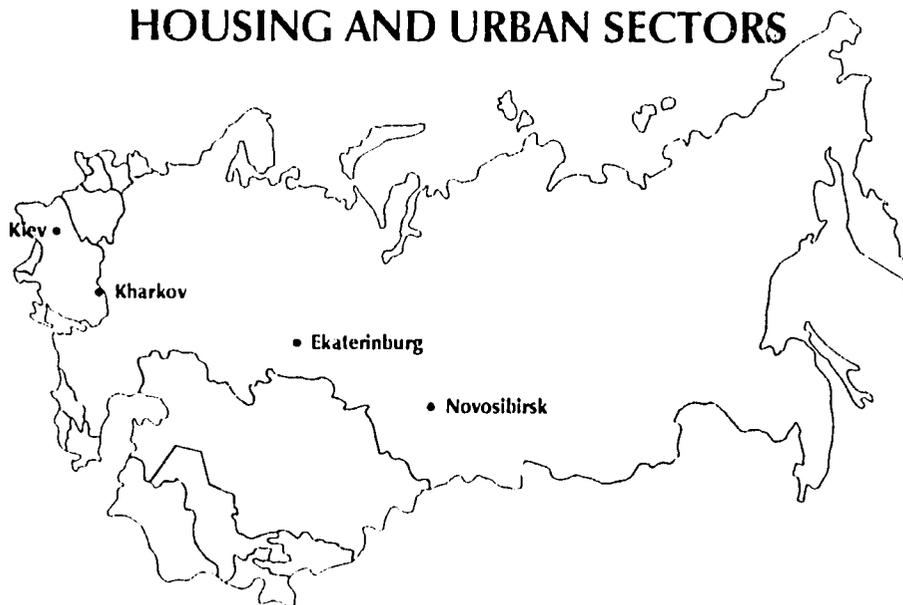


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FINAL REPORT

MANAGEMENT AND MAINTENANCE OF MUNICIPAL HOUSING IN THE CITY OF NOVOSIBIRSK

Prepared for:

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EXECUTIVE SUMMARY

Context

The objective of the Resident Advisor program for Novosibirsk is twofold: 1) to help the City improve the efficiency and effectiveness of its housing maintenance operations; and 2) to develop a competitive private property management company industry to provide cost-effective services to both the City and other housing owners.

The Novosibirsk City Soviet owns and operates approximately 50 percent of the City's housing stock (approximately 175,000 units). This percentage is slowly increasing as various enterprises are transferring their stock to City Soviet ownership and management because of a lack of adequate resources to maintain the buildings.

Constraints

One significant constraint is the lack of any strategy for the City's long-range role in the housing sector. The City's role when buildings become partially or fully privatized has yet to be defined. The City also faces the problem of a severe lack of financial resources to address its deteriorating housing stock. Virtually all city owned buildings are in serious need of repair.

The three-tiered administrative structure charged with managing the state rental housing stock is characterized by a host of problems associated with administrative efficiency, staffing levels and capabilities, and low staff productivity. In addition, there is a lack of competitive bidding in contracting for repair work and other services.

Finally, no private property management companies currently exist in Novosibirsk. A competitive private management company industry produces an environment in which the value of property is maintained or enhanced in the most cost-effective manner. In the United States, many government providers of low income housing are using private management companies or private management company techniques in order to accrue the same benefits for their organizations and housing assets as the private sector enjoys.

Recommendations

1. Develop a Long-Range Housing Strategy

The City Soviet should define what its role will be once a housing market is established. This should translate into clearly defined goals and objectives and the development of a long-range strategy to implement the goals and objectives. Once the strategy is established, a public education campaign would be useful to assure that citizens understand the changing nature of municipal housing.

2. Encourage the Development of Private Management Companies

Competitive private property management companies can significantly reduce the City's burden of responsibility by reducing costs and improving the efficiency and quality of maintenance and service provision. For buildings in which more than 50 percent of the units have been privatized, a property management company industry will offer owners choice in the cost and quality of services they may wish to obtain for their buildings.

The private management demonstration project to be conducted by the City and the resident advisor will be the first step in implementing this recommendation. Not only will the project encourage (and provide training for) prospective property management companies, it will also serve as a model to prospective clients of property management companies; i.e., the owners of buildings in which more than 50 percent of the units are privatized.

Additionally, the City should consider enacting laws to establish the legal framework within which groups can contract with private management companies, such as condominium laws.

3. Realign the Housing Maintenance Organization Vertically

The Mayor, City Soviet, and district soviets should consider adjusting the organization of housing maintenance operations to reduce the District Administrator's role to that of liaison with the District Housing Maintenance Unit (DHMU) rather than directly funding and establishing priorities for DHMU activities. This will eliminate the current confusion due to dual leadership, will assure equity, and will enable the City to effectively implement its housing strategy. Recently, another Siberian city, Barnaul, took this step after experiencing problems in housing maintenance operations and funding similar to those of Novosibirsk.

4. Streamline Administrative Operations

Rising costs and reduced funding require the City to seriously reevaluate staff needs in every tier of the housing maintenance operation. Significant savings would occur if accounting, planning, and reporting were streamlined to eliminate duplications and to simplify management information only to that which is necessary for effective and efficient operations. Eliminating work which is not directly related to housing maintenance provision and reducing the paperwork burden will allow valuable resources to be re-directed to needed repairs.

5. Develop a Plan to Implement Rent Increases

Implicit in the recommendations contained in this report is reducing costs. Equally important is increasing the rents paid by residential and commercial leaseholders to a level at least equal to the cost of maintaining housing assets. Rents should include the costs of routine, day-to-day maintenance and management, preventive maintenance, and provide a reserve for periodic refurbishing (current repairs), and systems replacement (capital improvements).

