



Hamilton

INFORMATION REPORT

TO:	Chair and Members Audit, Finance & Administration Committee
COMMITTEE DATE:	March 25, 2021
SUBJECT/REPORT NO:	Annual Tax Arrears as of December 31, 2020 (FCS21013) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Rick Male Director, Financial Services and Taxation and Corporate Controller Corporate Services Department
SIGNATURE:	

INFORMATION

Property taxation is the main source of revenue for municipalities to fund their operations. As such, the City of Hamilton (City) must ensure that this primary source of revenue is protected and monitored closely. This Report focusses on the level of annual property tax arrears over the last five years and the resulting collection efforts employed by Taxation staff. The information in this Report is as of December 31, 2020 and therefore is inclusive of any impacts the current covid-19 pandemic may have had on 2020 property tax arrears. At a high level, the pandemic did not appear to have a negative impact on the total level of tax arrears for 2020. In fact, total taxes receivable at the end of 2020 were \$2 million less than that of 2019.

Some of the contributing factors that may have assisted in a more favourable position in 2020, when compared to 2019 include:

- Three additional reminder notice mailings. Effective 2020, reminder notices were also mailed out in August, November and December.
- Council approved 2020 Property Tax Assistance Program which waived penalties, interest charges and administrative fees in response to the pandemic. This resulted in less charges being added to the tax roll, specifically:

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- In the 3-month period where penalty and interest charges were waived (60 day waiving for April instalment + 30 day waiving for June instalment) actual penalty and interest charges added to the tax roll was approximately \$880,000 less than the penalty and interest charges added during the same time period in 2019. Penalty and interest charges increased after the expiry of the waiving period, resulting in an overall reduction of \$450,000 in penalty and interest charges in 2020, when compared to 2019.
- Waiving of Non-sufficient funds (NSF) and administrative fees equated to approximately \$270,000 in fees not being added to the tax roll.
- Suspension of registering tax liens and the cancellation of tax sales in 2020 resulted in approximately \$265,000 less fees added to the tax roll than in 2019.
- Increase in property sales in 2020. There were 11,973 ownership changes completed in the tax billing software in 2020, compared to 10,503 and 9,955 in 2019 and 2018 respectively. As property taxes are settled on closing, the higher sales in 2020 would have facilitated the additional clearing of property tax arrears, if any.

Table 1 is an analysis of the tax arrears from 2016 to 2020. Note that with respect to property tax arrears, for the most part, the City is protected in that it has priority lien status on the property and eventually will collect the property taxes, and other charges added to the tax roll, in the event of a tax sale.

Table 1
5 Year Analysis of Tax Arrears

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Total Arrears ¹	\$75,636,548	\$77,609,940	\$73,737,453	\$68,792,042	\$82,770,634
Increase/(Decrease) Over Previous Year	(\$1,973,932)	\$3,872,487	\$4,945,411	(\$13,978,592)	\$1,762,262
Percentage Increase/(Decrease)	(2.54%)	5.25%	7.19%	(16.89%)	2.18%
Current Taxes Levied ² Plus Additions to Tax Roll	\$1,148,205,282	\$1,109,605,356	\$1,077,755,612	\$1,049,614,426	\$1,039,473,707
Increase/(Decrease) Over Previous Year	\$38,599,926	\$31,849,744	\$28,141,186	\$10,140,719	\$27,831,901
Percentage Increase/(Decrease)	3.48%	2.96%	2.68%	0.98%	2.75%

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% of Total Arrears to Current Taxes Levied	6.59%	6.99%	6.84%	6.55%	7.96%
Municipal Benchmarking Network Canada (MBNC) – Current Year’s Tax Arrears as a % of Current Year Levy					
Hamilton	TBD	3.9%	4.1%	3.9%	4.3%
Municipal Average ³	TBD	2.6%	2.5%	2.5%	2.6%
Municipal Benchmarking Network Canada (MBNC) – Prior Year’s Tax Arrears as a % of Current Year Levy					
Hamilton	TBD	2.7%	2.6%	2.4%	3.1%
Municipal Average ³	TBD	1.7%	1.6%	1.7%	1.8%

Total Arrears¹ is inclusive of current and prior years, penalty and interest charges and charges added to the tax roll (i.e. water arrears, property standards charges, etc.). Exclusive of supplementary/omitted billings levied but not due as of December 31st of each respective year.

