeshegy te-	1989.	2.96[illegible]	-	-	1.000	24.300	7.35	2002.
18	[illegible] lakitásokra	1990.	23.026		26.000	2.111	-	[illegible]	[illegible]
19	1989-ben:		20.[illegible]						
	= A szennyvíztisztító telep beruházásához felvett hitelösszegből 50 millió [illegible]				[illegible]	3.026	299.999		
	- Im.Vízművek törlesztő részletei 1 évvel.t.								

11. Same headings as attachment 1
12. Sewer project described in text
13. Public facility project described in attachment 1
14. Sewer construction project in the OREGHEGYI area of the city
15. Swimming pool project described in text
16. Housing described in text
17. Infrastructure project in the FEKETEHEGYI Area of the city

Multinational Strategies, Inc.

Report on the Budget of

SZEKESFEHERVAR, HUNGARY

September 1992

Prepared By: Multinational Strategies, Inc.

67 Irving Place, 8th floor, New York, New York 10003-2296 telephone: (212) 674-2677 facsimile: (212) 533-7449

The following report was prepared to support work in reviewing financial options for financing local water and sewer capital improvements for the City of Szekesfehervar, Hungary. It overviews the current financial status of the municipality, and then addresses the city's ability to use debt for financing capital improvement projects. While the focus of certain sections of the paper is upon the use of bonds, it reflects, in general, the overall capacity of the city to take on debt to fund projects. As a point of reference, some comparisons to budgeting policies in the United States are made.

The report includes:

I. **DISCUSSION OF THE CITY BUDGET**
Summary of 1989-1991 actual city expenditures and revenues and a brief description of the city's expenditure and revenue highlights

II. **CURRENT CITY DEBT**

III. **BOND ISSUANCE**
Description of the process and information supplied by the City in the issuance of bonds for their swimming pool with a citation of Hungarian law governing the issuance of bonds

IV. **FINANCIAL PRACTICES AND POLICIES**
A brief recap of the current budget and cash balances, and a discussion of the city's financial management

V. **EXECUTIVE SUMMARY**

Table 1: Schedule of Outstanding Debt

Table 2: 1989-1992 Actual and 1993 Provisional Budget

Attachment 1: Outstanding Debt Schedule at 12/31/90

Attachment 2: Outstanding Debt Schedule at 12/31/89

I. DISCUSSION OF THE CITY BUDGET

Szekesfehervar's budget is highly dependent upon the National government for income sources. Of the city's operating budget, approximately 85% of the resources are from National sources. The two primary national income sources are personal income taxes and normative assistance.

The city receives 50% of the personal income taxes paid by residents of the city two years previously. As is indicated by the data in Table 2, the personal income tax revenue has actually decreased since the 1990 collection. This reflects the drop in employment due to restructuring of the economy. Furthermore, it is believed that the National government may reduce the percentage return of personal income taxes from the previous 50% formula to 30% for 1993. It is estimated that this will mean the loss of approximately 500 million HUF to the City's 1993 budget. While it is expected that the reduction will be offset by increases in normative funding, this will not make up all the difference.

The "normative" assistance that is received by the municipality, historically meant to finance specific programs, is allocated to the city on various per capita formulas. The city receives a general per capita allocation on the basis of its population, and receives other allocations based upon specific target populations (e.g., pre-school, kindergarten, other school populations, allocations for support of the poor, elderly citizens, and total per capital allocations for support of cultural programs, etc.).

Local city income from operations (which include fees and fines, for example) grew from approximately 610 million HUF in 1989 to 841 million HUF in 1991. However, capital improvement programs over the same time period have been financed by other sources, such as the sale of city assets. Although the city currently has many more assets that it would like to sell, it is not known how quickly or profitably they can be turned over.

The city's largest service function is the school system. Of the 3.624 billion HUF 1992 Adopted Operating Budget, approximately 52% is allocated to support public schools, 7.1% is allocated for public assistance programs for the poorer population (low income retired persons, allowances for poor families, etc.), and 7% is allocated for road, parks and public area maintenance. The balance of the budget is allocated for other general operating costs of the city government which include the cost of maintaining city buildings, the operation of city administration, contributions for art institutions, etc. Unlike American cities, Szekesfehervar does not have a police department, nor does it have the utility functions such as sewer and water.

The city's operating budget growth has largely increased as a result of the recent high inflation rate in the County. The city's Budget Director indicates inflation has been an annual rate of 20% over the period of 1989-1992.

II. CURRENT CITY DEBT

A. Schedule of Outstanding Debt

The City has used debt financing in the past and currently has three outstanding debts which at 6/31/92 totaled 194.298 million HUF (principal amount only). Two of the three outstanding debt amounts represent loans. The City's swimming pool bonds are the only outstanding bond debt.

The attached schedule of Szekesfehervar's outstanding debt (Table 1), supplied by the budget office, reflects only the principal payments.

B. Discussion of Outstanding Debt

B.1 Sewer line project

In 1989 the City was asked to make an additional contribution for a sewer line project run by the County's water/sewer operation. The County apparently could not get a loan from the bank for the project and came to the City as a large user to make a contribution to the project. The city agreed to a 95 million HUF contribution to the project and borrowed the funds.

The City at 6/30/92 owes a balance of 22.5 million HUF for the project. The interest rate on the loan fluctuates with local rates; the current rate is 26%. Assuming that interest rates stay at 26%, and the City pays off the debt per the current schedule, the City's principal and interest debt associated with this loan as of 6/30/92 is approximately 36.360 million HUF. The City's Budget Director has indicated that the City may repay the entire loan principal balance at the beginning of next year.

B.2 Housing Mortgage Loan

As of 6/30/92, the city owes a total of 121.698 million HUF to the National Government for loans made to the City to enable local citizens to purchase their housing. The program involves local governments loaning the money to local public housing residents to purchase their flats; citizens are required to repay only the principal amounts. Since 1980 the city has received a total of 149.454 million HUF from the OTP to subsidize the purchase of houses. The program initially loaned the money to the City at a 3% interest rate. More recent loans carry a fixed 7.35% interest rate.

The City has implemented an aggressive program to have citizens pay off their remaining

balances. Recognizing the decreased value of future payments, the City has offered citizens a program to pay off their loans early at a reduced principal payment. Many citizens have taken advantage of the offer. The City invests the proceeds from these sales, thus earning returns considerably higher than the interest and principal costs for the program.

B.3 Swimming Pool Bonds

As of 6/30/92 Szekesfehervar owes 50 million HUF in principal for the retirement of the swimming pool bonds. The bonds, issued in 1987 and 1988, carry an 11% interest rate. It is estimated that the city's current principal and interest debt for the 50 million HUF is approximately 88.9 million HUF. (This assumes that interest and principal payments are made at the same time).

See Attachment 1 for a copy of a schedule of outstanding debt for the City at 12/31/90 and Attachment 2 for a similar schedule for 12/31/89.

C. Discussion Current Outstanding Debt

The outstanding debt that the City owes is quite low by U.S. standards. In the U.S., most local government public sector capital improvements are financed by the issuance of bonds that are approved by a public vote. The bond redemption principal and interest payments are then usually financed by a special property tax assessment on top of regular property tax levied to support local government. Hungarian local governments do not currently have this option as taxes on real/personal property are not levied.

In the U.S., there also exist mechanisms that enable local governments to issue bonds without the vote of the people. In these cases bond principal and interest costs are paid from existing property tax and other local revenue sources. For example, in Washington state law restricts bond debt that can be issued by the local government governing body without the approval of voters to 3/4 of one-percent of the jurisdiction's assessed valuation. Currently, approximately 4.65% of the property taxes collected to support King County, Washington government are used to repay bonds issued without the vote of the people. Expressed as a percent of the total County general fund budget this is approximately 2% of total revenues collected for the County's general fund. The City of Szekesfehervar's 1991 annual loan/debt repayment expenditure requirements represented less than 1.4% of the City's revenue collections.

III. BOND ISSUANCE

As has been discussed in earlier parts of the paper, the city has used bonds as a partial source of financing the construction of the city's 312 million HUF swimming pool. The

process used in issuing bonds for the pool is governed by Hungarian laws that are still in place.

The city obtained 100 million HUF from the sale of bonds to finance the swimming pool project after securing 31 million HUF from a local drive which sold tickets to use the facility (worth 50 million HUF), and 100 million HUF in donated materials/components from corporate sources. The balance of 81 million HUF was contributed by the City's budget. The bonds were issued in 1987 with the last bonds sold in 1988. The city completed the pool on schedule in 1990.

A. Process for Issuing Bonds

The process used to issue the swimming pool bonds is governed by Hungarian law (28/1982 - in Hungarian the cite is 1982, evi 28.tvr "A Kotvenyrol" oldal 1302). It is assumed that the city would follow the same process, described below, in issuing bonds for any future project.

The Ministry of Finance manages the process and apparently guarantees bond repayment. The process involved completing a formal application to the Ministry of Finance which included a description of the project, estimated component costs, a description of the need for the project, and information to show the ability of the City to finance bond repayment (the City had to show a projection of revenues and expenses with and without the swimming pool project).

The City also prepared material identifying who would issue the bonds, who would sell the bonds, the objectives of the project, who would design the building, who would serve as general contractor (with subcontractors also identified), the start and completion dates for the project, and total planned costs of construction.

The Ministry of Finance had some objections to the project given its purpose but approved it (undoubtedly influenced by the strong local support evidenced by the local citizens purchase of 31 million HUF in tickets to participate in a small scale lottery of which 1% of the funds raised constituted the prize).

The City contracted with the national bank (OTP) to sell the bonds and handle the mechanics of bond redemption administration. The City issued 100 million HUF bonds maturing over a seven-year period and carrying an 11% interest rate (bond interest rate at the time of issuance). In total one-thousand 50,000 HUF bonds and five-thousand 10,000 HUF bonds were issued. The bonds were bought by private citizens/concerns. The bank asked that one-third of the bonds be sold locally with two-thirds sold at branches of the OTP in different areas of the Country. Within a few months all of the bonds were sold.

During the construction of the pool the City was required to make an annual detailed technical report to the OTP on the progress of construction.

IV. FINANCIAL PRACTICES AND POLICIES

A. Historic City Revenue/Expenditure Trends

Table 2 summarizes Szekesfehervar's actual revenues and expenditures over the period 1989-1991 and the revenue estimates to support the 1992 city adopted budget. Note that one-time revenue available to the city was identified to isolate how the city chose to use these revenues. Good budgeting and financial management practices dictate that non-reoccurring revenues should not be used to support ongoing operating budget expenses.

B. Financial Management

The City has a history of conservative, prudent financial management policies.

As can be noted by examining Table 2, the City's operating budget expenditures have consistently been below on-going revenue source collections. The City's capital improvement budgets have been financed with both one-time and on-going revenue sources over the period of 1989-1992.

The City has established a practice of identifying one-time revenue sources to finance capital improvements. They recently passed ordinances which earmark receipts from the sale of public housing to be used solely for housing purposes. They have also earmarked revenue received from the sale of other city property to be used solely for investments promoting economic development in the city.

The city maintains only one fund for all operations. At year end 1992, Szekesfehervar had an unallocated reserve of 680 million HUF. This money was invested and is an important source of revenue to the city, providing a cushion against inflation, tax increases, etc. The 680 HUF million reserve is 14.5% of the 1992 adopted budget. In 1993 there will be a reserve of 200 million HUF, which will constitute about 4% of the 5 billion HUF budget. It is expected that this level of reserve will be carried on in the future. By way of comparison, many local governments in the U.S. attempt to retain balances of approximately 6 - 8% of their prior year revenue collections in surpluses to cushion the impact of downturns in the economy.

V. EXECUTIVE SUMMARY

While Szekesfehervar's dependence on national income sources makes the City's future financial future highly dependent on the Hungarian economy, the city has several financial factors that would make it a good credit risk.

The city has established and followed conservative financial management policies, displaying

their ability to manage their budgets within available resources. Their outstanding debt is quite low and they have a good track record on making scheduled debt repayment. For the four-year period that was reviewed, the city has resisted relying on one-time revenues to finance ongoing service requirements. It has also adopted sound financial management practices, and had an unallocated cash balance of $680 million HUF at year end 1991.

By carefully structuring any new borrowing to accurately reflect income from user fees, prospective budget allocations, and projected one-time revenue sources it is felt that Szekesfehervar is well positioned to fund capital improvements through the use of debt financing.

Table 1
Schedule of Outstanding Debt

Millions of HUF
(Principal Only)

	Sewer pipe-line Loan	**Housing mortgage Loan**	**Swimming Pool Bonds**
1993	7.5	15.369	25.0
1994	7.5	15.369	25.0
1995	7.5	15.369	---
1996	---	15.369	---
1997		15.369	
1998		13.869	
1999		11.775	
2000		9.475	
2001		6.851	
2002		2.883	
Total	22.5	121.698	50.0

Table 2
CITY OF SZEKESFEHERVAR
1989–1991 Actuals and 1992 Budgeted
(Millions of HUF)

	1989	1990	1991	1992	1993
INCOME	1	2	3	4	5
Local Revenues	771,106	912,483	1,672,253	1,672,701	885,929
National Sources					
Personal Income Tax	923,115	1,066,056	700,003	932,666	756,405
Car Taxes	----	----	----	10,500	25,000
Normative Aid	658,104	1,211,708	1,874,799	2,112,489	242,695
Other Grants	----	----	185,159	16,400	13,904
Sub total National	1,581,219	2,277,764	2,059,958	3,072,055	3,347,395
TOTAL INCOME	2,352,325	3,190,247	4,432,214	4,698,756	4,473,364
EXPENDITURES					
Operating Expenses	142,057	1,895,153	2,615,316	3,623,888	3,357,127
Subsidies to Public Companies	12,548	135,500	68,427	----	----
Value Added Tax Payments	27,091	----	----	----	----
Capital Improvements	661,526	789,418	770,324	1,074,868	541,398
TOTAL EXPENDITURES	2,207,244	2,823,071	3,645,889	4,698,756	3,898,525

1 Includes 161.595 in one–time revenues (136.195 in fund balance to support uncompleted capital improvement projects (CIP) carried over from prior year and 2 contributions for a specific capital improvement).

