Optimizing Overhaul of Housing in Russia

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Abstract – This article systematizes data on the new system for organizing and funding the overhaul of common property in an apartment building (AB), being one of the most important directions of communal services reform. The purpose of optimization of the overhaul system of apartment building common property is effective functioning of the AB common property overhaul system. The optimization shall be implemented by applying international practices, while considering the specifics of domestic procedures of apartment building overhaul system.

A defining concept in this new overhaul system is the overhaul fund whose main source would be obligatory target payments made by owners of apartments in apartment buildings. The owners from each apartment building should select one of two possible ways to create such a fund (on a special account or on a regional operator’s account). The article deals with development of regulatory framework for overhauls of common property in apartment buildings, approval of the regional program, minimum rate of contribution for the overhaul, as well as creation and management of the regional operator’s activities. Considering a number of existing issues, this article lists basic ways how to optimize the overhaul system for apartment buildings. The conclusions and proposals made in this study can be used to solve practical tasks.

Keywords – Apartment buildings, overhaul fund, regional operator, regional program, system for organizing and funding the overhaul.

I. INTRODUCTION

New system for organizing and funding the overhaul of housing space is implemented in the Russian Federation at the federal level and at the level of federal subjects (Martens, 2014). Federal Law No. 271-FZ of December 25, 2012 adds a new section to the Housing Code of the Russian Federation concerning organization and funding of common property overhaul by owners of apartments in apartment buildings (hereinafter referred to as the ABs) (Amendments to the Housing…., 2012). These amendments require apartment owners to pay a monthly fee for the overhaul of common property in the AB. It is the regional executive authority of respective constituent entity of Russia that sets the minimum contribution rate for overhaul.

Decision concerning the method how to organize the overhaul fund should be made and implemented by apartment owners in the AB within the period set forth by the state body of respective constituent entity of Russia, but at most within two months after the official publication of the approved overhaul program where such a building is included in.

The aim of the article is to systematize data on the new system for organizing and funding the overhaul of common property in an apartment building, being one of the most important directions of communal services reform. The purpose of optimization of the overhaul system of apartment building common property is effective functioning of the AB common property overhaul system. The optimization shall be implemented by applying international practices, while considering the specifics of domestic procedures of apartment building overhaul system.

II. GENERAL REGULATIONS

A housing control authority representing the state performs supervisory functions over activities of the overhaul fund. A constituent entity of the Russian Federation bears subsidiary liability for non-fulfillment or improper fulfillment of obligations by the regional operator before owners of apartments in apartment buildings.

Let us analyze the stages of creation of a new AB common property overhaul system using the example of Saint Petersburg.

As the first stage, one can consider the adoption of Saint Petersburg Law No. 690-120 of December 4, 2013 On the Overhaul of Common Property in Apartment Buildings of Saint Petersburg, which regulates relations concerning organization and performance of overhaul of common property in AB of Saint Petersburg. As of the end of March 2014, similar laws were adopted in 80 constituent entities of Russia (Information Analysis Project “Odnako”, 2014).

The next stage is to determine the minimum contribution rate for the overhaul of common property in AB, approval of the AB technical state monitoring procedure based on electronic passports, creation of a regional operator and establishment of its operating procedures.

The Government of Saint Petersburg determines the minimum contribution rate for the overhaul of common property in AB of Saint Petersburg based on the evaluation guidelines of the Ministry of Construction, Housing and Utilities of the Russian Federation.

The minimum contribution rate for the overhaul is set on per square meter of AB floor space basis. The contribution should be sufficient to perform overhaul activities in case certain requirements are met. The basic requirement is the affordability of the minimum contribution for citizens being owners of apartments in AB, which is achieved by comparing predicted share of the citizens’ expenses on overhaul contribution in aggregate family income with a specified maximum allowable share of the citizens’ expenses on housing and communal services in aggregate family income (Overhaul of Common Property…., 2013).

In addition, the minimum contribution rate can be differentiated depending on the following factors:

- municipal district where an apartment building is located;
• type of building and the number of floors;
• cost of carrying out the overhaul of individual elements of building structures and utilities;
• standard periods of effective operation of building structures and utilities until the next overhaul (standard period between overhauls);
• list of common property overhaul work in the apartment building.