To introduce such increases at once is likely to shock tenants accustomed to paying minimal rents and to impoverish those currently living on very low incomes. Therefore, it is recommended that rent increases be staged over a reasonable period of time (3-5 years) consistent with the funding the City is able to provide as a subsidy during that period. Coincidentally, the City should develop and implement a housing allowance program to assist those unable to afford the increased rent.

6. Establish a Minimum Housing Code/Implement a Code Compliance Program

The Novosibirsk Housing Maintenance Committee (NHMC) should organize maintenance priorities through development of a realistic and enforceable housing code that will direct Housing Maintenance Unit (HMU) activities. Such a code should establish standards for health, safety, and structural soundness. At least during the period of restricted resources, all repair work should be targeted at compliance with this code. Cosmetic and other work not related to the code should be postponed until rental income increases and housing finance systems develop. Code enforcement will only become effective as administrative reforms progress.

7. Initiate Competitive Bidding Practices for Contracted Work/Improve Construction Management and Contract Administration

A simple set of regulations should be developed by the NHMC to require the solicitation of competitive bids for construction and repair projects and for procurement of materials and services. Bids should be evaluated on a number of factors, including: price; the quality of the bidder; and the time frame for the delivery of a service or product. This will ensure that resources are maximized and will serve to stimulate the development of new sources for services and supplies.

8. Increase Staff Competence and Productivity

As the City is no longer able to provide the housing services which attracted most staff to its housing maintenance organization, wages must be reevaluated to enable the organization to keep and attract staff able and willing to do the work. Supervisors must be required to monitor performance on an ongoing basis and to use disciplinary action when necessary. Unrelated work must be strictly prohibited during working hours.

MANAGEMENT AND MAINTENANCE OF MUNICIPAL HOUSING IN THE CITY OF NOVOSIBIRSK

According to the agreement between the U.S. Agency for International Development (USAID) and the City of Novosibirsk, the USAID International Resident Advisor Program (IRAP) is to provide technical assistance to the City to improve the management and maintenance of its municipal housing stock. The City is particularly interested in this assistance because of the transition now underway from central planning to a market economy. During this period the City's housing maintenance organization must continue to operate with significantly reduced funding.

The program in Novosibirsk has two goals: to help the City improve housing maintenance operations, and to promote development of a competitive private management company industry to provide cost-effective services to both the City and other housing owners.

To begin this program, the resident advisor conducted a review of the City's current maintenance operations. During the period July 8 - August 7, 1992, interviews and observations of operations took place at the City, subdistrict, and microdistrict levels. Three of 10 subdistrict units were visited as were 3 of 71 microdistrict offices. Physical inspections of buildings and units were conducted in 2 microdistricts.

Officials in the mayor's office with responsibility for finance, housing development, housing construction, and privatization were consulted as were officials at the district administrator level to obtain current policies regarding housing provision and housing maintenance. Finally, meetings were held with representatives of large (formerly state-run), cooperative and private construction companies, two self-managed housing cooperatives, and housing management staff of an enterprise to gauge interest in participating in a competitive private management company demonstration project and future private management company work.

This report is divided into four sections: Section 1 provides a description of current operations and activities in municipal housing maintenance. Section 2 summarizes the issues and problems identified during the review, and Section 3 provides recommendations for improving operations and initiating a private management company demonstration project. Section 4 contains a list of proposed short-term technical assistance to the City of Novosibirsk for USAID consideration.

1 DESCRIPTION OF CURRENT CONDITIONS

The Novosibirsk City Soviet owns and operates approximately 50 percent of the city's housing stock (approximately 175,000 units). This percentage is slowly increasing as various enterprises transfer their stock to City Soviet ownership and management

because of a lack of adequate resources to maintain the buildings. To maintain this growing stock, the City Soviet uses a three-tiered organizational structure: the Komitet Zhilishchno-Kommunalno Khozyaystva or NHMC directs 10 subdistricts, Proizvodstvenny Zhilishchno-Remonty Trest or DHMUs, which supervise 71 microdistricts, Zhirishchno-Exploitatsionny Uchastok or Housing Maintenance Units (HMUs).

Each tier and the relationships among them are described below.

1.1 Novosibirsk Housing Maintenance Committee (NHMC)

The NHMC reports directly to the Deputy Mayor for Architecture, Construction, Utility Services and has overall responsibility for maintenance of the municipal housing stock and for responding to housing-related complaints addressed to the Mayor's Office. The NHMC employs 36 staff directed by a Chairman who has organized the staff into 6 departments responsible for: Planning, Accounting, Production and Technical Supervision of Maintenance, Supplies, Commercial Space, and Technical Supervision of Capital Improvements. The NHMC contracts with the Unified Computer Center for payroll, rent collection, and materials inventory data processing services. The NHMC directs a Construction and Repair Unit which operates on a "cost accounting basis;" it must procure enough work to cover its expenses. The Unit is required to contract with the DHMUs and HMUs for at least 70 per cent of its work; the remaining 30 percent may be procured from other entities (e.g., cooperatives and enterprises). In addition, the NHMC supervises the Bureau of Technical Inventory which maintains detailed information on the condition of the housing stock and another group which conducts a recycled garbage business.

The NHMC is responsible for organizing and conducting all capital improvements to municipal housing stock. Capital improvements include comprehensive repairs which require relocation of families and major repairs to building systems conducted while residents remain in place. Tasks involved in these activities include obtaining funding, evaluating and selecting buildings to be repaired, supervising the preparation of specifications, executing contracts with construction companies, providing technical supervision while work is in progress, and inspecting the work following completion. Currently, 4 buildings are undergoing comprehensive repairs; approximately 40 buildings are receiving systems improvements. Most of this work is being conducted under contract to Novosibirskgrashdanstrol, a large former state construction group now operating independently. This construction group makes the decision as to which work it will do for the NHMC. They complete 70 percent of the NHMC's work. Any work they do not agree to complete is contracted out to small private or cooperative construction companies. Recently, the NHMC used media advertising to request the services of such small companies. They received responses from more than 45 groups and entered into 72 different contracts for capital improvements work.