Current Taxes Levied² is exclusive of supplementary/omitted billings levied but not due as of December 31st of each respective year.

Municipal Average³ of comparator Municipalities across Canada

As identified in the Table 1 above, 2020 saw a decrease in total arrears of just under \$2M, compared to 2019. The percentage of total arrears to current taxes levied of 6.59% in 2020 was the lowest in the last five years, with the exception of 2017. The reduction in arrears experienced in 2017 was primarily due to substantial payment of arrears received for three large industrial properties.

When looking at the results of the Municipal Benchmarking Network Canada (MBNC), Hamilton continues to be above the average of the comparator Municipalities. It should be noted that MBNC splits out tax arrears between current year and prior year tax arrears. MBNC also does not consider penalty and interest charges added to the tax roll as part of the arrear’s calculation, which on average, can equate to an additional 1%.

Of importance is the fact that the total arrears are not simply for the property taxes levied each year, but also includes penalty and interest charges, as well as other charges added to the tax roll (i.e. water arrears charges, property standards charges, development charges, POA charges, etc.). Where allowable under the *Municipal Act*, charges are added to the tax roll and collected in the same manner as property taxes. Although this practice simply transfers the arrears to the tax roll, it is an efficient and effective method of collecting non-property tax arrears. Charges added to the tax roll continue to increase and would contribute to the overall increase in the total arrears.

Table 2 identifies the total amount of charges added to the tax roll on an annual basis. As reflected in Table 2, the lower amount in 2020 of almost \$500,000 compared to 2019 is primarily due to the waiving of fees as approved by Council in response to the current pandemic. The Council approved Property Tax Assistance Measures (FCS20038) waived NSF fees and administration fees for adding charges to the tax roll from mid-March to the end of July. This equated to approximately \$270,000 in waived fees. The

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City also paused the registering of liens and cancelled both tax sales in 2020. This equated to a reduction of approximately \$265,000 in registration-related fees compared to 2019 actuals.

Although the administrative fee to add charges to the tax roll was waived in 2020 during a 4-month period, the actual water arrears continued to be transferred to the tax roll. Water arrears continue to be the most significant charge added to the tax roll. Over the last five years (2016-2020), on average, water arrears attribute to 66% of the total annual charges added to the tax roll. In 2020 alone, water arrears made up 75% of the total charges added. Water arrears are transferred to the tax roll on a weekly basis. On average, a weekly file contains approximately 400 adds to the tax roll.

Table 2

5 Year Analysis of Charges added to Tax Roll

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Charges added to Tax Roll	\$6,154,450	\$6,653,770	\$5,226,180	\$4,146,590	\$3,060,580
\$ Increase/ (Decrease) Over Previous Year	(\$499,320)	\$1,427,590	\$1,079,590	\$1,086,010	(\$638,050)
% Increase/ (Decrease) Over Previous Year	-8%	27%	26%	35%	-17%

Breakdown of Tax Receivable by Property Class

Table 3 provides a breakdown of the annual Taxes Receivable by major property class and the respective share to the overall total Taxes Receivable. The second portion of Table 3 identifies the number of properties with a balance owing at the end of the year, by major property class, and the respective share to the overall total number of properties with a balance owing at year end.

Table 3

5 Year Analysis of Tax Receivable by Major Property Class

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Taxes Receivable ¹	\$87,610,501	\$88,844,463	\$83,598,660	\$79,954,701	\$89,282,439
Vacant Land	\$3,851,997 4.40%	\$3,376,527 3.80%	\$2,944,401 3.52%	\$2,580,918 3.23%	2,331,508 2.61%
Farm/Managed Forest	\$2,300,603 2.63%	\$2,402,659 2.70%	\$1,590,046 1.90%	\$1,931,372 2.42%	2,228,680 2.50%
Residential	\$51,386,229 58.65%	\$53,397,051 60.10%	\$50,275,034 60.14%	\$48,675,560 60.88%	45,664,994 51.15%
Commercial	\$15,765,595 18.00%	\$15,233,912 17.15%	\$16,311,790 19.51%	\$14,458,260 18.08%	\$14,085,536 15.78%
Industrial	\$14,253,920 16.27%	\$14,306,901 16.10%	\$12,435,451 14.88%	\$12,143,278 15.19%	\$24,951,991 27.95%
Other	\$52,160 0.06%	\$127,414 0.14%	\$41,939 0.05%	\$165,313 0.21%	\$19,732 0.02%
# of Properties	18,868	21,968	19,288	17,582	16,239
Vacant Land	491 2.60%	525 2.39%	565 2.93%	645 3.67%	528 3.25%
Farm/Managed Forest	390 2.07%	487 2.22%	392 2.03%	382 2.17%	403 2.48%
Residential	16,814 89.11%	19,618 89.30%	17,191 89.13%	15,395 87.56%	14,162 87.21%
Commercial	870 4.61%	996 4.53%	802 4.16%	825 4.69%	839 5.17%
Industrial	287 1.52%	325 1.48%	333 1.73%	329 1.87%	305 1.88%
Other	16 0.08%	17 0.08%	5 0.03%	6 0.03%	2 0.01%

