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HALIFAX
REGIONAL MUNICIPALITY

PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Halifax Regional Council
January 31, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Wayne Anstey
Wayne Anstey, Acting Chief Administrative Officer

DATE: January 10, 2006

SUBJECT: **Write-off of Uncollectible Accounts**

SUPPLEMENTARY REPORT

ORIGIN

Halifax Regional Council direction of December 13, 2005 and the Audit Committee meeting of January 4, 2006.

RECOMMENDATION

It is recommended that :

1. The real property tax and lienable charges in the amount of $203,945.65 comprised of $120,082.69 principal and $83,862.96 interest as detailed in Schedule 1 be formally written out of the books of account.

2. The business occupancy tax accounts in the amount of $698,441.92 comprised of $600,153.81 principal and $98,288.11 interest as detailed in Schedule 2 be formally written out of the books of account.

3. The general revenue accounts in the amount of $43,929.47 comprised of $42,234.42 principal and $1,695.05 interest as detailed in Schedule 3 be formally written out of the books of account.

BACKGROUND

At the December 13, 2005 council meeting the annual write off report was presented for council approval. Before any questions around the report could be addressed, it was moved and resolved by council that the report be sent to the Audit committee for review.

DISCUSSION

There were two main areas of concern raised at council on December 13, 2005. One was relative to the detailed list of specific accounts being written off which had been made available by request to Councillor McCluskey prior to the council meeting. C. McCluskey was concerned that some of the companies on the list were indeed going concerns and/or that we could in fact recoup the losses. As per detailed explanation provided to the councillor and to the other members of the audit committee this is not the case and the current list remains as recommended by staff.

The audit committee and staff discussed the challenges surrounding collection of business occupancy tax and it was acknowledged that delays concerning business closings contributed to the ability to collect any outstanding taxes. Assessment Services notifies HRM , in some cases, months after the actual close date of a business. The delay means the business owner can be very difficult to trace after the fact. Such accounts are usually sent to our external collection agency for tracing and escalated collection activity.

For business occupancy accounts that are active, staff send overdue letters, follow up with payment arrangements and will issue warrants of distrain via our bailiff. In this process, a bailiff is sent to the business to mark assets and/or goods that are onsite for resale purposes. These marked items cannot be sold without the funds coming directly back to HRM to relieve the debt. This serves to severely limit the business' ability to carry on. This measure alone can force payment but must be balanced against the need to support the business as a going concern so that the entire amount of the BO can be collected. It is difficult to confiscate goods and assets and sell them at a public auction such that their full value is retrieved for settlement of the debt.

Further processes followed by staff to collect are outlined in the Revenue Collections Policy, Administrative Order 18, approved by council on December 6, 2005.

The Audit Committee was advised by staff that recent measures to improve collection, including the hiring of a full time collection specialist, was seeing considerable success. In 2004 the Revenue Division initiated a one year temporary position of Collection Specialist. 700 Special collection letters were sent out in July 2004 for approximately $8.9 million in outstanding receivables. By March 2005 $5 Million of the $8.9 Million had been collected. This position has since been approved as a permanent full time equivalent.

Since amalgamation in four separate reports council has approved the write off of over $13 million. (June 2001, $3.6 million, October 2002, $7.4 million and in April 2004 $2.1 million.) This report represents the lowest write off report since amalgamation at a total of $946,000.

BO write offs have dropped significantly in the past several years.

Fiscal Years	Average Annual BO write off
93/94 to 98/99	$910,900
99/00 to 03/04	$338,600

Staff are striving to continue to improve measures that will increase collection. For example, the current financial tool used to monitor accounts, track account statuses and their payment arrangement compliance is well over 12 years old and is not designed for collection functionality. Most of the processes staff use to monitor accounts are therefore manual and cumbersome.

An automated collection tool has been assessed in recent months as part of the Integrated City revenue tool replacement project and staff will be returning to council within the month to report on the outcome of this RFP process.

The second main question that arose was "why are we writing off lienable charges?". As explained in the first report these write offs are mostly for amounts related to land leased by private companies from the federal and provincial governments. When this occurs the land attracts what would normally be lienable real commercial property taxes. The lease agreements state that the companies are then responsible to pay these taxes. However, when the companies go bankrupt or defunct we cannot sell the federal or provincial land in satisfaction of the debt. So, although, normally the tax would be lienable, technically and practically in these cases it is not. Staff have contacted the federal and provincial governments to obtain a list of such leased land situation so as to monitor these more closely and treat them, for collection purposes, in the same way as a non-lienable charge. It is possible, for example, to threaten to sell the companies' leasehold interest in the land in satisfaction of the debt.

One further point brought up at Council was the question of the public nature of the write off lists. Under Section XX of the Municipal Government Act, the HRM may be in contravention of the law should we mention specific names of accounts to be or having been written off. Staff confirmed with our FOIPOP administrator that Section 480(2), which speaks to unreasonable invasion of a third party's personal circumstances, may be cited should we announce company or individual names.

