



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	October 13, 2015
SUBJECT/REPORT NO:	Annual Tax Arrears Information as of December 31, 2014 (FCS15071) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Larry Friday (905) 546-2424, Ext 2425
SUBMITTED BY:	Larry Friday Acting General Manager Finance & Corporate Services Department
SIGNATURE:	

Council Direction:

Not Applicable.

Information:

Property Taxation is the major revenue source for the City of Hamilton to fund its operations. We must ensure that this major source of revenue is protected and monitored closely. This report shows the level of arrears as of December 31, 2014 and the steps in the collection process to protect these collectibles. The tax process is a highly regulated process under the Municipal Act. This information report focusses on a five year analysis of the arrears and the steps taken by the Taxation Division to ensure collection of those arrears is protected.

While the information in this report illustrates rather large tax arrears amounts, the City, for the most part, is protected in that it has priority lien status on the property and eventually will collect taxes and other charges owing should it come down to the eventual tax sale of a property. This report will show that over the last five years we have collected 99.98% of all tax revenues billed.

Table 1 is an analysis of the tax arrears from 2010 to 2014.

Table 1

5 Year Analysis of Taxes Receivable

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Taxes Receivable	\$83,100,003	\$78,410,723	\$78,286,196	\$80,608,763	\$73,950,180
Increase/(Decrease Over Previous Year	\$4,689,280	\$124,527	(\$2,322,567)	\$6,658,583	\$6,464,704
Percentage Increase/(Decrease)	5.98%	0.02%	(2.88%)	9.00%	9.99%
Taxes Levied	\$972,193,573	\$945,963,819	\$918,216,899	\$898,918,146	\$876,685,300
Increase/(Decrease Over Previous Year	\$26,229,754	\$27,746,920	\$19,298,753	\$22,232,846	\$30,671,874
Percentage Increase/(Decrease)	2.77%	3.02%	2.15%	2.50%	3.63%
% of Arrears to Taxes Levied	8.55%	8.29%	8.53%	8.97%	8.44%
* OMBI % of Arrears to Taxes Levied	4.9%	5.0%	4.9%	4.76%	5.5%

*OMBI is the acronym for the Ontario Municipal Benchmarking Initiative consisting of comparator municipalities.

2014 saw an increase in our overall arrears from the previous year which when compared to the increased taxes levied over the previous year, still resulted in a 2.77% increase in our arrears. Our percentage of arrears to our taxes levied has been slowly declining. This percentage of arrears however, is still much higher than our OMBI comparators. Economic factors, affecting our City, play a large part in the level of arrears compared to many of our OMBI comparator municipalities. In 2015, we implemented two extra reminder notices which we feel will have a significant affect in getting our arrears down.

Breakdown of Arrears by Property Type

The following table provides a view of the different tax classes and the amounts owed by year, along with the percentage that the tax class arrears are to the overall yearly arrears. The second portion shows how many properties are in arrears by tax class type, and what percentage that is of the overall total of properties in arrears.

Table 2

5 Year Analysis of Receivables by Property Type

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Total Arrears	\$86,800,951	\$80,804,462	\$80,922,784	\$81,416,414	\$77,166,651
Vacant Land	\$2,446,105 2.82%	\$2,062,300 2.55%	\$2,483,479 3.07%	\$4,784,454 5.84%	\$4,117,710 5.34%
Farm/Managed Forest	\$2,075,802 2.39%	\$1,936,389 2.40%	\$2,090,231 2.58%	\$4,161,818 5.08%	\$3,554,084 4.61%
Residential	\$50,808,433 58.53%	\$50,327,794 62.28%	\$48,094,126 59.43%	\$49,004,511 59.86%	\$46,561,890 60.34%
Commercial	\$9,945,973 11.46%	\$10,410,405 12.88%	\$10,632,203 13.14%	\$10,947,343 13.37%	\$11,027,504 14.29%
Industrial	\$19,668,087 22.66%	\$15,015,276 18.58%	\$16,468,524 20.35%	\$11,766,332 14.37%	\$10,123,098 13.12%
Other	\$1,856,550 2.14%	\$1,052,298 1.30%	\$1,154,221 1.43%	\$1,201,956 1.47%	\$1,782,365 2.31%
# of Properties	15,926	16,273	16,145	16,796	15,993
Vacant Land	568 3.57%	674 4.14%	735 4.55%	793 4.72%	767 4.80%
Farm/Managed Forest	386 2.42%	406 2.49%	402 2.49%	447 2.60%	416 2.60%
Residential	13,829 86.84%	14,073 86.48%	13,842 85.74%	14,250 84.84%	13,650 85.35%
Commercial	736 4.62%	733 4.50%	726 4.50%	808 4.81%	729 4.56%
Industrial	339 2.13%	345 2.12%	390 2.42%	441 2.63%	368 2.30%
Other	52 0.33%	42 0.26%	50 0.31%	57 0.34%	63 0.39%

The amounts and number of properties in arrears by class type are fairly consistent year to year, with industrial showing the largest year over year increase in 2014. With two extra reminder notices being sent in 2015 we are hoping that the 2015 arrears are down significantly.