Tax Receivable¹ is inclusive of supplementary/omitted billings levied but not due as of December 31st of each respective year and exclusive of credit balances or balances under \$5 as of December 31st of each respective year.

As shown in Table 3 above, the level of taxes receivable by property class has remained stable. Taxes receivable has continued to rise since 2016, however 2020 saw a decrease compared to 2019. The Residential property class saw the greatest improvement in 2020, when compared to 2019.

It should be noted that Table 3 identifies all properties with a tax receivable of greater than \$5.00. Some of the properties identified may be due to an unpaid charge added to the tax roll, unpaid penalty and interest as a result of a late payment or a missed instalment, and therefore not a representation of the significance of each respective property's tax roll balance. For example, of the 18,868 properties with a balance at the end of in 2020, 5,300 of these properties (or 28%) have a balance owing of under \$100. Residential properties account for 90% of these properties.

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With respect to the number of properties with an amount owing at year-end, 2020 saw a reduction of 3,100 properties when compared to 2019. All property classes experienced an improvement in the number of properties, with the greatest improvement seen in the Residential property class.

Breakdown of Property Tax Arrears by Ward

Table 4 is a breakdown of the number and percentage of properties by ward that are in 3+ years arrears. For comparison purposes, Table 4 also includes the average household income, as well as owner versus renter split, as per the 2016 Census.

Table 4

Property Breakdown of Arrears per Ward

Ward	January, 2021		January, 2020		January, 2019		2016 Census ²	
	# of properties in 3yrs+ arrears ¹	% of total ward	# of properties in 3yrs+ arrears ¹	% of total ward	# of properties in 3yrs+ arrears ¹	% of total ward	Average Household Income	Owner/ Renter split in %
1	90	0.85%	97	0.94%	84	0.82%	\$75,762	48%/52%
2	117	1.31%	125	1.44%	102	1.19%	\$51,190	24%/76%
3	259	1.89%	290	2.14%	265	1.96%	\$54,269	47%/53%
4	162	1.10%	176	1.20%	190	1.29%	\$66,128	70%/30%
5	95	0.78%	104	0.87%	93	0.78%	\$66,755	51%/49%
6	99	0.79%	119	0.95%	112	0.89%	\$85,514	71%/29%
7	105	0.75%	134	0.96%	121	0.87%	\$76,818	68%/32%
8	93	0.82%	83	0.74%	89	0.79%	\$85,828	73%/27%
9	116	0.98%	101	0.88%	91	0.85%	\$108,602	88%/12%
10	112	0.72%	130	0.87%	145	0.98%	\$106,049	90%/10%
11	92	0.87%	108	1.09%	93	0.89%	\$105,468	94%/6%
12	150	0.89%	160	0.96%	153	0.95%	\$150,262	93%/7%
13	98	0.79%	112	0.90%	99	0.79%	\$113,930	81%/19%
14	70	0.71%	82	0.83%	66	0.67%	\$95,966	77%/23%
15	106	0.91%	134	1.23%	112	1.05%	\$136,351	88%/12%
TOTAL	1,764	0.94%	1,955	1.06%	1,815	1.00%	\$87,775	68%/32%

of properties in 3yrs+ arrears¹ is exclusive of supplementary/omitted billings completed in the second half of the year which may include billing for prior 2 years. Inclusive of properties with tax lien registered on title.

