HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 12.2.4
Audit & Finance Standing Committee
February 23, 2023

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: **- Original Signed -**
Cathie O'Toole, Chief Administrative Officer

DATE: February 16, 2023

SUBJECT: **2022/2023 Write Off of Uncollectible Accounts**

ORIGIN

Staff and HRM Charter requirement.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, SNS 2008, c 39, s 42:

The Treasurer shall promptly advise Council of

(a) all moneys due to the Municipality that the Treasurer considers cannot reasonably be collected after pursuing all reasonable avenues of collection; and

(b) the reasons for the belief that such moneys cannot be collected, and the Council may write off the amounts determined to be uncollectible.

Halifax Regional Municipality Charter, SNS 2008, c 39, s 147(7):

> Taxes cease to be a lien on the property when six years have elapsed after the end of the fiscal year in which they were levied, but may be collected after they have ceased to be a lien.

Administrative Order 18, The Revenue Collections Policy states that:

5.0 Other Collection Policies

(f) No account will be sent to write off unless all efforts have been exhausted in its collection and will only be so sent after recommendation of supervisor and concurrence of team leader and manager.

(g) Only Council can approve final write off of any revenue accounts. Such write off reports will be provided not less than once per year.

RECOMMENDATION ON PAGE 2

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee:

1. Forward this report to HRM Regional Council for approval;

2. Recommend that Regional Council approve:

   a) The real property tax accounts in the amount of $67,583.81 comprised of $50,871.38 and $16,712.43 interest as summarized in Schedule 1 be formally written out of the books of account;

   b) The general revenue accounts in the amount of $39,036.76 comprised of $38,863.45 principal and $173.31 interest as summarized in Schedule 1 be formally written out of the books of account;

   c) The recreation accounts in the amount of $7,466.89 comprised of $7,466.89 principal and $0.00 interest as summarized in Schedule 1 be formally written out of the books of account;

BACKGROUND

The HRM Charter requires that all accounts considered uncollectible, and which are to be removed from the accounts of the HRM be approved by Council. Administrative Order 18, The Revenue and Collections Policy, section 5(f) states that no account will be sent to write off unless all efforts have been exhausted in its collection and the appropriate recommendations and approvals are in place; and section 5(g) requires staff to provide Council with a write off report at least once per year. The last write off report to Council was on February 17, 2022.

DISCUSSION

The discussion section of this report will provide narrative on each category of receivables proposed for write off, as well as some key performance indicators around write offs and collections.

Collection Procedures:

Collection procedures are outlined in Administrative Order 18, Respecting Revenue Collections Policy. Before recommending an unlienable account for write off, the following collection efforts are undertaken:

- Accounts overdue by 30 days receive a reminder phone call and an emailed or mailed reminder statement. Staff continue to pursue the accounts until they are 90 days overdue.
- Accounts more than 90 days overdue are escalated to the internal collections department where more serious action is taken, such as:

1. requiring a payment arrangement or enacting a right of offset for any amounts that HRM might owe the client;
2. a refusal to do further business on a billed basis, i.e. cash only;
3. advising the client of legal action we may take, for example, small claims court action or legal action to file judgements;
4. file action in appropriate civil court, obtain judgment and file judgment at Registry of Deeds;
5. obtain and action execution order or garnishee;
6. issuing a warrant to distrain (hold and possibly sell) goods of the client against the debt owed;
7. where internal collection efforts have not been successful, the account will be turned over to a third-party collection agency on contract with the HRM.

The steps above outline the process for unlienable accounts, i.e. amounts owing that are not related to real property. Amounts owing related to real property (lienable) accounts are typically recouped via the tax sale process. There are a few instances where it is not possible to recover lienable amounts:

1. A mobile home on leased land is destroyed or moved.

2. A legacy account was removed from the assessment roll by the Land Registry. There are several hundred legacy accounts that were assigned AANs many years ago but upon further review and title searches, the property description, boundaries or title cannot be confirmed. Many of these accounts do not have an associated PID. In some of these cases the Land Registry will determine these properties should be removed from the roll. Although they were assessed for tax many of these properties do not have updated ownership information and the tax bills were often returned in the mail. The taxes that accrued on properties subsequently removed from the roll will appear on the write off report.

3. Properties owned by the government or Crown agencies are exempt from property tax. If these properties are leased to a commercial business, they become taxable. If the taxes on these leased spaces cannot be collected, the taxes will be written off because the funds cannot be recovered via tax sale.

Real Property Tax Accounts:

There are 14 real property accounts proposed for write off totaling $67,583.81. The HRM Charter requires that a property may be sold for taxes provided it meets certain criteria for sale. There must be a minimum level of certainty with respect to ascertaining the assessed owner(s) interest in an assessed property.

