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Halifax Regional Council
October 8, 2002

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
George McLellan, Chief Administrative Officer

DATE: October 3, 2002

SUBJECT: Write-off of Uncollectible Accounts

ORIGIN

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

RECOMMENDATION

It is recommended that:

- 1) The real property tax accounts in the amount of \$349,942.03 comprised of \$219,096.44 principal and \$130,845.59 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 \$3,955,847.06 comprised of \$2,750,220.28 principal and \$1,205,626.78 interest as detailed in Schedule 2 be formally written out of the books of account.
- 3) The general revenue accounts in the amount of \$1,184,940.34 comprised of \$1,180,990.88 principal and \$3949.46 interest as detailed in Schedule 3 be formally written out of the books of account.
- 4) The social services intermunicipal amount of \$1,923,485.82 principal only 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 has been one report to Council to write-off general uncollectibles and to provide collection related statistics. This report was presented June 19, 2001. A second report to write-off accounts in excess of \$100,000 was presented March 26, 2002; three accounts were included in that report. This is the third report for write-offs and is intended to clear from the records accounts considered to have no value including those which are outstanding amounts from prior to amalgamation. These amounts are in excess of 6 years old and efforts have been exhausted in their collection. Staff also wants to update Council as to the status of all amounts now outstanding from prior to amalgamation and to provide further 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 distraint are issued against overdue accounts 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.

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.

This report is intended to update Council concerning all outstanding receivables brought forward from previous municipalities. As of March 31, 2002, the amount outstanding from pre-amalgamation totals approximately \$5.2 million. This amount can be broken down as follows:

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	Total Outstanding Prior to March 1996	Current Proposed Write Off	Balance
Due from other Mun. Social Services	\$2,029,719	\$1,923,485	\$106,234*
Due from PNS	\$620,896	\$0	\$620,896
Local Improvements	\$900,970	\$0	\$900,970
In Legal Action	\$402,023	\$0	\$402,023
Other Receivables	\$1,287,575	\$1,287,575	\$0
Totals	\$5,241,183	\$3,211,060	\$2,030,123

* Payment arrangements in place.

The Due from other Municipalities re Social Services amount has been researched and a settlement of \$177,058 was reached with the Cape Breton Regional Municipality in 2001 on a balance of \$662,761. The balance outstanding from other municipalities, after this settlement, has been assessed by staff and legal services and cannot be pursued. Documentation to support any further settlements is not available. The Act which created these receivables was repealed April 1, 1995 and the age of these accounts is beyond 7 years. The total write-off for this receivable is, therefore, \$1,923,485.

Of these amounts as noted above, we will continue to pursue the amounts owing from the Province of Nova Scotia. As well, Local Improvements will be maintained as these can be amortized over 10 or more years making their age less of a concern and the Other Receivables in Legal Action will be pursued.

The other accounts, as noted above, however, are identified in the recommendation section as requiring write off approval. Should Council approve these write-offs, the balance remaining of preamalgamation amounts will be approximately \$2.0 M.

In April 2003, as per policy approved by Council last June, an additional write-off report will be brought before Council and a report of progress in collection activity on preamalgamation balances will be presented.

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.

Staff will be preparing a presentation for Program and Service Review which will include a review of benchmarks and performance measures around receivables and write-offs from various municipalities across Canada. These performance measures will be presented in the near future to Council as part of an overall policy for receivable management and write-offs.

BUDGET IMPLICATIONS

There is a current year budget implication relative to the principal portion of tax receivables being written off in the amount of \$11,053.84, since the entire amount of these taxes billed in 2000/01 and in 1999/00 has not been fully allowed for in the valuation allowance calculated as of March 31, 2002.

Interest on lienable charges is recorded in the books of account each month. Business occupancy interest, however, is recorded only as it is collected. The reversal of interest associated with Business Occupancy accounts, therefore, in the amount of \$1,205,626.78 has **no budget implications**. Interest in the amount of \$134,795.05 on lienable charges and on general revenues being written off will reduce the interest recorded in the current fiscal year. The total net budget impact for 2002/03, therefore, is \$145,848.89.

