



INFORMATION REPORT

TO:	Chair and Members Audit, Finance & Administration Committee
COMMITTEE DATE:	March 24, 2022
SUBJECT/REPORT NO:	Annual Tax Arrears as of December 31, 2021 (FCS22011) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

INFORMATION

Property taxation is the main source of revenue for municipalities to fund their operations. 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, 2021, and therefore is inclusive of any impacts the ongoing pandemic may have had on property tax arrears.

The total arrears have continued to decrease over the last two years. The 2021 arrears are approximately \$3.7 million lower than 2020. This is in addition to the \$2 million reductions in 2020 when compared to 2019. The continued decrease in arrears experienced in 2021 was because Council approved Property Tax Assistance Program (which waived penalties, interest and administrative fees in response to the pandemic) was only applicable for a limited time in 2020, with no similar relief provided in 2021. One factor that may be contributing to the lower total arrears is the increase in the number of ownership changes that have occurred in the past two years. In 2021, there were approximately 14,500 ownership changes, compared to 10,000, 10,500 and 12,000 in 2018, 2019 and 2020 respectively. Despite this, the decline in total arrears, unfortunately, does not translate into fewer properties in arrears. The number of reminder notices, as well as water arrears charges added to the tax roll, continues to be high.

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Table 1 is an analysis of the tax arrears from 2017 to 2021.

Table 1

5 Year Analysis of Tax Arrears

	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Total Arrears ¹	\$71,970,200	\$75,636,548	\$77,609,940	\$73,737,453	\$68,792,042
Increase/(Decrease) Over Previous Year	(\$3,666,338)	(\$1,973,932)	\$3,872,487	\$4,945,411	(\$13,978,592)
Percentage Increase/(Decrease)	(4.85%)	(2.54%)	5.25%	7.19%	(16.89%)
Current Taxes Levied ² Plus Additions to Tax Roll	\$1,171,479,507	\$1,148,205,282	\$1,109,605,356	\$1,077,755,612	\$1,049,614,426
Increase/(Decrease) Over Previous Year	\$23,274,255	\$38,599,926	\$31,849,744	\$28,141,186	\$10,140,719
Percentage Increase/(Decrease)	2.03%	3.48%	2.96%	2.68%	0.98%
% of Total Arrears to Current Taxes Levied	6.14%	6.59%	6.99%	6.84%	6.55%
Municipal Benchmarking Network Canada (MBNC) – Current Year's Tax Arrears as a % of Current Year Levy					
Hamilton	TBD	3.6%	3.9%	4.1%	3.9%
Municipal Average ³	TBD	3.2%	2.6%	2.5%	2.5%
Municipal Benchmarking Network Canada (MBNC) – Prior Year's Tax Arrears as a % of Current Year Levy					
Hamilton	TBD	2.7%	2.7%	2.6%	2.4%
Municipal Average ³	TBD	2.0%	1.7%	1.6%	1.7%

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 Table 1 above, 2021 saw a decrease in total arrears of approximately \$3.7 million, compared to 2020. The percentage of total arrears to current taxes levied of 6.14% in 2021 is the lowest in the last five years.

One of the reasons for the decrease in total arrears can be attributed to the record amount of property sales in the City of Hamilton over the last two years. Ownership changes in the tax software in 2021 of 14,499 is over 2,500 higher than 2020 (11,973) and almost 4,000 higher than 2019 (10,503). These are significant increases compared to what was seen previously. For example, the increase seen in 2019 was 550 more ownership changes than the year prior. Since one of the requirements on any sale of a

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property is that the property taxes must be paid in full on the closing of the sale, it is expected that the increase in sales over the last few years would have a dramatic impact on the overall decrease of outstanding tax arrears across the City as a whole. How this project in future years, is difficult to predict currently.

When looking at the results of the Municipal Benchmarking Network Canada (MBNC), although the City of Hamilton continues to be above the average of the comparator municipalities, the gap between Hamilton and the average is narrowing.

It should be noted that the total arrears on the tax roll are not exclusively for property taxes, 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 even though the overall arrears have decreased.

Table 2 identifies the total amount of charges added to the tax roll on an annual basis. This amount increases every year, except for 2020, which was primarily due to the waiving of fees as approved by Council in response to the pandemic (Property Tax Assistance Measures (FCS20038)). The waiving of fees was not extended into 2021, and as such, charges added to the tax roll continued to increase in 2021.