2 Includes 243.382 in one–time revenues (140.747 in fund balance to support uncompleted CIP carryovers, 47659 from sale of public housing flats and 53.976 from sale of City owned land).

3 Includes 831.739 in one–time revenues (410.2 in fund balance to support uncompleted CIP carryove 416.619 from the sale of public housing flats and 4.920 from the sale of City owned land).

4 Includes 1008.485 in one–time revenues (797.073 in fund blance to support uncompleted CIP carryo 120.0 from the sale of flats used by the Soviet Army and 91.412 from the sale of public housing flats).

5 Provisional numbers as of 10 November 1992.

Attachment 1
OUTSTANDING DEBT SCHEDULE
(at 12/31/90)
(in millions of HUF)

PROJECT	YEAR ISSUED	AMOUNT LOANED	LOAN BALANCE AT 12/31/90	1991 PRINCIPAL AMOUNT	1991 INTEREST AMOUNT	12/31/91 LOAN BALANCE	INTEREST RATE
Sewer pipe–line	1989	55.0	47.5	17.5	11.86	30.0	36
Public facility improvements (1)	1986	20	4.0	4.0	835	---	---
Swimming Pool	1987 1988	40.0 60.0	100.00	25.0	8.250	75.0	11
National Housing Loan	1985 1986 1987 1988 1989 1990	15.0 20.94 23.0 26.244 39.713 28.828	10.5 16.752 20.7 26.244 39.713 28.828	1.5 2.094 2.3 2.627 --- ---	281 455 569 727 4.121 2.264	9.0 14.658 18.4 23.617 39.713 28.828	3 3 3 3 9.6 [3] 9.6 [3]
Public facility improvements (2)	1990	10.0	10.0	10.0	717	---	---
TOTALS		338.725	304.237	65.021	30.079	239.216	

1 Infrastructure costs for a housing development in a City neighborhood were partially financed by a loan.

2 Infastructure costs for a housing development in another City neighborhood area were partially financed by a loan.

3 Interest Rate on these Bonds is 7.35%

Attachment 2

OUTSTANDING DEBT SCHEDULE
(at 12/31/89)
(in millions of HUF)

PROJECT	YEAR ISSUED	AMOUNT LOANED	LOAN BALANCE AT 12/31/89	1990 PRINCIPAL AMOUNT	1990 INTEREST AMOUNT	12/31/90 LOAN BALANCE	INTEREST RATE	YEAR FINAL PRINCIPAL PAYMENT
Sewer								
pipe–line	1981	40.0	39.32	.680	.022	---	11	1990
	1989	55.0	---	7.5	1.250	47.5	24	1995
Public								
facility	1986	20.0	12.0	4.0	.880	4.0	11	1991
improvements [1]	1990	10.0	---	---	1.453	10.0	24	1994
Neighborhood sewer constr. project [2]	1987	20.0	12.0	8.0	.210	---	11	1990
Swimming	1987	40.0						
Pool	1988	60.	100.00			100.00	11	1994
National	1985	15.0	10.5	1.5	.315	10.5	3	1997
Housing	1986	20.94	16.752	2.094	.501	16.752	3	1998
Loan	1987	23	20.7	2.3	.621	20.7	3	1999
	1988	26.244	26.244	2.627	.787	26.244	3	2000
	1989	39.713	39.713	---	1.876	40.0	7.35	2001
	1990	28.828	28.828	---	1.000	24.3	7.35	2002
Public	1989	2.964		26.000	2.111	---	8.12	1990
facility	1990	23.036						
improvements [3]								
TOTALS		420.484		52.074	43.026	299.996		

[1] Infrastructure costs for a housing development in a City neighborhood were partially financed by a loan.

[2] Sewer construction project in the Oreghegyyi area of the City.

[3] Infrastructure costs for a housing development in the Feketehegy neighborhood area were partially financed by a loan.

Multinational Strategies, Inc.

DEFINITIONAL MISSION FINAL REPORT

FOR

EVALUATION OF WATER AND WASTEWATER INVESTMENT NEEDS

IN

SZEKESFEHERVAR, HUNGARY

SEPTEMBER 1992

Prepared for: U.S. Trade and Development Program

Prepared by: Multinational Strategies, Inc.

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EVALUATION OF WATER AND WASTEWATER INVESTMENT NEEDS IN SZEKESFEHERVAR, HUNGARY

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1.0 EXECUTIVE SUMMARY

This project, as a precursor to a larger feasibility study, addresses one of the major areas of concern of the town of Szekesfehervar. As an important population and industrial center they must ensure the quality and availability of water as well as adequate wastewater treatment facilities. The Definitional Mission was undertaken to develop a scope of work for an in-depth study of the municipality's needs in this area and to begin outlining the financial investment that may be required.

The Feasibility study that was developed on the Definitional Mission, and that is described in this document, will include:

- Basic Data Analyses
- Field Investigations
- Development and Evaluation of Alternatives
- Preparation of a Recommended Plan(s) for Implementation
- Identification and Evaluation of different funding sources to support engineering design and construction
- Development of a Financial Plan
- Development of a structural plan for the relationship between the municipality and the local water and wastewater company
- Benefits Evaluation
- Review and Evaluation of Legislation and Regulations
- Environmental Impact

The cost estimate for performing the activities of the scope of work is estimated at $600,000 of which a minimum of 80% must go to U.S. Firms. The implementation of the scope of work is expected to take about six months after a contractor has been selected.

The project is expected to be undertaken in two phases. The first phase would result in a project implementation package which would include the Feasibility Study, a Conceptual Design Report, an Environmental Impact Report, a recommendation defining the optimal structural and financial relationship between the municipality and the local water and wastewater company, and a Financial Package/ Loan Application.

The second phase of the project would result in Construction Drawings and Specifications, Contractor Selection (if needed), Construction, and Construction Oversight/Management.

This request, for funding to support phase 1 of the project, not only offers a good opportunity for a U.S. consulting firm to assist in the development of some important infrastructure components, but it also provides entry into a large market for U.S. construction and equipment firms. It is estimated that the potential value of U.S. goods and services that could be exported is $25.9 Million.

2.0 INTRODUCTION

2.1 Project Background

As a result of recently enacted Parliamentary legislation the central government of Hungary is currently involved in transferring the ownership of all assets held by water and sewage utilities to local governments. While responsibility for delivery lines (except for rainwater pipelines) is being transferred directly to the municipalities, the treatment plants and water sources will eventually be transformed into shareholding companies with the local municipalities becoming the shareholders. Hence responsibility for sewage and water is being transferred to the municipalities, both directly and through shareholding companies. The operation of the water and sewage systems in Feher county is currently carried out by a regional waterworks company entitled the Fejer Megyei Vizmuvek. The Vizmuvek operating area encompasses 79 local population entities, including Szekesfehervar, out of the 107 local jurisdictions. It is expected that Vizmuvek will be a shareholding company by the new year.

USAID is currently supporting, through its Democratic Initiatives program, assistance to Szekesfehervar as a "Model City". Through this project the municipality has been receiving technical support in the areas of administration and finance. Within the context of this project the Mayor of Szekesfehervar, Istvan Balsay, requested the assistance of Multinational Strategies, Inc. in evaluating the water and wastewater needs of Szekesfehervar, and in developing a financial and management structure to design and implement the required investment program. Since Mr. Balsay specifically requested the evaluation program, this report is concentrated primarily on the needs of Szekesfehervar, and not the surrounding region.

The evaluation of the water and wastewater needs of Szekesfehervar, Hungary was made from July 28th to August 7th, 1992. Specifically, the purpose of the study was to characterize the water and wastewater systems, differentiating between residential and industrial customers, and to evaluate the need for investment to upgrade them to international standards.

2.2 Project Planning Area

Hungary, a country of approximately 10.35 million, is bordered to its north by the Czech and Slovak Republics, to the east by the Ukraine and Romania, to the south by Vojvodina, Croatia, and Slovenia, and to the west by Austria. Szekesfehervar is located in the Transdanubia region between Budapest, the country's capital, and lake Balaton, a popular vacation resort. It is the seventh largest municipality in Hungary with a population of 108,900. An important industrial center, Szekesfehervar is home to such Hungarian firms as Videoton (an electronics factory), and Ikarus (a bus manufacturer), as well as foreign corporations such as Ford, Loranger (an American supplier to Ford), and Philips.

3.0 STUDY DESCRIPTION AND COST ESTIMATES

3.1 Water Supply Investment Needs

Szekesfehervar's water needs are currently being met by two sources. A large proportion of the water supply comes from the dewatering operations carried out at the bauxite mine in the Kincsesbanyai area north of Szekesfehervar, while the remainder comes from a series of local wells.

The water that comes from the mine is obtained from a dewatering shaft that is some 340 m. deep, with an extensive system of underground collection channels carrying the water to a central pumping facility. Pumping at a rate of 72,000 m^3 per day, a drawdown cone of water depression is created which dewaters the bauxite mine and allows mining to proceed. The attached map, Fig. 1, of Fejer County shows by means of dots those population centers comprising Fejer Megyei Vizmuvek, and the Kincsesbanyai area regional water supply.

The mining water supply source which serves Szekesfehervar is regional in nature. It serves the city, a great deal of Fejer County, and provides excess water to streams and to maintaining the water level of Lake Velence. Szekesfehervar is served from the bauxite mining activity through three major pipelines. Together they can provide some 70,300 m^3 per day of capacity. The water lines converge at the Harmashidi Vizmutelep reservoir on the outskirts of Szekesfehervar, from which it is pumped to reservoirs throughout the city for storage and pressure. A location map showing the piping system from Kincsesbanyai to Harmashidi, as well as other areas served by Kincsesbanyai is shown in Fig. 2.

In addition to the water supply from bauxite mining operations the city of Szekesfehervar has its own series of shallow wells from 50 to 200 m. deep in the Sosto area, Csori, and Aszalvolgyi. These wells have a combined capacity of approximately 8,460 m^3 per day. A schematic diagram, Fig. 3, shows these various water sources for Szekesfehervar and the capacity of each source. Because the groundwater in the Sosto area has a relatively high iron content, treatment facilities to remove the iron were constructed in the 1930's. The Sosto site is utilized primarily as a maintenance and repair depot, especially for the maintenance of water meters, rather than as a major water supply entity.

There has been some thought given to the possibility of expansion of the well water system presently owned by Szekesfehervar in the Sosto area. Hydrogeological studies have been made which indicate that there is sufficient water available to substantially augment the city supply and to serve as a back-up in the event of a pipeline rupture or other malfunctions in the Kincsesbanyai supply. The cost of developing such a well field has been estimated to be in the range of 200 million Ft., but with the need to remove iron in an iron treatment plant as well as additional pumping and storage facilities, this is

a very conservative estimate.

Although bauxite mining at Kincsesbanyai is expected to close in 1995, the water supply, which has been developed to such a remarkable degree for drawdown purposes, can continue to be utilized as the major regional water supply. While the mine currently discharges approximately 70,300 m^3 per day, 20,000 m^3 is contaminated and hence dumped, 30,000 m^3 is sold, and the remaining 20,000 m^3 of drinking quality water is unsold and therefore dumped. Thus, while in the long-term future it could be economical to obtain water from groundwater sources nearer to Szekesfehervar (where the cost per m^3 could be substantially less), as long as the mine related source is available there is no urgency to seek a new water source. Indeed, while water use is expected to increase when the economy improves and production levels increase, there is still sufficient water supply to meet these water demands in the foreseeable future.

It is estimated that in 1990 the average water use was 45,000 m^3 per day, with a one time use in 1989 of 63,000 m^3 in one day. Today this quantity has been reduced to approximately 25,000 m^3 per day. A number of forces have combined to result in a dramatically reduced water usage in Szekesfehervar. For example, there has been a large program of water meter installation, especially for private homes, over the past several years. This has resulted in homeowners now knowing how much water they use, leading to control of their costs by water conservation. Another factor in reduced water use is that over the past several years the price of water has increased dramatically. Only a few years ago the price was 21 Ft., 19 of which was subsidized by the government, leaving only 2 Ft. per m^3 to be paid by the user. The current price is 47.8 Ft per m^3 with the subsidy reduced to 7.80 Ft. It is expected that by 1994 that all subsidies from the central government will cease. As the subsidy has dropped the users have had to bear increasing amounts of the real costs of their consumption; this has served to reduce water usage.

