



Report to: General Committee

Report Date: November 4th, 2013

SUBJECT: Property Tax Arrears Update

PREPARED BY: Shane Manson, Senior Manager, Revenue & Property Taxation

RECOMMENDATIONS:

THAT the report entitled “Property Tax Arrears Update” be received;

AND THAT City finance staff will report back to Council annually to provide an update for all accounts in arrears;

AND THAT the foregoing resolution in Recommendation No. 1 is reported out in the public Council meeting on November 4th, 2013.

PURPOSE:

In March of 2013 Council requested finance staff to provide information on property tax accounts with outstanding levies from four to seven years. In order to provide Council with a broader context for the status of tax arrears within the City and the various processes that have been initiated on all properties, a detailed outline of the current state of all overdue accounts and the internal collection procedures and functions that are followed with respect to these accounts has been included

BACKGROUND:

The City’s outstanding tax receivables are managed through a series of planned tax collection processes, and provided that property taxes form a first priority lien on the property, the City’s tax receivables are secure. The Tax Department uses various internal collection procedures (i.e., mailing of overdue notices, telephone contact and the municipal tax sale process). In addition, pursuant to the *Municipal Act, 2001*, the City of Markham charges 15% interest per year on overdue taxes. Penalties are applied at a rate of 1.25% on the first day of default and at the beginning of every month thereafter. The use of the municipal tax sale proceedings is a proven and effective tool in the collection of outstanding property taxes. Once property taxes are three years or more in arrears, a municipality may register a tax arrears certificate on title to the property. The debtor has one year from the date of registration of a tax arrears certificate to pay the full cancellation price (the total of all unpaid taxes, all accrued penalties/interest and any costs incurred by the municipality related to the Property). Failing payment within that one year period, or the establishment of an extension agreement, the Treasurer may proceed to a sale of the property through a public auction or public tender.

OPTIONS/ DISCUSSION:

The final resolution in the process of collecting on tax accounts three or more years in arrears is through the tax sale process. Municipalities are provided with this authority under Part XI of the *Municipal Act, 2001*, which sets out all provisions for the “Sale of Land for Tax Arrears”. The City of Markham has traditionally engaged in a series of staged collections efforts and strategic taxpayer communications prior to initiating the tax sale process. The purpose of this outline is to



define these processes and to detail the planned resolution of all accounts that are in arrears. To provide the framework on the status of all accounts for Council, the arrears component has been separated based on defined yearly groupings; which allows for clarity regarding specific course of action for each group.

CURRENT STATE OF ALL ACCOUNTS

The following provides a consolidated outline of all overdue accounts, including the grouping of accounts based on the stage of collections. These categories of arrears have been detailed further in the summary below:

Figure 1: Current State of All Tax Accounts in Arrears

(As of September 26th, 2013)

Group	Overdue Years	# of Overdue Accounts	% Total Overdue Accounts	Total CVA of Overdue Properties	Property Tax Arrears
A	1	6,196	72.43%	\$3,201,368,142	\$13,425,653
	2	1,487	17.38%	\$764,935,376	\$10,731,903
	3	565	6.61%	\$274,967,700	\$6,485,389
A Total	Years 1-3	8,248	96.42%	\$4,241,271,218	\$30,642,945.37
B	4	220	2.57%	\$105,955,825	\$3,983,196
B Total	Year 4	220	2.57%	\$105,955,825	\$3,983,196.20
C	5	32	0.37%	\$11,825,675	\$594,382
	6	25	0.29%	\$10,070,300	\$636,773
	7	6	0.07%	\$2,627,500	\$219,097
	8	5	0.06%	\$1,366,875	\$150,838
	9	4	0.05%	\$2,357,750	\$245,253
	10	3	0.04%	\$19,456,250	\$177,237
	12	1	0.01%	\$470,000	\$84,420
	14	4	0.05%	\$745,250	\$169,851
	15	1	0.01%	\$10,000	\$8,082
	16	2	0.02%	\$279,425	\$59,390
	17	1	0.01%	\$178,750	\$47,914
19	2	0.02%	\$852,750	\$201,902	
C Total	Years 5 - 19	86	1.01%	\$50,240,525	\$2,595,138
Grand Total	Grand Total	8,554	100.00%	\$4,397,467,568	\$37,221,279

The 8,554 tax accounts that are overdue represent 8.78% of the 97,371 total tax accounts that currently exist in the City of Markham.

Overdue Tax Accounts between One and Three Years

City finance staff have individually summarized the accounts in arrears between one and three years, as these accounts may ultimately become eligible for registration for the tax sale process if the properties reach the fourth year of arrears. As illustrated in Figure One, the accounts overdue between one to three years represent 96.42% of the total properties in arrears, which is consistent with other municipalities.