Penalty and Interest Analysis

Table 3 shows the penalty and interest charges accumulating on the accounts in arrears. Taxpayers are charged 1.25% per month (15% per year) for any taxes that are past due. This is a significant fee they are charged, which we will eventually collect. Even with such a large fee, some taxpayers continue to pay late and accumulate these fees. In May of 2009, the charge was lowered to 1% per month (12% per year), as a measure to assist taxpayers facing an uncertain economic future due to the global downturn. The rate was raised back up to 1.25% per month as of July 1, 2013 as a further incentive for the taxpayers to keep their taxes current.

Table 3

5 Year Analysis of Penalty and Interest Charges

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Actual's	\$11,704,733	\$9,899,969	\$8,804,988	\$9,009,868	\$8,212,611
Increase/(Decrease) over Previous Year	\$1,804,764	\$1,094,981	(\$204,880)	\$797,257	\$482,603
% Increase/(Decrease) over Previous Year	18.23%	12.44%	(2.27%)	9.71%	6.24%

Significant revenues are generated through penalties and interest for late payments, which is a cost-borne by taxpayers who choose to pay late. It, however, does show a trend that there are a higher proportion of taxpayers in Hamilton who struggle to pay their taxes on a timely basis. As of mid-2010 to mid-2013, the rate was lower, it makes the year over year comparison more difficult to judge. For example, 2013 was part at 1% and part at 1.25%, while 2012 was all at 1%. Therefore, the increase is partly responsible due to the change in principle and interest rates (P&I). As 2014 was all at the higher 1.25% rate, compared to 2013 being a split, part of the large increase is due to the rate change, the rest attributed to the increase in arrears in 2014.

Tax Collection Efforts

There are a number of steps taken to ensure our taxes receivable are ultimately collected and protected:

- Any arrears are indicated on both of our billings (Interim and Final).
- The large penalty and interest charged on accounts in arrears being 15% per year.
- We issue two reminder notices per year (one in May after the interim billing and one in October, after the Final Billing). In 2015, we have increased that to four reminder notices with extra notices going out in March and July. Preliminary results show this is having a positive effect in collections.
- When a property does go three years in arrears, a separate letter is sent advising the taxpayer a lien will be registered should the arrears not be dealt with, and any interested parties registered on title such as a mortgage company will be notified of these arrears.
- For taxpayers who ignore our three years in arrears letters, liens get registered on title and notices are sent to anyone on title including mortgage holders. At this time, our costs are also added to the tax account. We do this annually and attempt to register liens on all properties that have entered three years in arrears, starting with the largest amount owed.

- We run two tax sales per year as the last step to collect what is owed. For the most part, we collect the taxes owed at this stage either from the property owner or from a successful bidder.

Table 4 identifies the number of arrears notices sent in May and October, as well as, the number of properties in arrears as of year-end.

Table 4

5 Year Analysis of Arrears Notices issued

	2014	2013	2012	2011	2010
# of May Reminders	21,674	22,336	22,851	22,470	23,197
# of Oct. Reminders	24,509	24,285	23,333	23,597	22,543
# of Properties Billed	170,928	169,588	167,761	165,520	164,044
# of Properties in Arrears at year-End	15,925	16,273	16,147	16,796	15,993
% of Properties in Arrears	9.32%	9.60%	9.63%	10.15%	9.75%

As the above Table 4 illustrates, the reminder notices, after the billing, assist greatly in persuading certain taxpayers to pay and helps resolve issues, sooner rather than later, for such things as a missed payment, a misapplied payment, misplaced or lost bills, etc. By year end, the number of taxpayers in arrears drops significantly. This may also have much to do with what they can claim on their personal income tax returns for Ontario Tax credits. The last line shows, that on average, 9.7% of the City's taxpayers are in some type of arrears on their property taxes. The results for the last three years have shown slight declines in the percentage of tax payers in arrears.

Tax Registration

Table 5 breaks down the number of properties, on a yearly basis, that do go three years in arrears. Letters are mailed early every year to all taxpayers who are now three years in arrears. Once a property is three years in arrears, the municipality under the Municipal Act, may register a lien on a property three years in arrears. Our letters will elicit a number of responses from promises to pay, payment arrangements, payment of the third year in arrears, payment in full or those that totally ignore the City's request.

The Taxation Division sorts and monitors these arrears by the above categories and begins to register liens on those who have ignored their arrears, starting with those that owe the most. The Taxation Division also monitors arrears of taxpayers who have made promises and move them into the registration process, if those promises are broken.

