

2021 Accounts Receivable Write-off Report and Write-off of Uncollectible Property Tax and Utility Amounts

Date: May 24, 2022
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report provides information on accounts receivable amounts written off as uncollectible in 2021 under delegated authority provided to the Controller.

This report also recommends the write-off of property taxes deemed uncollectible for 43 individual property tax accounts (comprising 133 separate receivable amounts) relating to taxation years 1989 to 2022. The receivable amounts recommended for write-off relate to property tax accounts that are no longer returned on the assessment roll, or for which further collection efforts and recovery of outstanding amounts are extremely unlikely to be successful.

The total estimated amount of property taxes to be written off is \$1,487,851, consisting of principal taxes of \$342,953 and accumulated interest/penalty of \$1,144,898, as identified in Attachment 1. All reasonable and appropriate collection efforts have been exhausted. It is recommended that the property taxes, interest and fees that have accumulated over the period 1989 to 2022 be deemed uncollectible and written off. The write-off of these amounts will have no impact on the current year's budget, as these amounts have all been previously provided for in the Allowance for Doubtful Tax Receivables Account in prior years.

In addition, a write-off is recommended for outstanding charges totalling \$634,023 that are deemed uncollectible on 4 utility accounts, as identified in Attachment 2. The write-off of these charges has no financial implication on the current year's budget, as unpaid utility amounts are identified each year within a provision included in the general ledger as an Allowance for Doubtful Water Accounts.

Consistent with last year's write-off report, outstanding Provincial Offences Act (POA) fines and amounts collected by Court Services are included in this report. Following internal actions by Court Services staff, and as a result of recommendations made by Legal Services, the Controller was requested to exercise their delegated authority to write-off outstanding POA amounts up to \$500,000.

As a result, through delegated authority, the Controller has approved the write-off of 21,884 individual balances, each less than \$500,000. Balances owing were maintained in the provincially mandated case management system (Integrated Court Offence Network, or ICON) for court offences. In all cases, no amounts were recovered since debtors could not be located or were deceased, the business was no longer in operation and/or had no assets, or exhaustive collection efforts proved futile. There is no financial impact in the 2021 fiscal year from these write-offs since balances are not recognized as revenue until paid or unless there is reasonable expectation of collection.

Of the total \$1.8 million in uncollectible POA amounts that have been approved by the Controller for write-off, approximately \$70,000 (approximately 4%) pertain to offences that occurred prior to the transfer of provincial court administration to the City in 2002.

RECOMMENDATIONS

The Controller recommends that:

1. City Council deem the unpaid property taxes levied in all years (including interest and penalties which have accrued on those unpaid taxes up to the time of write-off) on the 133 receivables listed in Attachment 1 as uncollectible, and direct the Controller to remove these amounts from the tax roll;
2. City Council deem the unpaid utility charges which have accrued on the 4 utility accounts listed in Attachment 2 as uncollectible, and direct the Controller to remove these amounts from the respective utility accounts.

FINANCIAL IMPACT

This report considers three components:

1. Amounts totalling \$1,536,167 (0.19 per cent of \$794 million total billable revenues for 2021, excluding grants and billable revenues for Parking Tags, Tax and Utilities) were written off by the Controller in 2021 in accordance with delegated authority provided in the City's Financial Control By-law, after completion of appropriate collection efforts. These amounts, which are included in the City's Accounts Receivable sub-ledger, have been provided for in the City's Allowance for Doubtful Accounts and expensed in previous years; as such, there was no impact to 2021 operating expenditures. Details of actions taken and the recommended write-offs are noted in the Comments section below.
2. The total estimated property tax amounts to be written off with the adoption of the recommendation in this report is \$342,953, consisting of a municipal portion (which includes added charges) of levied taxes of \$275,849, a provincial education portion of \$67,104 and an additional \$1,144,898 in penalty and interest charges as well as fees as at April 1, 2022. The provincial education portion of \$67,104 to be written off

will be recovered from the various schoolboards as these amounts have already been paid to the respective schoolboards.

