
HALDIMAND COUNTY

Memorandum FIN-M06-2024 Tax Arrears Analysis and Collection Results on Properties Eligible for Tax Sale



For Consideration by Council in Committee on December 10, 2024

To: Mayor Bentley and Members of Council

From: Erika Tardif, Senior Financial Analyst

RECOMMENDATIONS:

1. THAT Report FIN-M06-2024 Tax Arrears Analysis and Collection Results on Properties Eligible for Tax Sale be received;
2. AND THAT Memorandum FIN-M07-2024 Addendum to Memorandum FIN-M06-2024 Tax Arrears Analysis and Collection Results on Properties Eligible for Tax Sale be received and remain confidential.

EXECUTIVE SUMMARY:

This report contains an analysis of the property tax arrears as at December 31, 2023 and impacts of subsequent collection efforts to date.

The Municipal Act (“Act”) establishes specific collection processes to assist municipalities to collect unpaid property taxes. The Act provides the ability to register a tax arrears certificate on a property where any part of the taxes owing to the municipality, on January 1st, is two years overdue or older. The property owner has one year, from the date of tax sale registration, to pay the arrears in full to avoid a public sale of the underlying property. These legislative provisions have been utilized by the County for all eligible properties on an annual basis, as a last resort to collect overdue tax arrears.

Similar to prior years, the County has utilized an internal collection process before initiating the tax registration process under the Act. This process began in May with staff sending arrears notice letters to all 304 eligible properties. These notices are not required under the Act but have been used by Haldimand County as an aid to assist property owners in finding a solution to their tax arrears prior to the last resort – tax registration and ultimately public tax sale. As shown in this report, this notice process has been very successful in the past in clearing property tax arrears on most eligible properties, effectively avoiding tax registration and significant collection costs which would need to be recovered from the property owner.

The management of property tax arrears is a critical municipal financial practice which helps ensure required property tax levies are received. Although the County collects interest on unpaid property taxes, this revenue can only be utilized when the payments are actually received. High property tax arrears are an indication of the municipality’s taxpayer’s ability to pay their annual property taxes.

After resuming the tax sale process for the last two years, as a result of a pause due to the pandemic, the County’s property tax arrears at the beginning of 2024 were approximately 10.1% of total taxes levied. This rate marginally places Haldimand in the “moderate” level risk category established by the Province. The success of this program also ensures financial sustainability of the County as well as ensuring taxpayers have the ability to pay property taxes as they are levied.

BACKGROUND:

The purpose of this report is to provide additional details of the status of property tax arrears as at December 31, 2023 and update Council with respect to the current tax collection processes utilized by the Finance Division. This process has been in place since 2008 in an effort to address the number of properties eligible for tax sale registration and provide an alternative method of collection.

The tax registration process is the last resort in an effort to obtain property tax arrears owed to the municipality. The Act provides the ability to register a tax arrears certificate on a property where any part of the taxes owing to the municipality, on January 1st, is two years overdue or older. The property owner has one year, from the date of tax sale registration, to pay the arrears in full to avoid a public sale of the underlying property.

Ultimately, the tax registration process has collected a significant portion of the taxes that, had this process not been initiated, would not have been realized. The balance of this report summarizes the historical results of the tax collection and registration process, including the details of the current properties eligible for registration.

ANALYSIS:

Analysis of Tax Arrears:

The table below provides a comparison of total tax arrears as at December 31, 2023 in relation to Haldimand County's annual tax levy. "Eligible properties" are those that have outstanding taxes greater than two years as at January (i.e. for 2024, owing monies from 2022 or earlier). The tax arrears on eligible properties represent total taxes owed up to December 31st, including interest.

Table 1: Annual Year-End Property Tax Arrears Analysis

Property Tax Arrears	2020	2021	2022	2023
Annual Tax Levy (County and Education)	\$88,473,775	\$90,116,475	\$93,817,261	\$99,486,459
Total Tax Arrears	\$9,493,256	\$11,489,392	\$9,340,066	\$10,049,104
% of Tax Arrears to Levy	10.7%	12.7%	10.0%	10.1%
Number of Total Properties in Arrears	N/A	3,410	2,915	3,133
Tax Arrears on Eligible Properties	N/A	\$5,240,703	\$3,803,970	\$6,868,800
Eligible Properties as % of Total Arrears	N/A	45.6%	55.2%	68.4%
Number of Eligible Properties	N/A	460	419*	630**

* Number of Eligible Properties as at May 2023

** Number of Eligible Properties as at January 2024

The annual Financial Information Return (FIR) includes key financial indicators in order to compare municipalities against established Provincial thresholds. One of the financial sustainability indicators is the Total Taxes Receivable (Arrears) as a percent of Total Taxes Levied, with the following benchmarks or "levels of challenge":

- Low "Risk": <10%
- Moderate "Risk": 10% - 15%
- High "Risk": >15%

The County's Total Tax Arrears, as shown in Table 1 above, are just within the "Moderate" challenge category (municipalities in the "High Risk" category are contacted by Ministry staff to see how the municipality intends to address the situation). Established by the Province, these categories are included as one of their indicators of a municipality's financial sustainability. Over a 4-year timeframe, as shown in Table 1, the County has been in the "Moderate" challenge category with a high of 12.7% of Tax Arrears to Levy in 2021. Between 2021 and 2022 the percentage dropped to 10.0% when the County resumed the tax sale process. This shows the success and necessity of this process to reduce the County's overall risk.