Advertising in the newspaper of amounts owed to the HRM as per Part VI of the MGA, however, is required by law as part of the notification process for interested lienholders on a property being sent to the public tax sale auction process and this practice is provided for in Part XX of the MGA.

Staff currently provide councillors with advance notice of business occupancy bailiff warrants we are issuing and of properties being sent to tax sale. Staff propose that we add to this reporting by providing councillors with a detailed report of all accounts recommended for write off at an In Camera session of council in advance of the report going to regional council.

BUDGET IMPLICATIONS

There are no additional budget implications with this supplementary report.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

None

ATTACHMENTS

Original report dated December 13, 2005.

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Catherine Sanderson, CMA Senior Manager Financial Services 490-1562

Report Approved by: Dale MacLennan

Dale MacLennan, CA Director Finance 490-6308

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HALIFAX
REGIONAL MUNICIPALITY

PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Halifax Regional Council
December 13, 2005

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:
Dan English, Chief Administrative Officer

Wayne Anstey, Acting Deputy Chief Administrative Officer

DATE: December 6, 2005

SUBJECT: **Write-off of Uncollectible Accounts**

ORIGIN

The Municipal Government Act (MGA), Section 38, prescribes that all accounts considered uncollectible and which are to be permanently removed from the accounts of HRM must be approved by Council.

RECOMMENDATION

It is recommended that :

1. The real property tax and lienable charges in the amount of $203,945.65 comprised of $120,082.69 principal and $83,862.96 interest as detailed in Schedule 1 be formally written out of the books of account.

2. The business occupancy tax accounts in the amount of $698,441.92 comprised of $600,153.81 principal and $98,288.11 interest as detailed in Schedule 2 be formally written out of the books of account.

3. The general revenue accounts in the amount of $43,929.47 comprised of $42,234.42 principal and $1,695.05 interest as detailed in Schedule 3 be formally written out of the books of account.

BACKGROUND

The MGA requires that all accounts considered uncollectible and which are to be permanently removed from the accounts of the HRM be approved by Council. Since amalgamation there have been four reports to Council to write-off general uncollectibles and to provide collection related statistics. This is the fifth report for write-offs since amalgamation and is intended to clear from the records accounts considered to have no value. Staff also wants to provide Council with up to date statistics with regard to collection performance.

DISCUSSION

Each year the provision for losses on accounts is budgeted in the operating fund as mandated by the MGA. This provision is accumulated each year in the valuation allowance account in order to offset on the balance sheet the value of the receivables recorded in the books of account. In this way, and in accordance with legislation and with generally accepted accounting practices, there is recognition that not all accounts billed will be collectible.

Yet, staff employ all means at their disposal to collect appropriate charges on a timely basis. General revenue accounts receive monthly statements as the terms on these accounts are usually net 30 days. Follow up phone calls are made and payment arrangements put in place where customers indicate the need and where staff deem appropriate. Regular credit reports are received from credit reporting institutions and against this background the overall collectibility of accounts is assessed. In the case of business occupancy taxes, monthly reminder letters are issued to overdue accounts and, as a final measure, warrants of distrain are issued and assets are seized in satisfaction of the accounts in accordance with the MGA. In the case of real property taxes, friendly reminder letters are sent twice a year, as well as the biannual tax bills showing outstanding arrears and, as a final measure, notices of tax sale are sent to the property owner if no satisfactory payment arrangements can be made and due process is followed as per the provisions of the MGA. Legal action is taken where appropriate to collect accounts in dispute.

Still, with all these measures, some accounts remain uncollectible either because of bankruptcy or because the owner has vacated the premises and cannot be located or there are insufficient assets to satisfy the outstanding amount.

It should be noted that all of these accounts although written out of the active records will be maintained in history for future reference should the same businesses reopen or should it come to our attention that these accounts can be pursued.

The Business Occupancy tax accounts are, once again, the highest amounts being proposed for write off. This tax remains the most difficult to collect as the tax is non-lienable. Our current recommended write offs are for companies that are defunct or bankrupt or the owners cannot be located. The highest amounts of write off are in the billing years 2002/03 and 2003/04. These two years include over 300 accounts as opposed to 100 or less in the shoulder years.

Staff have not written off very large amounts in these two years prior to this report. It is usual that processes to pursue accounts will take two to three years prior to being declared uncollectible by the trustee in bankruptcy or by our third party collection agency.

The amounts of lienable charges being recommended for write off are for amounts related to land leased by commercial operations from the federal or provincial governments. These are technically lienable charges but as the responsible companies are bankrupt and have no real property interest in the land they had leased, the property cannot be sold to satisfy these accounts. Other lienable charges being recommended for removal are for mobile home accounts and for old machinery and equipment tax charges; all for bankrupt, defunct companies or people we cannot locate.

General Revenue charges being recommended for removal are for miscellaneous charges related to bankrupt, defunct or missing persons and for numerous NSF charges that cannot be pursued and which are associated with these uncollectibles.