At a general meeting, owners of apartments in an apartment building can also decide on the overhaul contribution rate that exceeds the minimum rate. In this case, the part of the overhaul fund that was formed due to excess can be used, at the decision made by the owners, to perform any type of activity related to overhaul of the building’s common property (Housing Code of the Russian Federation: Federal Law No. 188-FZ, 2004).

In 2014, the minimum contribution rate for common property overhaul in apartment buildings of Saint Petersburg was determined as 2 rubles per square meter of total floor area per month (Minimum Contribution Rate…, 2014). Table I shows the data on minimum contribution rate for the overhaul of apartment buildings in entities of the North-Western Federal District and on the federal standards established by the Government of Russian Federation for these entities. These data are based on regulations of governments of the above-mentioned entities and take into account the differentiation by municipalities and types of buildings, if applicable.

**TABLE I**

| Entity                        | Minimum contribution rate set by regulations, rubles per sqm | Minimum contribution rate set by the Federal Standard (for 2014) (Federal Standards on Payment …, 2013) |
|-------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Republic of Karelia           | 6.3                                                        | 6.3                                                                                              |
| Republic of Komi              | 2.1 – 2.6                                                  | 6.1                                                                                              |
| Arkhangelsk Region            | 6.1                                                        | 6.1                                                                                              |
| Vologda Region                | 6.6                                                        | 6.6                                                                                              |
| Leningrad Region              | 5.55                                                       | 7.9                                                                                              |
| Murmansk Region               | 1.3                                                        | 7.9                                                                                              |
| Novgorod Region               | 5.08 – 5.93                                               | 7.6                                                                                              |
| Pskov Region                  | 5.95 – 6.95                                               | 7.3                                                                                              |
| Kaliningrad Region            | 5.9                                                        | 7.1                                                                                              |
| Saint Petersburg              | 2                                                          | 8.2                                                                                              |

Table I demonstrates that, compared to other territories of the North-Western region, one of the lowest overhaul contribution rates has been approved for Saint Petersburg, which was determined without any differentiation with respect to municipalities, building types or other indicators. Note that this is also one of the lowest minimum overhaul contribution rates throughout Russia (Minimum overhaul contribution rate in other entities, 2014). The minimum rate of contribution for overhaul of apartment buildings in Saint Petersburg is 6 rubles lower than the federal standard.

**A. Regional Program**

The next stage in implementation of a new system of AB common property overhaul organization and funding in Saint Petersburg after setting the minimum rate of overhaul contribution is to approve the regional program of AB common property overhaul by the executive bodies of the constituent entity.

In Saint Petersburg, this program was approved by Decree of the Government of Saint-Petersburg No. 84 of February 18, 2014. It is necessary to analyze which elements are included in the regional program, which period it is approved for, and what criteria were used to include or exclude the AB from the regional program.

The regional program includes a list of all the apartment buildings located in Saint Petersburg (except for the AB which were recognized as emergency objects and slated for demolition or reconstruction) indicating:

- address of an apartment building;
- year of the AB commissioning;
- year of the AB latest complex overhaul (reconstruction);
- AB type;
- total area of an apartment building, including residential and non-residential areas of the AB;
- date of privatization of the first dwelling in the AB.

The regional program has been approved for a 25-year period (Overhaul of Common Property…, 2013). It includes performance of overhaul of common property in apartment buildings, using the types of work established in the Housing Code of the Russian Federation and the Law of Saint Petersburg, taking into account the expected funding. Should the funding increase, the program may be adjusted, and the overhaul period may be reduced. These actions may be taken in case of yearly update of the program (the Administration of Saint Petersburg, 2014).

Let us specify the types of AB common property overhaul work in Saint Petersburg that is subject to funding from the special purpose fund (see in Table II).

Thus, the Law of Saint Petersburg, in addition to the basic list of overhaul work, prescribes funding of several other types of overhaul work.