Table 2
5 Year Analysis of Charges added to Tax Roll

	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Charges added to Tax Roll	\$7,658,050	\$6,154,450	\$6,653,770	\$5,226,180	\$4,146,590
\$ Increase/ (Decrease) Over Previous Year	\$1,503,590	(\$499,320)	\$1,427,590	\$1,079,590	\$1,086,010
% Increase/ (Decrease) Over Previous Year	24%	-8%	27%	26%	35%

It should be noted that water arrears continue to be the most significant charge added to the tax roll. Over the last five years (2017-2021), on average, water arrears attribute to 69% of the total annual charges added to the tax roll. In 2021 alone, water arrears made up 73% of the total charges added. Water arrears are transferred to the tax roll weekly. In 2021, an average of 450 water arrear charges were added weekly to the tax roll.

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**

	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Taxes Receivable ¹	\$84,394,273	\$87,610,501	\$88,844,463	\$83,598,660	\$79,954,701
Vacant Land	\$4,559,714 5.40%	\$3,851,997 4.40%	\$3,376,527 3.80%	\$2,944,401 3.52%	\$2,580,918 3.23%
Farm/Managed Forest	\$2,226,561 2.64%	\$2,300,603 2.63%	\$2,402,659 2.70%	\$1,590,046 1.90%	\$1,931,372 2.42%
Residential	\$46,195,729 54.74%	\$51,386,229 58.65%	\$53,397,051 60.10%	\$50,275,034 60.14%	\$48,675,560 60.88%
Commercial	\$15,709,208 18.61%	\$15,765,595 18.00%	\$15,233,912 17.15%	\$16,311,790 19.51%	\$14,458,260 18.08%
Industrial	\$15,518,357 18.39%	\$14,253,920 16.27%	\$14,306,901 16.10%	\$12,435,451 14.88%	\$12,143,278 15.19%
Other	\$184,704 0.22%	\$52,160 0.06%	\$127,414 0.14%	\$41,939 0.05%	\$165,313 0.21%
# of Properties	19,605	18,868	21,968	19,288	17,582
Vacant Land	533 2.72%	491 2.60%	525 2.39%	565 2.93%	645 3.67%
Farm/Managed Forest	461 2.35%	390 2.07%	487 2.22%	392 2.03%	382 2.17%
Residential	17,452 89.02%	16,814 89.11%	19,618 89.30%	17,191 89.13%	15,395 87.56%
Commercial	879 4.48%	870 4.61%	996 4.53%	802 4.16%	825 4.69%
Industrial	256 1.31%	287 1.52%	325 1.48%	333 1.73%	329 1.87%
Other	24 0.12%	16 0.08%	17 0.08%	5 0.03%	6 0.03%

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 decrease in Taxes Receivable is primarily driven by the Residential property class. However, the reduction in the taxes receivable from 2020 to 2021 did not translate into a similar reduction in the number of properties with an amount owing. The number of properties increased compared to 2020. For Residential properties, although this class continues to account for approximately 89% of the total

number of properties with a balance owing, the total amount owing has declined, with 2021 taxes receivable of \$46.2 million, being the lowest in the last five years.

It should be noted that Table 3 identifies all properties with a tax receivable of greater than \$5.00, therefore it is not an indication of the severity of a property's arrears. 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 simply one missed instalment. For example, of the 19,605 properties with a balance at the end of 2021:

- 6,436, or 33% of these properties have a balance owing between \$5 and \$100;
- 1,955, or 10% of these properties have a balance owing between \$100 and \$250;
- 1,454, or 7% of these properties have a balance owing between \$250 and \$500;
- 866, or 4% of these properties have a balance owing between \$500 and \$750;
- 660, or 3% of these properties have a balance owing between \$750 and \$1,000;

Approximately 58% of the 19,605 properties with a balance owing at the end of 2021 had a balance owing of \$1,000 or less. With the 2021 average Residential tax bill of \$4,358, this could translate into simply one missed instalment.

Breakdown of Property Tax Arrears by Ward

To get a better indication of the severity of arrears, one must look at properties in 3 or more years in arrears. Table 4 is a breakdown of the number and percentage of properties by Ward that are in 3+ years arrears.

Table 4

Property Breakdown of Arrears per Ward

Ward	January, 2022		January, 2021		January, 2020		January, 2019	
	# 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	# of properties in 3yrs+ arrears ¹	% of total ward
1	65	0.61%	90	0.85%	97	0.94%	84	0.82%
2	101	1.13%	117	1.31%	125	1.44%	102	1.19%
3	221	1.60%	259	1.89%	290	2.14%	265	1.96%
4	138	0.94%	162	1.10%	176	1.20%	190	1.29%
5	77	0.63%	95	0.78%	104	0.87%	93	0.78%
6	80	0.64%	99	0.79%	119	0.95%	112	0.89%
7	82	0.58%	105	0.75%	134	0.96%	121	0.87%
8	74	0.65%	93	0.82%	83	0.74%	89	0.79%
9	98	0.81%	116	0.98%	101	0.88%	91	0.85%
10	89	0.57%	112	0.72%	130	0.87%	145	0.98%
11	72	0.66%	92	0.87%	108	1.09%	93	0.89%
12	122	0.72%	150	0.89%	160	0.96%	153	0.95%
13	80	0.64%	98	0.79%	112	0.90%	99	0.79%
14	57	0.57%	70	0.71%	82	0.83%	66	0.67%
15	71	0.60%	106	0.91%	134	1.23%	112	1.05%
TOTAL	1,427	0.76%	1,764	0.94%	1,955	1.06%	1,815	1.00%

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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For comparison purposes, Table 4a identifies the average household income and owner versus renter split, as per the 2016 Census. Updated 2021 Census information is not yet available.

