



STAFF REPORT ACTION REQUIRED

New User Fees and Fee Increase for Administration of Property Tax and Water Accounts

Date:	September 27, 2007
To:	Government Management Committee
From:	Treasurer
Wards:	All Wards
Reference Number:	P:\2007\Internal Services\rev\gm07029rev (AFS # 5473)

SUMMARY

This report seeks Council authority to implement new user fees for producing Final Notices for overdue property tax accounts, Notices of Issuance to Bailiff on property tax accounts being forwarded to the Bailiff for collection, Account Set up fees for newly-created Water/Utility accounts and an increase in the current user fee for Statement of Tax Accounts issued on properties with outstanding taxes of \$100 or more. Combined, the new user fees and fee increase will generate an estimated \$1,107,000 in revenues in 2008.

This report is being brought forward at this time in order to ensure that notice requirements are met and that supporting communication materials can be produced prior to the recommended implementation date of January 1, 2008.

RECOMMENDATIONS

The Treasurer recommends that:

1. Effective January 1, 2008, a new user fee be implemented to produce Final Notices for Overdue Property Tax Accounts (prior to issuance to bailiff), with a fee to be set at \$10.00 per notice issued, per tax account;
2. Effective January 1, 2008, a new user fee be implemented to produce Notices of Issuance to Bailiff, with a fee to be set at \$35.00 per notice issued, per tax account;

3. Effective January 1, 2008, a new user fee be implemented for setting up new Water/Utility accounts (New Account Set Up Fees), with a fee to be set at \$50.00 per new account created;
4. New Account Set Up fees for new Water/Utility accounts be increased each year, effective January 1st, by a percentage equal to the percentage increase in the All Item Index of the Consumer Price Index (not seasonally adjusted) for the Toronto Census Metropolitan area (C.P.I.) for the period October 1 to September 30 of the immediately preceding year;
5. Effective January 1, 2008, the user fee for the issuance of Statements of Tax Accounts be increased from the current \$5.00 to \$7.50 for overdue statements issued in March, May, July and September for tax accounts with an outstanding balance of \$100.00 or more;
6. Municipal Code Chapter 441, Fees and Charges, be amended to give effect to these fee changes, and authority be granted for the introduction of the necessary bills; and
7. The appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Financial Impact

If implemented on January 1, 2008, the proposed new service fees and fee increase outlined in Table 1 will generate an estimated \$1,107,000 in new annual revenues. This amount will be included in the Office of the Treasurer - Revenue Services Division's 2008 Operating Budget submission.

Table 1
Additional Revenue from Proposed User Fees/Fee Increase

User Fees	Estimated volume/year	User Fee	Revenue (full year)
Final Notice (for overdue Property Tax Accounts)	19,000	\$10.00 per notice	\$190,000
Notice of Issuance to Bailiff	6,200	\$35.00 per notice	\$217,000
New Account Set up for Water/Utility Account	2,000	\$50.00 per account set up	\$100,000
Statement of Tax Account	240,000	\$2.50 (fee increase from \$5.00 to \$7.50)	\$600,000
Total Estimated Revenues			\$1,107,000

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

ISSUE BACKGROUND

In March 2004, Council approved new user fees for tax statements that are issued by Revenue Services Division for all property tax accounts with outstanding balances of \$100 or more. These fees were implemented June 1, 2004, and generate annual revenues of approximately \$1.2 million each year. The full text of this report can be viewed at:

<http://www.toronto.ca/legdocs/2004/agendas/committees/bud/bud040312/it001-77a.pdf>

This report proposes an increase in the above fee, from \$5.00 to \$7.50 per notice, effective January 1, 2008, and recommends additional fees.

COMMENTS

Municipal user fees are a charge to the user for a specific municipal service, activity or product, or for the use of municipal property. Section 259 of *the City of Toronto Act, 2006*, provides the authority to implement municipal user fees and charges and requires that user fees be approved by Council and enacted by by-law.

In establishing user fees for municipal services, activities or products, the municipality is recognizing a need to recover operating costs associated with the provision of non-mandatory services. Utilizing a cost recovery approach to establish the fee amount ensures that the fees charged bear a relationship to the cost of providing the service. By passing the cost of specific services to the consumer, only those individuals or groups that utilize the service or incur the fee pay for the cost of providing it, rather than taxpayers in general.

In consideration of the above, and the need to identify new sustainable funding mechanisms, Revenue Services Division is proposing the introduction of the following user fees for the administration of property tax and water accounts, effective January 1, 2008.