Another factor related to decreased water use is a sagging economy in Szekesfehervar, as well as throughout all of Hungary. Prior to the recent departure of the Soviet Union military, factories in Szekesfehervar were working at a high production rate to manufacture products which were marketed primarily to the Soviet Union and Eastern Block countries. With the departure of the military, and the economic collapse of the Soviet Union, this market has largely evaporated, leaving many industries with a vastly decreased market for their goods. As a result, industry has slowed down the production of goods in Szekesfehervar, resulting in lower water use.

Although the supply of water is not a problem for Szekesfehervar, there are other areas that need some assistance. For example, there is a problem with water pressure. The major water mains serving Szekesfehervar are shown in Fig. 4. They range from 250 to 600 mm in diameter. Zones of the city with respect to the water distribution system and future development are shown in Fig. 5. Several areas of the city, such as Rachegy require larger water mains, modifications of water main connections, and possibly

additional water reservoirs to maintain higher water pressure in these areas. Some of the areas requiring pressure increases are shown as R, M, and O in Fig. 5.

There is also the need for a system to control and monitor water levels in the reservoirs throughout the City, and to feed this information back to a central control facility.

Another need for investment is the replacement of a large water pump at Szekesfehervar which is used to fill the reservoirs of the city. When the water use was in the range of 45,000 m^3 per day, the pump could be operated quite efficiently for longer periods of time, but with the water use down to 25,000 m^3 per day the pump works quite inefficiently and fills the reservoir system in a matter of several hours rather than throughout the day. A smaller pump would be more efficient as it would operate for longer periods of time to fill the reservoirs. It has been estimated that energy savings would be sufficient to recover the cost of exchanging the pump over a two to three year period.

3.2 Wastewater Investment Needs

The major area of need for investment in Szekesfehervar is in wastewater management. This includes collection, transmission, treatment, and disposal of the solid residues (sludge) resulting from the wastewater management program. These are high cost items, and in Szekesfehervar, as in almost all industrialized cities, the needs in the wastewater management area are much more acute than those in water supply.

With respect to wastewater collection, the first sewers were built in Szekesfehervar in the early 1900's, and as the city has grown the need for wastewater management facilities has continued to increase. The collection and transmission systems are particularly important areas of concern. Fig. 6 is a map of Szekesfehervar showing the wastewater treatment plant, the main trunk sewers, and wastewater pump stations (lift stations). Although some 85 to 90% of the wastewater is treated at the main wastewater treatment plant, approximately 3,000 m^3 per day is pumped via the pump station at Alsovaros to Lake Sosto, where it is screened, clarified, and treated naturally in a designated and separate portion of the lake.

A substantial amount of industrial and residential growth has occurred in the eastern and northern part of the city, which must now be conveyed through the collection system serving the downtown area. In fact, unless a new sewer trunk line, 12-0-0, is constructed in the near future, sewage could be surcharged and spill out onto the street in the downtown area. Therefore, the construction of a major wastewater trunk line along Bereny Street, which would bypass the downtown area, and which would intercept wastewaters from the north and from the east, is one of the highest priority projects related to wastewater.

Other sewers are also required to be constructed or increased in capacity in the downtown area, as well as in other areas which are expanding with respect to both population and industry. This is particularly important in such downtown areas as the railroad station, where the sewers are quite old, and in areas where sewer capacity is needed in order to attract industry.

An evaluation should be made of the existing sewers to determine whether there are cracks or leaks in the lines which would allow infiltration of groundwater into the sewage system. Likewise, analyses should also be carried out to determine whether there is unwanted inflow of water from roof drains, cellar and yard drains, cooling water discharges, and storm drains. The infiltration/inflow studies are important, not only in correcting sewer leaks, but also in the prediction of design flows for wastewater treatment.

Szekesfehervar is topographically flat and therefore, in order to obtain sufficient slope for gravity flow of wastewaters, it was necessary to construct a number of lift stations. Thus the incoming flow from a deep sewer line is lifted to a higher elevation, allowing it to flow again by gravity to the next lift station or the treatment plant. There are eleven such lift stations located throughout the city. The lift station pumps operate automatically on a float system, such as a sump pump, but they are not interconnected with a master control system. It would be desirable to control these lift stations with an electronic control system, so that if for some reason one lift station does not operate on demand, then the other lift stations upstream will be so notified and will not continue to pump wastewater into the inoperable lift station.

The above discussion has focussed on collecting and transmitting the wastewater from throughout Szekesfehervar to central locations for treatment. As discussed above, there are two treatment systems at the present time. One of these, developed during the early 1900's, consists of pumping from Alsovaros (Fig. 6) screening, sedimentation, and discharge of the effluent into a portion of Lake Sosto, which is physically separated from the remainder of the lake. This is an oxidation lake where vegetation purifies the wastewater through natural processes.

The major wastewater treatment plant for the city is shown on the accompanying map, Fig. 6. Here, wastewater treatment occurs by conventional activated sludge, utilizing motor speed surface aerators to provide the necessary oxygen for biological treatment. The flow scheme consists of conventional units of sand and grit removal, followed by primary sedimentation, secondary biological treatment by activated sludge, and finally concluding with secondary sedimentation. The treatment plant was constructed initially in the 1930's and has been expanded as necessary in increments of approximately 20,000 m^3 per day of capacity. The overall capacity at present is approximately 40,000 m^3 per day. The most recent investment program increased the sludge handling capacity, with new digestors constructed to handle the sludge which would be produced from 60,000 m^3 per day of wastewater. The new sludge digestors were placed in operation approximately

one year ago.

An important component of the sludge management system is that of sludge dewatering. There are two dewatering processes. In the first of these, the biological sludge from the secondary treatment unit is dewatered by means of three centrifuges prior to being transmitted to the sludge digestors. The second set of units dewaters the digested sludge prior to its final disposal. These dewatering units consist of two belt filter presses. Although the sludge dewatering units have been installed, they are not yet fully operable. One of the higher priority needs for investment therefore is to bring the sludge dewatering units into full operation.

Another high priority need for investment is to replace the surface aerators now being used in the present 40,000 m^3 per day activated sludge plant with more efficient bubble diffusers which would increase the kilograms of oxygen provided per kilowatt hour of energy. The existing surface aerators were adequate for the time when they were installed, but newer present day technology could increase the oxygen transfer efficiency substantially.

At the present time the wastewater treatment plant, as stated above, has a capacity of approximately 40,000 m^3 per day, with sludge handling facilities having a capacity of 60,000 m^3 per day. As the quantity of wastewater increases in the future, there will be a need to increase the wastewater treatment plant capacity also to 60,000 m^3 per day. The entire plant would then have a 60,000 m^3 per day capacity.

Activated sludge treatment is presently controlled by dissolved oxygen and other probes. For instance, the set point for D.O. is 2 mg/l, and when the dissolved oxygen in the reactor effluent stream is above 2 mg/l, aeration is reduced to reduce energy costs. A need for investment would be to design and install a new control system which would include more sophisticated analytical measurements, including instrumenting the Parshall Flume (flow measuring device), and telemetering the data to the central operating station.

The central waste treatment plant has been operating since at least a half century ago, but in recent years housing flats have been constructed increasingly close to the site. The result has been that residents in the housing flats are now bringing complaints about the occasional odors produced at the wastewater treatment plant. An investment need, therefore, is to cover the wastewater treatment plant basins with domes and treat the gases from these domes to eliminate the odor. The odor reducing devices to clean the air from inside the dome consist of activated carbon in some installations throughout the world, but this process is prohibitively expensive. Other devices would remove the odor by filtering the air through organic materials spread on land; this is sometimes known as a land filter. Such a filter would require a considerable amount of land, which is presently not available at the wastewater treatment plant. Another approach has been to convey the gases from beneath the domes to the activated sludge basins, where the odors

are biologically treated. There is a need to evaluate, design, and construct a system for covering the waste treatment plant basins and removing odors from the gases.

The laboratory for the wastewater treatment plant, although well organized and operated, is suffering from the aging of its equipment. Another problem is that the existing laboratory is located, unfortunately, in a section of the wastewater treatment plant which is highly contaminated with vapors and airborne organic materials coming from the wastewater treatment process. The laboratory, especially in an activated sludge plant, is extremely critical to good operations, since the amount of oxygen transmitted and the concentration of biological solids and retention time must be carefully coordinated with the quantity and degree of pollution of the incoming flow. Hence the laboratory should be relocated to another site, and some of the older analytical equipment should be replaced.

The wastewater treatment system results in the production of an extensive amount of sludge, such as raw sludge from primary sedimentation, as well as biological sludge produced when the activated sludge process converts soluble and colloidal fractions of the wastewater after sedimentation into biological sludge mass. Heavy metals in the wastewater are generally incorporated into the sludge, since they are attracted to the primary and secondary biological solids.

While Vizmuvek has had the capacity of measuring the discharge of heavy metals into wastewater for some time, unitl quite recently industry lacked the ability to keep within the permitted limits. Thus, in previous years there was little if any control of industry with respect to the amount of heavy metals discharged into the Szekesfehervar system. It was found that when sludge containing these heavy metals was applied to land for agricultural use, the heavy metals would migrate into the agricultural crop produced. Therefore, the practice of land disposal of solids from the wastewater treatment plant was discontinued, and a large lagoon containing approximately 100,000 m^3 of these solids is presently at the wastewater treatment plant.

In recent years, the regulation of industry has resulted in the discharge of fewer heavy metals to the Szekesfehervar wastewater system. A summary of the new industrial pre-treatment standards is shown in Table 1. There continues to be a strong possibility, however, that there are still sufficient heavy metals in the sludge that it cannot be land spread for agricultural purposes. There is, therefore, the need to develop an investment program to address the disposal problem after sludge has been digested and dewatered at the wastewater treatment plant.

Laboratory personnel at the wastewater treatment plant have been diligent in developing a method of composting the digested sludge by mixing it with agricultural waste byproducts, such as chopped corn stalks and straw. They have, in fact, perfected a process of composting which results in the utilization of a minimum amount of agricultural waste, producing a friable material which can be easily spread upon land. If

indeed the level of heavy metals in the digested sludge will allow its use for agricultural production, then the composting research done by the laboratory would be of great value in the sludge disposal program. An investment need therefore would be to construct a composting plant on a demonstration scale in order to begin the process of composting of the digested and dewatered sludge.

There is, at present, some uncertainty as to how to address the natural process of purification at the small treatment works at Lake Sosto. There is an interest by some groups in building a standard wastewater treatment plant at Sosto, which would allow an expansion of the area for industrial and residential purposes, with the treated waste being available to augment surface waters in that area. On the other hand, it would be much more efficient to pump the wastewater from that area to the existing central wastewater treatment plant, and treating it there. The issue has not been settled, but in looking into this possibility beginning more than 10 years ago, it has been found that the cost of a pipeline and pump station modification from Lake Sosto to the existing central wastewater treatment plant would be approximately 200 million Ft.

3.3 Stormwater Investment Needs

It is fortunate, from the standpoint of the wastewater treatment and disposal program, that the City of Szekesfehervar has a "separate" wastewater system in which stormwater is kept in separate channels from the wastewater. However, there is a deficiency in capacity of some stormwater channels, and at times of heavy rains stormwater accumulates in yards and houses throughout some sections of the city. Sufficient studies have already been made demonstrating that a stormwater conveyance system could be constructed to alleviate this problem. An investment need would, therefore, be to construct stormwater channels, at a cost of approximately 100 million Ft., in order to convey the rainwater away from the populated areas.

3.4 Summary of Estimated Costs

As can be seen from the preceding discussion the water and wastewater systems in Szekesfehervar are presently being operated at a high degree of technical competence. The operation is clearly as good as or better than comparable facilities throughout the western world. However, there is a need for capital funding of requirements in wastewater management. In Table 2 the prioritised investment needs in the areas of water, wastewater, and rainwater drains for the City of Szekesfehervar are enumerated. The highest priority needs are listed first.

4.0 FINANCIAL CONSIDERATIONS

An initial investigation was made into the possible sources and designated recipient of financing for an infrastructure project of this type. As mentioned earlier, the responsibility for water and sewage management currently rests with a local company, Vizmuvek, under the auspices of the central government. However, by the end of the calendar year the responsibility for delivery lines will revert directly to the area municipalities. The water and sewage treatment facilities, which currently are under the management of Vizmuvek, will be transferred in two steps; the first, mandatory step is the transfer of company assets to the control of the local municipalities, and the second, discretionary step is the conversion of the assets into a shareholding company with local municipalities as the shareholders. Upon the transfer of the company from the central government the local municipalities have the right to decide whether or not to become shareholders, or to spin-off their respective assets and govern all aspects of sewage and water treatment independently. At this time approximately six municipalities in the Vizmuvek service area have decided to not join the shareholding company. This is a topic of much concern within the county, and is deserving of greater attention than the Definitional Mission was able to devote.

Vizmuvek's responsibilities include the billing of customers, ensuring compliance with local regulations concerning pre-treatment of sewage on the part of factories, negotiating water contracts with DRV, and performing maintenance on the sewage treatment plants and designated delivery lines. Currently the majority of Vizmuvek's operating income comes from user fees and government subsidies. The company is primarily a break-even operation; sewage and water prices have historically only covered the maintenance costs. Development has historically fallen under the jurisdiction of the local governments.