Table 4a

Ward	2016 Census ¹	
	Average Household Income	Owner/ Renter split in %
1	\$75,762	48%/52%
2	\$51,190	24%/76%
3	\$54,269	47%/53%
4	\$66,128	70%/30%
5	\$66,755	51%/49%
6	\$85,514	71%/29%
7	\$76,818	68%/32%
8	\$85,828	73%/27%
9	\$108,602	88%/12%
10	\$106,049	90%/10%
11	\$105,468	94%/6%
12	\$150,262	93%/7%
13	\$113,930	81%/19%
14	\$95,966	77%/23%
15	\$136,351	88%/12%
TOTAL	\$87,775	68%/32%

2016 Census¹ - Source: 2016 Statistics Canada semi-custom table by City of Hamilton (New) Ward Boundaries

Table 4 shows that although all wards have properties in significant arrears, the number of properties in significant arrears as of January 2022 have decreased across all the wards. Total properties in three years arrears has decreased roughly 19% from 1,764 properties in January 2021 to 1,427 properties in January 2022. The average percentage of properties in arrears has also seen a decrease from 0.94% in 2021 to 0.76% in 2022. This is the lowest percentage since we have been reporting these figures, which averaged 1.00% in 2019.

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Like prior years, Ward 3 continues to have the highest percentage of properties in 3 years arrears at 1.60% as of January 2022, while Wards 10 and 14 have the lowest at 0.57%. Over the four-year period:

- All wards have seen a reduction in properties in arrears from 2021
- Ward 15 saw the highest reduction from 2021 to 2022 at 0.31%
- Ward 3 had the highest percentage overall at 1.60%, however, the Ward also witnessed the second-highest decrease from 2021 to 2022 at 0.29%
- Wards 4 and 10 have seen a consistent yearly reduction since 2019

As of January 2022, the percentage of properties in 3 years arrears by ward ranged between 0.57% and 1.60% of the total number of properties in each ward, an improvement from January 2021 where the average ranged between 0.71% and 1.89% of the total number of properties in each ward.

Of the 1,427 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 2022, should the arrears not be adequately addressed. Approximately 89% 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 promptly.
- 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 offences 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 penalties and interest charges monthly.

- Remnant parcels, non-buildable lots, vacant properties.
- 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 is a 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 2021, rebate was \$200, requiring income of \$36,900 or lower and an assessed residential property value of \$495,800 or lower. Prior year taxes must be paid in full. In 2021 there were approximately 3,000 seniors that received the rebate.

Deferral of Tax Increase for Low-Income Senior or Low-Income Persons with Disability – the deferral requires an income of \$36,900 or lower and prior year taxes paid/deferred in full. In 2021 8 applications were approved to defer the property tax increase. As of December 31, 2021, there were 35 taxpayers with a deferral. Some taxpayers apply every year to defer the annual increase, while others have only applied once or applied periodically. Repayment of the deferral typically occurs on the sale of the property.

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 an income of \$36,900 or lower and prior year taxes paid/deferred in full. In 2021 18 applicants deferred their 2021 property taxes. This number has remained relatively steady, except for 2018, being the first year of this program, with only 4 applicants. Of the 18 applicants in 2021, 3 new deferrals had not applied to defer their property taxes in the past. In 2021, 4 applicants repaid their full deferral amount. As of December 31, 2021, there are 22 taxpayers with a full deferral.

Compassionate Appeals for Extreme Poverty or Sickness – in 2021, the City received 25 applications. Of the 25 applications received, only four were awarded relief (ranging from 54% to 100% relief of their 2020 total property taxes), with the remaining (21 applications) being dismissed or withdrawn, either due to failure to appear or the income was too high. The average age of the applicants is 54 years old. Concerning

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the four applicants that were awarded relief, these applicants were from Wards 3, 4, 6 and 13.

The above relief programs have been available for many years, however, 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 a penalty of 1.25% on the first day of default, then the 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 on 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 have averaged approximately \$11.6M per year. 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 interest charges as per staff report Property Tax Assistance and Other Measures (FCS20038). The 2021 penalty and interest charges, where there was no further waiving of penalty and interest charges, reverted to 2019 levels.

