




INFORMATION REPORT

TO:	Chair and Members Audit, Finance & Administration Committee
COMMITTEE DATE:	March 23, 2023
SUBJECT/REPORT NO:	Annual Tax Arrears as of December 31, 2022 (FCS23023) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Maria Di Santo (905) 546-2424 Ext. 5254 Rob Divinski (905) 546-2424 Ext. 6196
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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.

Total tax arrears as of December 31, 2022 equated to \$72.2M. Although this is an increase compared to 2021, it is still significantly lower than years 2018-2020. A higher volume of property sales in 2021 (which assists in clearing property tax arrears, if any) would have contributed to 2021 having the lowest total tax arrears within the five-year period. With property sales reverting to pre-pandemic levels in 2022, this may have been one contributing factor for the slight increase in total arrears. Another factor contributing to the 2022 overall increase in total arrears would be the higher increase in taxes levied. When taking this into account, the resulting 2022 arrears as a percentage of the current taxes levied was the most favourable over the last five years.

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**SUBJECT: Annual Tax Arrears as of December 31, 2022 (FCS23023) (City Wide) -
Page 2 of 17**

Table 1 is an analysis of the tax arrears from 2018 to 2022.

Table 1

5 Year Analysis of Tax Arrears

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Total Arrears ¹	\$72,228,534	\$71,970,200	\$75,636,548	\$77,609,940	\$73,737,453
Increase/(Decrease) Over Previous Year	\$258,334	(\$3,666,338)	(\$1,973,932)	\$3,872,487	\$4,945,411
Percentage Increase/(Decrease)	0.36%	(4.85%)	(2.54%)	5.25%	7.19%
Current Taxes Levied ² Plus Additions to Tax Roll	\$1,216,245,788	\$1,171,479,507	\$1,148,205,282	\$1,109,605,356	\$1,077,755,612
Increase/(Decrease) Over Previous Year	\$44,766,281	\$23,274,255	\$38,599,926	\$31,849,744	\$28,141,186
Percentage Increase/(Decrease)	3.82%	2.03%	3.48%	2.96%	2.68%
% of Total Arrears to Current Taxes Levied	5.94%	6.14%	6.59%	6.99%	6.84%
Municipal Benchmarking Network Canada (MBNC) – Current Year's Tax Arrears as a % of Current Year Levy					
Hamilton	TBD	3.5%	3.6%	3.9%	4.1%
Municipal Average ³	TBD	2.5%	3.2%	2.6%	2.5%
Municipal Benchmarking Network Canada (MBNC) – Prior Year's Tax Arrears as a % of Current Year Levy					
Hamilton	TBD	2.5%	2.7%	2.7%	2.6%
Municipal Average ³	TBD	1.8%	2.0%	1.7%	1.6%

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. Average will be impacted by the number of participants in each year.

As identified in Table 1 above, 2022 saw a slight increase in total arrears of approximately \$258,000, compared to 2021. However, the percentage of total arrears to current taxes levied shows a positive, decreasing trend, with 5.94% in 2022 being the lowest in the last five years.

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 (average varies depending on annual participants each year), Hamilton's results show a positive, declining trend.

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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, Provincial Offences Act 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.

Table 2 identifies the total amount of charges added to the tax roll on an annual basis. This amount has increased each 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 only applicable to 2020, and as such, once the waiving period expired, charges added to the tax roll continued to increase.

Table 2

5 Year Analysis of Charges added to Tax Roll

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Charges added to Tax Roll	\$7,728,180	\$7,658,050	\$6,154,450	\$6,653,770	\$5,226,180
\$ Increase/ (Decrease) Over Previous Year	\$70,130	\$1,503,590	(\$499,320)	\$1,427,590	\$1,079,590
% Increase/ (Decrease) Over Previous Year	1%	24%	-8%	27%	26%

Water arrears charges continue to be the most significant charge added to the tax roll. Over the last five years (2018-2022), water arrears attribute to an average of 70% of the total annual charges added to the tax roll.

One factor which impacted the amount of charges added to the tax roll in 2022 was the increase in the threshold for water arrears transfers. The dollar threshold to transfer water arrears charges to the tax roll was increased in 2022 from \$100 to \$125. This was the main contributing factor in lower volumes of water arrears transfers to the tax roll from an average of 450 a week in 2021, to an average of 380 a week in 2022.