Figure Two demonstrates that the quantity of properties in arrears decreases over time, and as a result of the City of Markham's tax collection processes. If these properties progress beyond three years in arrears, the properties will be subject to the tax sale registration process, followed by a recommendation to Council for tax sale, if the arrears remain overdue.

Figure 2: Overdue Accounts - One to Three Years

(As of September 26th, 2013)

Overdue Years	Overdue CVA (September 26, 2013)	% Overdue CVA	Overdue Levies (September 26, 2013)	% Overdue Levies	Overdue Property Count (September 26, 2013)	% Overdue Properties
1	3,201,368,142	75.48%	\$13,425,653	43.81%	6196	75.12%
2	764,935,376	18.04%	\$10,731,903	35.02%	1487	18.03%
3	274,967,700	6.48%	\$6,485,389	21.16%	565	6.85%
Years 1-3	4,241,271,218	100.00%	\$30,642,945	100.00%	8,248	100.00%

Overdue Tax Accounts in the Fourth Year of Arrears

The total outstanding receivables for properties four years overdue, as of September 26th, 2013, are \$3,983,196 million. Currently, there are 220 properties in this stage of arrears, with a corresponding Current Value Assessment of \$105,955,825. With the levies divided by classification, the Residential properties comprise approximately \$2,000,000 million of the arrears, with a property count of 154 and the Non-Residential properties contribute approximately \$1,900,000 million in overdue levies, with a property count of 66.

Although these accounts only represent 2.57% of all overdue properties, City finance staff recognizes the necessity to resolve these accounts without delay, and have committed to a revised schedule of tax collections proceedings, which will have all future overdue accounts beyond four years in arrears registered for tax sale by each respective Fall. City finance staff anticipates the progression of these properties to eligibility and recommendation for tax sale registration by the following spring.

Overdue Tax Accounts in Excess of Five Years

As illustrated in Figure Three, there are currently eighty-six properties in excess of five years in arrears; all of which, as a result of planned action on behalf of City finance staff, have been advanced to registration for the tax sale process or have been recommended for alternative action through a report to Council on today's agenda (November 4th, 2013) or in the Spring of 2014.

Figure 3: Overdue Accounts – Over Five Years Arrears

(As of September 26th, 2013)

Overdue Years	Overdue CVA (September 26, 2013)	% Overdue CVA	Overdue Levies (September 26, 2013)	% Overdue Levies	Overdue Property Count (September 26, 2013)	% Overdue Properties
5	\$11,825,675	23.54%	\$594,382	22.90%	32	37.21%
6	\$10,070,300	20.04%	\$636,773	24.54%	25	29.07%
7	\$2,627,500	5.23%	\$219,097	8.44%	6	6.98%
8	\$1,366,875	2.72%	\$150,838	5.81%	5	5.81%
9	\$2,357,750	4.69%	\$245,253	9.45%	4	4.65%
10	\$19,456,250	38.73%	\$177,237	6.83%	3	3.49%
12	\$470,000	0.94%	\$84,420	3.25%	1	1.16%
14	\$745,250	1.48%	\$169,851	6.54%	4	4.65%
15	\$10,000	0.02%	\$8,082	0.31%	1	1.16%
16	\$279,425	0.56%	\$59,390	2.29%	2	2.33%
17	\$178,750	0.36%	\$47,914	1.85%	1	1.16%
19	\$852,750	1.70%	\$201,902	7.78%	2	2.33%
Group Total	\$50,240,525	100.00%	\$2,595,138	100.00%	86	100.00%

Figure Four below outlines the plan to address (date and/or report) the eighty-six properties.

Figure 4: Resolution of Properties in Arrears in Excess of Five Years

(As of September 26th, 2013)

Accounts in Excess of Five Years in Arrears				
Group Breakdown	Property Status	Count	Resolution / Recommendation Date	Comments
C	Registered for Tax Sale	14	March 19, 2013	Completed
	Tax Write-Off	2	October 21, 2013	Report to Council
	Recommended for Tax Sale	67	November 4, 2013	Report to Council
	T.R.C.A.	3	Spring 2014	Management By-law*
Total		86		

* A management agreement by-law enables a municipality to adjust a property’s tax bill status to exempt. The Toronto and Region Conservation Authority (TRCA) lands are returned as taxable, and will therefore require a by-law to become exempt.

COLLECTION POLICY

It is incumbent on every municipality to continually evaluate their programs and procedures, with the objective of ensuring efficiencies and formalizing program benchmarks. City finance staff continually review the property tax collection processes in order to actively manage the outstanding property tax levies. Figure Five below has been prepared to provide a summary of the collection stages that occur with overdue property tax accounts.

