

2022 Write-off of Uncollectible Property Taxes and Accounts Receivable

Date: May 15, 2023
To: General Government Committee
From: Controller
Wards: All

SUMMARY

This report provides information on accounts receivable amounts that were written off as uncollectible in 2022 under delegated authority provided to the Controller including property tax amounts owing, outstanding receivables for invoiced services and Provincial Offences Act (POA) fines.

This report recommends that Council deem uncollectible and approve for write-off certain property tax amounts owing on 18 individual property tax accounts, comprising 107 receivable amounts which total \$75,853 that relate to taxation years 1995 to 2022. Staff are recommending these property tax receivable amounts for write-off as they are no longer returned on the assessment roll, making collection efforts and recovery of outstanding amounts impossible.

In 2022, the Controller, in accordance with delegated authority as provided in the City's Financial Control By-Law, has approved the write off of \$544,218 in outstanding receivables for various services invoiced by City Divisions where collection is considered doubtful.

Finally, consistent with last year's write-off report, the Controller has approved the write-off of 16,176 POA cases totalling \$3.2 million. 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 2022 fiscal year from these write-offs since amounts owing are not recognized as revenue until paid or unless there is reasonable expectation of collection.

Additionally, there is one case of a POA receivable with a total dollar value of \$1.4 million which this report recommends be deemed uncollectible and approved for write off, as the Controller does not have delegated authority to write-off. This offence relates

to a pre-transfer case that is associated with a corporation that is no longer in operation and for which City Legal has confirmed that it has no recoverable assets.

RECOMMENDATIONS

The Controller recommends that:

1. City Council deem the unpaid property taxes levied in all years (including interest and penalties that have accrued on those unpaid taxes up to the time of write-off) on the 107 receivables listed in Attachment 1, uncollectible, and direct the Controller to remove these amounts from the tax assessment roll by writing them off;
2. City Council deem the Provincial Offences Act fine of value of \$1,420,974 listed in Table 3 and Attachment 3 of this report uncollectible, and direct the Controller to remove this amount from the respective account by writing it off.

FINANCIAL IMPACT

This report considers three components:

1. The total estimated property tax amounts to be written off with the adoption of the recommendation in this report is \$75,853, consisting of a municipal portion (which includes added charges) of levied taxes of \$19,736, a provincial education portion of \$15,472 and an additional \$40,645 in interest charges and fees as at April 30, 2023. The provincial education portion of \$15,472 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 \$75,853 represents an extremely small percentage of the total amount of taxes billed over the period 1995 to 2023. 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 the recommended 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.

2. Amounts totalling \$544,218 listed in Attachment 2 (representing 0.07% of \$780 million total billable revenues for 2022, excluding grants and billable revenues for Parking Tags, Tax and Utilities) were written off by the Controller in 2022 after

completion of appropriate collection efforts, in accordance with delegated authority provided in the City's Financial Control By-law. 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 2022 operating expenditures. Details of actions taken and the recommended write-offs are noted in the Comments section below.

3. Through delegated authority, amounts totalling \$3.2 million representing Provincial Offences Act defaulted fines deemed uncollectible were reviewed and recommended for write-off by the Controller on February 28, 2022. This report also recommends that Council deem uncollectible and approve for write-off one additional POA defaulted fine case with a value of \$1,420,974 listed in Table 3, as the write-off amount exceeds the Controller's delegated authority for write offs up to \$500,000.

There is no financial impact to the City's revenues arising from these POA defaulted fines write-off. Revenues reported in the City's general ledger reflect only the portion of the outstanding POA 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 held on June 15 and 16 2022, City Council adopted [Item GL31.10 – "2021 Accounts Receivable Write-off Report and Write-off of Uncollectible Property Tax and Utility Amounts"](#) which recommended City Council deem the unpaid property taxes of 133 receivables totalling \$1,487,851 as uncollectible and directed the controller to remove this amount from the tax roll. In addition, the report also recommended City Council deem unpaid utility charges accruing on 4 utility accounts totalling \$634,023 as uncollectible and directed the Controller to remove these amounts from the respective utility accounts.

Following is the link to the Council Write-Off Policy for Fines under the Provincial Offences Act Deemed Uncollectible:

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

In addition, 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.

COMMENTS

Property Taxes Recommended for Write-off as at April 30, 2023

The Revenue Services Division uses internal collection procedures, external bailiffs and ultimately the municipal tax sale process as avenues to collect unpaid property taxes. Property Tax Account Statements/overdue notices are mailed to property owners in arrears advising of the overdue property taxes. Property owners with unpaid balances are issued up to 5 overdue notices each year, one at the beginning of each year and at the first and third installment due dates of each 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.