The attached schedule of write off statistics indicates that of the total amount of revenues billed each year HRM writes off less than 0.15 to 1.29 percent on average. BO tax write offs were at their highest in 97/98 and 98/99 when we were forced to write off a little over 2 percent of revenues. Improvements in collection efforts have reduced this statistic even with an increased dollar amount of BO taxes to collect. We have recently appointed a project lead to focus even more on BO tax collection and lead a team of staff to address collection as this tax is eliminated over the next five years.

BUDGET IMPLICATIONS

Each year an allowance for bad debt, the valuation allowance is calculated based on estimates of amounts outstanding that may be uncollectible in future years. In the current write off list there is $6,068.69 that is uncollectible for amounts billed in 2005/06. This amount will reduce current year revenues. This is because the valuation allowance calculated on March 31, 2005 would not have contemplated allowing for amounts that had not yet been billed.

Business occupancy interest is recorded only as it is collected. The reversal of interest associated with Business Occupancy accounts, therefore, in the amount of $98,288.11 has no budget implications.

There are no other budget implications as these amounts have been fully provided for in the annual valuation allowance expense.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

There are none recommended.

ATTACHMENTS

Schedule 1, 2 and 3
Summary of Write-Offs (Principal and Interest)
Schedule 4 - Write-Off Statistics

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.	
Report Prepared by:	Catherine Sanderson, CMA, Senior Manager, Financial Services 490-1562
Report Approved by:	Dale MacLennan S. Dale MacLennan, CA, Director of Finance 490-6308

SCHEDULE 1

REAL PROPERTY
& LIENABLES
REMOVAL FROM ACCOUNTS

YEAR	AMOUNT
1995/96 and prior	$88,372.45
1996/97	$33,086.68
1997/98	$27,301.65
1998/99	$9,834.01
1999/00	$4,262.27
2000/01	$8,783.71
2001/02	$7,301.50
2002/03	$7,858.72
2003/04	$12,769.71
2004/05	$4,335.52
2005/06	$39.43
TOTAL	$203,945.65

NOTE: Details of specific accounts supporting the above amounts available upon request

BUSINESS OCCUPANCY

REMOVAL FROM ACCOUNTS

YEAR	AMOUNT
1995/96 and prior	$19,392.73
1996/97	$8,487.75
1997/98	$13,094.60
1998/99	$19,196.07
1999/00	$25,590.04
2000/01	$29,995.31
2001/02	$86,346.05
2002/03	$231,959.91
2003/04	$189,297.51
2004/05	$69,052.69
2005/06	$6,029.26
TOTAL	$698,441.92

NOTE: Details of specific accounts supporting the above amounts available upon request

GENERAL REVENUE

REMOVAL FROM ACCOUNTS

YEAR	AMOUNT
1995/96 and prior	$0.00
1996/97	$649.00
1997/98	$110.00
1998/99	$976.81
1999/00	$187.39
2000/01	$657.92
2001/02	$7,398.07
2002/03	$15,375.49
2003/04	$17,030.02
2004/05	$1,544.77
2005/06	$0.00
TOTAL	$43,929.47

NOTE: Details of specific accounts supporting the above amounts available upon request

SUMMARY OF WRITE-OFFS

	Principal	Interest	Total
Real Property & Other Lienables	$120,082.69	$83,862.96	$203,945.65
Business Occupancy	$600,153.81	$98,288.11	$698,441.92
General Revenues	$42,234.42	$1,695.05	$43,929.47
	$762,470.92	$183,846.12	$946,317.04

WRITE-OFF STATISTICS

GENERAL REVENUES	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	TOTAL
GENERAL REVENUES	$73,972,000	$83,560,000	$91,847,000	$99,708,000	$107,700,000	$112,222,000	$121,487,000	$116,875,000	$807,371,000
GENERAL REVENUES - Write offs	$899,397	$477,702	$227,078	$100,223	$71,088	$77,661	$33,132	$27,534	$1,913,815
PERCENTAGE OF WRITE OFF TO BILLED	1.22%	0.57%	0.25%	0.10%	0.07%	0.07%	0.03%	0.02%	0.24%

ALL TAXATION	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	TOTAL
TAXATION REVENUE	$277,822,000	$278,236,000	$285,756,000	$290,367,000	$305,928,000	$327,054,000	$343,358,000	$378,028,000	$2,486,549,000
TAXATION - Write offs	$505,934	$761,982	$750,937	$541,022	$383,722	$397,489	$323,012	$185,096	$3,849,195
PERCENTAGE OF WRITE OFF TO BILLED	0.18%	0.27%	0.26%	0.19%	0.13%	0.12%	0.09%	0.05%	0.15%

BUSINESS OCCUPANCY TAXATION	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	TOTAL
BUSINESS OCCUPANCY TAXATION REVENUE	$33,843,000	$30,541,000	$30,897,000	$31,535,000	$34,150,000	$38,255,000	$40,941,000	$43,924,000	$284,086,000
BUSINESS OCCUPANCY TAXATION - Write of	$415,066	$718,492	$722,956	$515,034	$375,017	$397,489	$323,012	$184,696	$3,651,763
PERCENTAGE OF WRITE OFF TO BILLED	1.23%	2.35%	2.34%	1.63%	1.10%	1.04%	0.79%	0.42%	1.29%