However, with the future structure and components of Vizmuvek in question, exploring the best way to finance expansion of the infrastructure needs in Szekesfehervar will require much more study. Defining what form the relationship of the municipality and Vizmuvek should take may be directly linked to the type of financing that is envisioned. For example, guidelines are currently being drafted at the level of the central government that will allow up to 49% of the shares of a water and sewage company to be sold; similarly a concession can be arranged with a foreign investor having the right to completely own the company for 25-30 years. Thus, while the responsibility for development has traditionally rested with the municipalities, more options now exist for redefining the entity through which supporting funds and borrowings should be passed. A more detailed study of the finances of the municipality as well as the new incarnation of Vizmuvek is required, as are recommendations defining the structural relationship between the municipalities and Vizmuvek.

This issue has far broader implications as it is a dilemma now facing each of the other municipalities in Hungary, including Budapest. Thus, while the engineering issues

involved in the expansion of the water or wastewater systems may be well defined by the individual municipalities, the structural and financial issues are less well defined. Hence many of the municipalities are in a position to profit from such a third party view.

Szekesfehervar already has a long history of dedicating a percentage of its annual budget to capital improvements. This past year it dedicated 225 M Ft to sewage and water, which constituted approximately 6% of the municipality's budget. Next year they are planning on dedicating a similar percentage. The previous borrowings which had been taken out in a series of loans since 1980 to finance a water cleaning plant, will be paid in full by the end of FY 1994 thus freeing up more infrastructure-dedicated funds for investment. Similarly, the only bond which was floated by the municipality will be paid off by the end of FY 1994. Hence, the municipality has a high comfort level with the obligations of borrowing, and is poised to take on some further obligations.

In conjunction with defining the borrowing entity, the structure of the financing must also be found. Here the most basic issues must be addressed in the feasibility study. These include: debt v. equity financing, onshore v. offshore sources, the use of mechanisms such as build, operate, transfer, and so forth. Onshore sources, such as loans from the Ministry of the Environment or bond issuance should be explored, as should offshore sources such as the World Bank, the EBRD, and private utilities. It should be noted that several of the offshore funding agencies MNS interviewed during the pre-feasibility research have clearly articulated preferences for private or mixed-ownership entities. Hence the link between definition of the borrowing entity and source of expansion capital must be carefully assessed.

In conclusion, the finance aspect of the feasibility study will include a more detailed evaluation of both Szekesfehervar's and Vizmuvek's assets and capabilities, a recommendation of the structure for their continued relationship, and an evaluation what would be the best form of financing for the project.

5.0 EXPORTABLE GOODS AND SERVICES

The investment needs of the City of Szekesfehervar could lead to a number of opportunities for the exporters of U.S. goods and services. As is shown in Table 3, the potential value of these goods and services is $25.9 M. There is also some potential for water supply engineering services offered by U.S. firms. However, the greatest need will be for services in the wastewater management area. U.S. firms that could potentially offer water and wastewater services and the value associated with each component of the workplan is listed in Table 4. For example, the dollar value of the engineering component is $3.8 Million.

U.S. firms capable of supplying hardware such as pumps and pumping stations, water meters, valves, and pipe couplings, in Eastern Europe could potentially provide approximately $11M worth of these goods for the projects described in this report. There is also a potential for firms that supply electronic monitoring and control systems, laboratory equipment, composting equipment, basin covers, aeration blowers, and diffusers, as these are needed by the City of Szekesfehervar's wastewater treatment plant.

6.0 RECOMMENDED ACTIONS

Actions recommended for TDP implementation are proposed for both their value to the economic development of Szekesfehervar, one of the more highly industrialized cities of Hungary, as well as the expansion of US trade opportunity. It is recommended that TDP fund a six month feasibility study leading to concept development for water and wastewater management and sludge disposal in the Szekesfehervar metropolitan area. This feasibility study is estimated to cost:

Financial, Management and Engineering 50 person-Months @ $10,000 per person month	$500,000
Other Direct Costs @ 20%	$100,000
TOTAL	$600,000

The work would be carried out through the City of Szekesfehervar and Vizmuvek, and implemented by American consulting firms working closely with a Hungarian consulting firm. Discussions with management officials of the municipality and Vizmuvek revealed that there is substantial data already available on water and wastewater management. Where there are alternative courses of action, such as for the disposal of treated sludge from the central wastewater treatment plant, various alternatives have already been evaluated, either partially or fully, by Vizmuvek, as well as by the municipality. Much of the engineering work, therefore, will be a reassessment of the evaluations of these alternatives and the preparation of recommendations of preferred alternatives.

Major consideration should be given to the management and financial aspects of the water and wastewater program in Szekesfehervar. As the date of the transfer of the Vizmuvek assets from the control of the central to the local governments approaches, there is an urgent need to provide guidance and consultation which will assist in deciding the structure that should be adopted for the management of water and wastewater. The powers of Vizmuvek, the definition of its role, and the number of assets that should be under its control are all issues that need to be addressed. As a part of this program a financial study should also be undertaken to evaluate Szekesfehervar's financial capacity and to evaluate what would be the best form of financing for the project.

It is recommended that engineering design and specifications for construction be treated separately with a follow-on contract.

Additional details on the recommended action, prepared as a Terms of Reference, are included as part 7.0 of this document.

0 TERMS OF REFERENCE OF RECOMMENDED FEASIBILITY STUDY

1 Project Feasibility and Concepts Development

he water and wastewater study is intended to develop a feasible conceptual approach, ıcluding preliminary facility planning and for the management of water and wastewaters · ı Szekesfehervar. Major components of the feasibility study will be the development of strategy for management of the wastewater aspect of new industrial development, as ell as to determine whether a second wastewater treatment plant should be constructed) replace the natural system being used at Sosto.

.1.1 Project Planning Area

he project planning area is the metropolitan area of Szekesfehervar, as shown in igures 5 and 6 of the main body of this report.

1.2 Required Scope of Work

he following tasks will constitute the scope of work for the feasibility study:

- Basic Data Analyses
- Field Investigations
- Development and Evaluation of Alternatives
- Preparation of a Recommended Plan(s) for Implementation
- Development of a Financial Plan
- Benefits Evaluation
- Review and Evaluation of Legislation and Regulations
- Environmental Impact

.2.1 Basic Data Analyses

isting information and references from the City of Szekesfehervar and Vizmuvek, as ll as private and public associations shall be used to the maximum extent possible to :ntify water supply needs, wastewater sources and amounts and types generated, and rmwater management problems. Data shall be collected either by questionnaires, ect field activities, as described in 7.1.2.2, or by reports and interviews.

.1.2.2 Field Investigations

'o validate estimates of wastewater and industrial wastewater generation, the consultant nall:

1. Conduct on-site surveys for selected industries to verify quantities and composition of questionnaire-reported wastewaters.

2. Observe and sample wastewaters at industrial sites, evaluating any pretreatment which may exist, and determine whether the industries meet pretreatment requirements.

n addition, field reconnaissance will be necessary to locate potential sites for the disposal f treated or untreated sludge from industry, as well as the treated sludge from the unicipal wastewater treatment plant.

1.2.3 Development and Evaluation of Alternatives

'he consultant shall develop and evaluate alternative approaches to water supply, 'astewater management, and stormwater management in the metropolitan zekesfehervar area, including:

1. An assessment of alternatives developed by Vizmuvek to improve water supply pressures throughout the city;

2. An assessment of diffused air aeration options of standard diffused air as compared with fine bubble air diffusion;

3. A reassessment of sludge disposal from the wastewater treatment plant, including composting, land spreading, landfill treatment, and disposal to safe sites such as mines;

4. A study of alternatives for odor abatement of the gases which are collected by domes constructed over basins at the wastewater treatment plant;

5. A reassessment of whether to construct a wastewater trunk line from Sosto to the central treatment plant or whether to build a second wastewater treatment plant in the Sosto area;

6. Reassessment of whether the Szekesfehervar water supply should be augmented by local wells, or whether the supply should continue to be obtained from Kincsesbanyai;

7. Reassessment of stormwater drainage and the best approach of preventing flooding from rainwater in Szekesfehervar.

7.1.2.4 Recommended Plan(s)

The recommended plans for the studies described in 7.1.2.3 shall be based upon analysis of the data obtained. The recommended projects shall be ranked in terms of those most urgently needing implementation.

7.1.2.5 Financial Plans

The consultant shall prepare financial plans for the recommended projects. These will include as a minimum:

1. Estimate of Hungarian and foreign funding required to implement the recommended plans.

2. Estimates of cash flows (annual costs and revenues). These must cover at least the years of maximum loan repayment costs.

3. Identification of possible sources of funds for capital costs of the plans. Sources of funds to be considered include: private, local, regional, central government, industry cooperative, and international.

4. An outline of the different terms and conditions that would need to be met to comply with the requirements of the different funding options.

5. An evaluation of the best structure for the relationship between the municipality and Vizmuvek while considering the preference of potential lenders, the financial and political feasibility of certain structures, and the preferences of the municipality.

6. Preposition the municipality for structuring the chosen funding option.

7.1.2.6 Benefits Evaluation

The consultant shall identify the tangible and intangible benefits associated with the recommended water and wastewater management plans. Although many of the benefits cannot be expressed in quantifiable terms, effort should be made to quantify to the maximum extent possible.

1.2.7 Environmental Assessment

ıe consultant shall identify the beneficial and adverse environmental effects associated th implementation of the recommended plans.

1.2.8 Review and Evaluation of Legislation and Institutions

ıe consultant shall review various laws, enforcement records, and regulations relating to ınicipal and industrial wastewater treatment.

particular, this review should provide a basis for establishing a policy and legislation ated to equitable cost sharing of municipal and industrial wastewater treatment tween the municipality and industries.

e consultant shall also identify opportunities for institutional measures related to water d wastewater management, such as governmental incentives, information programs, etc.

.3 Potential Local In-Kind Supplies and Services

e following supplies and services may be available through local agencies, e.g. office of : City and Vizmuvek:

Secretaries	Reproduction
Typewriters	Office Supplies
Translators	Office Space
Transportation	Furnishings
Cars	Utilities
Drivers	Technical Liaison Staff
Fuel	Telephones

.4 Local Consulting Capabilities

hall be the consultants responsibility to conclude an agreement with a local ;ineering or consulting firm to cooperate in the study. The local component of the dy could comprise as much as 15% of the contract cost.

Schedule and Required Reports

.1 Term of the Study

e consultant shall complete the work within six months from the Notice to Proceed.

.2.2 Progress Reports

'he consultant will submit monthly progress reports. The progress reports will describe ıe work completed during the reporting period, problems encountered, and measures ıken to resolve the problems. Technical results and data obtained during the period will e summarized. The submission dates and planned content of each report will be agreed pon before the approval of the consultant's work plan.

2.3 Final Report

he final repc:rt shall be submitted one month after receipt by the consultant of the ity's and Vizmuvek's review comments. The consultant shall make the revisions he/she :ems appropriate in light of such comments. Six copies of the final report will be ıbmitted. The source of data for all tables, graphs, and analyses will be clearly :ferenced.

TABLE 1

INDUSTRIAL PRETREATMENT STANDARDS FOR DISCHARGE INTO MUNICIPAL WASTEWATER SYSTEMS

4/1984 OVH rend. mell.

A közcsatornát károsító anyagok határértékei és az egységnyi bírságtételek

Sz.	A károsító anyagok	I.	II.	III.	IV	V.	VI.	Bírság Ft/kg
		területi kategóriában határérték (10^{-3} kg/m³)						
	I. Károsító anyagok							FINES IMPOSED
1.	Dikromátos oxigénfogyasztás[1]	1 000	1 000	1 200	1 200	1 500	1 000	1
2.	Szerves oldószer extrakt (olaj—zsír)[2]	40	40	50	50	60	50	20
3.	Fenolok	5	5	10	10	10	10	50
4.	Kátrány	1	2	5	5	5	5	120
5.	ANA detergens	20	20	50	50	80	50	60
6.	pH[3]	6,5 alatt, 10,0 felett						15
7.	Szulfid	1	1	1	1	1	1	100
8.	Szulfát	400	400	400	400	400	400	0,5
9.	$N(NH_4\text{-}NH_3)$	100	100	150	150	150	150	5
10.	Aktív klór	10	10	30	30	50	30	50
11.	Összes só: — term.	1 500	1 500	2 500	2 500	3 000	2 500	0,05
	— techn.	1 500	1 500	2 500	2 500	3 000	2 500	0,5
12.	Összes fluorid	20	20	50	50	50	50	50
13.	Összes vas	10	10	20	20	20	20	1
14.	10' ülepedő anyag[4]	100	100	150	150	150	150	0,5
	II. Mérgező anyagok							
15.	Könnyen felsz. cianid	0,05	0,05	0,1	0,1	0,1	0,1	5 000
16.	Összes cianid	0,5	0,5	1	1	1	1	500
17.	Összes réz	1	1	2	2	2	2	50
18.	Összes ólom	0,2	0,2	0,4	0,4	0,4	0,4	100
19.	Összes króm	0,5	0,5	1	1	1	1	50
20.	Króm VI.	0,2	0,2	0,5	0,5	0,5	0,5	100
21.	Összes arzén	0,1	0,1	0,2	0,2	0,2	0,2	200
22.	Összes kadmium	0,01	0,02	0,1	0,1	0,1	0,1	500
23.	Összes higany	0,005	0,01	0,05	0,03	0,05	0,05	10 000
24.	Összes nikkel	0,5	0,5	1	1	1	1	200
25.	Összes ón	0,3	0,3	0,5	0,5	0,5	0,5	1 000
26.	Összes cink	2	5	10	10	10	10	100
27.	Összes ezüst	0,1	0,1	0,2	0,2	0,2	0,2	1 000
28.	Szerves oldószer (10^{-3} m³/m³)	0,05	0,05	0,1	0,1	0,1	0,1	100
29.	Széndiszulfid (10^{-3} m³/m³)	0,05	0,05	0,1	0,1	0,1	0,1	150
30.	Benzol (10^{-3} m³/m³)	0,05	0,05	0,1	0,1	0,1	0,1	500
31.	Toxicitás	LC 50%-os hígítási igény						1 Ft/m³

[1] A dikromátos oxigénfogyasztással okozott csatornakárosítás miatt csak annak az összegnek a kezelésére bírságolható, amelyet a határság ennek a károsításnak a megszüntetéséhez szükséges szennyvíz-előtisztító berendezés létesítésére (üzemeltetésére kötelezett).