2016 Census² - Source: 2016 Statistics Canada semi custom table by City of Hamilton (New) Ward Boundaries

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Table 4 above, shows that all wards have properties in significant arrears. Compared to January 2020, the number of properties in significant arrears in 2021 has decreased in all but two wards. Total properties in three years arrears have decreased to 1,764 from 1,955 in the year prior. Percentage of properties in arrears per ward has seen a decrease from 1.06% in 2020 to 0.94% in 2021, with ward 3 having the highest percentage of arrears in January 2021 at 1.89%, while Ward 14 had the lowest at 0.71%. Over the three-year period:

- Wards 1, 2, 5 and 14 – the reduction in 2021 was not sufficient to offset the increase experienced in 2020, resulting in an overall increase in the number of properties
- Wards 3, 6, 7, 11, 12, 13 and 15 – the reduction in 2021 more than offset the increase experienced in 2020, resulting in an overall decrease in the number of properties
- Wards 4 and 10 saw a reduction in both 2020 and 2021
- Ward 9 saw an increase in both 2020 and 2021
- Ward 8 - reduction in 2020 was not sufficient to offset the increase experienced in 2021, resulting in an overall increase in the number of properties

At a ward level, although some wards experienced increases while others saw decreases, the change in the number of properties is not significant, with the percentage of properties in 3 years+ arrears representing, on average, between 0.7% to 2.0% of the total number of properties in each ward.

Of the 1,764 properties identified in Table 4 above, approximately 175 properties have a lien already registered on title, with the remainder being at risk of a lien being registered in 2021, should the arrears not be adequately addressed. Approximately 88% of these properties are Residential or Residential with a commercial component.

As far as demographics are concerned, staff do not have a “profile” of a taxpayer in arrears. Based on discussions with taxpayers, the reasons for being in arrears vary, however some common reasons include:

- Estate issues whereby the family is in the process of dealing with the estate or it is currently occupied by a surviving family member that is simply not addressing the property taxes or not expediting the settling of the estate in a timely manner
- Rental properties (i.e. single-family homes / condos not owner-occupied) where the property owner is assuming the tenant is paying the property taxes
- Charges added to the tax roll (i.e. water arrears, property standards charges, provincial offenses fines, development charges, etc.)
- Taxpayers in financial hardship (i.e. due to job loss, divorce, illness or the death of one of the owners or family, etc.). These cases are referred to the Compassionate Appeal process, requiring taxpayers to apply annually by the

application deadline and provide the required financial records and/or attending physician's statement

- Taxpayers making incorrect/misinformed assumptions (i.e. assuming they are paying their property taxes through their mortgage, assuming they are in good standing on their monthly pre-authorized payment plan, assuming another family member/partner is paying the property taxes, etc.)
- Opting to pay just the minimum required to discharge the lien or to avoid the City registering a lien. As such, these taxpayers are always in arrears and continue to incur significant penalty and interest charges on a monthly basis.
- Remnant parcels, non-buildable lots.
- Pending assessment appeal (i.e. choosing not to fully pay the taxes levied, by assuming a successful outcome to their appeal that will eventually clear the arrears once processed).
- Opting to enter into a 2-year extension agreement once they are registered.

Residential Tax Assistance Programs

Unfortunately, there are limited number of programs to assist taxpayers falling into arrears due to lower ability to pay. For the most part, the onus is on the taxpayer to contact the City to discuss options and available programs. Information is available on the City's website, as well as included in the tax information brochure mailed out with both the Interim and Final tax bills. The programs available to residential property owners include:

Seniors (65+) Tax Rebate – the 2020 rebate was \$198, requiring income of \$36,900 or lower and prior year taxes paid in full. In 2020 there were approximately 3,100 seniors that received the rebate.

Deferral of Tax Increase for Low-Income Senior or Low-Income Persons with Disability – the deferral requires income of \$36,900 or lower and prior year taxes paid/deferred in full. In 2020, 7 applications were approved to defer the 2020 property tax increase. As of December 31, 2020, there are currently 36 taxpayers with a deferral. Some taxpayers apply every year to defer the annual increase, while others have only applied once or apply periodically.

Full Deferral for Low-Income Senior or Low-Income Persons with Disability – the program allows for the deferral of the full property taxes, however requires income of \$36,900 or lower and prior year taxes paid/deferred in full. In 2020 there were 20 applicants who deferred their 2020 property taxes. This number has remained relatively consistent from 2019. Of the 20 applicants, there were 5 new deferrals, with 3 applicants being removed either by deciding to pay off their deferral or by selling their property. The first year of this program, being 2018, only had 4 applicants.