Figure 5: Collections Process

Collection Stage
<p><i>Stage 1: All Tax Accounts in Arrears</i> Overdue Notification:</p> <ol style="list-style-type: none"> 1) Overdue Notices - issued two times annually (following interim/final billing); <ol style="list-style-type: none"> i. Spring; and ii. Fall. 2) Additional Notification - personal contact for accounts in arrears over the identified thresholds: <ol style="list-style-type: none"> i. Residential properties over \$10,000; and ii. Commercial, Industrial, and Multi-Residential over \$25,000.
<p><i>Stage 2: Third Year Arrears</i></p> <p>Properties that reach the third year of arrears are subject to a final notice collection letter that will advise of the potential for tax sale proceedings. The notifications request full payment or specific payment arrangement.</p> <ol style="list-style-type: none"> 1) <i>Overdue Notice</i> (Spring in year three); 2) <i>Final Notice Collection Letter</i> (Fall of year three).
<p><i>Stage 3: Four Year Arrears</i></p> <p>Properties that reach the start of the fourth year of arrears are subject to the following tax sale proceedings, which will start January 1st of the fourth year.</p> <ol style="list-style-type: none"> 1) <i>Mortgage Title Search and Mortgage Letter</i> <ol style="list-style-type: none"> i. Search outstanding mortgages or liens; ii. Letter sent to all registered mortgagees and interested parties; iii. Notice of added charge and tax sale issued to owner; iv. The City may enter into payment arrangements of twenty-four (24) months or less. v. <i>Tax Sale Registration</i> (Fall of year four). 2) Properties ready for tax sale inventory is prepared by City finance staff and will be recommended annually to Council.

The following example has been included to demonstrate the progression of a property tax account in arrears over time. Based on the City’s collection stages, tax accounts that reach four years in arrears will be registered for tax sale, therefore addressing the continuous accrual of uncollectable property tax by initiating the tax sale process.

Year of Arrears	Date	Collection Process
Year 1	<i>Jan-01</i> <i>Dec-31</i>	Stage 1
Year 2	<i>Jan-01</i> <i>Dec-31</i>	
Year 3	<i>Jan-01</i> <i>Dec-31</i>	Stage 2
Year 4	<i>Jan-01</i> <i>Dec-31</i>	Stage 3 Tax Sale Registration
Year 5	<i>Jan-01</i> <i>Dec-31</i>	Recommended for Tax Sale

Collection Process

Stage One addresses all tax accounts that have progressed into arrears. It pairs overdue notification with the billing cycle to create scheduling efficiencies. Personal phone contact will take place for all accounts in arrears that exceed set thresholds (i.e., \$10,000 in arrears for the residential class, and \$25,000 for non-residential), as these thresholds mirror the average dollar balance of overdue accounts at the end of year two. The thresholds also enable finance staff to expand early review and added customer service to property owners, through the provision of personal contact and payment plan assistance for tax arrears before the amount owing becomes too significant.

Stage Two addresses all tax accounts that reach the third year of arrears as of January 1st of each year. These accounts will reach the final notification stage by October of the year. This ensures all properties in the third year of arrears will be prepared for recommendation of tax sale registration by that respective Fall.

Stage Three commences for all accounts that reach the start of the fourth year of arrears by the start of the year. Stage Three does not begin until the fourth calendar year, as not all properties reach a full three years of default at the same time, due to the fact that the actual date of default may occur at different times within the third year of arrears. This stage is scheduled to immediately follow the final notice collection letter, initiating the tax sale process for all properties. The collection proceedings of this stage include; mortgage search, mortgage letter and tax arrears certificate registration. Based on the systematic schedule of collections actions, all properties that reach the start of fourth year of arrears on January 1st of the year will be brought forward to Council for recommendation for tax sale the following Fall; therefore ensuring properties will not progress beyond the fourth year with overdue levies.

FINANCIAL CONSIDERATIONS:

Currently the City of Markham has 8,554 accounts in arrears, valuing \$37,221,279 in overdue levies, and representing 8.78% of the 97,371 total tax accounts that currently exist in the City of Markham. Of this total, 96.42% or 8,248 properties are between one and three years in arrears, and will be managed through the enhanced collections program.

The remaining 306 accounts represent those in arrears of four years or more, which total \$6,578,334 in outstanding tax receivables and \$156,196,350 in Current Value Assessment (CVA). It is recommended that 86 of these properties be resolved through tax collection proceedings and/or recommendation to Council. The remaining 220 will be addressed through a recommendation for tax sale registration by the spring of 2014, if they remain overdue.

City finance staff will report back to Council annually to provide an update to for all accounts in arrears.

HUMAN RESOURCES CONSIDERATIONS:

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

None.

RECOMMENDED BY:

01/11/2013

X 

Joel Lustig
Treasurer

01/11/2013

X 

Trinela Cane
Commissioner, Corporate Services