The NHMC's Construction and Repair Unit contracts with DHMUs and HMUs to complete current repairs. These consist of repairs to stairways, painting hallways, replacing glass in hallway windows, and repairs to roofs and heating, electrical and plumbing systems. Current repairs are performed cyclically according to established norms. The NHMC is a signatory to acceptance documents for completed capital improvements and current repairs and, using government established norms, conducts quality checks while work is in progress.

The garbage recycling enterprise is directed by the NHMC and contracts with HMUs to pick up garbage which is then sold to agricultural enterprises as animal feed. The NHMC negotiates with the garbage recycling enterprise and the agricultural enterprise to establish prices to be charged the HMUs for the pickup service and the price paid by the agricultural enterprise to the HMU for the garbage.

The Unified Computer Center, under contract to the NHMC, processes approximately 75 percent of the rent receipts for the municipal stock. (Those not processed by the Center are discussed under **Housing Maintenance Units (HMUs)** below.) The Center provides monthly reports on tenant balances. Rent payments are made by tenants at savings banks located throughout the city and are deposited to the NHMC's account. The savings banks are paid a fee of 2 percent of the amount collected for providing collection services. This amount is subtracted from receipts before they are deposited to the NHMC's account. The NHMC also receives payments made by tenants for various utilities. A 6 percent fee is earned by the NHMC for collecting utility payments; however, these fees currently are not being paid to the NHMC. The income is then distributed to DHMU accounts for DHMU use. The DHMUs are responsible for paying utility company bills.

The NHMC requests from the Mayor's Office funds for its administrative operations and for capital improvements to the municipal stock. They also advise the Mayor's Office on the amounts required for DHMU (including HMU) operations. The Mayor and City Soviet allocate specific amounts to the NHMC for its purposes. They also establish norms which define the amount of tax revenues collected by the District Administrator (District Mayor) which the District may retain for its use. The District Administrator (and the District Soviet) determine the amounts to distribute to the DHMU and for what purposes.

Funding this year has been allocated by the Mayor and the City Soviet on a quarterly basis because of the Russian Government's decision to allocate resources quarterly. This requires short-term planning and budgeting.

The NHMC provides a quarterly income/expense report to the Mayor's Office aggregating DHMU data (which includes HMU information). The Accounting Department completes these tasks and organizes rent receipts prior to submitting them to the Unified Computer Center.

The NHMC Chairman meets weekly with DHMU Directors to discuss the status of work, new policies, and DHMU problems. The Chairman provides aggregate information and other analyses to the DHMUs comparing performance and sharing information on successful and unsuccessful maintenance and management methods and techniques.

Another responsibility of the NHMC is evaluating and accepting transfers of buildings from various enterprises which no longer are able to maintain their stock. Agreements are entered into with the enterprise regarding repairs to be made by the enterprise and funds to be provided by the enterprise to the NHMC for a five-year maintenance period. Equipment, vehicles, and other housing-related assets also are transferred from the enterprise to the DHMU which is assigned responsibility for maintenance of such buildings within its jurisdiction.

The NHMC coordinates with the City's Committee on Housing Issues regarding the timing of demolition of dilapidated housing and construction of new housing and to identify relocation housing for residents required to move because of demolition plans. Final decisions on these matters are made by the Mayor and City Soviet. The NHMC is a signatory to acceptance documents for new buildings.

The NHMC Supplies Department purchases approximately 60 percent of the materials required for the Construction and Repair Unit and about 30 percent of the supplies needed by the DHMUs. A small "emergency stock" is maintained by the NHMC but most materials purchased are delivered directly to DHMU warehouses. Purchases are made from manufacturers, plants and through brokers. The ability to buy in large quantities enables the NHMC to acquire materials which would not otherwise be available as there are few suppliers willing to sell in small quantities. The Supplies Department sells some materials to other parties using a 25 percent markup.

The NHMC Commercial Space Department maintains a waiting list of applicants for commercial space and, when space becomes available, refers the applicants to the DHMU where the space is located. (The process which then occurs is described under **District Housing Maintenance Units (DHMUs)** below.) Once an applicant has received all necessary approvals, the NHMC Commercial Space Department prepares an official order for the Mayor's and the City Committee on Property Management's signatures approving the leasing of the space to the applicant. Commercial lease payments are made directly to the DHMU or independent HMU account as applicable; the NHMC does not receive commercial lease income.

The vacancy rate for municipal housing is effectively 0 percent and approximately 125,000 households are waiting for housing. Households are eligible to be added to a waiting list when their current housing situation provides space which is less than a minimum standard per person established by the Central Government. Waiting lists for municipal housing are maintained by the District Administrators. Lists are maintained according to when applications are received; however, there reportedly is much manipu-

lation of the lists for political and other reasons. The NHMC does not maintain a waiting list and has no official role in the allocation of housing. Indeed, when relocation of housing is necessary due to planned capital improvements, demolition activities, or the need to provide service housing for employees, the NHMC must negotiate with the District Administrators for available housing.

1.2 District Housing Maintenance Units (DHMUs)

There are 10 DHMUs which direct the activities of approximately 7 microdistricts (or HMUs) each, although the exact number varies by district. The Leninsky District, the largest, directs 13 HMUs using 4 intermediary units called Housing Management Associations (HMAs). The DHMUs oversee approximately 17,000 units each. They report to the District Administrator and provide statistical reports to and meet regularly with the NHMC. Funds for ongoing activities and current repairs are received from the District Administrator; capital improvements are funded and conducted by the NHMC.