[2] Állati, növényi zsírok olajok esetén 100 m³/d szennyvízkibocsátásig a határérték *háromszoros*; 100 m³/d és ennél magasabb szennyvízkibocsátás esetén kétszeres.

[3] HCl illetve NaOH megfelelő mennyiségére átszámítva.

[4] Csak akkor alkalmazható, ha 10 perces ülepítésnél a lebegőanyag-tartalom nagyobb, mint 5×10^{-3} m³/m³.

14.	Control System for Wastewater Plant Operation	20
15.	New Laboratory Building	30
16.	New Laboratory Equipment	30
17.	Wastewater Trunk Line from Sosto to Central Treatment Plant	300
18.	Augmentation of Water Supply with Wells at Sosto	300

TOTAL 1,908 Million HUF

@ 75 HUF/$ cost = $25.4 Million

TABLE 3
POTENTIAL VALUE OF GOODS AND SERVICES
FOR
SZEKESFEHERVAR PROJECT

Item	Estimated Cost Million U.S. Dollars	
Water Supply and Wastewater Treatment		
Water Supply Equipment	0.5	
Wastewater Treatment Equipment	9.0	
Controls and Instrumentation	1.5	
Water and Sewer Pipeline/Pumping Stations	12.8	
Subtotal, Water and Wastewater		23.8
Wastewater Sludge		
Treatment Equipment	0.5	
Disposal Facilities	1.0	
Subtotal, Wastewater Sludge		1.5
Total, Equipment and Goods		25.3
Technical and Ancillary Services		0.6
TOTAL PROJECT		25.9

TABLE 4
POTENTIAL U.S. SUPPLIERS

Engineering Services	Potential Dollar Values
Bechtel*	
Black and Veatch	$3.8 million
Brown and Root*	
Camp Dresser & McKee	
CH_2M Hill	
Dames and Moore	
D.W. Ryckman & Assoc., Inc.	
Engineering-Science	
Fluor Daniel*	
Greeley and Hansen Engineers	
Harza	
Hazen and Sawyer	
ICF Kaiser	
James M. Montgomery Engineers	
Louis Berger International	
Metcalf & Eddy	
Morrison Knudsen*	
Rust Engineering*	
Stone and Webster*	

* Could possibly provide turn-key (design construction) services

Electronic Monitoring and Control Systems	$1.0 million
Acurex Corp.	
Aquatrol Corp.	
Fischer & Porter Co.	
Flygt Corp.	
Johnson Controls	
Leeds & Northrup	
F.B. Leopold Co.	

Pumps and Pumping Stations — $4.0 million

Dresser Pump Division
Fairbanks Morris Pump Corp.
Flygt Corp.
Gorman-Rupp Co.
Goulds Pumps Co.
Peerless Pump Co.
Zimpro/Passavant

Valves and Pipe Couplings — $2.0 million

American Autoguard Corp.
American Darling Valve
Apco Valve and Primer Corp.
Ashbrook-Simon-Hartley
Cla-Val Co.
Clow Corp.
Flomatic Corp.
Flygt Corp.
F.B. Leopold CO., Inc.
Mueller Co.
Troy Valve
Victaulic Company of America
Zurn Industries

Water Meters — $1.0 million

Hersey Products, Inc.
Manning Products, Inc.
Neptune Meters, Inc.
Precision Meters, Inc.

Composting and Sludge Disposal Equipment — $1.5 million

American Biotech
Datastream Systems
Environmental Sciences Corp.
International Process Systems

Bubble Aeration System Facilities — $2.5 million

ABB Industrial Systems, Inc.
Aeromix Systems, Inc.
Ebara International Corp.
EIMCO Process Equipment Co.
Envirex Inc.
FMC Corp.
Innova-Tech, Inc.
Sanitaire-Water Pollution Control
Schreiber Corp.
Semblex-Custom Equipment
Spencer Turbine Co.

Laboratory Equipment — $0.5 million

Chemetrics
Hach Co.
ISCO
Leeds & Northrup
Martech Instruments Inc.
Nelco Chemical Co.
Phipps & Bird
Yellow Springs Instrument Co.

TABLE 5
INDIVIDUALS CONTACTED DURING THE DEFINITIONAL MISSION

Vizmuvek	Istvan KIS	Director
	Tibor TOROK	Chief Engineer of Development
	Istvan STAUDT	Chief Engineer of Operations
	Istvan SZALAI	Economic Director
DRV	Gyula HULLAY	Branch Director
	Geza FULOP	Chief Engineer
Town Hall	Istvan BALSAY	Mayor
	Lajos Istvan KOVACS	Vice Mayor
	Lajos PINTER	Director,Dep't of City Dev't & Operational Dep't
	Vajnai ENDRE	Deputy Director of Ownership, Asset Management and Investment Dept (OAMID)
	Judit TAKACSI-NAGY	Investment Team Member, OAMID
Ministry of Transport, Communication, and Water Management	Gyula HOLLO	Deputy Head of Department
Ministry of Environment and Regional Policy	Sandor KISGYORGY	Head of Dept. of Waste Water Quality
	Gyorgy SIMONFAI	Head of Section
US Embassy	David COWLES	AID Representative
	Mary LiKAR	AID Officer
	Gary GALLAGHER	Commercial Attache
Albahus Kft.	Imre CSIBY	Director
Videton	Otto SINKO	Director

APPENDIX B
SCOPE OF WORK FOR DEFINITIONAL MISSION

The purpose of the trip will be to learn about the needs and desires of Szekesfehervar with regard to sewage and water with the idea of determining if sufficient need and potential exists to justify undertaking a full scale feasibility study of one, both, or neither.

The basic outline of the topics to be covered include:

a) An evaluation of the current waste water and drinking water treatment facilities, access lines and pumping stations. The issues of capabilities, limitations, and projected needs will be covered. This will include an evaluation of both municipal and industrial wastewaters; for each entity the data collected will consist of estimated or measured wastewater flows and the chemical characteristics of the wastewater, such as biochemical oxygen demand, suspended solids, heavy metals, etc.

An evaluation will be made of the water supply to serve the region. This will include analysis of data relating to the supply of water, such as the source or sources and their yield. The quantity of water used presently, as well as predictions of future water quantity needs will be ascertained. There will then be site visits to determine the condition of water treatment facilities, the water distribution system, water reservoirs, and pumping stations.

After the initial evaluation has been completed a determination will be made about what actions must be taken to bring the sewage and water treatment facilities up to a modern standard. The needs in the areas of delivery lines, etc will also be presented.

b) An evaluation that will facilitate the prioritising of the needs in the areas of waste water and drinking water.

c) Planning and preliminary engineering document which is appropriate for a tendering process. This document will be appropriate for an engineering firm to use in designing the upgraded treatment works and other modifications necessary, complete with specifications for a construction contract.

d) Evaluation of the local capabilities for engineering design and construction of the required modifications to drinking water and wastewater collection and treatment systems. A determination will be made of whether the design and construction should be carried out locally, or whether foreign firms would be involved.

e) Possible sources of financing for implementation of the project. For example, a proposal for the sharing of costs for the construction and operation of upgraded systems might be addressed.

150

It will also be necessary to meet with local engineers and contractors who are knowledgeable in the field to gather and evaluate the costs of engineering and construction.

Within 10 days of his return to the United States, the contractor will submit to Multinational Strategies a report on his findings and recommendations in sufficient detail to enable a decision to be made on whether a study should be undertaken.