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**

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Taxes Receivable ¹	\$88,632,117	\$84,394,273	\$87,610,501	\$88,844,463	\$83,598,660
Vacant Land	\$6,291,421 7.10%	\$4,559,714 5.40%	\$3,851,997 4.40%	\$3,376,527 3.80%	\$2,944,401 3.52%
Farm/Managed Forest	\$2,479,096 2.80%	\$2,226,561 2.64%	\$2,300,603 2.63%	\$2,402,659 2.70%	\$1,590,046 1.90%
Residential	\$51,229,644 57.80%	\$46,195,729 54.74%	\$51,386,229 58.65%	\$53,397,051 60.10%	\$50,275,034 60.14%
Commercial	\$13,649,000 15.40%	\$15,709,208 18.61%	\$15,765,595 18.00%	\$15,233,912 17.15%	\$16,311,790 19.51%
Industrial	\$14,703,236 16.59%	\$15,518,357 18.39%	\$14,253,920 16.27%	\$14,306,901 16.10%	\$12,435,451 14.88%
Other	\$279,720 0.31%	\$184,704 0.22%	\$52,160 0.06%	\$127,414 0.14%	\$41,939 0.05%
# of Properties	22,188	19,605	18,868	21,968	19,288
Vacant Land	674 3.04%	533 2.72%	491 2.60%	525 2.39%	565 2.93%
Farm/Managed Forest	432 1.95%	461 2.35%	390 2.07%	487 2.22%	392 2.03%
Residential	19,866 89.53%	17,452 89.02%	16,814 89.11%	19,618 89.30%	17,191 89.13%
Commercial	878 3.96%	879 4.48%	870 4.61%	996 4.53%	802 4.16%
Industrial	311 1.40%	256 1.31%	287 1.52%	325 1.48%	333 1.73%
Other	27 0.12%	24 0.12%	16 0.08%	17 0.08%	5 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, Taxes Receivable of \$88.6M in 2022 is an increase of \$4.2M when compared to 2021. The amount of Taxes Receivable in 2022 is comparable to 2019 and 2020. Since Taxes Receivable include billings levied but not yet due, the final (and largest) supplementary billing of \$9.3M issued in late 2022, and

not due until January 2023, would have contributed to this increase. Comparatively, the final supplementary billing issued in late 2021 was significantly smaller at \$5.8M.

The breakdown of Taxes Receivable by property class is consistent year over year, with the Residential property class accounting for anywhere from 55% to 60% of the total Taxes Receivable, followed by the Commercial and Industrial property classes, each generally ranging from 15% to 19%.

With respect to the number of properties with a balance owing as of December 31, although the number of properties continue to increase, the Residential property class consistently represents approximately 89% of the total number properties, while the Commercial property class approximately 4% to 5% and the Industrial class approximately 1.5%. It should be noted that Table 3 identifies all properties with a tax receivable greater than \$5.00, therefore it is not an indication of the severity of the receivable. 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 22,188 properties with a balance at the end of 2022:

- 7,435, or 34% of these properties have a balance owing between \$5 and \$99.99;
- 1,839, or 8% of these properties have a balance owing between \$100 and \$249.99;
- 1,735, or 8% of these properties have a balance owing between \$250 and \$499.99;
- 819, or 4% of these properties have a balance owing between \$500 and \$749.99;
- 759, or 3% of these properties have a balance owing between \$750 and \$999.99;

As such, approximately 57% of the 22,188 properties had a balance owing (not necessarily past due) of under \$1,000.

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.

**SUBJECT: Annual Tax Arrears as of December 31, 2022 (FCS23023) (City Wide) -
Page 6 of 17**

Table 4

Property Breakdown of Arrears per Ward

Ward	# of properties in 3yrs+ arrears ¹ (% of total ward)					
	January, 2023	January, 2022	January, 2021	January, 2020	January, 2019	
1	76(0.71%)	65 (0.61%)	90 (0.85%)	97 (0.94%)	84 (0.82%)	
2	101(1.13%)	101 (1.13%)	117 (1.13%)	125 (1.44%)	102 (1.19%)	
3	198(1.44%)	221 (1.60%)	259 (1.89%)	290 (2.14%)	265 (1.96%)	
4	136(0.91%)	138 (0.94%)	162 (1.10%)	176 (1.20%)	190 (1.29%)	
5	72(0.58%)	77 (0.63%)	95 (0.78%)	104 (0.87%)	93 (0.78%)	
6	88(0.69%)	80 (0.64%)	99 (0.79%)	119 (0.95%)	112 (0.89%)	
7	74(0.52%)	82 (0.58%)	105 (0.75%)	134 (0.96%)	121 (0.87%)	
8	79(0.69%)	74 (0.65%)	93 (0.82%)	83 (0.74%)	89 (0.79%)	
9	99(0.81%)	98 (0.81%)	116 (0.98%)	101 (0.88%)	91 (0.85%)	
10	107(0.67%)	89 (0.57%)	112 (0.72%)	130 (0.87%)	145 (0.98%)	
11	67(0.60%)	72 (0.66%)	92 (0.87%)	108 (1.09%)	93 (0.89%)	
12	124(0.73%)	122 (0.72%)	150 (0.89%)	160 (0.96%)	153 (0.95%)	
13	81(.65%)	80 (0.64%)	98 (0.79%)	112 (0.90%)	99 (0.79%)	
14	56(0.54%)	57 (0.57%)	70 (0.71%)	82 (0.83%)	66 (0.67%)	
15	88(.73%)	71 (0.60%)	106 (0.91%)	134 (1.23%)	112 (1.05%)	
TOTAL	1,446 (0.76%)	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.