The DHMU's purpose is to provide support, assistance, and supervision to HMUs. One DHMU visited employs 166 staff. Of these, 138 work in groups, such as transportation, which are organized on a "cost accounting" basis meaning that HMU billings and any work the group can find with other entities must cover their costs. The DHMU Director organizes and supervises all DHMU activities. Staff are organized into the following groups: Planning, Production and Technical, Transportation, Construction, Emergency, Supplies, Personnel, Commercial Leasing, and Accounting.

The DHMU Director reports quarterly, and often more frequently, to both the NHMC and the District Administrator. The DHMU Planning Department and the Accounting Department are involved in reporting using information regarding both DHMU and HMU activities.

Resident rents are received by the DHMU through bank account transfers. The DHMU receives a print-out from the Unified Computer Center at the end of each month indicating tenant balances and amounts received for rent and utilities. Rents from commercial leaseholders are paid directly to the DHMU, except in the case of independent HMUs (described later in this report).

The DHMU accounting staff generally maintain one unified account for the entire district with various sub-account records for each HMU. These are maintained based on information regarding DHMU activities conducted on behalf of HMUs, bills incurred by the DHMU for an HMU, and on information provided by the HMUs on salaries and other expenses incurred directly by the HMU.

The DHMU and the HMU together review HMU plans and jointly decide on capital improvements and current repairs to be completed over the next year. Decisions are made based on established norms, inspections conducted by DHMU and HMU technical

staff, and funds available. The DHMU's construction group then contracts with the HMU for the current repairs work although the HMUs sometimes contract with other groups as well.

Capital improvements are generally handled directly by the NHMC. The DHMU, along with the NHMC and the HMU, sign off accepting the work once it is completed. In some cases, however, capital improvements are funded by the District Administrator. In this case, the DHMU enters into contracts directly, monitors the work, and signs the acceptance documents.

The DHMU monitors the ongoing maintenance work of the HMU to assure that spring and winter preparation work is completed on a timely basis and consistent with established norms for heating, plumbing and roofs. This is accomplished using spot checks and in response to tenant complaints.

The DHMU enforces the leases for commercial space. Decisions about who will lease the space and the lease terms are determined by the District Administrator (basement and sub-basement space) or the City Mayor (first floor and above). The amount of rent to be charged is determined according to norms established by the Mayor's Office.

Personnel records are maintained by the DHMU and staff recruitment is conducted here although this activity is often shared with the HMUs. The DHMU accounting staff aggregate wage information from the HMUs for reporting purposes and to forward to the Unified Computer Center for payroll processing. The Unified Computer Center provides reports which the DHMU uses to determine account transfers needed to pay HMU wages, and to requisition the proper amount of cash for delivery to HMUs when wages are distributed. Because of delays in funding, wages often have been paid late in recent months.

The DHMU operates a nighttime emergency services unit and bills the HMUs for work completed. As 70 percent of the work completed by this group is on a "cost accounting" basis, the staff usually must find additional work if nighttime work does not cover their expenses. Therefore, they also seek to provide assistance to HMUs during the day when HMUs lack staff with the necessary plumbing or electrical skills or when a daytime emergency requires the HMU to seek additional help.

The Transportation Unit also operates on a "cost accounting" basis providing vehicles and equipment (and the appropriate drivers and equipment operators) to the construction unit and HMUs. Parties are billed through sub-account transfers. A mechanic is employed by the department but drivers/operators have primary responsibility for maintaining the vehicles and equipment. The peak season for the department is spring when snow and debris removal is required.

The DHMU has a Supplies Department responsible for procuring materials for DHMU departments and the HMUs. A warehouse is maintained from which DHMU departments and HMUs requisition materials which are delivered to the HMUs periodically during the week. The HMUs and departments are billed through sub-account transfers. Detailed records are maintained on usage and the warehouse is subject to inventory once a year with periodic spot checks throughout the year.

DHMU Directors meet weekly with HMU Directors to provide information on policies and guidance received from the NHMC and District Administrator and to discuss problems.

1.3 Housing Maintenance Units (HMUs)

The smallest organizational unit for managing and maintaining municipal housing is the HMU. Each reports to a DHMU, with the exception of HMUs in the Leninsky District (in which 13 HMUs are located), which report to Housing Management Associations (HMAs) that serve as intermediaries between the DHMU and the HMU. In this case, the HMU's responsibilities are limited to rent collection (rent is collected at the HMU office rather than the savings bank and recorded on computers by a cashier), groundsweeping, cleaning, and minor maintenance repairs. The HMA conducts almost all planning, accounting, and ongoing maintenance activities, including current repairs and preventive maintenance.

Each HMU provides management and maintenance services for 2,000 - 3,000 units or an average of 35 buildings. HMU staff at the various HMUs reviewed ranged from 75 to 98 people. Of this staff, approximately 15 percent serve in administrative positions and the balance complete maintenance tasks.

Groundsweepers, hallway/staircase cleaners, and garbage chute operators (where appropriate) constitute the majority of the HMU's maintenance staff. Other staff include janitors who provide semi-skilled plumbing and handyman services, electricians, plumbers, and carpenters. These staff provide day-to-day maintenance services and conduct preventive maintenance work as well. Although some current repair work (roof repairs, hallway painting and window repair) is completed by HMU staff, most of this work is completed under contract to the DHMU or cooperative or private construction groups. All capital improvement work is completed by the NHMC or DHMU. The HMU Director or Chief Engineer signs off on current repair and capital improvement work completed by contractors. HMU staff are not expected to complete repairs inside dwelling units. Most in-unit repairs are completed by tenants. Tenants are charged a fee by the HMU when the HMU completes repairs in the unit at the request of the tenant.