The total write-off amount of \$342,953 represents a nominal percentage of the total amount of taxes billed over the period 1989 to 2022. In general, the City annually collects 97% of all taxes in the year billed, with a long-term collection success rate of over 99.9 per cent.

The penalty/interest portion of the total write off amount is considered to be an estimate. Since interest accrues on tax accounts on a monthly basis, the amount of interest/ penalty to be written off will continue to increase until the date the actual write-off is approved and processed. The write-off of these amounts will have no impact on the current year's budget, as these amounts have been provided for in the Non-Program Allowance for Doubtful Tax Receivables Account in prior years.

The total amount of utility billings to be written off with the adoption of the recommendation contained in this report is \$634,023, consisting of a water charge of \$274,588 and a sewer charge of \$359,435, as shown in Attachment 2. The write-off amounts have no financial implication on the current year's budget, as unpaid utility amounts are identified each year within a provision included in the general ledger as an Allowance for Doubtful Water Accounts.

3. Amounts totalling \$1.8 million representing Provincial Offences Act defaulted fines deemed uncollectible were reviewed and recommended for write off by the Controller on June 23, 2021. There is no financial impact on the City's 2021 revenues or operating expenditures. Revenues reported in the City's general ledger reflect only the portion of outstanding fines that are deemed collectible.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

The City of Toronto Municipal Code Chapter 71, Financial Control, authorizes the Controller to "write-off outstanding amounts owing to the City as uncollectible, if the amount is not more than \$50,000 and is not an amount raised as taxation or deemed to be taxes, except for items added to the tax bills for collection purposes only and not as a result of a tax or assessment appeal". The Financial Control By-law also states, "Write-offs of amounts owing to the City in excess of \$50,000 must be approved by Council except for tax reductions as a result of a successful appeal of assessment or taxes by taxpayer".

A further amendment to the Financial Control By-Law of June 24, 2008 authorizes the Controller to write-off amounts up to \$500,000 where the City Solicitor has attempted to recover the amount owing and has concluded that the amount is uncollectible.

At its meeting on October 3, 4 and 5, 2000 and its Special Meeting on October 6, 10, 11 and 12, 2000, Council adopted a report entitled "Public Disclosure and Tax Arrears Information and Strategy for Aggressive Collection Procedures" which recommended the adoption of a comprehensive collection process for commercial, industrial and multi-residential properties.

At its meeting held on July 14, 15 and 16, 2021 City Council adopted [Item GL24.3 "Write-off of Uncollectible Property Taxes from the Tax Roll"](#) which recommended that City Council deem the unpaid property taxes of 75 receivables totalling approximately \$33,736 as uncollectible and directed the Controller to remove these amounts from the tax roll.

On an annual basis, the Controller reports to Committee and Council on accounts receivable amounts written off as uncollectible under delegated authority, and if required, to seek approval for the write-off of uncollectible amounts in accordance with the provisions of the Financial Control By-law (Toronto Municipal Code, Chapter 71). The link to the Council Write-Off Policy for Fines under the Provincial Offences Act Deemed Uncollectible is:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.GL7.10h>

At its meeting on October 1, 2021, City Council adopted [Item GL25.4 2020 Accounts Receivable Write-Off Report](#) which recommended the write-off of Provincial Offences Act Fines Deemed Uncollectible above \$500,000.

ISSUE BACKGROUND

Property Taxes and Utility Charges

The Revenue Services Division uses internal collection procedures, external bailiffs and ultimately the municipal tax sale process to collect on unpaid property taxes. Property Tax Account Statements/overdue notices are mailed to property owners in arrears advising of the overdue property taxes. Overdue notices are issued at the beginning of each year and at the first and third installment due dates of the interim and final property tax bills. Revenue Collectors also contact owners by telephone and/or by letter to attempt to secure suitable payment arrangements with property owners. Final Notices (prior to issuance to a bailiff) are issued to property owners where unpaid amounts exist from the previous taxation year in or around April of each year for residential properties and in November for non-residential properties, per Council's previously approved procedures.

A Final Notice advises the property owner that failure to pay arrears will result in their account being transferred to a bailiff for collection. It allows the property owner one last opportunity to make full payment or to make suitable payment arrangements within 21 days of the issuance of the Final Notice.