There are 14 real property accounts proposed for write off:

Write Off Reason	Number of Accounts	Write Off Amount
Legacy accounts that do not have a PID or cannot be verified (i.e. cannot confirm these accounts exist)	13	$14,440.83
Lease accounts that were located in tax exempt properties where the company went out of business with taxes outstanding	1	$53,142.98

In the past, the criteria to have an Assessment Account Number (AAN) registered was much less rigorous than it is present day. The majority of real property accounts proposed for write off would not meet current standards to have an AAN assigned. The new Tax and Revenue system that was rolled out in 2022 has reporting that will help identify issues of billing errors so corrective action can be taken. It is important to note that most real property taxes are recouped via the tax sale process.

General Revenue Accounts:

There are 3 general revenue accounts proposed for write off totaling $39,036.76. One account totaling $358.37 is for police extra duty services. One account totaling $1,259.94 is related to rent commission. There is 1 account proposed for write off totaling $37,418.45 in relation to a legal judgement that is unable to be collected. The amounts proposed for write off were unable to be recouped by staff and an external collection agency. General revenue accounts are unlienable.

Recreation Accounts:

There are a total of 20 recreation receivables totaling $7,466.89 proposed for write off. These relate to customers who dishonored a payment for a class or camp after the camp began and the customers cannot be located by staff or by the third-party collection agency. These customer accounts have been flagged in the Legend system and if these customers attempt to sign up for another class or service, they will be required to pay the outstanding amount before being permitted to incur another receivable. The low number and low dollar value of the Legend receivables proposed for write off demonstrates the Legend system's efficiency in helping to reduce uncollectible accounts. Recreation accounts are unlienable.

Write off and Collection (KPI's):

The table below provides some write off and collections KPI's:

Key Performance Indicator (KPI)	2019-20 Actuals	2020-21 Actuals	2021-22 Actuals
Write offs as a % of Billed General Revenue	0.18%	0.01%	0.33%
% of Prior Year's Tax Arrears Not Collected in the Current Year as a % of the Current Year Levy	1.90%	2.55%	1.85%
Total Uncollected Current Year Taxes as a % of Current Year Tax Levy	2.13%	2.66%	1.75%

FINANCIAL IMPLICATIONS

Each year the provision for losses on accounts is budgeted in the operating fund as mandated by the HRM Charter.

The HRM Charter section 93(1) - (2b) requires that:

93 (1) The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.

(2) The estimates shall include the probable revenue from all sources other than taxes for the fiscal year and make due allowance for

(a) the abatement and losses that might occur in the collection of the taxes; and
(b) taxes for the current fiscal year that might not be collected.

This provision is accumulated each year in the valuation allowance account in order to offset on the balance sheet the value of the receivables recorded in the books of account. In this way, and in accordance with legislation and with generally accepted accounting practices, there is recognition that not all accounts billed will be collectible.

Accounts proposed for write off in this report have been 100% provided for in the annual valuation allowance expense.

Account Type	Write off Amount	Allowance GL Account	Balance Jan 16, 2023
Real Property	**$67,583.81**	**2521 – Allowance Tax**	**$1,525,351.60**
General Revenue	**$39,036.76**	**2525 – Allowance Other**	**$303,638.82**
Recreation	**$7,466.89**	**2525 – Allowance Other**	**$303,638.82**
Total Write Off	**$114,087.46**		

Total amounts proposed for write off as a percentage of billed revenue for fiscal 2022-23 is less than 1% indicating low financial risk. As per the financial implications section of this report, financial risk is mitigated through the valuation allowance. All amounts proposed for write off in this report have been 100% allowed for.

RISK CONSIDERATION

No risks were identified.

COMMUNITY ENGAGEMENT

No community engagement was required.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

The Audit & Finance Standing Committee could choose not to approve the recommendations.

ATTACHMENTS

Schedule 1 – Write Off Summary

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Renee Towns, Director of Revenue, Treasurer, Finance & Asset Management, 902.293.7983

Schedule 1
Write Off Summary

CUSTOMER TYPE	# OF ACCOUNTS	TOTAL AMOUNT	PRINCIPAL	INTEREST
Real Property	14	$ 67,583.81	$ 50,871.38	$ 16,712.43
General Revenue	3	$ 39,036.76	$ 38,863.45	$ 173.31
Recreation	20	$ 7,466.89	$ 7,466.89	-
TOTAL	**37**	**$ 114,087.46**	**$ 97,201.72**	**$ 16,885.74**