Administrative staff at the HMU include a Director, Chief Engineer, Economist (independent HMUs only - see below), Accounting Staff, and Foremen (called Masters). In addition, a person responsible for recording resident passport information (updating

passports, providing residency registration for employment, reporting draft-age males to military authorities) is a member of the HMU staff. Other staff include a Chief Engineer who reports to the Director and supervises the Chief Master - Current Repairs who directs current repair work not contracted out. Masters, or Foremen, report to the Director and supervise routine maintenance activities, organizing work, requisitioning supplies, and regularly evaluating staff performance for purposes of calculating wages and bonuses.

The Accounting function at HMUs varies depending on whether the HMU's funds are retained by the DHMU, whether the HMU has a bank account for certain purposes (semi-independent), or whether the HMU has its own bank account for all income and expenses (independent). In all cases, however, records on income and expenses are maintained by the HMU and all HMUs provide this information regularly to the DHMU. Semi-independent and independent HMUs may have greater control in authorizing payments for services and in requisitioning cash to pay for salaries and materials. Generally, two staff conduct accounting activities at an HMU. In addition to bookkeeping and report preparation, these staff also complete calculations for each resident whenever there is a change in utility or other charges assessed to residents.

The Director and Chief Engineer prepare the quarterly and annual plan/budgets for submission to the DHMU. In independent HMUs, an Economist assists with this task. The plans are prepared based on established norms, inspections conducted by the Chief Engineer, and experience records maintained by the Economist and Accounting Staff.

All staff are involved in resident relations through day-to-day interaction with residents as work is conducted. The Director maintains regularly-scheduled office hours to meet with residents, and staff respond to complaints as promptly as possible. Resident complaints and maintenance requests are also received by the Dispatcher who records the call and the resolution of the problem, including the time required to complete any necessary work. Skilled staff report periodically throughout the day to the Dispatcher for work orders. An average of 15 calls are received each day, more in the winter and fewer in the summer.

Accounting staff prepare requisitions for materials from the DHMU based on staff requests. Staff also purchase or barter for materials from other sources. HMU Directors meet regularly with the staff to inform them of new or revised policies and to solve problems. Supervisory staff at the HMU are evaluated by the DHMU Director who determines their wages and bonuses based on performance as compared to established norms.

1.4 Privatization Efforts

The Office of Privatization began work in January 1992, processing applications to privatize municipal housing units. This agency reports directly to the First Deputy Mayor for Economy. The NHMC, DHMUs and HMUs have no role in privatization. All pro-

ceeds from sales of units are forwarded to the Office of the Mayor. To date, almost 10 percent of municipal units have been privatized and the Office of Privatization expects that 20 percent will have been privatized by the end of the year. Approximately 90 percent of those units privatized have been transferred free of charge, except for a 490 ruble processing fee. Charges are assessed when the amount of space and some quality factors exceed minimum criteria established by the City Soviet.

Entire buildings have not yet been privatized although two buildings do have in excess of 50 percent of the units privatized at this point. The City has not established the amount to charge privatized units for maintenance. Residents of these units continue to pay the rent previously established for the unit.

1.5 Rent Structure

The Mayor and City Soviet have not addressed the issue of raising rents yet nor have they authorized enterprises to raise rents. Currently, residents pay rent based on rates established in 1928. Resident and commercial rental income now covers about 13 percent of municipal maintenance costs. Unless rents are raised, the City must continue the burdensome responsibility of heavily subsidizing municipal housing. This will become increasingly infeasible, given current municipal revenues and rising costs.

Residents have been assessed two increases in utility costs in the past several months. Further increases are expected as utility prices are brought in line with world prices. These increases have been the residents' introduction to the prospect of rising shelter costs. Residents generally have accepted the increases; however, some delinquencies are occurring primarily among very low income families.

Housing cooperatives have always prorated actual costs among residents. Their recent experience is useful in assessing the impact increased rents will have. At one cooperative, the director indicated that charges assessed residents average 200 rubles per month (about 6 times more than the average amount now paid by municipal tenants). This amount averages about 10 percent of resident income. He indicated that, although residents are not happy about it, most of them are paying the full amount on time. It was his opinion that other cooperatives are having similar experiences. Still another cooperative director indicated that his residents were expanding the amount of commercial space in their building to gain additional income in order to keep resident costs down as much as possible.

1.6 Private Management Companies

No private management companies are currently operating in Novosibirsk. Many cooperatives and enterprises self-manage in a manner similar to cooperative and condominium associations in the West. Only these groups currently have the breadth of

skills (financial management, maintenance, accounting, reporting, etc.) usually associated with private property management companies.

Novosibirskgrashdānstrol, the former state construction group, has staff and systems which could easily be adapted to enable the company to operate as a property management company. The director of the company is exploring business possibilities (the company recently opened shops to sell building materials they produce and also formed a joint venture with a local design group to develop single family homes) and expressed strong interest in opportunities to manage and maintain municipal housing.

A small number of cooperative and private construction firms have been providing maintenance repair services to various clients in the city, including the NHMC, DHMUs and HMUs. One cooperative director interviewed indicated that her group has the skills, equipment, and systems to compete for a contract to manage municipal housing. However, she stated that the cooperative lacks capital and requires cash advances to purchase supplies before they can begin work under their current maintenance contracts.

One private company interviewed was formed by 10 craftsmen (plumbers, carpenters, etc.) in anticipation of layoffs at the former state construction company. Their current contract with the NHMC to complete capital improvements in one building will provide them their former salaries and a 10 percent profit. They have little overhead as their company is structured informally with the director of the group handling any necessary paperwork. This company lacks the accounting and other management systems which would be necessary to operate as a property management company.

DHMU and HMU staff employed in "cost accounting" groups also are developing experience in providing services to clients other than the DHMUs and HMUs. For example, one DHMU nighttime emergency unit has contracted with a local hospital and a housing cooperative to provide nighttime emergency repairs. Another provides transportation services to non-governmental business clients. These groups operate in a manner similar to the private company referenced above; they have no formal administrative staff or systems except those provided by the DHMU.