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.

All of the properties identified in Attachment 1 have been 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.

Attachment 1 identifies 107 receivables from 18 individual tax accounts totalling \$75,853 in this category to be written off. 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. The Controller recommends that Council approve that the tax arrears be deemed uncollectible, and direct the Controller to write off the outstanding property taxes listed in Attachment 1.

Of the above total number of receivables recommended for write off, 94 entries have receivable amounts of less than \$1,000. These receivables account for \$22,621 of the total receivables of \$75,853, or 30 per cent. Given that these properties represent relatively small amounts, it would not be cost effective to pursue an apportionment for the unpaid taxes.

Billable Services

Accounts receivable invoicing, revenue recognition and collections are currently decentralized within the City. As part of their collection efforts, City Divisions that invoice for services are required 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 (RSD), these provisions are reviewed annually for adequacy and adjustments are made where appropriate.

Divisions are required to send invoices under \$1,000 to two collection agencies. If the first collection agency is unsuccessful within six (6) months, the amount is sent to the 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.

The account holders of the 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).

Table 1 outlines the total write-offs by Division generating the initial accounts receivable.

Table 1: Amounts Approved for Write-off by the Controller in 2022 with reference to Chapter 71, Toronto Municipal Code, Financial Control

Division	Write off < \$50K Note 1	Write off Between \$50K and \$500K Note 2	Total	% of Billable Revenue	Billable Revenue in millions(\$)
Parks, Forestry & Recreation	\$224,722		\$224,722	1.79%	13
Transportation Services	\$96,112	\$68,000	\$164,112	0.41%	41
Toronto Water	\$27,086	\$60,821	\$87,907	0.41%	56
Seniors Services and Long-Term Care	\$55,209		\$55,209	0.10%	54
Solid Waste Management Services	\$8,150	-	\$8,150	0.03%	28
Toronto Fire Services	\$2,509	-	\$2,509	0.01%	24
Municipal Licensing & Standards	\$1,609	-	\$1,609	0.06%	3
TOTAL written off			\$544,218		

Note 1

Individual amounts less than \$50,000 written off by the Controller under delegated authority

Note 2

Individual amounts between \$50,000 and \$500,000 written off by the Controller as recommended by the City Solicitor.

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 a case 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 currently contracts 12 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 fine amounts 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

finances 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 approval under delegated authority. Cases with an amount that exceeds \$500,000 are recommended by the Controller to City Council for write-off approval.

On February 28, 2022, the Controller approved the write-off of 16,176 Provincial Offences Act defaulted fine amounts deemed uncollectible with a total value of \$3.2 million. Table 2 organizes these cases based on their Council Write-Off Policy categories.

Table 2: Provincial Offences Act Fines approved for write off by the Controller in 2022 (Based on Council Write-Off Policy)

Council Write-Off Policy Category	Number of Cases	Dollar Value
A – Deceased Person	1439	\$821,767.71
C – Collection efforts exhausted.	3822	\$458,284.49
F – Business is no longer in operation and has no assets	321	\$534,533.00
G – Debtor cannot be located	10,594	\$1,361,483.05
Totals	16,176	\$3,176,068.25

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 14th, 2022.

Of the total \$3.2 million in uncollectible POA amounts that have been approved by the Controller for write-off, approximately \$1.1 million (approximately 34%) pertain to offences that occurred prior to the transfer of provincial court administration to the City in 2002.

Table 3 below reflects one case with a dollar value greater than \$500,000 for which the Controller does not have delegated authority to write-off. As a result, this case is recommended to Council for write-off. The case is associated with a corporation that is no longer in operation and has been confirmed by City Legal that it has no recoverable assets.

Table 3: Provincial Offences Act Fines recommended for write-off greater than \$500,000 in 2022 (Based on Council Write-Off Policy)

Council Write-Off Policy Category	Number of Cases	Dollar Value
F – Business is no longer in operation and has no assets	1	\$1,420,974.00
Totals	1	\$1,420,974.00

No Financial Impact to the City of Toronto

It is important to note that writing off these defaulted POA fines has no financial impact to 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.

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SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

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| Attachment 1: | Write-off Uncollectible Property Taxes from Tax Roll |
| Attachment 2: | Divisional Breakdown and Explanation of Amounts Recommended by the Controller to be Written-Off |
| Attachment 3: | Provincial Offences Act Fines Deemed Uncollectible above \$500,000 |