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

Council could direct staff to keep these accounts in the permanent records and segregate them as uncollectible into the future for reference purposes. This is not recommended as the records will become burdened with data associated with these inactive accounts.

ATTACHMENTS

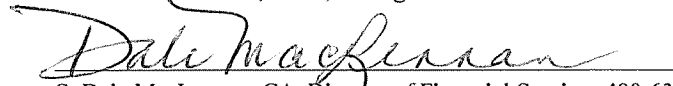
Schedule 1, 2, 3
Summary of Write-Offs (Principal and Interest).
Write-Off Statistics (schedule 4).

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.

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Report Approved by:



S. Dale MacLennan, CA, Director of Financial Services 490-6308

SCHEDULE 1

REAL PROPERTY & LIENABLES REMOVAL FROM ACCOUNTS

YEAR	CHATTEL PROPERTY
1989/90	\$1,995.31
1990/91	\$2,756.31
1991/92	\$9,266.22
1992/93	\$8,381.31
1993/94	\$10,120.92
1994/95	\$39,168.30
1995/96	\$81,221.35
1996/97	\$90,868.22
1997/98	\$43,490.13
1998/99	\$27,980.91
1999/00	\$25,987.86
2000/01	\$8,705.19
TOTAL	\$349,942.03

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

SCHEDULE 2

BUSINESS OCCUPANCY

REMOVAL FROM ACCOUNTS

YEAR	AMOUNT
1989/90	N/A
1990/91	\$296.00
1991/92	\$536.31
1992/93	\$1,546.98
1993/94	\$6,078.83
1994/95	\$370,928.78
1995/96	\$512,780.87
1996/97	\$473,432.76
1997/98	\$925,406.83
1998/99	\$863,122.01
1999/00	\$516,893.91
2000/01	\$284,823.78
TOTAL	\$3,955,847.06

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

SCHEDULE 3

GENERAL REVENUE

REMOVAL FROM ACCOUNTS

YEAR	AMOUNT
1989/90	\$115.63
1990/91	\$3,770.80
1991/92	\$3,407.17
1992/93	\$31,487.19
1993/94	\$14,827.28
1994/95	\$25,272.20
1995/96	\$152,729.03
1996/97	\$204,089.53
1997/98	\$455,259.83
1998/99	\$209,237.38
1999/00	\$56,583.26
2000/01	\$28,161.04
TOTAL	\$1,184,940.34

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

SUMMARY OF WRITE-OFFS

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Real Property & Other Lienables	\$219,096.44	\$130,845.59	\$349,942.03
Business Occupancy	\$2,750,220.28	\$1,205,626.78	\$3,955,847.06
General Revenues	\$1,180,990.88	\$3,949.46	\$1,184,940.34
Social Services	\$1,923,485.82	\$0.00	\$1,923,485.82
	<u>\$6,073,793.42</u>	<u>\$1,340,421.83</u>	<u>\$7,414,215.25</u>

WRITE-OFF STATISTICS

	1996/97	1997/98	1998/99	1999/2000	2000/2001	TOTAL
GENERAL REVENUES						
GENERAL REVENUES - BILLED	\$74,053,244	\$87,448,591	\$97,953,732	\$113,623,393	\$103,283,744	\$476,362,704
GENERAL REVENUES - Write offs	\$203,988	\$455,185	\$209,214	\$54,507	\$23,951	\$946,845
PERCENTAGE OF WRITE OFF TO BILLED	0.28%	0.52%	0.21%	0.05%	0.02%	0.20%
TAXATION						
TAXATION REVENUE	\$277,822,000	\$278,236,000	\$285,756,000	\$290,367,000	\$360,020,146	\$1,492,201,146
TAXATION - Write offs	\$360,682	\$673,922	\$678,130	\$435,790	\$252,884	\$2,401,408
PERCENTAGE OF WRITE OFF TO BILLED	0.13%	0.24%	0.24%	0.15%	0.07%	0.16%

Percent of Taxation Write offs which are BO Tax

84%

96%

97%

95%

97%

94%

NB Interest component of write offs excluded