101

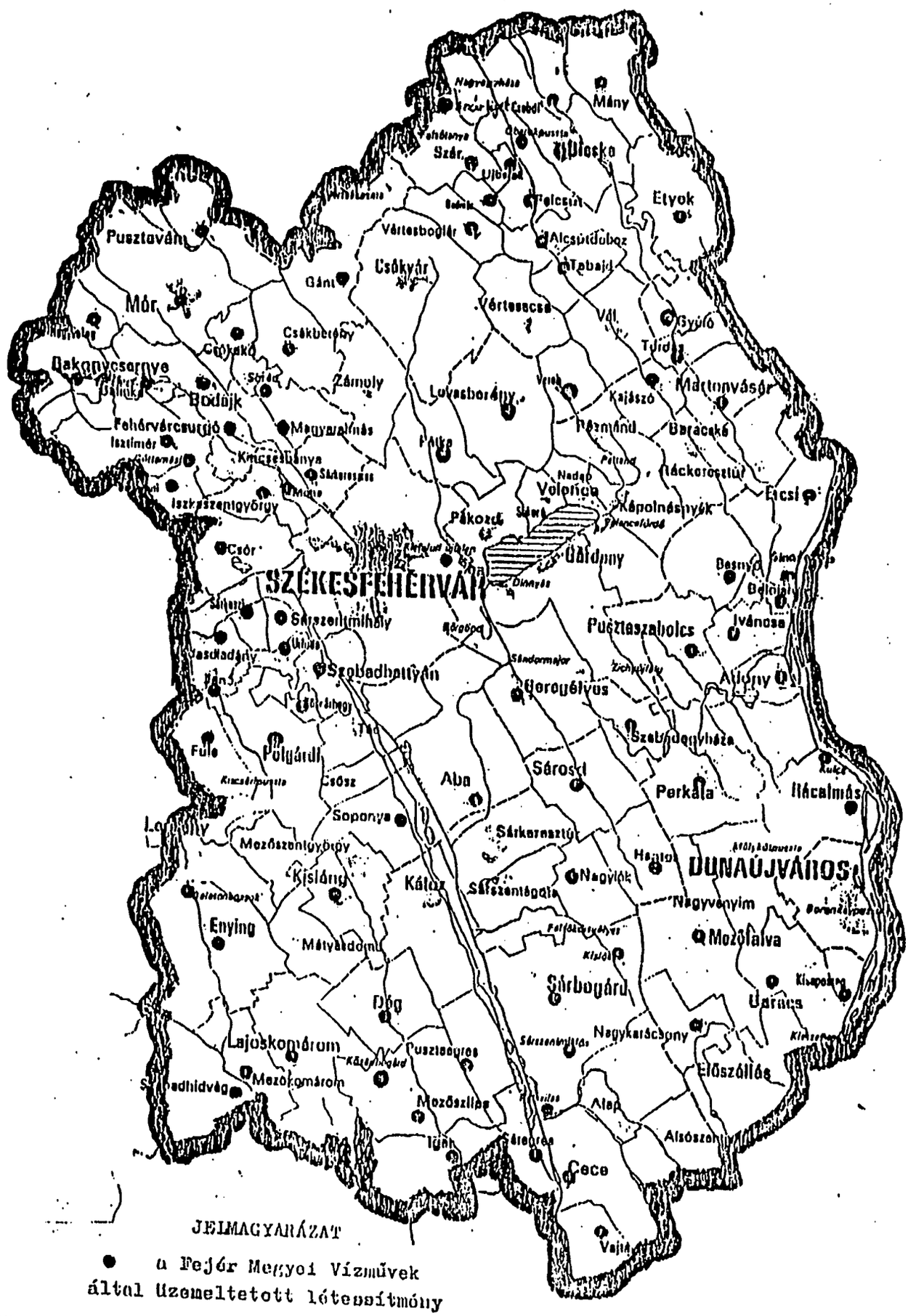


FIGURE 1 - FEJER COUNTY AND THE POPULATION CENTERS COMPRISING FEJER MEGYEI VIZMUVEK

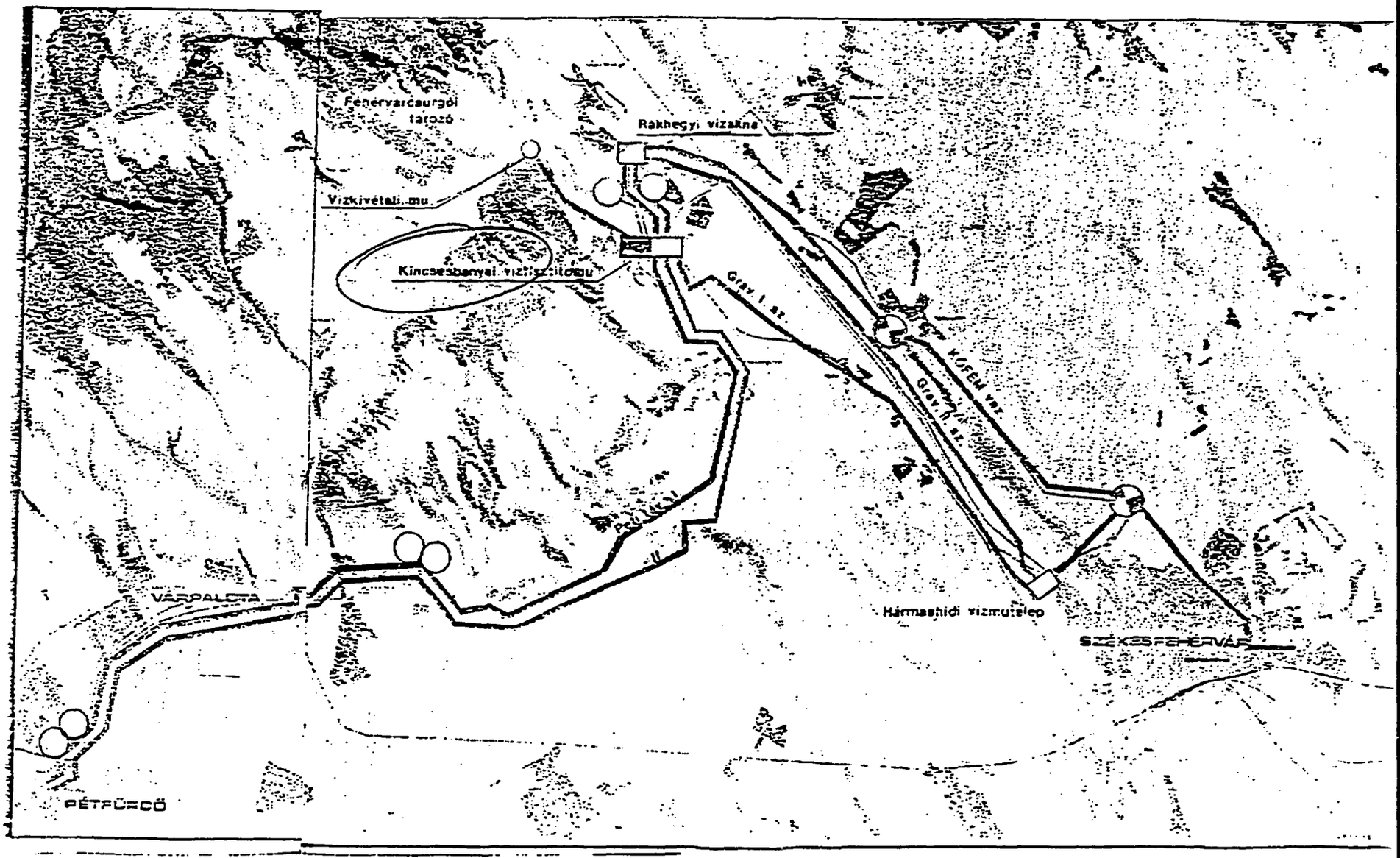
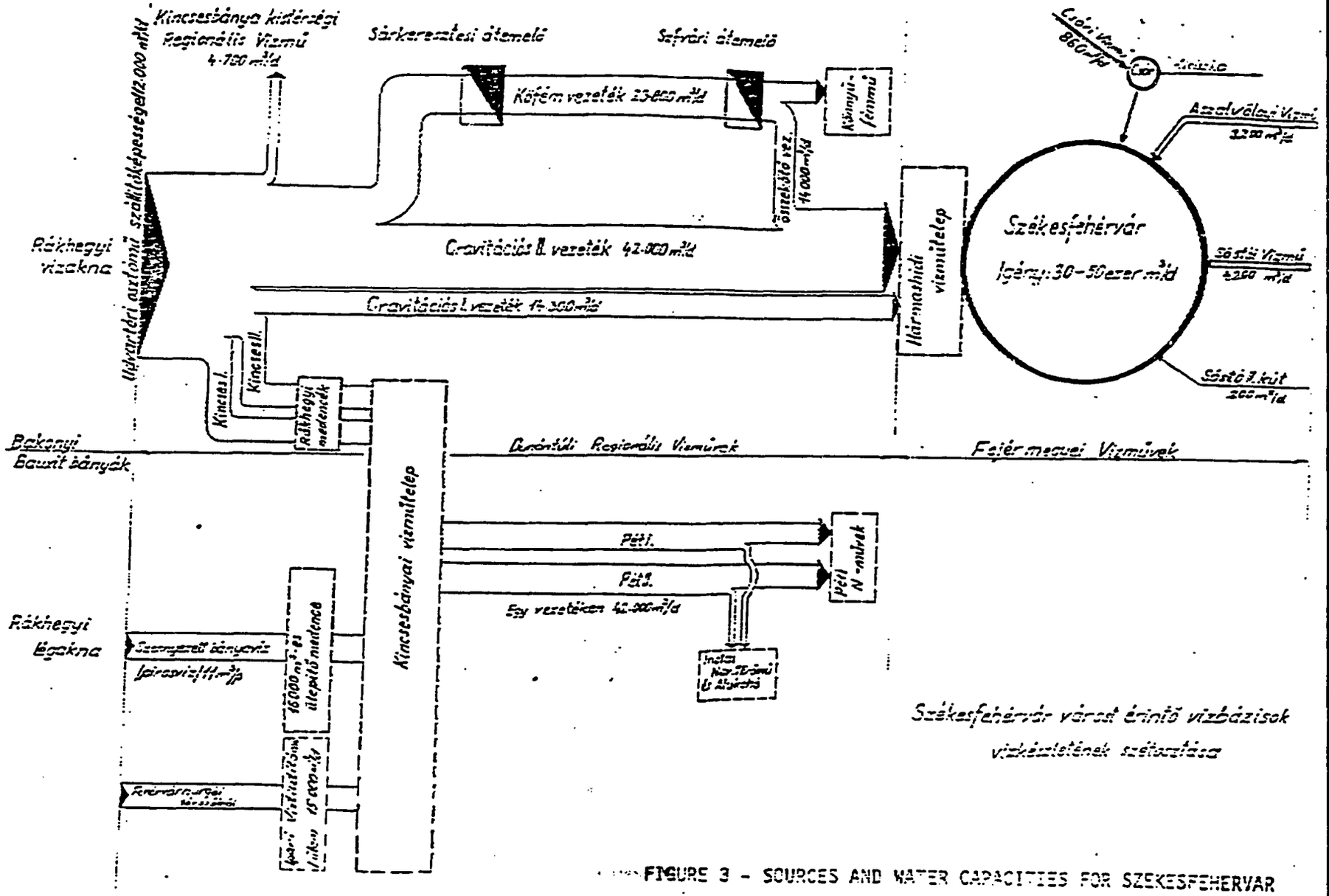