Internal collection efforts are deemed exhausted when there has been no response to a Final Notice and where the property owner cannot be reached, and where no suitable

payment arrangements have been made. These accounts are then transferred to an external bailiff company to attempt to collect the unpaid taxes on behalf of the City. A Notice of Issuance to Bailiff is issued to the property owner indicating that their outstanding tax arrears have been issued to an external bailiff company. It advises that any further payments on the outstanding amounts must be made to the bailiff directly, including bailiff fees.

In accordance with the provisions set out in the *City of Toronto Act, 2006*, the City will commence tax sale proceedings on properties where three or more years of taxes remain unpaid, and where all collection efforts, by both city staff and the bailiff, have proven unsuccessful. In circumstances where tax sale proceedings are ineffective or inappropriate, the *City of Toronto Act, 2006* provides a mechanism to write-off unpaid taxes.

Under the *City of Toronto Act, 2006*, Section 319(4)(b) allows taxes to be written off as uncollectible "if the recommendation of the treasurer provides a written explanation of why conducting a tax sale would be ineffective or inappropriate." For amounts recommended for write-off in Attachment 1 to this report that no longer exist on the assessment roll, conducting a tax sale on these properties would not be appropriate since the unpaid taxes in all cases relate to tax accounts/properties that are no longer valid parcels.

In certain circumstances where tax arrears remain on an account that is no longer returned on the assessment roll, the unpaid taxes can be apportioned amongst current tax accounts that formed part of the former parcel of land (e.g., the new parcels created following a severance or re-development of a property). In other cases, the apportionment of old arrears to new parcels is not possible, due to a lack of information concerning how the taxes should be apportioned, or to the passage of time, or other factors. In these cases, the tax sale process cannot be used to collect the taxes because the original parcel (against which the arrears are associated) no longer exists.

Billable Services

Accounts receivable invoicing, revenue recognition and collections are currently decentralized within the City. City Divisions that invoice for services are required, as part of their collection efforts, to review their outstanding receivables on a regular basis and establish appropriate allowances for all accounts where collection is considered doubtful. In collaboration with the Revenue Services Division, these provisions are reviewed annually for adequacy and adjustments are made where appropriate.

Divisions are required to send unpaid invoices under \$1,000 to two collection agencies. If the first collection agency is unsuccessful within six (6) months, the amount is sent to a second collection agency for another six (6) months. As a general practice, amounts over \$1,000 are forwarded to Legal Services for collection action which may include litigation or small claims court action. Legal Services may recommend settlement based on the information available. Once all collection efforts have been exhausted and senior management staff, Legal Services and/or the City's contracted collection agencies have deemed the amount(s) to be uncollectible, a write-off request is initiated and the

required approvals are obtained from the appropriate Division, Director of Revenue Services and the Controller.

All write offs are added to Debtor Watch list for review by Purchasing and Materials Management Division (PMMD), who use the Debtors Watch List as a tool necessary to adhere to the City's *Right to Reject Debtors and Set Off Policy* (FS-PMMD-26).

Provincial Offences Act Defaulted Fines

POA defaulted fines are managed by Court Services based on court ordered fine amounts and associated surcharges, costs and fee amounts recorded in the Province's Integrated Court Offences Network system and supporting court documents. On May 22, 2018, City Council adopted [Item AU12.1](#) requesting that the Director of Court Services review the 'Write-Off Policy for Fines under the *Provincial Offences Act* Deemed Uncollectible' and submit to Council proposed revisions to the Policy to reflect existing practices. An updated policy was approved by City Council in October 2019.

City Council also requested through the adoption of Item AU12.1 that the Director of Court Services implement processes to ensure compliance with the updated policy. The Provincial Offences Act defaulted fines approved by the Controller under delegated authority and the recommendation of the eight cases over \$500,000 for write-off approval by City Council reflects the application of these newly implemented processes.

The City makes every effort to collect unpaid fines. Collection tools utilized by Court Services include: collection agencies, tax-roll, civil enforcement, licence suspension and plate denial.