Conversations with representatives of all these groups indicate a strong interest in responding to identified needs in the city. As mentioned previously, more than 45 individuals and groups responded to recent NHMC outreach activities. (Most of the respondents were ad hoc groups or individuals who do not wish to pay the required fee to register as a company until they are sure they have work.) Clearly, an entrepreneurial spirit is evolving in Novosibirsk.

2 ISSUES AND PROBLEMS

2.1 No Housing Strategy

The Mayor and City Soviet appear not to have developed a strategy for the City's long-range role in the housing sector. Issues of concern include:

- How will the municipal housing maintenance organizations function when the City becomes a joint owner in partially privatized buildings?
- What will be its role when buildings are totally privatized?
- Does it wish to continue as a full owner of some municipal stock in order to provide housing to low income families or for other purposes?
- Will it establish laws, regulations, and/or policies regarding rents, building conditions and use, landlord-tenant relations, etc.?
- Will it continue subsidies; for whom and for how long?
- Will it continue to be a housing developer?

2.2 Weak/Inequitable Organizational Structure

The division of funding responsibilities between the NHMC and District Administrators results in confused and sometimes contradictory understanding of the housing maintenance organizations' goals and objectives. Duplication of effort in planning and reporting and misunderstandings about oversight responsibility are serious by-products of an often confused leadership. Although the NHMC's charter establishes that it is responsible for the maintenance of municipal housing, it is unable to do so because, except for capital improvements, the Committee does not control the funds or decisions on expenditure of funds. The District Administrators have this authority. The result often is 10 different sets of priorities and approaches to solving problems. This division of authority also creates a situation subject to favoritism and the possibilities of waste and fraud.

The current organization as structured is unable to effectively implement municipal goals and objectives. The Districts establish their own goals and objectives which often result in inequities—one District providing more financial assistance to housing maintenance operations than another.

District Administration staff interviewed indicate that, under current economic conditions, making housing maintenance decisions is becoming more and more burdensome and they would be happy to be relieved of the responsibility. However, those interviewed were not necessarily a representative sample of Districts.

2.3 Administrative Inefficiency

The NHMC and DHMU role in housing maintenance is to provide funds to HMUs and to monitor the spending of these funds. A minimum amount of funds should be used to fulfill this role in order to assure that the maximum amount of funds possible are provided to the HMUs where direct services to tenants and buildings are provided. This is not currently the case.

Excessive time is spent preparing plans using norms which are outdated and probably irrelevant to current building condition and funding levels. Reports and plans are prepared for both the NHMC and District Administrators which results in duplication of effort.

The existing accounting system is needlessly complex and does not provide the kind of information needed to effectively manage housing maintenance operations. For example, staff interviewed at every level indicated that there is much "playing around" with accounts to assure that staff costs are covered and to account for materials bartered, exchanged, or, perhaps, stolen. The result is that it is very difficult to know the status of funds at any given time.

Some activities funded by the housing maintenance organizations are extraneous to housing management, e.g., the passport staff which have no housing-related responsibilities and the collecting and processing of utility payments.

2.4 Inadequate Funding

The most significant problem facing the City now is the lack of stable financial resources to address its deteriorating housing stock. Because of economic instability and uncertainty regarding anticipated tax revenues, the Central Government this year began establishing the local share of tax revenues on a quarterly rather than on an annual basis as had been the practice in previous years. This has seriously impeded the City's ability to plan for and carry out necessary maintenance work. In addition to delays, the local share of revenues has been significantly reduced. As tenant and commercial rental receipts and other income cover only 13 percent of maintenance costs, the situation is becoming critical. Serious deficits have been incurred for work begun based on promises of funds which have not been received. These deficits are not growing significantly now, as all but critical services have been discontinued.

The amount of deferred maintenance is increasing. In the meantime, enterprises are seeking relief from their housing maintenance responsibilities and are transferring housing to the municipal authorities. Thus, the City's financial obligations continue to increase.

2.5 Staffing Levels and Capabilities

At the HMU level, where direct maintenance services are provided to residents, there appear to be too few staff. At the same time, the NHMC and DHMUs appear to use more staff than necessary to effectively plan and monitor HMU activity.

Although technical competency at the NHMC and DHMU level is necessary for monitoring HMU activities, fewer such staff may be able to fulfill this function than are presently employed by both groups.

Technical skills are lowest at the HMU level where they are needed the most. As a result, problem resolution there is often haphazard and may result in more costly repairs being necessary in the long run. This, together with the lack of good quality materials, tools, and equipment, produces a poor housing product.

2.6 Low Staff Productivity

Staff are paid both wages and bonuses which require elaborate, time-consuming calculations based on norms for the amount and quality of work completed. Bonuses often equal 50 percent of salary. This system was intended as an incentive to improve performance. In practice, under current economic conditions, this is no longer the case, as many supervisors acknowledge that staff cannot survive without the bonuses. Therefore, most staff receive the bonuses no matter what their performance. Insufficient monitoring assures that this practice will continue.

Wages appear to be too low. Discussions with the housing maintenance director for a large enterprise revealed that staff at that organization are paid as much as 10 times what municipal housing staff are currently paid. Low wages and the City's reduced ability to provide housing to staff, a previous component of compensation, have resulted in very low productivity. One HMU director was unable to find workers assigned to maintenance tasks when requested to do so for observation purposes. Except for some current repair and capital improvements contractors, there was little work in progress apparent during several visits to DHMU and HMU sites. In a few instances, unrelated work was being conducted. For example, carpenters were building benches for trucks to bring HMU staff to where they could pick potatoes. At another site, staff were selling space in a large vegetable shed they had constructed at the site. In yet another, staff were preparing a basement area as a "hot house" to grow vegetables. It is notable that all these activities relate to acquiring and/or storing food, which may relate to low wages as well as a fear of shortages during the coming winter.