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SUBJECT: Annual Tax Arrears as of December 31, 2022 (FCS23023) (City Wide) - Page 7 of 17

For comparison purposes, Table 4a identifies the average household income and owner versus renter split, as per the 2016 Census. Updated 2021 Census information was not available as of the writing of this report.

Table 4a

	2016 Census¹	
Ward	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 2023 have only slightly increased from 2022 and overall are lower than 2021 and prior. Total properties in three years arrears has increased slightly from 1,427 properties in 2022 to 1,446 properties in 2023. This is still a significant decrease from the three years prior to 2022 where there were between approximately 1,760 to 1,950 properties. The number of properties in arrears per Ward have remained consistent compared to the year prior, with some experiencing minor decreases, while others seeing minor increases. The average percentage of properties in 3+ years arrears has remained unchanged over the previous year, at roughly 0.76%.

This is the lowest percentage since we have been reporting these figures, which averaged 1.00% in 2019.

Like prior years, Ward 3 continues to have the highest percentage of properties in 3+ years arrears at 1.44%, however, this percentage has decreased from 1.60% in 2022, and is at it's lowest in the five-year span. Wards 7 and 14 have the lowest percentage of arrears at 0.52% and 0.54% respectively. Over the five-year period:

- The overall Ward percentage of properties in 3+ years arrears is at its lowest percentage since we started tracking the numbers in 2019
- All Wards have seen a reduction in the percentage of properties in arrears as compared to 2019. Ward 3 having the greatest reduction of -0.52% from 2019 to 2023
- Others Wards with significant decreases are Ward 4 (-0.38%); Ward 7 (-0.35%); and Wards 10 (-.31%) and 15 (-0.32%)
- Ward 4 has seen a consistent yearly reduction since 2019, from a high of 1.29% in 2019, to a current percentage of 0.91% in 2023

As of January 2023, the percentage of properties in 3+ years arrears by Ward ranged between 0.52% and 1.44%. This is an improvement from January 2022 where the average ranged between 0.57% and 1.60% of the total number of properties in each Ward.

Of the 1,446 properties identified in Table 4 above, approximately 200 properties have a lien already registered on title, with the remainder being at risk of a lien being registered in 2023, 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

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 2022 rebate was \$210, requiring income of \$38,160 or lower and an assessed residential property value of \$498,200 or lower. Prior year taxes must be paid in full. In 2022 there were approximately 2,850 seniors that received the rebate. The deadline to apply for the 2022 rebate is February 28, 2023.

Deferral of Tax Increase for Low-Income Senior or Low-Income Persons with Disability – the deferral requires an income of \$38,160 or lower and prior year taxes paid/deferred in full. In 2022, 9 applications were approved to defer the property tax increase, while 2 paid off prior year deferrals. As of December 31, 2022, there were 36 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. The deadline to apply for deferral of the 2022 tax increase is February 28, 2023.

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 \$38,160 or lower and prior year taxes paid/deferred in full. In 2022 14 applicants deferred their 2022 property taxes, two of which had not deferred in prior years. In 2022, 2 applicants repaid their full deferral amount, while 8 applicants who have deferred taxes from prior years, elected not to apply for 2022. As of December 31, 2022, there

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are 22 taxpayers with a full deferral. The deadline to defer the 2022 full taxes was September 30, 2022.

Compassionate Appeals for Extreme Poverty or Sickness – hearings for relief of 2021 property taxes are held throughout 2022 (once all applications were received by the due date of February 28, 2022). In 2022, the City received 15 applications (significantly lower than the 25 applications received the year prior). Of the 15 applications received, only three were awarded relief (ranging from 48% to 100% relief of their 2021 total property taxes), with the remaining (12 applications) being dismissed or withdrawn, either due to failure to appear, withdrawn by the appellant or the income was too high to qualify.

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 on 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. The 2022 penalty and interest charges of \$11.9M is comparable to prior years and only marginally lower than the previous year. 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).