The City contracts 11 collection agencies to collect POA defaulted fines. All defaulted fines are referred to a collection agency based on the age of the defaulted fine. Cases are rotated every 6 months to another collection agency within the same assignment category. Contractual performance incentives are applied and the percentage of cases referred to a collection agency varies accordingly. Cases may be recalled from collection agency when it is determined the account is eligible to be added to municipal tax rolls.

The City applies defaulted fines amount to municipal tax rolls and pursues civil enforcement at the Superior Court of Justice. Legal Services may recommend settlement based on the information available.

The City notifies the Ministry of Transportation of all persons with defaulted fines eligible for enforcement through licence suspension and vehicle owner plate denials.

Once all collection efforts have been exhausted and where there are circumstances that arise for various reasons where unpaid fines are unlikely to be collected, staff from Court Services and Legal Services complete an annual assessment of the defaulted fines in accordance with internal procedures and the City Council Write-Off Policy for Fines under the Provincial Offences Act Deemed Uncollectible. A recommendation is then made to the Controller for write off of eligible cases. Cases with a write off amount

that exceeds \$500,000 are recommended by the Controller to City Council to approve the write off of the cases.

COMMENTS

Property Taxes and Utility Charges

Revenue Services staff have conducted a review of properties with outstanding taxes that are no longer returned on the assessment roll. As a result of the review, staff have initiated the apportionment process for several properties as a method to recover the unpaid taxes. Where unpaid taxes are apportioned to properties that are still returned on the assessment roll, normal collection processes will continue to apply. However, the 43 properties listed in Attachment 1 represent those properties where all reasonable and appropriate collection efforts have been exhausted, and where an apportionment would not be an appropriate method to recover the unpaid taxes.

The properties in Attachment 1 have been grouped into categories, identifying why the arrears are being recommended for write-off, and why conducting an apportionment would not be feasible, and consequently why a tax sale would be ineffective and inappropriate. Some properties have multiple tax years in arrears. An outstanding receivable balance from each tax year is considered a separate receivable. In Attachment 1, there are 143 receivables recommended for write-off from 43 individual properties, grouped within the following categories:

- a) Properties returned on the assessment roll in error. There are no appeal or legislative mechanisms available to correct these errors. An example of this is a duplicate assessment that has not been removed from the assessment roll in a timely manner. Apportioning these amounts would essentially result in double taxation of a parcel of land. As such, the outstanding amounts are not truly taxes owing, rather, the tax amounts were created as a result of errors on the assessment roll. There are 33 receivables from 9 properties in this category, totalling \$10,428 to be written off. These receivables are displayed in Attachment 1, Table 1.
- b) The outstanding taxes, not including interest, are under \$1,000. Given that these properties represent a relatively small amount, it would not be cost effective to pursue an apportionment for the unpaid taxes. There are 6 receivables from 1 property totaling \$624 in this category to be written off. These receivables are displayed in Attachment 1, Table 2.
- c) The outstanding amounts in this category relate to various charges added to the tax roll by other City divisions. There are 18 receivables from 5 properties and the total to be written off is \$18,350. These receivables are displayed in Attachment 1, Table 3.
- d) There is one property in this category which was acquired by the Province of Ontario through a business forfeiture following the dissolution of the former business corporation. Staff have exhausted all efforts to collect the outstanding taxes and it is

the opinion of Legal Services that uncollected amounts may be written off under Section 319(4)(a) of the City of Toronto Act, 2006. There are 26 receivables in this category and the total to be written off is \$288,541. These receivables are displayed in Attachment 1, Table 4.

- e) The properties in this category are exempt from taxation and should have been exempt for the years to which the arrears relate. As such, these tax amounts cannot be collected, as they are not truly taxes that are owed. There are 10 receivables and 4 properties and the total to be written off is \$421,452. These receivables are displayed in Attachment 1, Table 5.
- f) The outstanding amounts stem from prior to amalgamation and were transferred from the old legacy property tax systems used by the former municipalities. There is no mechanism to determine what these outstanding amounts relate to and staff have exhausted all collection efforts. There are 40 receivables and 22 properties in this category and the total to be written off is \$748,456. These receivables are displayed in Attachment 1, Table 6.