“Final Notice” for Overdue Property Tax Accounts

A fee of \$10.00 is recommended for all Final Notices for overdue property tax accounts (prior to issuance to bailiff) that are produced and mailed to property owners, effective January 1, 2008. The recommended fee is intended to cover a portion of Revenue Services' costs of producing the Final Notices, which include staff costs for identifying and tracking accounts which are pending issuance to the bailiff, producing extracts from the tax billing system to send to the printer to produce the notices, and the direct costs of paper, printing and postage.

Where property tax accounts fall into arrears, property owners are provided a series of notifications of the outstanding amount, through Statements of Tax Account which are mailed in January, March, May, July and September. Ultimately, if these notifications coupled with internal collection proceedings fail to produce payment of overdue amounts, or if suitable payment arrangements cannot be established with the property owner or the property owner cannot be located, the account is issued to a bailiff service under contract with the City to attempt to collect the outstanding amounts.

Once accounts are issued to the bailiff for collection, payments of overdue amounts can no longer be made to the City – they must be made to the bailiff, with the bailiff remitting any amounts collected to the City, less the bailiff’s fees. When an account is issued to the bailiff, additional charges of approximately 5% to 7% plus costs become the expense of the debtor/taxpayer. For this reason, the City issues a “Final Notice” of overdue property tax accounts to property owners (prior to issuance to a bailiff), advising that, unless full payment is received by a set date or a firm, suitable payment arrangement is entered into with the City, the account will be issued to a bailiff for collection. This gives the taxpayer the opportunity to bring their tax account into good standing before the account is issued to a bailiff. Currently, the operational and material costs to provide this non-mandatory service to taxpayers are being borne directly by the City. It is considered more appropriate that these costs be incurred by the taxpayer whose account is delinquent. The fee will be applied directly to the tax account upon the issuance of the Final Notice.

At an estimated volume of 19,000 final notices issued per year, the fee of \$10.00 per notice will generate approximately \$190,000 in new revenue in 2008 and subsequent years. As this fee represents a nominal amount, an annual inflationary increase to the fee level is not recommended at this time.

Notice of Issuance to Bailiff

A fee of \$35.00 is recommended for all Notices of Issuance to Bailiff that are produced and mailed to property owners, effective January 1, 2008. The recommended fee is intended to recover a portion of Revenue Services’ costs of producing the notices, which include staff costs for identifying and tracking accounts that are issued to the bailiff, producing extracts from the tax billing system to send to the printer to produce the notices, and the direct costs of paper, printing and postage.

Where Revenue Service’s collection efforts have been unsuccessful in producing payment of overdue amounts, or if suitable payment arrangements cannot be established with the property owner or the property owner cannot be located, the property tax account may be issued to a bailiff, under contract with the City, for collection of the outstanding amounts. Notice to the taxpayer of the issuance of the tax receivable to the bailiff is necessary to inform the taxpayer that their outstanding tax receivable has been issued to a bailiff, and to advise that any further payments on the outstanding amount must be made to the bailiff directly.

Given that the City incurs costs related to the assignment of these unpaid amounts to the bailiff, it is recommended that a \$35 charge be applied per tax account for each Notice issued, with the fee to be applied directly to the tax account following mailing of the notice. This passes the City’s administrative costs for generating and mailing the notices to the individual that incurred the fee, rather than on all taxpayers.

The \$35 service charge is consistent with the current charge levied for NSF/returned cheques, and with the existing \$35 fee that is imposed on property owners where other City divisions have requested that uncollectible charges be added to the tax roll (e.g.,

unpaid fees levied for grass or weed cutting, debris removal, false fire alarms, etc.). An annual inflationary increase in the fee level is not recommended, in order to keep the fee consistent with these existing fees, which are corporation-wide, and which are similarly not indexed to inflation or subject to automatic annual increases. The fee level will be reviewed periodically to determine whether it should be increased. It is also anticipated that the fee will have a deterrent effect, prompting taxpayers to pay outstanding amounts to avoid having to pay the additional fee, thereby contributing to improved overall collection rates.

At an estimated volume of 6,200 notices issued each year, the fee of \$35.00 per notice will generate approximately \$217,000 in new revenue in 2008 and subsequent years.

New Account Set Up Fee – Water/Utility Accounts

A fee of \$50.00 is recommended for all new water/utility accounts that are created, effective January 1, 2008. The recommended fee is intended to recover a portion of Revenue Services' costs in setting up and servicing new accounts.

Approximately 2,000 new water/utility accounts are created each year. New accounts arise from new construction, both residential and commercial/industrial, as well as from the severance and redevelopment of existing parcels. A large majority of new water accounts are for residential condominium properties – condominiums generally have a single water meter/water account for the entire building, rather than individually metered condominium units.