The priority of overhaul work in the regional program is defined in accordance with the assessment criteria of an apartment building state, as established by the Law of Saint Petersburg. First and foremost, the regional program provides overhaul of common property in the AB that requires overhaul on the date of privatization of the first dwelling and in the AB that requires overhaul work according to the act of the Government of the Russian Federation (Housing Code of the Russian Federation: Federal Law No. 188-FZ, 2004).

Decree of the Government of Saint Petersburg No. 85 of February 18, 2014 approved a short-term plan on implementation of the AB common property overhaul program for 2014. The short-term plan was drawn up in accordance with the regional program of the AB common property overhaul for Saint Petersburg in the amount of RUB 7.052 bln, as provided by the budget of Saint Petersburg for 2014 (funds collected from owners of apartments in...
November – December 2014 would be accumulated on account for their further use starting from 2015) (the Administration of Saint Petersburg, 2014).

### TABLE II
**AB Common Property Overhaul Work in Saint Petersburg Subject to Funding from the Special Purpose Fund**

| Basic List of Common Property Overhaul Work in Apartment Building | Additional AB Common Property Overhaul Work under the Law of Saint Petersburg (Overhaul of Common Property …, 2013) |
|---|---|
| 1) overhaul of electric, gas, heat, water supply and disposal systems; | 1) replacement / restoration of AB structures or elements thereof (except for load carrying structures), replacement of individual elements of load carrying structures and/or their restoration due to danger of collapse when there are no grounds to consider the AB as emergency object and an object to be demolished; |
| 2) repair and replacement of elevator equipment, overhaul of elevator shafts; | 2) development / examination of project documentation for overhaul of common property in AB (in case such development and/or examination of project documentation is required according to urban planning laws); |
| 3) roof reconstruction; | 3) repair of individual elements of fire protection systems with a service life of more than 20 years (if such systems are present in the AB project); |
| 4) basement overhaul; | 4) construction oversight; |
| 5) cosmetic repair and insulation of facades; | 5) repayment of credits and loans, received and used to pay for such work, and payment of interests to use such credits and loans. |
| 6) installation of resource consumption metering equipment to provide communal services and regulation units for consumption of resources (heat and electricity, hot and cold water, and gas); | |
| 7) repair of apartment building foundation. | |

In total, the short-term plan prescribes performance of any type of overhaul activities in 1358 apartment buildings. Table III shows the priority types of work provided by the short-term plan.

### TABLE III
**Priority Types of Work Included in the Short-term Plan for 2014, (the Administration of Saint Petersburg, 2014)**

| Types of Work | Number of Buildings, Units |
|---|---|
| Elevator replacement work | 405 |
| Roof reconstruction | 366 |
| Cosmetic repair of facades | 194 |
| Repair of cold water supply | 188 |
| Repair of hot water supply | 128 |
| Other repair works | 77 |
| **Total** | **1358** |

The fourth stage in implementation of the AB overhaul funding and organization system is selection of the method how to create an overhaul fund by apartment owners in the AB.

Overhaul fund means financial contributions for the overhaul purposes paid by owners of apartments in apartment buildings, penalties (due to delayed payment of contributions for overhaul) and interest income from investment of funds on a special account. At a general meeting, the owners of apartments must choose one of methods (models) to create the overhaul fund (Housing Code of the Russian Federation: Federal Law No. 188-FZ, 2004):

1. Organization of the overhaul fund on a regional operator’s account;
2. Organization of contributions to the overhaul fund on a special account.

The Russian respective laws also provide the opportunity to change the method of organizing the overhaul fund at any time by the decision of the general meeting of apartment owners.

Let us consider and analyze the characteristics of each method, its advantages and disadvantages.

According to the first model, the owners make payments to the regional operator’s account, where general funds for the AB overhaul are accumulated.

#### B. Regional Operator

Regional operator is a legal entity established by a constituent entity of the Russian Federation in the legal form of a fund. The constituent entity may create various regional operators; each of them performs activities within a certain part of the constituent entity. At present, there is a single regional operator in Saint Petersburg, which operates under the jurisdiction of the Housing Committee of Saint Petersburg.