All of the amounts recommended for write-off in this report are those for which further collection efforts are considered extremely unlikely to be successful. Utilizing the tax sale process to recover tax arrears would also not be appropriate, given that the original accounts no longer exist. All reasonable and appropriate collection efforts have been exhausted. Accordingly, the Controller recommends that Council approve that the tax and utility arrears be deemed uncollectible, and direct the Controller to write off the outstanding property tax and utility charges, and accumulated penalty, interest and fees amounts listed in Attachments 1 and 2.

Billable Services

Table 1 outlines the total write-offs by Division generating the initial accounts receivable. The explanation and break down for each division for the amount(s) recommended by the Controller for write-off are provided in Attachment 3.

Table 1: Amounts Approved for Write-off by the Controller in 2021 with reference to Chapter 71, Toronto Municipal Code, Financial Control

Division	Note 1	Note 2	Total	% of Billable Revenue	Billable Revenue in millions (\$)
Parks, Forestry & Recreation	\$983,729	\$ -	\$983,729	9.00%	11
Corporate Real Estate Management	\$307,270	\$ -	\$307,270	0.50%	63
Toronto Water	\$139,719	\$ -	\$139,720	0.20%	70
Toronto Fire Services	\$55,201	\$ -	\$55,201	0.30%	20
Seniors Services and Long-Term Care	\$38,579	\$ -	\$38,579	0.07%	53
Solid Waste Management Services	\$11,038	\$ -	\$11,038	0.03%	33
Municipal Licensing & Standards	\$630	\$ -	\$630	0.02%	2
TOTAL written off			\$1,536,167		

Write-offs under the column titled Note 1 include individual amounts less than \$50,000 written off by the Controller under delegated authority and amounts under Note 2 include amounts between \$50,000 and \$500,000 written off by the Controller as recommended by the City Solicitor.

Provincial Offences Act Fines

On June 23, 2021, the Controller approved the write-off of 21,884 *Provincial Offences Act* defaulted fine amounts deemed uncollectible with a total value of \$1.8 million. Table 2 organizes these cases based on their Council Write-Off Policy categories.

Table 2: Provincial Offences Act Fines sent to Controller in 2021 (Based on Council Write-Off Policy)

Council Write-Off Policy Category	Number of Cases	Dollar Value
C – Collection efforts exhausted.	11,582	\$385,850.49
F – Business is no longer in operation and has no assets	1	\$140.00
G – Debtor cannot be located	10,301	\$1,418,569.30
Totals	21,884	\$1,804,559.79

Following receipt of approval from the Controller, Court Services proceeded to update the cases in ICON with the write off code CW (Council Write-Off). Cases with the CW write-off code were purged by the Province from the Integrated Court Offences Network (ICON) on October 8th, 2021.

No Financial Impact to the City of Toronto

It is important to note that writing off these defaulted POA fines has no financial impact on the City. Defaulted POA fines reside on the province's ICON system. Accrued fine revenues reported in the City's SAP system reflect only the portion of outstanding fines that are deemed collectible. Writing off fines deemed uncollectible in accordance with the Council-approved write-off policy has no effect on the City's financial position.

The annual Write-Off process generates administrative efficiencies and is consistent with provincial guidelines and the Council-approved write-off policy. As part of the year-end review process, staff from Court Services, Revenue Services, Legal Services and Accounting Services will continue to assess the appropriateness of the fines deemed collectible and recorded as receivables in the City's financial records.

CONTACT

Casey Brendon, Director, Revenue Services, Phone: (416) 392-8065, Email: casey.brendon@toronto.ca

Susan Garossino, Director, Court Services, Phone: (416) 392-3835, Email: susan.garossino@toronto.ca

SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

- Attachment 1: Write-off of Uncollectible Property Taxes from the Tax Roll
- Attachment 2: Write-off of Uncollectible Utility Account Charges
- Attachment 3: Divisional Breakdown and Explanation of Amounts Recommended by the Controller to be Written-Off