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Compassionate Appeals for Extreme Poverty or Sickness – in 2020, the City received 18 applications. Of the 18 applications received, only two were awarded relief (ranging from 50% to 100% relief of their 2019 total property taxes), 15 were dismissed or withdrawn (either failure to appear or income too high) and 1 is still pending. The average age of the applicants is 54 years old. With respect to the two applicants that were awarded relief, these applicants were from wards 4 and 6.

As shown above, even with the limited programs available to residential property owners, except for the Seniors Tax Rebate, there is minimal take-up.

Penalty and Interest Analysis

Table 5 identifies the penalty and interest charges applied to the tax roll accounts for amounts not paid by the due dates. In adherence to By-law 13-136 “A By-law to Set Penalty and Interest Rates”, taxpayers are charged penalty of 1.25% on the first day of default, then interest of 1.25% per month (15% per year) thereafter, to all property taxes (inclusive of other charges added to the tax roll) past due, until paid in full. Penalty and interest charges are added the first of the month, for the full month. The penalty and interest rate charged is the maximum allowable under the *Municipal Act* and is consistent with what most Ontario Municipalities charge. The high interest rate acts as a deterrent for most taxpayers to avoid paying late or accumulating arrears, however, some taxpayers continue to pay late or allow the arrears to grow, regardless of the penalty and interest charges incurred.

As identified in Table 5 below, over the last five years, penalty and interest revenue has averaged approximately \$11.7M per year, with 2016 being the highest year at \$12.5M in penalty and interest revenue. Approximately \$2.5M of the 2016 total penalty and interest revenue was attributed to three large industrial properties that were in arrears. The significant reduction in penalty and interest revenue in 2017 was due primarily to the settling of some of the arrears for these large industrial properties. The 2020 penalty and interest charges of \$11.5M were approximately \$550,000 less than the amount charged in 2019, yet still comparable to penalty and interest charges added to the tax roll in 2017 and 2018. The reduction experience in 2020 was primarily due to the Council approved waiving of penalty and interested charges. As a response to the pandemic, the Property Tax Assistance and Other Measures (FCS20038) waived penalty and interest for 60 days subsequent to the April 30th instalment and 30 days subsequent to the June 30th instalment. This would have influenced the overall level of penalty and interest added to the tax roll.

Table 5

5 Year Analysis of Penalty and Interest Charges

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
P&I charges added to the Tax Roll ¹	\$11,459,885	\$12,012,070	\$11,290,901	\$11,368,557	\$12,534,763
\$ Increase/(Decrease) over Previous Year	(\$552,185)	\$721,169	(\$77,656)	(\$1,166,206)	\$630,135
%Increase/(Decrease) over Previous Year	(4.60%)	6.39%	(0.68%)	(9.30%)	5.29%

P&I charges added to the Tax Roll¹ is net of adjustments (i.e. write-off of current year penalty and interest due to misapplied payment, reduction of taxes due to successful appeal, etc.)

Although there was a reduction in 2020, primarily due to the waiving of penalty and interest charges in response to the pandemic, significant revenue continues to be generated through penalties and interest charges for late payments. This is a cost borne exclusively by taxpayers who do not pay by the due dates. The City’s collection efforts ultimately have an impact on this revenue. The more aggressive the City’s collection efforts are, the less revenue in penalty and interest.

Tax Collection Efforts

This Report also identifies the steps taken by Taxation staff to ensure the protection and collection of these arrears, while adhering to requirements under the *Municipal Act, 2001*. There are several steps taken to ensure the City’s taxes receivable are protected and ultimately collected:

- Arrears are indicated on both tax billings (Interim tax bill mailed out in early February and Final tax bill mailed out in early June)
- Setting the penalty and interest rate at the maximum allowable under the *Municipal Act* (1.25% per month / 15% per year) – this rate is identified on all tax bills and remainder notices, so taxpayers are aware of the cost of falling into arrears
- From 2015 - 2019, the City’s practice was to issue four reminder notices per year (in March, May, July and October, being the months following each instalment due date). Staff report “Strategies to Reduce Property Tax Arrears (FCS19077)” approved by Council recommended increasing the frequency from the existing four reminder notices per year to seven reminder notices per year effective January 1, 2020. The additional three mailings are in the months of August,

November and December. The additional reminders do appear to have a positive effect on collections.