FIGURE 2 - SOURCE OF DRINKING WATER FROM BAUXITE MINE AREA OF KINCSESBANYAI AND ITS TRANSMISSION TO SZEKESFEHERVAR



Székesfehérvár várost érintő vízbázisok vízkészletének szétosztása

FIGURE 3 - SOURCES AND WATER CAPACITIES FOR SZEKESFEHERVAR

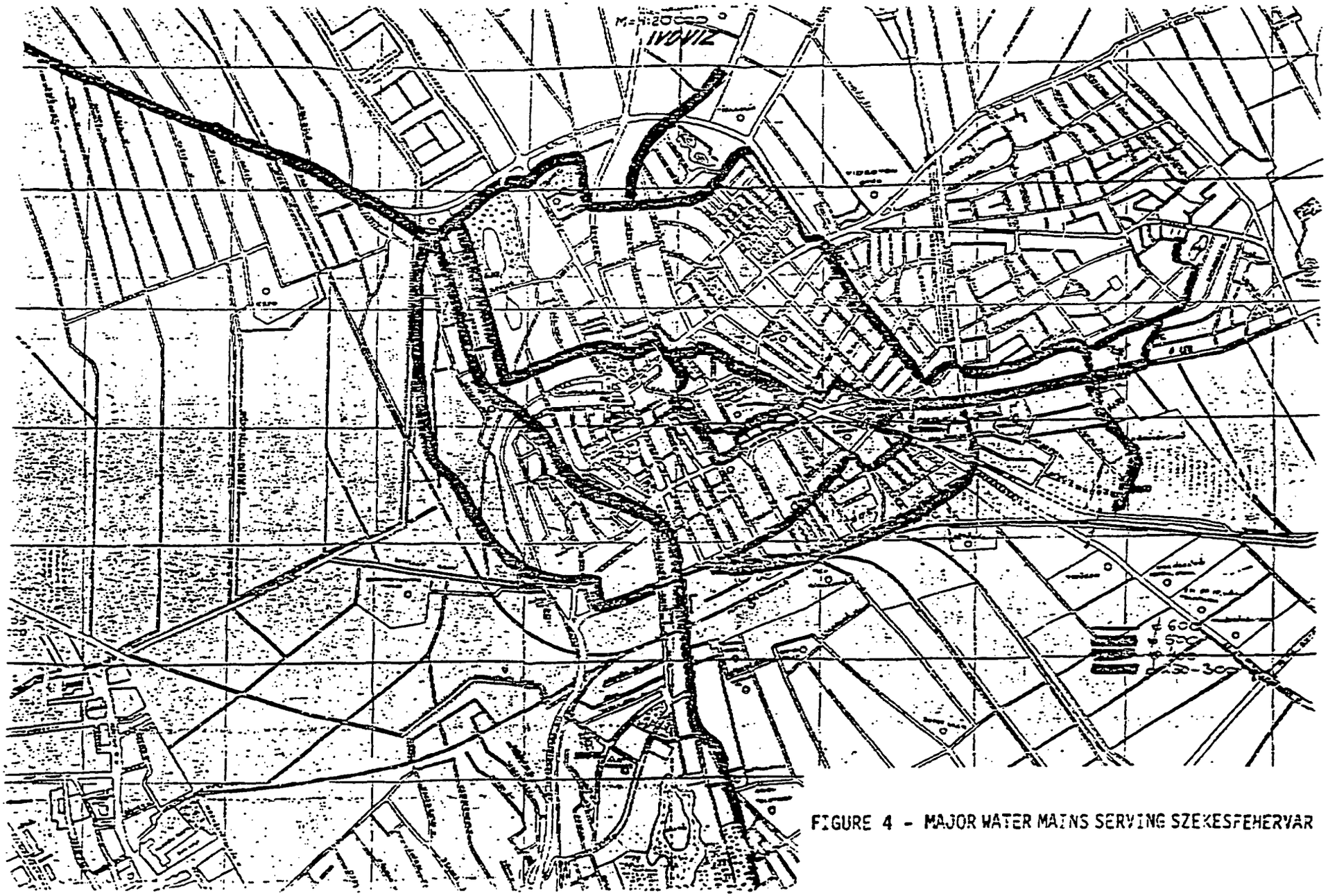


FIGURE 4 - MAJOR WATER MAINS SERVING SZEKESFEHERVAR

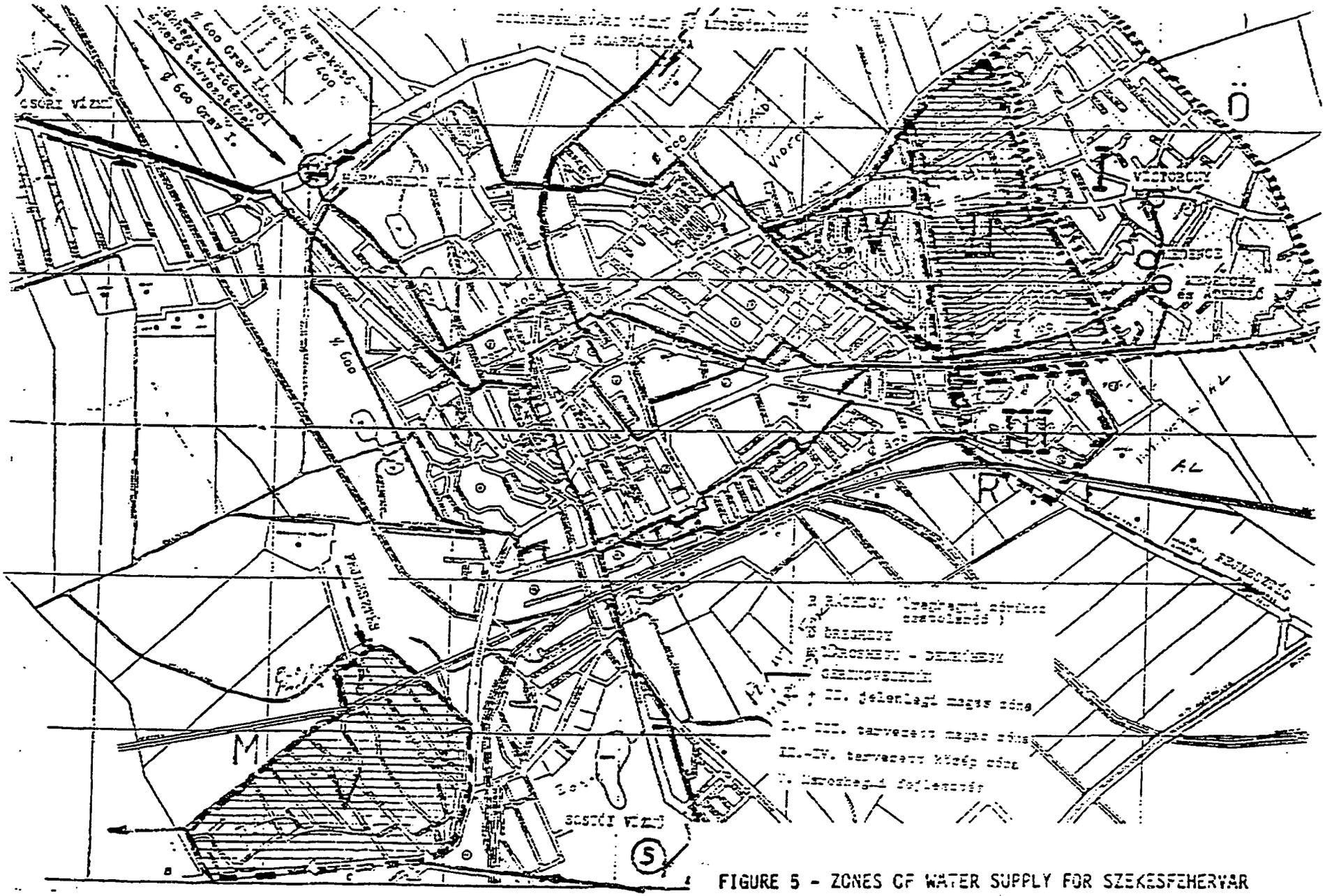


FIGURE 5 - ZONES OF WATER SUPPLY FOR SZEKESFEHERVAR

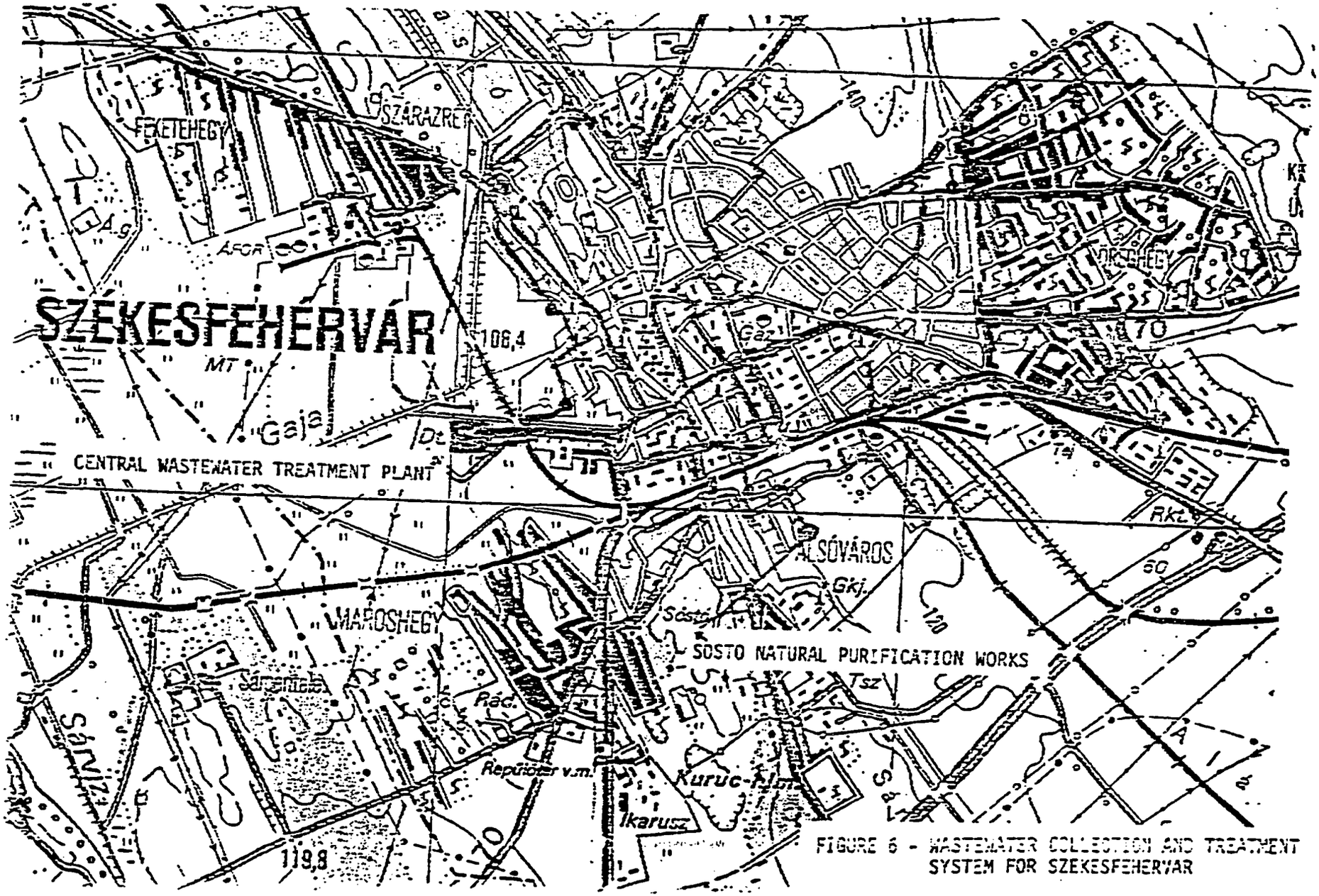


FIGURE 6 - WASTEWATER COLLECTION AND TREATMENT SYSTEM FOR SZEKESFEHERVAR

Appendix F

Multinational Strategies, Inc.

OUTLINE OF POSSIBLE SOURCES OF FUNDING

FOR A

FEASIBILITY STUDY IN SZEKESFEHERVAR, HUNGARY

October 1992

Prepared by Multinational Strategies

67 Irving Place, 8th floor, New York, New York 10003-2296 telephone: (212) 674-2677 facsimile: (212) 533-7449

There are several sources of money available for funding for the feasibility study. However, many of them require a serious commitment on the part of the municipality as funding is tied to the municipality's obligating some of its own funds or even committing to actually undertaking a construction project. Hence, although the focus of this paper is upon the funding of a feasibility study, the issue of construction is linked where necessary.

1. United States Trade and Development Program

An application has already been submitted to obtain funding for a feasibility study from USTDP. Although a final decisions has not, as yet, been made concerning the Szekesfehervar request, we have been advised that there is a good possibility that the request will not be approved. A major difficulty is that the construction of wastewater treatment plants do not offer a competitive advantage to American suppliers of equipment or consulting services. A second difficulty is that a commitment by TDP to dedicate more funds to Hungarian projects has not been established. Hence, it is prudent to consider other sources of financing.

2. United States Export/Import Bank

Funding through ExIm for a Feasibility Study is in the form of a loan. The loan can be made directly to the municipality, or the municipality can borrow from the state and the state can borrow from ExIm.

The loan must be guaranteed by the National Bank or by a Ministry, such as the Ministry of Finance or the Ministry for Foreign Trade.

The use of the ExIm funds is limited; ExIm will only loan money to support goods or services that originate and are paid for in the US such as analysis done in the US, plane tickets bought in the US, and salaries. Any foreign denominated costs such as hotels, local travel, and food cannot be funded. It should be noted that only 85% of the eligible US denominated costs are covered. It is expected that the remaining US costs and all Foreign costs will be paid for by either the engineering company undertaking the Feasibility study or the local government. In return for donating resources to the feasibility study the engineering company has the expectation that they will be given the construction contract.

In summary, a loan from the ExIm Bank requires that the municipality take out a loan to cover the US costs of the study, and that they locate an engineering firm willing to undertake the work with the understanding that they will be given some construction work upon the completion of the study.

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The application process will vary according to whether or not the municipality arranges a guarantor for the loan. If they have a guarantor (such as a commercial bank) then the response from ExIm will be a final commitment. If a request for a loan is not accompanied by a commitment of guarantee then a preliminary response will be given, giving the municipality six months to line up a commercial bank.

As of November 1992 the municipality of Szekesfehervar was unwilling to commit any funds for a feasibility study.

3. Sanders International

As part of the CDI project this firm has grant money available for covering 50% of the cost of feasibility studies. Money is given only to private firms, not to government entities. Hence, an American engineering firm must undertake 50% cost sharing for the feasibility study. Costs shared by the municipality reduce the total amount of the grant as well as the funds expended by the engineering company. Exploratory talk are currently under way with some engineering firms.

4. The World Bank

Funds to undertake a Feasibility Study would be a part of a loan to fund construction. A World Bank loan is made directly to the Central Government which will apply for funds for several projects simultaneously. Hence the Szekesfehervar project must be a priority project for the country in order to obtain approval to be included in the request for funds. In this scenario the local municipality would apply directly to the central government.

The WB will finance 50% of the cost of construction (including the Feasibility Study, if specifically requested). The other financing would have to come from government and local sources. (As a benchmark, income from sewage and water fees is expected to cover 20-25% of the internal cash needs of the project including interest and principal payments, depreciation, and working capital).

At this point the mayor of Szekesfehervar is unwilling to commit any assets or funds to a feasibility study. He also does not want to make any commitment to construction until the feasibility study is completed. Hence, funding the study through this organization is not viable at this time.

5. International Finance Corporation

The IFC will only make loans to private companies. As Vizmuvek is currently configured, with several municipalities as shareholders, the firm does not comply with this requirement. However, if Vizmuvek should be

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reconfigured (for example, as a result of developing a relationship with a private company to expand their facilities) they may be able to obtain IFC financing.

If the municipality arranges a relationship with a private firm to operate Vizmuvek through either a Build Operate Transfer relationship or through an outright concession arrangement the IFC would be interested in exploring the possibility of funding.
For example, if a project is undertaken as a Build-Own-Operate-Transfer project (BOT):

The municipality must locate an equity investor. The municipality and the equity investor (usually a private builder and operator of wastewater treatment plants) would create a new operating company. At this point the IFC might make a loan to help pay for construction, and might take an equity position, not to exceed 25%, in the operating company. The IFC loan would be either a Senior or Subordinate loan to the operating company at commercial rates with a lien placed on the assets of the company. This loan would be syndicated to commercial banks or other development sources. In this scenario the concession to operate the plant is assigned, thus allowing the company to change operators.

The IFC requires that the operating company be set up in such a manner that it is able to receive sufficient tariffs to service all financial obligations. Points that must be addressed include: how tariffs will be set, and adjusted for inflation; guarantees that tariffs will be paid; standards for the effluent; a legal framework within Hungary that allows this type of arrangement.

The special characteristics of an IFC loan are that: a financially solvent organization (such as an Insurance Company or government owned bank) must guarantee the municipality's payments to an operator (if it is a BOT arrangement). The termination value for the purchase price of the plant must also be set in advance and guaranteed.

If the municipality should chose to pursue this type of arrangement, then the IFC might be able to arrange the funds to undertake a feasibility study. These funds would be in the range of $250-300,000 and would have to be matched by a sponsor or city.

6. Lyonnaise des Eaux

In an agreement with LdE the municipality and LdE would form a joint venture, and then borrow money to buy equipment. The firm would be run as a joint venture for 35 years, with the right to extend the arrangement for 17.5 years more. The joint venture would do the billing of users. LdE

would have expatriates running the joint venture for two years, and then the running of the firm would be left to Hungarian Personnel. LdE would undertake the feasibility study as part of the agreement.

When approached to see if they would be interested in participating in a joint venture agreement LdE refused for two reasons: the municipality is too small and hence the fees would be inadequate (they did mention that if more than one municipality were participating they might be more interested), and the relationship between the Municipality and Vizmuvek is not very good.

7. European Bank for Reconstruction and Development

EBRD will lend directly to a local government, with no sovereign guarantee. But the municipality then assumes a currency risk.

At the moment the EBRD is trying to set up a lending authority in Hungary to act as a financial intermediary. Under this organization there may be partial grants for feasibility studies.

8. PHARE

This organization is funded by the European Community. They are currently undertaking a large study of the wastewater needs of the country examining 3600 communities to delineated what steps need to be taken to comply with the EEC standards. This study is expected to be completed in approximately 18 months.

When PHARE was approached to see if they would be interested in funding a feasibility study they turned the request down. Since their funds are currently earmarked for a country-wide assessment of wastewater needs they are not currently interested in funding detailed studies in cities the size of Szekesfehervar.

9. FOREIGN NATIONAL AGENCIES

Two foreign governments have been approached to ascertain their level of interest in investing in a feasibility study through their respective development agencies. Both applications are still pending.

School of Public Administration
INTERNATIONAL PUBLIC ADMINISTRATION CENTER
University Park, VKC 382
University of Southern California
Los Angeles California 90089-0041

TO: Mezo, Bela
NOTAR

FROM: Donald E. Fuller
University of Southern California

DATE: 17 September, 1992

SUBJECT: ACT XXIII, 1992 on the Legal Position of Public Servants

General

The Act is not particularly helpful to local government since it does not specifically mention local government positions except the NOTAR. Other positions such as Department Head, Team Leader and Supervisor are not mentioned.

The Act attaches primary importance to education and experience rather than level of responsibility or particular skills which might be needed such as computer analyst, lawyer, accountant or engineer.

The Act provides a salary structure which is regressive. That is, as an individual moves up through the salary grades, the percentage increase in salary decreases. That is because ratios (multipliers) are used rather than percentages.

Fortunately, the Act suggests that local government may create a system more advantageous to the employees if it does so by ordinance. It may be possible to construct a system which is more advantageous to the employees but also advantageous to the City as well.