Another problem is that work is evaluated on the amount of work completed with few quality factors considered. The quality standard for completed work appears to be the minimum required, at best. The norms on the amount of work to be completed appear

to be very low as supervisors indicated that many staff complete their assignments quickly and are able to go elsewhere to earn additional income.

2.7 Poor Building Conditions

All buildings visited and observed are in serious need of repair. Staff interviewed indicated that both capital improvements and current repairs lag by several years. Even recently constructed buildings are of such poor quality that they need additional work immediately upon acceptance of the building. Established maintenance norms assume a higher initial quality of building than was actually constructed during the last several years. These norms are not realistic for the purposes of planning and prioritizing repair work. Without realistic guidelines, it is not clear that wise decisions on work to be done are always made.

Staff inspect all building systems each spring and fall. Inspections of resident apartments have not been completed in recent years and housing maintenance staff usually do not complete repairs in apartments. Visits to several units revealed that many are in good condition (often in marked contrast to the buildings in which they are located). However, in the absence of an inspection system, housing maintenance staff cannot be sure that hazardous or other conditions, which may threaten building systems, do not exist in individual units.

2.8 Lack of Competitive Bidding in Contracting

A large amount of repair work and other services are now contracted out by every level of the housing maintenance organization. In practice, this means providing work to units which previously were part of the organization but now operate on a "cost-accounting" basis. These groups are paid based on funds available. Sometimes small, private and cooperative construction groups will compete for available maintenance work but often these groups need cash advances which the housing maintenance organizations are unable to provide.

The contracts themselves call for payment for work completed with few quality factors involved. Time-frames are excessively long, allowing these contractors to lock in the work but to do other work as well. One company interviewed was provided more than a year to complete comprehensive repairs of one small building. When the site was visited there was little evidence that work was being conducted at that particular time.

Another problem is that contract prices are not firm in that adjustments are made at the end of the contract period to reflect something close to actual costs. This is accomplished through the use of coefficients applied to 1984 prices. When prices are rising rapidly it is difficult to know whether the coefficients result in accurate payments. Thirty percent contingency amounts are factored into the contracts and contractors usually get this full amount. If it happens that their costs are greater, they simply stop work. The

maintenance organizations are then forced to pay higher prices to the contractor, or to contract with the cooperative and private companies to complete the work, also at higher prices. Contracts lack effective sanctions to prevent this.

The lack of competitive bidding, poor construction management, and poor contract administration result in a waste of the City's financial resources.

2.9 Lack of Private Management Companies

A competitive private management company industry produces an environment in which the value of property is maintained or enhanced at the least expense to the owner. In the United States, many government providers of low income housing are using private management companies or private management company techniques in order to accrue the same benefits for their organizations and housing assets as the private sector enjoys.

No such private management company industry exists in Novosibirsk. There is some evidence of entrepreneurial interest in such an activity. Few of these entrepreneurs have an organizational history with which to evaluate their qualifications. However, groups which have contracted with housing maintenance organizations appear to be able to cost out their work properly and understand the concept that "time is money." They say they earn money because they are able to work better and more quickly than the municipal organizations.

3 RECOMMENDATIONS

3.1 Develop a Long-Range Housing Strategy

The City Soviet should define what its role will be once a housing market is established. This should be translated into clearly defined goals and objectives and the development of a long-range strategy to implement the goals and objectives. Ideally, input from housing maintenance organizations and the public should be obtained by the City Soviet when making these decisions. In addition to providing valuable insight, these parties are more likely to support the strategy if their views are considered. Once the strategy is established, a public education campaign would be useful to assure that citizens understand the changing nature of municipal housing.

3.2 Encourage the Development of Private Property Management Companies

Competitive private property management companies can significantly reduce the burden of responsibility which is now the City's by reducing costs and improving the efficiency and quality of maintenance and service provision. For buildings in which more than 50 percent of the units have been privatized, a property management company industry will offer owners choice in the cost and quality of services they may wish to

obtain for their buildings. This may be the only opportunity owners of privatized units will have to exercise choice until the supply of housing increases to meet demand, a situation not likely in the foreseeable future.

The private management company demonstration project to be conducted by the City and the resident advisor will be the first step in implementing this recommendation. Not only will the project encourage (and provide training for) prospective property management companies, it also will serve as a model to prospective clients of property management companies, the residents of buildings in which more than 50 percent of the units are privatized.

Additionally, the City should consider enacting laws to establish the legal framework within which resident groups can contract with private management companies, such as condominium laws.

3.3 Realign the Housing Maintenance Organization Vertically

The Mayor, City Soviet, and District Soviets should consider adjusting the organization of housing maintenance operations to reduce the District Administrator role to that of liaison with the DHMU rather than directly funding and establishing priorities for DHMU activities. This will eliminate the current confusion due to dual leadership, will assure equity, and will enable the City to effectively implement its housing strategy. Recently, another Siberian city, Barnaul, took this step after experiencing problems in housing maintenance operations and funding similar to those of Novosibirsk.

3.4 Streamline Administrative Operations

Rising costs and reduced funding require the City to seriously reevaluate staff needs in every tier of the housing maintenance operation. Much savings would occur if accounting, planning, and reporting were streamlined to eliminate duplications and to simplify management information only to that which is necessary for effective and efficient operations.

Eliminating work which is not directly related to housing maintenance provision, and reducing the paperwork burden will allow valuable resources to be directed to needed repairs.

Both the NHMC and DHMU should be viewed as entities to provide funds to and to monitor the performance of HMUs. Staffing at these levels should be evaluated in this light and reduced and/or reorganized where appropriate.

Finally, "cost accounting" groups should be encouraged to privatize and compete with other groups for housing maintenance organization work.