- An annual letter is sent in January to all properties in 3+ years in arrears, advising the taxpayer a lien will be registered should the arrears not be dealt with. Taxpayers are made aware that should a lien be registered, that any interested parties registered on title, such as a mortgage company, will be notified of the arrears.
- For taxpayers who ignore the 3+ years in arrears letters, liens are registered on title and notices are sent to anyone on title, including mortgage holders. The approved user fee to cover the City's costs for the registration of delinquent accounts is also added to the tax roll account. Tax staff monitor all properties in 3+ years in arrears, registering liens in order of largest arrears. Due to the pandemic, there was a freeze in registrations for a large part of 2020. Staff resumed registration of liens in September 2020.
- On average, the City runs two tax sales per year. This is the last step in the collection of property tax arrears. For the most part, arrears are settled before the tax sale, by either the property owner or their mortgage company. For properties that do go to tax sale, the arrears are paid by the proceeds of the successful bidder. Due to the pandemic, no tax sales were held in 2020.

When analysing arrears and arriving at an acceptable level of collection, the level of arrears compared to the assessed value of the property will be considered to minimize all risk of eventually collecting the arrears, should the City need to proceed to tax sale. For the most part a property's assessed value far exceeds any property tax arrears.

Table 6 identifies the number of reminder notices mailed out in March, May, July and October and commencing in 2020 also in August, November and December, as well as, the number of properties in arrears as of year-end.

Table 6

5 Year Analysis of Reminder Notices issued

	2020	2019	2018	2017	2016
# of March Reminders	19,342	18,995	18,409	19,859	18,660
# of May Reminders	29,614	21,610	21,514	22,723	22,380
# of July Reminders	26,707	21,111	20,516	21,125	20,630
# of Aug Reminders	16,062	N/A	N/A	N/A	N/A
# of Oct Reminders	25,518	22,978	23,298	24,544	23,579
# of Nov Reminders	17,363	N/A	N/A	N/A	N/A
# of Dec Reminders	13,617	N/A	N/A	N/A	N/A
# of Properties billed ¹	180,917	178,841	177,258	175,961	174,634
# of Properties in Arrears at year-End	18,868	21,968	19,288	17,582	16,239
% of Properties in Arrears	10.43%	12.28%	10.88%	9.99%	9.30%

of Properties billed¹ in the June final property tax billing for each respective taxation year.

As Table 6 illustrates above, the number of reminder notices issued are consistent year over year, except for 2020 where some taxpayers took advantage of the waiving of penalty and interest and did not pay by the due date. Reminder notices are mailed to all taxpayers with a balance of \$50 or greater. Although Council approved the waiving of penalty and interest charges for the April and June 2020 tax instalments, reminder notices were still mailed out (no fee charged if only the current 2020 instalment was past due) to remind tax payers of the outstanding instalment amount.

There is typically an increase in reminder notices mailed out in May and October, due to taxpayers forgetting the second instalment of their Interim or Final property tax bill. A newspaper ad is also published in the local paper to remind taxpayers of the upcoming instalment due date. Regardless of this collection effort, some taxpayers will continue to misplace or lose their tax bills, sell/purchase property and pay on their previous roll number in error, or simply ignore the reminder notices until they risk being registered with a tax lien.

As shown in Table 6, the additional reminders did in fact assist in collections, as the number of reminder notice mailed out during these months were significantly lower than the other months. By the end of 2020, approximately 10.4% of the total number of properties billed had not paid their property taxes in full, an improvement from 2019 where 12.3% of the properties had not paid their property taxes in full.

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Tax Registration

Table 7 on the following page breaks down the number of properties, on a yearly basis, that are in arrears three years or more. The annual 3+ years in arrears letters (typically mailed out mid to late January), elicit several responses ranging from promises to pay, payment arrangements, payment of the minimum amount required to discharge the lien (third year in arrears) and payment in full. Unfortunately, some taxpayers simply ignore the City's letter.

Taxation staff sorts and monitors these arrears into different categories (i.e. properties with payment arrangements, properties that will pay in full, properties that can only settle the third year, properties that have not contacted the City, etc.). Staff then begin to register liens on those who have ignored their arrears, starting with the properties with the largest arrears. Staff also monitor arrears of taxpayers who have made promises and move them into the registration process if those promises are not kept. It has been the practice of Taxation staff to show compassion for taxpayers in financial difficulty and will work with the taxpayer to allow them some time, within reason, to sort out their financial affairs.

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, Taxation staff must send notices within 60 days to all parties registered on title. The full cost of this process is added to the tax roll account, as per the annual Council approved user fee by-law. In many cases, Mortgage companies will act to protect their interest and work with the taxpayer on the arrears or use their Power of Sale legislation.