Table 5

5 Year Analysis of Penalty and Interest Charges

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
P&I charges added to the Tax Roll ¹	\$11,933,392	\$12,030,300	\$11,459,885	\$12,012,070	\$11,290,901
\$ Increase/(Decrease) over Previous Year	(\$96,908)	\$570,416	(\$552,185)	\$721,169	(\$77,656)
%Increase/(Decrease) over Previous Year	(0.81%)	4.98%	(4.60%)	6.39%	(0.68%)

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 lower the penalty and interest revenue.

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 issued 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.

- 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 with an interest 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. In 2021 and 2022, registration volumes returned to pre-covid levels. In 2022, 360 liens were registered.
- 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. Tax sales resumed in the fall of 2022.

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 with a balance owing as of December 31st.

Table 6

5 Year Analysis of Reminder Notices issued

	2022	2021	2020	2019	2018
# of March Reminders	20,960	18,956	19,342	18,995	18,409
# of May Reminders	24,361	22,599	29,614	21,610	21,514
# of July Reminders	23,542	22,438	26,707	21,111	20,516
# of Aug Reminders	16,453	15,345	16,062	N/A	N/A
# of Oct Reminders	26,243	25,499	25,518	22,978	23,298
# of Nov Reminders	18,224	17,255	17,363	N/A	N/A
# of Dec Reminders	14,170	13,138	13,617	N/A	N/A
# of Properties billed ¹	185,057	183,685	180,917	178,841	177,258
# of Properties with balance at year-end	22,188	19,604	18,868	21,968	19,288
% of Properties in Arrears	11.99%	10.67%	10.43%	12.28%	10.88%

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. The number of reminder notices did appear to increase in 2022, however, there are no significant concerns currently. The timing of when reminder notices are run compared to the timing of when charges are added to the tax roll (i.e. water arrears, property standards) may contribute to the number of notices being mailed out.

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, by the end of 2022, approximately 12% of the total number of properties billed had not paid their property taxes in full, an increase from 2021 and 2020, however comparable to 2019. The timing and volume of the final supplementary/omitted tax billing typically completed in the last quarter of each year, would have an impact on the annual figures being reported.

Tax Registration

Table 7 on the following page identifies the number of properties issued a 3+ years arrears letter each year, compared to how many had a tax lien registered. The annual 3+ years in arrears letter (typically mailed out mid to late January each year), elicits several responses ranging from promises to pay, payment arrangements, payment of the minimum amount required to avoid a lien being registered (third year in arrears) and payment in full. Unfortunately, some taxpayers simply ignore the City's letter.

Taxation staff sort and monitor 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 collection efforts, starting with the properties with the largest arrears. Staff also monitor arrears of taxpayers who have failed on their payment arrangement and move them into the registration process. 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 pertaining to 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

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

	2022	2021	2020	2019	2018
3+ years in Arrears letters ¹	957	1,172	1,275	1,181	1,203
Increase / (Decrease) over Prior Year	(215)	(103)	94	(22)	85
Properties Registered with Tax Lien	360	415	210	452	360
% in Arrears for 3+ years Registered with Tax Lien	37.6%	35.4%	16.5%	38.3%	29.9%

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 350 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. The 957 letters mailed out in 2022 was the lowest over the five-year period, however staff still registered 360 liens. The percentage of liens registered when compare to the number of 3+ years arrears letters that were issued, (37.6% in 2022) was one of the highest over the last five years.

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 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. Excess funds are paid into Court.
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. Tax sales resumed in the Fall of 2022.

Table 8

5 Year Analysis of Tax Sales

	2022	2021	2020	2019	2018
Letters sent advising of impending tax sale	19	0	0	40	37
Properties advertised for tax sale	8	0	0	20	18
% to Tax Sale	42.1%	N/A	N/A	50.0%	48.6%
Rectified by Taxpayer	5	0	0	16	14
%Rectified	62.5%	N/A	N/A	80.0%	77.8%
Sold at Tax Sale	2	0	0	4	4
% Sold at Tax Sale	25%	N/A	N/A	20.0%	22.2%
No Bids Received	1	0	0	0	0
% with No Bids	12.5%	N/A	N/A	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 figures for 2022 are only based on one tax sale whereas 2018 and 2019 include two tax sales each. The number of properties that eventually go to tax sale ranges from just 3 to 4 properties per year over the 3 years where the City held tax sales. Considering the total number of properties levied property taxes (ranging from approximately 177k in 2018 to 185k in 2022), this represents only 0.002%.

The first tax sale post pandemic, held in the Fall of 2022, saw 3 out of an original 19 properties proceed to tax sale. The City received successful bids on 2 of the 3 properties. Staff will evaluate options on how to proceed with the one property that did not receive any successful bids, which includes vesting to the City for possible sale by Real Estate staff to recover all or most of the arrears, attempt a second tax sale and/or possible write-off.

APPENDICES AND SCHEDULES ATTACHED

None

MD/RD/dw