There are some restrictions on the activities of the regional operator. The regional operator has no right to (Housing Code of the Russian Federation: Federal Law No. 188-FZ, 2004):

1. Open branches and representative offices;
2. Establish commercial or non-commercial organizations;
3. Participate in the share capital of economic entities or in the property of other commercial or non-commercial organizations.

The funds received by the regional operator from apartment owners may be used for financing the expenses for overhaul of common property only.

 Owners of apartments in apartment buildings, who decided at a general meeting of owners to create an overhaul fund on a regional operator’s account, shall execute a contract with the regional operator on creation of the overhaul fund and the organization of overhaul activities. The essence of this contract is that the apartment owners shall make monthly contributions to the account of the regional operator within the specified period. At the same time, the regional operator shall provide overhaul work for common property within the period established by the regional overhaul program, as well as shall fund such overhaul.

The regional operator’s basic functions include:

- accumulation of contributions paid by apartment owners for overhaul purposes,
- funding the overhaul expenses;
- functions of a technical coordinator for overhaul activities.

In order to perform overhaul activities, the regional operator, within a certain period, submits to owners its proposals concerning the performance of common property overhaul activities, such as: proposals for overhaul start date, cost of work, funding sources, etc. The regional operator shall also ensure the preparation of the building for overhaul activities, prepare and approve overhaul project
documentation, if necessary, as well as assume responsibility for its compliance with technical regulations. The regional operator involves contractors to perform the overhaul work, controls quality of this work and performs the work acceptance procedure. In case of non-performance or improper performance of overhaul work by involved contractors, the regional operator assumes responsibility before the owners.

An authorized executive body of relevant constituent entity of the Russian Federation controls the compliance of the regional operator’s activities with specified requirements.

The Federal Service of Financial and Budget Supervision, the Audit Chamber of the Russian Federation, the Committee on Financial Control of Saint Petersburg, as well as municipal financial control bodies and the Chamber of Control and Accounts of Saint-Petersburg perform financial control over the activities of the regional operator in Saint Petersburg.

The annual financial statements of the regional operator undergo a mandatory audit (audit organization is selected by the constituent entity of the Russian Federation on a competitive basis).

The losses suffered by apartment owners as a result of non-performance or improper performance of obligations by the regional operator, are subject to reimbursement. The constituent entity of the Russian Federation bears subsidiary responsibility for fulfillment of obligations by the regional operator before owners.

C. The Second Model

The second model of the accumulation of owner’s payments for overhaul purposes intends to create an overhaul fund for a particular building. To implement this model, the owners, based on the decisions taken at a general meeting, decide on the following (Housing Code of the Russian Federation: Federal Law No. 188-FZ, 2004):

- Monthly overhaul contribution rate (the sum must not be below the minimum level specified for the region);
- The list of AB common property overhaul services and work (not less than services and work, as specified by the regional program);
- The dates of common property overhaul, which must correspond to the planned periods specified by the regional overhaul program;
- A bank where the special account will be opened with for crediting monthly payments, as well as the authorized person whose name the account will be opened on. It may be an HOA, an HBC, a residential complex¹ or a regional operator (in this case, the account is managed separately).

A special feature of creating the overhaul fund on a special account is the fact that the funds may be allocated on one special account only (they are intended to finance overhaul work in only one AB).

A special account can be opened with Russian credit organizations whose capital value is at least twenty billions of rubles. The information about such credit organizations is published at the official website of the Central Bank of the Russian Federation (on a quarterly basis).

Let us summarize the features of each model for accumulation of overhaul fund in Table IV.

Each model has its advantages, but also disadvantages.