If the tax arrears are not addressed on receiving the Notice of Registration, then Final Notices must be sent after 280 days of registering a lien. A tax sale cannot take place before one year (365 days) has passed since the registration of the lien.

In 2020, there was a freeze in registrations under Ontario Regulation 73/20. All deadlines pertaining to the Municipal Act and Municipal Tax Sale rules were suspended from March 16, 2020 to September 11, 2020. This 180-day suspension affected current registered properties as well as properties that could have had a lien registered.

Table 7 identifies how many properties, per year, receive 3+ years in arrears letters versus how many are registered.

Table 7

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

	2020	2019	2018	2017	2016
3+ years in Arrears letters	1,275	1,181	1,203	1,288	1,284
Increase / (Decrease) over Prior Year	94	(22)	85	4	(124)
Properties Registered with Tax Lien	210	452	360	310	400
% in Arrears for 3+ years Registered with Tax Lien	16.5%	38.3%	29.9%	24.1%	31.2%

As reflected in Table 7 above, Taxation staff typically register approximately 400 to 500 liens per year. Due to the pandemic, the registration of 210 liens in 2020 was the City's lowest over the last five years. This was due to the freeze in registering liens under Ontario Regulation 73/20. Even though this freeze in registering liens remained in effect until early September, Taxation staff were still able to register 180 liens over the last three months of 2020.

Although the *Municipal Act* was amended in 2017 to allow the registration of liens for properties in 2+ years arrears, staff are not recommending doing so at this time. Doing so would increase the number of properties that could potentially be registered by over 2.5 times. Based on existing resources, Taxation staff will continue to register at three years in arrears. As the City is protected via the priority lien status and ultimately can collect the property taxes levied, any proposed change to the status quo would need to balance the expected resulting reduction in total tax arrears with the added costs for additional staff resources required, potential loss of penalty and interest revenue and impacts to taxpayers in financial difficulty.

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, several of the properties generally get rectified by the owners and pulled from the tax sale. Every effort possible is made to allow property owners to keep their properties by settling the arrears themselves. For many of the properties that go to tax sale, properties may also have large property standard charges and/or water arrears added to the tax roll, as well as Federal and/or Provincial liens. The City must also deal with estate issues where no will exists. A further issue is where slivers of properties have been created and have been over-valued, and where the only means to rectify the problem is through the tax sale process.

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Of the properties that end up going through to the final bidding process of a tax sale, there are three potential results:

1. They sell for at least the minimum bid (taxes owing including all charges and fees added to the tax roll) and the City recovers all that is owed.
2. They do not sell (no acceptable bids are received) and the property is not vested to the City due to liability concerns. These properties are then dealt with by the City's process for potentially contaminated properties or re-evaluate by the Municipal Property Assessment Corporation (MPAC) to a reasonable value for un-buildable land and left in the current owner's name.
3. They do not sell (no acceptable bids are received) and the property is vested to the City. City Real Estate staff would then attempt to sell the properties vested, at which time a report goes to Council to write-off any difference between what it sold for and the property taxes owing.

Table 8 confirms that most property tax arrears are eventually settled, with relatively very few properties required to proceed to tax sale. As shown below, no tax sales were held in 2020 due to the pandemic.

Table 8

5 Year Analysis of Tax Sales

	2020	2019	2018	2017	2016
Letters sent advising of impending tax sale	0	40	37	42	85
Properties advertised for tax sale	0	20	18	8	25
% to Tax Sale	N/A	50.0%	48.6%	19.0%	29.4%
Rectified by Taxpayer	0	16	14	5	18
%Rectified	N/A	80.0%	77.8%	62.5%	72.0%
Sold at Tax Sale	0	4	4	3	6
% Sold at Tax Sale	N/A	20.0%	22.2%	37.5%	24.0%
No Bids Received	0	0	0	0	1
% with No Bids	N/A	0.0%	0.0%	0.0%	4.0%
Sold at a later date by Real Estate	0	0	0	0	0

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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As shown in Table 8 above, most arrears are rectified by the taxpayer even after the property is advertised for Tax Sale. The actual number of properties that eventually are sold at tax sale in order to collect the arrears ranges from just 3 to 6 properties per year over the last 4 years, representing less than 0.002% of total number properties.

APPENDICES AND SCHEDULES ATTACHED

None

MD/dw