**Table 5
5 Year Analysis of Penalty and Interest Charges**

	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
P&I charges added to the Tax Roll ¹	\$12,030,300	\$11,459,885	\$12,012,070	\$11,290,901	\$11,368,557
\$ Increase/(Decrease) over Previous Year	\$570,416	(\$552,185)	\$721,169	(\$77,656)	(\$1,166,206)
%Increase/(Decrease) over Previous Year	4.98%	(4.60%)	6.39%	(0.68%)	(9.30%)

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 penalty 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

The following identifies the steps taken by Taxation staff to ensure the protection and collection of property tax 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 reminder notices, so taxpayers are aware of the cost of falling into arrears
- From 2015 - 2019, the City's practise 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 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, 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 the 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

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resumed registration of liens in September 2020. In 2021, registration volumes returned to pre-covid levels.

- 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 or 2021.

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 their 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**

	2021	2020	2019	2018	2017
# of March Reminders	18,956	19,342	18,995	18,409	19,859
# of May Reminders	22,599	29,614	21,610	21,514	22,723
# of July Reminders	22,438	26,707	21,111	20,516	21,125
# of Aug Reminders	15,345	16,062	N/A	N/A	N/A
# of Oct Reminders	25,499	25,518	22,978	23,298	24,544
# of Nov Reminders	17,255	17,363	N/A	N/A	N/A
# of Dec Reminders	13,138	13,617	N/A	N/A	N/A
# of Properties billed ¹	183,685	180,917	178,841	177,258	175,961
# of Properties in Arrears at year-End	19,604	18,868	21,968	19,288	17,582
% of Properties in Arrears	10.67%	10.43%	12.28%	10.88%	9.99%

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 is consistent year over year, except for the May and July reminders in 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.

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 have assisted in collections, as the number of reminder notice mailed out during these months were significantly lower than the other months. By the end of 2021, approximately 10.7% of the total number of properties billed had not paid their property taxes in full, a slight increase from 2020, however an improvement from 2019 where 12.3% of the properties had not paid their property taxes in full.

Tax Registration

Table 7 on the following page breaks down the number of properties yearly, that is 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 and our letter, 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 are 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 the 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 about the Municipal Act and Municipal Tax Sale rules were suspended from March 16, 2020, to September 11, 2020. Taxation staff resumed registering liens once the 180-day suspension period expired.

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

	2021	2020	2019	2018	2017
3+ years in Arrears letters ¹	1,172	1,275	1,181	1,203	1,288
Increase / (Decrease) over Prior Year	(103)	94	(22)	85	4
Properties Registered with Tax Lien	415	210	452	360	310
% in Arrears for 3+ years Registered with Tax Lien	35.4%	16.5%	38.3%	29.9%	24.1%

3+ years in Arrears letters¹ mailed out in January of each respective year. Properties in receipt of a letter exclude properties that recently were issued a supplementary/omitted tax bill (which may include billing for prior 2 years), properties with a tax lien already registered on title, properties on the arrears pre-authorized payment plan, properties with arrears less than \$250 and properties on an approved payment plan which will clear their 3rd year arrears amount prior to the end of Q3 in the current year.

As reflected in Table 7 above, over the last five years, Taxation staff typically register approximately 310 to 450 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. Although the number of 3+ Years in Arrears letters sent in 2021 was the lowest over the last five-year period, staff still registered over 400 liens, with the percentage of liens registered to be the second-highest over this period at 35.4%. Staff on average have registered liens on 28.60% of the letters issued over the last five-year period.

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 has 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.

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-evaluated by the Municipal Property Assessment Corporation (MPAC) to a reasonable value for unbuildable 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 or 2021 due to the pandemic. It is expected that tax sales may resume in 2022.

Table 8

5 Year Analysis of Tax Sales

	2021	2020	2019	2018	2017
Letters sent advising of impending tax sale	0	0	40	37	42
Properties advertised for tax sale	0	0	20	18	8
% to Tax Sale	N/A	N/A	50.0%	48.6%	19.0%
Rectified by Taxpayer	0	0	16	14	5
%Rectified	N/A	N/A	80.0%	77.8%	62.5%
Sold at Tax Sale	0	0	4	4	3
% Sold at Tax Sale	N/A	N/A	20.0%	22.2%	37.5%
No Bids Received	0	0	0	0	0
% with No Bids	N/A	N/A	0.0%	0.0%	0.0%
Sold at a later date by Real Estate	0	0	0	0	0

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 a tax sale to collect the arrears ranges from just 3 to 4 properties per year over the last 3 years where the City held tax sales. This represents less than 0.002% of the total number of properties.

APPENDICES AND SCHEDULES ATTACHED

None

MD/dw