Advantages of the first model are the familiarity and simplicity of use from a population’s standpoint, a possibility to quickly address the issue of urgent overhaul of the AB with highest degree of wear and to perform AB overhaul in the case of a high level of inactivity on part of the AB apartment owners.

| TABLE IV |
| --- |

**FEATURES OF METHODS FOR CREATING AB COMMON PROPERTY OVERHAUL FUND**

| Regional operator’s account | Special account |
| --- | --- |
| **Prerequisites** | A decision made at a general meeting of AB apartment owners on creating the overhaul fund on a regional operator’s account / failure to decide on the method of an overhaul fund creation | A decision made at a general meeting of AB apartment owners on creating an overhaul fund on a special account |
| **Account owner** | Regional operator | HOA / HBC / CH / regional operator |
| **Where the payment are credited to** | General overhaul fund of buildings | Fund of a special AB / to a personified bank account |
| **Who performs the overhaul** | Regional operator | Owners / owners together with the regional operator |
| **Special features** | Based on the regional overhaul program, the regional operator finances overhaul of particular AB from the general fund | The funds can be allocated on a single special account, they are designed to finance the overhaul of only one AB; the contract for this account has no expiration date, the account can be opened in the name approved by protocol of the general meeting of the AB owners general and only with credit organizations whose capital amount is at least RUB 20 bln. |

Among the advantages of the second model are an opportunity for the owners to actively participate in the organization and the process of overhaul; personification of funds on a special bank account and their binding to a particular AB; the right to extend the list of overhaul services and work, as well as to reduce the terms of overhaul activities as compared with the initial terms.

The weakness of the model providing accumulation of funds on a regional operator’s account is that this model does not allow taking into consideration the varied level of AB wear in the territory of a constituent entity, and the real overhaul payment rate among population may be lower than the predicted sum included in the regional program.

The model that provides financing the overhaul from a special account requires active participation of owners in overhaul activities and depends on their knowledge and

¹ HOA, HBC, CH mean “house owners association”, “house and building cooperative”, “cooperative housing”
expertise. The implementation of such a model is possible only in buildings with an HOA or an HBC; this model is the most expensive one.

It should be noted that, first of all, these two models are aimed at different types of owners, with differences in both financial wealth, tendency to self-organization and the willingness to actively participate in overhaul activities. The “pool” model is aimed at low-income owners that live in the AB with a high level of wear. This model is familiar and simple from a population’s standpoint. The special account model is intended for the AB apartment owners with the above-average income, living in new buildings or high-quality and well-kept buildings, and with a higher willingness to self-organization.

The obligation of the AB apartment owners to monthly pay a common property overhaul contribution occurs within 4 months from the date of publication of a regional program.

III. FINDINGS

The following conclusion can be made: introduction of a new system for organizing and funding overhauls is an essential step on the way to reform the field of overhaul of common property in apartment buildings. This new system is implemented at the federal and regional levels and involves creation of a special overhaul fund, whose main source is obligatory payments made by AB apartment owners; the approval of a regional program that includes all the apartment buildings of the region; the establishment by the constituent entity of the Russian Federation of minimum overhaul contribution rate for owners living in this constituent entity; the selection by owners of one of two overhaul fund creation models (on a special account or on regional operator’s account).

However, the new system of AB common property overhaul has a number of serious disadvantages. The practice of apartment building overhaul system is full of interrelated issues that shall be considered when optimizing this sphere. These issues include lack of an institution of active owners in Russia; a high degree of inactivity among apartment owners in issues concerning the AB overhaul; importance of government subsidies when significant part of owners pays for accommodation and communal services (presence of “poor” owners); inefficiency of the most of Russian HOAs; different income levels of owners living in the same AB (which complicates the issue of carrying out overhaul activities in the AB), etc.

IV. CONCLUSION

The purpose of optimization of the overhaul system of apartment building common property is effective functioning of the AB common property overhaul system, which involves solving the major problems existing within the system. The optimization shall be implemented by applying international practices, while considering the specifics of domestic procedures of apartment building overhaul system.

Considering a number of existing issues, let us define the main ways, in which the optimization of apartment building overhaul system should be carried out. First of all: active use of the special account model for creating an overhaul fund, attracting the bank loans by managing organizations of apartment buildings, government support for financing overhauls, extension of enforcement actions against non-payers and the continued possibility of housing de-privatization even after privatization law has expired. To ensure the effective functioning of the overhaul system, revision and improvement of its legal framework are required. It must be legally established what types of loans can be used to fund overhauls, who will guarantee their return and how they will guarantee it (international practice involving state guarantee agencies may be used here), as well as how to effectively deal with non-payers.

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