For each new property, Revenue Services must create a new water/utility account in order to track the billing of water consumption/sewage charges, and in future, other utility amounts such as solid waste collection fees. As the number of accounts administered by Revenue Services increases each year, the new account set up fees will help to offset increased staffing costs required to produce bills, process payments and maintain accounts, and to administer rebate and payment programs, refunds, accounting operations, and collections. The new fees will also offset increases in direct operating costs required to service the accounts, including printing and postage of water/utility bills, information technology support for the Division's automated billing systems, and related hardware and software.

Additionally, new accounts often require that ownership and mailing address information be verified, and that newly-created water/utility accounts be linked to Revenue Services' tax billing system. At present, Revenue Services' Ownership Updates unit consists of 10 staff and processes more than 50,000 ownership changes per year, approximately 30 per cent of which are newly created accounts. Given that these are largely manual processes, an increase in staffing levels may be required to process the volume of new properties added each year – these will be identified as necessary through the annual budget process.

A New Account Set Up fee, for newly-created water/utility accounts, will allow a portion of the increased administrative costs of servicing these new properties to be passed

directly to the individual that incurred the fee, rather than on all taxpayers. The fee will be added to the water/utility account at the time the account is first created.

With new accounts being added each year, it is appropriate that the new account set up fees also be indexed for inflation, such that the fees increase each year in an amount sufficient to offset the expected inflationary increases in staffing and direct operational costs. It is recommended that new account set up fees for water/utility accounts be increased each year, effective January 1st, by a percentage equal to the percentage increase in the Canadian Consumer Price Index (C.P.I.) for the period October 1 to September 30 of the immediately preceding year.

A comparison of the City's proposed fees for new account set up with other Ontario municipalities showed that Toronto's proposed fee, at \$50 per water account, is consistent with or lower than fees charged for similar services in other locations (see Table 2). At an estimated volume of 2,000 new water/utility accounts per year, the new account set up fee of \$50.00 will generate approximately \$100,000 in new revenue in 2008, and increase roughly at the rate of inflation, or 3 per cent, in subsequent years (approximately an additional \$3,000 per year).

Statement of Tax Account – Increase to existing fee amount

An increase in the current fee from \$5.00 to \$7.50 per statement is recommended for all Statements of Tax Account that are produced and mailed, effective January 1, 2008.

Each year, Revenue Services staff produce and mail 240,000 to 280,000 Statements of Tax Account that identify the outstanding amount of taxes due on each account. While the *City of Toronto Act, 2006* requires that the City send a single statement of account before the end of February, identifying tax arrears as of December 31 of the preceding year, the City's practice has been to send 4 additional non-mandatory statements in March, May, July and September. A \$5.00 administrative fee is currently charged for each non-mandatory statement of tax account notifications, with the charge being applied directly to the tax account.

The tax statement provides a notification of the outstanding taxes, while providing the taxpayer with an opportunity to fulfill their tax obligation before the financial obligation becomes substantial. Additionally, these statements serve as a reminder to the taxpayer to make payments arrangements prior to enhanced collection activities or issuance to a bailiff and/or registration of a tax arrears certificate on title of the property, which may carry additional costs. From the City's perspective, the issuance of tax statements are crucial to ensure necessary cash inflows to meet the financial obligations of the City. The statements play an integral role in keeping the overall tax receivable amount for outstanding taxes within 5 to 7 percent of the total taxes billed annually.

Setting the fee at the \$7.50 level brings the fee more in-line with what other municipalities are currently charging (see Table 2). As this fee is for a non-mandatory service that is provided as a convenience to taxpayers, and supports the City's overall rate of collections on overdue accounts, an increase in the fee to \$7.50 per statement is

recommended. At an estimated volume of 240,000 notices issued each year, the fee increase of \$2.50 per notice will generate approximately \$600,000 in new revenue in 2008 and subsequent years.

Comparison of Proposed Fees to Other Municipalities

Table 2 provides a comparison of Toronto’s proposed fees with 2007 fee levels for similar services provided by other Ontario municipalities. Toronto’s fees are consistent with fees in other comparably-sized municipalities.

Table 2
Comparison of Toronto’s Proposed Fees with Other Municipalities

Municipality	New Account Set-up Fee: Water/Utility	Overdue Tax Notification Fee
Toronto (proposed)	\$50.00	\$7.50
Ottawa	\$58.00	\$5.60
Oshawa		\$10.00
Burlington		\$15.00
Brampton		\$5.00
Richmond Hill	\$35.00	
Region of Peel	\$36.00	
Region of Durham	\$54.00	

Implementation and Notice Provisions

On Council’s approval of this report, a by-law will be introduced to implement the new user fees/fee increases by adding them to Municipal Code Chapter 441, Fees and Charges. In addition, all new Revenue Services fees/fee increases will be published in the 2008 Interim and Final tax brochures, and included on inserts that are mailed with water/utility bills for water/utility account-related fees.

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SIGNATURE

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