Although the percentage of arrears is slightly higher in 2023 than that seen at the end of 2022, the number of eligible properties is still comparable to prior years. This would imply that the recovery/payments from properties eligible for registration is being matched by the accumulation of arrears by new properties not yet eligible for tax sale registration. As there are 418 (see Table 2) remaining eligible properties, the balance of the 2,715 properties in tax arrears, only have arrears in 2023 and 2024.

The eligible properties as a % of total arrears continues to climb from 45.6% in 2021 to 68.4% in 2023. Combined with the fact that the number of eligible properties is relatively steady during that time, this indicates the vast majority of the County's total arrears is eligible for tax sale and tied up in a limited number of properties. As shown in Table 2 below, the County has only had 3 properties (0.18%) fail the tax sale process with taxes recommended to be written off. Staff are therefore confident that the arrears will eventually be collected through the tax sale process.

Staff will also continue to encourage methods to reduce properties from accumulating current arrears, such as sending additional arrears notices during the year and promotion of automated payment options.

Collection Results on Properties Eligible for Tax Sale:

As of May 2024, Haldimand County had 418 properties which were two years or more in tax arrears and eligible for a tax arrears certificate registration. This represents 1.68% of the total of 24,812 properties that are billed taxes annually. The breakdown, with comparisons to prior years, is as follows:

Table 2: Properties Eligible for Tax Sale Process Results

Properties Eligible for Tax Sale Process Under the Municipal Act	2019	2022	2023	2024
Total Eligible Properties as per S. 373 (1) as at January 1	607	N/A	N/A	630
Properties with sufficient arrears paid - no longer eligible for registration	-266	N/A	N/A	-212
Total Eligible Properties at Start of Process	341	460	419	418
Properties with active payment plans	-2	0	-44	-10
Properties with previous registered tax arrears certificate - to be put up for tax sale	-16	0	-55	-28
Properties from failed tax sale - to be "vested" (*)	0	0	0	0
Properties from failed tax sale - to be re-advertised	0	0	0	-2
Provincial/Federal properties subject to alternative collection methods	-13	-9	-6	-5
Properties that are eligible to be registered but tax arrears are under threshold	N/A	N/A	N/A	-53
Properties subject to further inquiry and alternative collection methods	-5	-59	-43	-11
Properties registered for tax sale; not to be advertised at this time (*)	0	-3	0	-1
Other Properties - not recommended for registration at this time (*)	-2	-2	-3	-4
Properties Eligible for Internal Tax Arrears Collection Process (before formal Tax Registration)	303	387	268	304
Properties that paid in full	-18	-54	-61	-53
Properties with signed payment plan	-49	-69	-34	-34
Properties with payments sufficient to clear eligibility	-163	-100	-96	-107
Properties Registered for Tax Arrears Certificate	77	164	83	110
Percentage of Eligible Properties Registered	25%	42%	31%	36%

(*) – details related to these properties are outlined in Confidential Memo FIN-M07-2024.

Similar to prior years, staff have initiated the alternative tax collection process noted above on all 304 eligible properties beginning in May of 2024. The initial tax arrears notices were sent to the eligible properties, dated May 15, 2024. The Council-approved administration fee of \$296 was added to 294 of the newly eligible properties. The remaining 10 properties received a letter without the fee, as they

had become eligible due to a defaulted payment plan. These properties would have received a letter with the Council approved fee in the prior year. Of these 10 properties, 6 paid out of eligibility and 4 are included in the 110 properties registered.

The 53 properties that are eligible to be registered but tax arrears are under threshold, had less than the administration fee of \$296 owing for 2022. As a result, these properties were sent a letter to let them know that the property was more than two years in arrears, and to warn them that if they do not take action, the County may start the tax sale process at a future date. A number of these property owners made payments. The 11 properties subject to further inquiry and alternative collection methods are actively being investigated and monitored by staff.

The 5 properties that staff are recommending not following the regular process at this time (and consequently did not receive a notice), have been reported to Council in the confidential addendum FIN-M07-2024 with the associated rationale.