3.5 Develop a Plan to Implement Rent Increases

Implicit in the recommendations contained in this report is reducing costs. Equally important is increasing the rents paid by residential and commercial leaseholders to a level at least equal to the cost of maintaining housing assets. Rents should include the costs of routine, day-to-day maintenance and management, preventive maintenance, and provide a reserve for periodic refurbishing (current repairs), and systems replacement (capital improvements).

To introduce such increases at once is likely to shock tenants accustomed to paying minimal rent and to impoverish those currently living on very low incomes. Therefore, it is recommended that rent increases be staged over a reasonable period of time (3-5 years) consistent with the funding the City is able to continue to provide as a subsidy during that period. Coincidentally, the City should develop and implement a housing allowance program to assist those unable to afford the increased rent.

Rent increases should begin as soon as is practically possible if the City wishes to avoid any further losses in its deteriorating stock.

Any increase in rates will affect compliance. Therefore, eviction laws must be developed in order to provide sanctions in cases of non-compliance with payment and other lease terms.

A potentially lucrative source of income is the commercial space located in many municipal buildings. Leasing of this space should be conducted on a competitive basis to produce as high a rent as possible. Inflation factors, or "escalators" should be incorporated in leases to allow for periodic rent increases during the lease period. The length of the lease period should be long enough to attract bidders, but short enough to allow for periodic renegotiation and/or rebidding.

HMUs should be provided the entire income from commercial space and be encouraged to develop as much commercial space as possible.

3.6 Establish a Minimum Housing Code And Implement a Code Compliance Program

The NHMC should organize maintenance priorities through development of a realistic and enforceable housing code that will direct HMU activities. Such a code should establish standards for health, safety, and structural soundness. At least during the period of restricted resources, all repair work should be targeted at compliance with this code. Cosmetic and other work not related to the code should be postponed until rental income increases and housing finance systems develop. Code enforcement will only become effective as administrative reforms progress.

3.7 Initiate Competitive Bidding Practices for Contracted Work And Improve Construction Management and Contract Administration

A simple set of regulations should be developed by the NHMC to require the solicitation of competitive bids for construction and repair projects and for procurement of materials and services. Bids should be evaluated on a number of factors, including:

- Price,
- The quality of the bidder or product, and
- The time frame for the delivery of a service or product.

This will ensure that resources are maximized and will serve to stimulate the development of new sources for services and supplies.

Contracts should be carefully drawn with clearly defined specifications, time frames, and terms for payment. Once construction and repair contracts are negotiated, staff who are technically competent must be assigned responsibility to closely monitor compliance with all provisions of the contract. This must be done at frequent, specified stages of the work to assure that all specifications are met. Similarly, other service providers and suppliers must be closely monitored and payments withheld if compliance with contracts or purchase orders is not satisfactory.

3.8 Increase Staff Competence and Productivity

As the City is no longer able to provide the housing service which attracted most staff to its housing maintenance organization, wages must be reevaluated to enable the organization to keep and attract staff able and willing to do the work. Reasonable performance standards which require a full day's work of acceptable quality must be established and enforced. Supervisors must be required to monitor performance on an ongoing basis and to use disciplinary action when necessary. Supervisors should be monitored and evaluated consistent with this requirement. Unrelated work must be strictly prohibited during working hours.

4 SHORT-TERM TECHNICAL ASSISTANCE

During the completion of the management review and preparation of this report, some preliminary areas for possible short-term A.I.D. technical assistance were identified. These are listed below.

4.1 Develop a Private Property Management Company Industry

1. Assistance in small business development for those individuals and groups who wish to start private property management companies (e.g., current and former DHMU and HMU employees, cooperative boards).

2. Assistance in evaluating and adapting existing packaged housing management and maintenance software.
3. Assistance to develop devices to meter heat, water, and other utilities. (This could be viewed as business development assistance as there is no industry providing such meters now.)

4.2 Establish City's Role in Housing Sector And Strengthen City Housing Maintenance Organizations

1. Assistance to establish a long-range housing strategy.
2. Legal assistance to develop condominium, eviction, and other laws to establish owner and tenant rights and obligations.
3. Assistance to develop a housing code for the City.
4. Assistance to develop a housing allowance program for the City.
5. Assistance to develop construction management and contract administration skills and techniques.
6. Assistance to improve building and construction technologies to aid in identifying and solving problems, e.g., identifying heat leaks, improving roofing systems (and assistance to develop industries to produce improved materials).

APPENDIX A

KEY PERSONS INTERVIEWED

1. I. Pugachev, Deputy Mayor
Architecture, Construction,
Utility Services
2. M. Mitayev, Chairman
Housing Maintenance Committee
3. A. Stepanov, Chairman
Department for Finance and
Taxation Policy
4. A. Kornielov, Chairman
Committee on Housing Issues
5. N. Filatov, Chairman
Department of Capital Construction
6. R. Labur, Director
Agency for Privatization
7. S. Shinin, District Administrator
District #7
8. V. Sokoltsov, Director
District Housing Maintenance Unit
#4
9. A. Zhitosov, Director
District Housing Maintenance Unit
#7
10. I. Kim, Chief Engineer
District Housing Maintenance Unit
#1
11. D. Poskovoskaya, Director
Housing Maintenance Unit #24
12. A. Beranov, Director
Housing Maintenance Unit #41
13. V. Glazyrin, Acting Director
Housing Maintenance Unit #32
14. D. Dresdova, Director
Housing Maintenance Unit #63
15. N. Tiknanova, Director
Housing Maintenance Unit #54
16. M. Ridnov, Chairman
Cosmos Cooperative
17. E. Barakzanov, Director
Novosibirskgrashdanstrol
18. V. Pogolov, Chairman
Dzherzhinsky Housing Cooperative
19. E. Postnakawa
Scientific Production Cooperative