Salaries

The multipliers are not only regressive but they are non-linear or inconsistent. This can be seen in the following table:

Telephone: (213) 740-0385 Fax: (213) 740-0001 • (213) 740-7254 Telex:4720490 USC LSA

Higher Education Level:

GRADE		YRS. OF SVC.	MULTIPLIER*	SALARY	% INCREASE
Jr. CLK.	1	0-1	1.25	18,750	
CLK. II	2	1-3	1.55	23,250	24.0%
	3	3-5	N.A.	-	
CLK. I	4	5-7	2.00	30,000	29.0
	5	7-9	2.10	31,500	5.0
SECY. II	6	9-11	2.35	35,250	11.9
	7	11-13	2.50	37,500	6.4
SECY. I	8	13-15	2.60	39,000	4.0
	9	15-17	2.65	39,750	1.9
COUNS. II	10	17-19	2.80	42,000	5.7
	11	19-21	2.85	42,750	1.8
COUNS. I	12	21-23	2.90	43,500	1.7
	13	23-25	2.95	44,250	1.7
CHIEF COUNS.	14	25-29	3.10	46,500	5.1
	15	> 29	3.20	48,000	3.2

* Basic Salary = HUF 15,000

N.A.= Not in English Version

Thus, to increase from Clerk I to Secretary II, one receives an 11.9% increase. To increase from Counselor II to Counselor I, one increases by 1.7%. Then after 25 years of service, one receives a 5.1% increase to Chief Counselor.

The Act does not discuss positions at the local government level except for the NOTAR. It does mention "Heads of Departments" at Sec 45 (1),f, but does not state that this includes local government. In fact, it awards a multiplier of 3.5 to "Heads of Departments", the same multiplier as that of the NOTAR.

While the NOTAR receives a multiplier of 3.5, the Chief NOTAR receives a multiplier of 4.0. One might question whether or not the City's NOTAR might warrant a higher multiplier.

The City might wish to differentiate its positions as follows:

Title	Multiplier
NOTAR	4.0
Head of Department	3.5
Team Leader	3.3
Supervisor	3.25

Certain job skills such as attorney, engineer, accountant and economist might require grade adjustments of 1-2 grades. Salary data from the private sector will be necessary to establish the proper grade level for public servants.

Classification

The Act does not provide factors for classifying jobs other than education and experience (years served). Jobs differ, however, both in the level of responsibility and the complexity of the tasks performed. A person supervising a management information section must understand computers (complexity) and direct the unit's operations (level). This person might only have five years of experience. The classification system will need to allow for this. Otherwise, these individuals will move quickly to the private sector. The City can deal with this by adding a multiplier for team leader (3.3) and a grade increase for task complexity. In this way it would not be necessary to seek an individual with 29 years of experience to obtain the multiplier of 3.2, the maximum under the "Higher Education" level.

Classification and Salary Comparisons

The City can make classification and salary comparisons with cities of the same size and/or those having county powers. The Act does not differentiate between large and small cities. Such factors as the following might be helpful in making the comparisons:

Size of Population Served
Annual Budget
Value of Assets and Equipment
Number of People Supervised
Task or Skill Complexity:
Engineer, Attorney, Economist,
Computer Systems

Recruitment

The City will need to solve the level and complexity problem so that new employees may enter above the entry level when necessary. If the system needs an experienced attorney, it will need to acknowledge these qualities by hiring at a higher grade level.

The City should consider hiring one to two new graduates on a regular basis who have education in Public Administration, Economics or Business Management. These employees may start at the entry level but will need to move up the salary grades quickly. This may be accomplished by assigning responsibilities at increasingly higher levels and increased technical complexity.

Performance and Evaluations

At the present time, the City may only award individuals who exhibit high performance levels by promoting the employee to a higher level. The City should consider awarding an occasional bonus to an employee whose performance for the prior year was acknowledged as outstanding. The bonus might be calculated as 10% of the annual salary for that year. It would not be carried over to the next year, unless of course, the employee once again earned such an award.

In order to award a bonus, however, a small committee would need to review nominations of outstanding employees. This committee should include the NOTAR and Deputy Mayors. The Mayor would make the final decision.

Conclusion:

The City has the opportunity to construct a classification and pay system that will stimulate recruitment, provide equitable salaries, reward performance and stimulate motivation. If I can provide further assistance, I would be pleased to assist.

Hypothesized Grade Scheme for Local Government Which Could Encompass Central and Regional Government

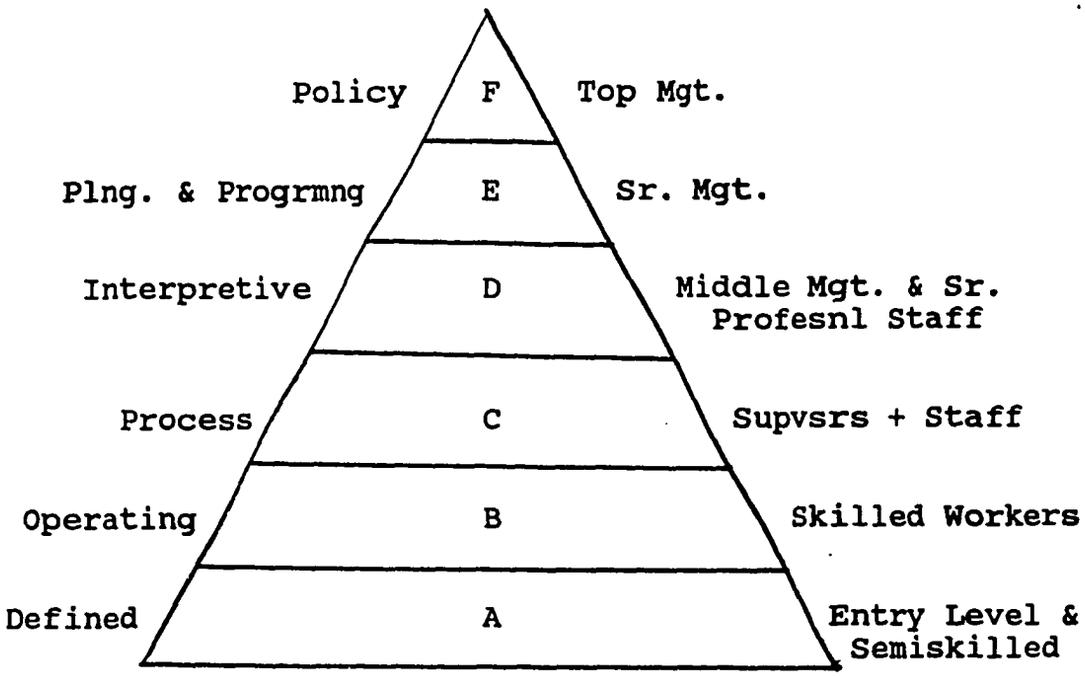
I. **Salary Grades:** There are 19 salary grades which do two things: (1) Evens out the intervals between grades at 70% which the "multipliers" in the Civil Service Act had caused to range from 1.7% to 24%; (2) Adds four ranges above the 3.2 multiplier of 48,349 (the multiplier would set the salary at 48,000 but 48,349 fits within the 7% increases), to include supervisor, team leader, head of department and Notary. These levels are also set at 7% increases, thus, granting the Notary, at the top, a multiplier of 4.23. See the schedule below:

Local Govt.	Schedule (7% grades)		Mgt. Grades
Jr. Clk	GR.	1	18,750
Clerk II		2	20,063
		3	21,467
Clk. I		4	22,970
		5	24,578
Secy. II		6	26,298
		7	28,139
Secy. I		8	30,109
		9	32,217
Couns. II		10	34,472
		11	36,885
Couns. I		12	39,467
		13	42,230
Chief Couns.		14	45,186
		15	48,349
Supvsr		16	51,753
Team Ldr		17	55,354
Head of Dept.		18	59,229
Notary		19	63,375

II. Decision Band Hierarchy

In order to provide a rationale for differentiating levels, a hierarchy of decision levels is shown to which local government classes may be allocated. The basic hierarchy is shown below:

Decision Band Hierarchy



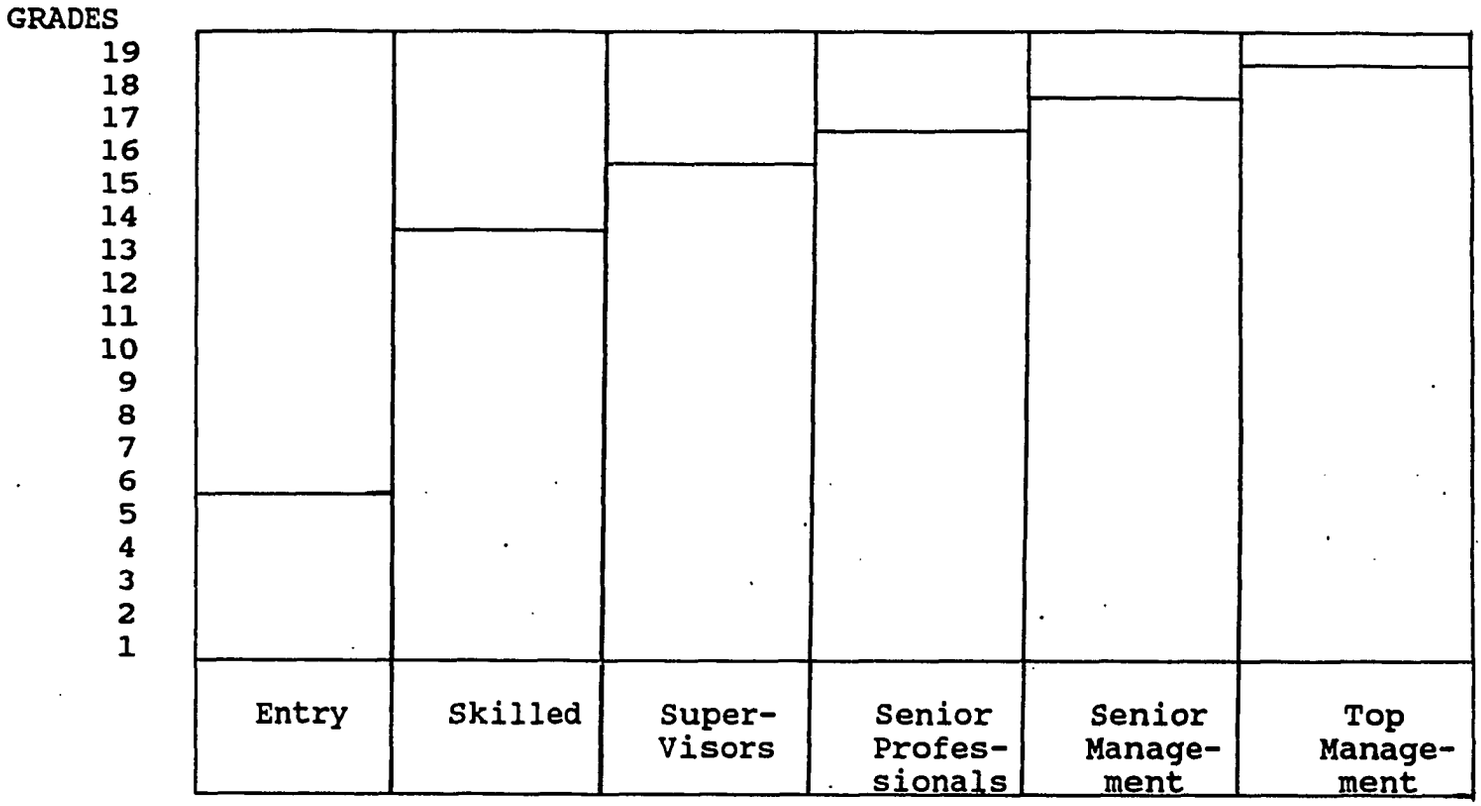
III. Level and Pay Distribution

It is possible to link the decision hierarchy to classification levels at the local government level as follows:

Top Mgt.	=	Notary
Sr. Mgt.	=	Head of Dept.
Mid-Mgt. and Sr. Profsnl Staff	=	Team Ldrs. + Sr. Profsnl Staff
Supvsrs + Staff	=	Supvsrs + Chief Counselor
Skilled Workers	=	Secy. II thru Secy I and Counselor II, Couns. I
Entry Level + Semi-Skilled	=	Jr. Clk. thru Clk. I

This then, creates a salary grade chart as follows:

Salary Grade Chart for Local Government Levels



IV. Career Path by Classification Group

Classifications may constitute career ladders by occupational group as follows:

Clerical:	All Clerical Positions
Technical:	Technical Positions, e.g. Engineer, Computer Systems
Admin:	Admin. Trainers, Mgrs., Senior Mgt.
Profsnl:	Attorneys, Accountants, Financial Officers

It would then be possible to display these career paths by salary and occupational group:

Career Path by Grade and Classification Group

GRADE LEVEL	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
CLERICAL CAREER	Jr. Clk	Clk II		Clk I		Secy II		Secy I		Couns II		Couns. I		Chief Couns.					
TECHNICAL CAREER			Tech. IV			Tech. III			Tech. II			Tech. I		Mgr.					
ADMINIS-TRATIVE CAREER	Trn-ee	Admin. Ofcr. VI		A.O. V		A.O. IV		A.O. III		A.O. II		A.O. I		Senior Admin. Mgt.					
PROFES-SIONAL CAREER					Admin. Specialist IV				Admin. Sp. III			Admin. Sp. II		Admin. Sp. I					Top Mgt.

V. Summary

It is possible, as shown above, to construct a 19 grade pay scheme with seven percent intervals into which various career paths (clerical, technical, administrative and professional) may be inserted. The career paths may then vary their grade ranges to reflect differing levels of complexity and level. Local government positions could be allocated to these paths to better reflect task and level and to enhance recruitment.