The process of initiating the tax sale process on all eligible properties is transparent to the public and equitable to all taxpayers in arrears. Since 2017, properties with more than two years of arrears have been included, consistent with Provincial legislative changes, as compared to three years in arrears for pre-2017 years. Although this resulted in more eligible properties, the process has had favourable results in reducing the number of properties eligible for tax registration. In addition, by shortening the timeframe from three years to two years, amounts owing on properties are more current and have incurred less penalty and interest. This presents a smaller hurdle for property owners to clear their total arrears, resulting in an overall lower amount of arrears from the County, which is positive.

Based on these collection methodologies, the majority of the properties eligible for registration get paid and never reach the Public Tax Sale process (on average, less than 3% of eligible properties proceed to the legislative tax sale process).

Results of Internal Collections:

Table 3: Results of Collection Activities on Eligible Properties from 2023 Registration

	Number of Properties	Sum of Arrears
<i>Eligible Properties at Start of Process</i>	418	\$7,022,974
Properties Previously Registered	-31	-\$710,548
Signed Payment Plans	-44	-\$344,584
Properties Not Registered – alternative collection processes	-73	-\$3,214,447
Properties Registered in 2024 (*)	-110	-\$1,321,269
<i>Collected</i>	160	\$1,432,126
% of Eligible Properties Collected	38%	20%

(*) - A detailed breakdown of the arrears by Properties Eligible for Registration as of May 2024 is included in Attachment 1.

Through the internal collection process, \$1.43 million dollars in arrears were collected prior to any properties being registered. A portion of the amount collected is contributed to staff communication with taxpayers as a result of the initial letters mailed.

Historical Results of Tax Sale Process:

The following table provides the results of the previous 4 tax sale processes:

Year of Public Tax Sale	<u>2018</u>	<u>2019</u>	<u>2023</u>	<u>2024</u>
Properties Registered for Tax Arrears Certificate	133	73	164	83
Properties paid in full after Registration (at time of report)	-129	-63	-144	-80
Properties Eligible for Public Tax Sale	4	10	20	3
Properties sold through Public Tender	-3	-6	-18	-1
Properties Eligible to be Vested/Re-advertised	1	0	2	0
Properties Re-advertised and Sold through Public Tender	-1	0	0	-2
Properties eligible to be re-advertised	0	0	-2	0
Properties Failed Tax Sale to be “vested” in County Ownership	0	0	0	0

The majority of the properties that reach the Public Tax Sale process are either: abandoned; the owners can no longer be contacted; or the properties are no longer wanted by the former owners. Over the past four sales held, only three properties have “failed” the tax sale process. All three properties had the tax arrears reduced and were successfully sold through a second tax sale.

It would appear that the registration process is effective in reducing tax arrears on properties eligible for registration. At the time of this report, there are only 41 properties still registered from the 110 properties that were registered in July 2024.

Re-Advertised/Vested Properties

After a failed tax sale (i.e. no successful purchaser), the County has the option of “vesting” the property in the County’s ownership within two years of the failed tax sale or leaving the property in the original owner’s name. The County also has the option of re-advertising the property before it vests the property. As part of the tax sale process, staff inquire as to the status of the property to ensure there are no unforeseen issues with the associated properties (i.e. potential liabilities, environmental concerns, etc.) Typically, staff will not recommend initiating a tax sale if there are concerns that would negate the County from wishing to vest the property after a failed tax sale.

The Municipal Act provides for the write-off of taxes (other than reductions provided under tax relief/reduction programs) under the following circumstances:

- Council authority based on the recommendation of the Treasurer; and
- After an unsuccessful tax sale.

Typically, staff will re-advertise the properties for a second tax sale before recommending any taxes to be written-off. The County has had moderate success in re-advertising properties for tax sale a second time without writing any property taxes off, and in all occasions, successful with a reduction in tax arrears where warranted. As indicated above, there are no properties requiring a reduction in tax arrears or re-advertising for tax sale.

FINANCIAL/LEGAL IMPLICATIONS:

Although properties with tax arrears are subject to monthly interest charges (at the rate of 1.25% per month or 15% per annum), the majority of these eligible properties have had no substantial payments in several years. As a result, from a cash flow perspective, the County has not received any of the accumulated interest charges nor the principal amount of the levied taxes.

All fees associated with the tax sale process are recoverable through adding them to the cancellation price. The approved 2024 Tax-Supported Operating Budget includes an amount of \$80,000 (excludes staff time for the administration of public tax sale process) for recoverable administration fees charged to the properties that are entered into the tax sale process.

STAKEHOLDER IMPACTS:

Properties eligible for tax sale may have outstanding issues related to other service areas of the County (i.e. Fire, By-law, Planning etc.). A list of properties is sent annually to the departments that may be impacted. If any issues are identified prior to registration that may impact the County's ability to continue with the tax sale, staff will notify Council with a recommended approach on a go forward basis.

REFERENCES:

None.

ATTACHMENTS:

1. Summary of Properties Eligible for Tax Arrears Registration – by Property Type