The tax registration and sale of properties is regulated under Part XI of the Municipal Act, 2001. Once a property is eligible to be registered, an extensive title check is required to determine who is registered on title. Once the lien is registered, the Taxation Division must send notices within 30 days to all parties registered on title. In many cases, mortgage companies will take action to protect their interest and work with the taxpayer on the arrears or use their Power of Sale legislation. The full costs of this process are covered, via tax user fees, approved each year by City Council as part of the user fee by-law.

If the tax situation is not addressed, on receiving the Notice of Registration, then Final Notices must be sent after 270 days of registering a lien and a tax sale cannot take place before one year (365 days) have passed since the registration of the lien

Table 5 shows how many properties, per year, receive 3-years in arrears letters versus how many are actually registered.

Table 5

5 Year Analysis of Tax Registration / 3 years in Arrears Letters issued

	2014	2013	2012	2011	2010
3-years in Arrears letters	1,604	1,446	1,840	1,562	1,471
Increase / (decrease) over Prior Year	158	(394)	278	91	313
Properties Registered with Tax Lien	500	500	400	377	368
% Registered per Year	31.17%	34.58%	21.74%	24.14%	25.02%

2014 saw an increase in the number of properties being issued letters for being three years in arrears. This continues to be a concern that taxpayers are allowing themselves to fall so far behind in their payments where we have to take the drastic means of registering liens on their properties. In many cases, the taxpayers sell their properties to satisfy their debts or their mortgage companies have to get involved, either re-financing the property or going to power of sale.

Tax Sale of properties

The actual tax sale of a property is the final step of the process and one with serious consequences. When a property goes to tax sale, a number of the properties generally, at this time, get rectified by the owners and pulled from the actual sale. Every effort possible is made to allow property owners to keep their properties by paying their taxes. On many of the properties that go to sale, properties may also have large property standard charges and/or metered water charges added to taxes, as well as Federal and or Provincial liens. We also run into a number of estate issues where no will exists. A

further issue is where slivers of properties that should never have been created and have been over-valued where the only means to rectify the problem is through the tax sale process.

Of the properties that end up going through to the final bidding process, these can have three results:

1. They sell for at least the minimum bid (taxes owing including all charges and fees) and the city recovers all that is owed.
2. They do not sell and the City does not vest the property over to the city due to liability concerns. These properties are then dealt with by our process for potentially contaminated properties, or re-valued by MPAC to a reasonable value for un-buildable land and left in the current owner's name.
3. They do not sell and the City then vests the property. Real Estate would then attempt to sell the properties vested for the best price we can get, at which time a report goes to council to write-off any difference between what it sold for and the taxes owing.

Table 6

5 Year Analysis of Tax Sales

	2014	2013	2012	2011	2010
Original # Registered with a Tax Lien	500	500	400	377	368
Letters sent advising of impending tax sale	62	72	69	65	66
Properties Advertised for tax sale	32	20	20	26	25
% to Tax Sale	54.84%	27.78%	28.99%	40.00%	37.88%
% of Properties to tax sale to original # Registered	6.4%	4.00%	5.00%	6.90%	6.79%
Sold at Tax Sale	7	4	5	2	2
% Sold at Tax Sale	20.59%	20%	25%	7.69%	8.00%
Rectified by Taxpayer	22	14	14	23	17
%Rectified	64.71%	70.00%	70.00%	88.46%	68.00%
No Bids Received	3	2	1	1	6
% with No Bids	14.71%	10.00%	5.00%	3.85%	24.00%
Sold at a later date by Real Estate	1	1	1	0	3

The number of properties that actually end up in a position of being eligible for tax sale is less than 7% of the properties that are originally registered with liens. Ninety-three per cent either get paid off by the taxpayer or the mortgage holder before we have to go to the final step of tax sale. Once advised of tax sale, 62% of property tax owners will react to paying their tax arrears off, while 38% will actually be advertised for the sale. Once the tax sale process commences, 16.25% actually get sold at the tax sale, 72.23% are rectified by the taxpayer and 11.52% of the properties attract no bids. Of the properties that attract no bids, they either end up being sold by the City's Real Estate section for a value less than the taxes owed or are properties the City does not want and have little to no value.

Tax Write-Offs

Table 7 shows, on a yearly basis, the amount of taxes that have been written off, by Council approval.

Table 7

5 Year Analysis of Council Approved Write-Offs under Section 354 of the Municipal Act

	2014	2013	2012	2011	2010
Write-Offs Approved by Council	\$2,015	\$164,062	\$342,138	\$84,525	\$93,589
Taxes Levied for the year	\$965,362,097	\$945,963,819	\$918,216,899	\$898,918,146	\$876,685,300
% of Taxes Levied – Collected	99.99%	99.98%	99.96%	99.99%	99.99%

As Table 7 illustrates, even though our arrears are rather high, the City will eventually collect, on average, 99.98% of the taxes levied.