THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
December 5, 2007
Report of the
General Manager
and
Treasurer

HOUSING YORK INC.
WRITE-OFF FORMER TENANT BAD DEBTS

1. RECOMMENDATIONS

It is recommended that:

1. The Board of Directors approve the write-off of nine former tenant accounts totalling $45,366.14.

2. The Board of Directors approve a policy revision to the Collection of Tenant Accounts Policy to engage a collection agency when internal collection efforts have been exhausted, a change from engagement only after the debt has been written-off.

3. The Board of Directors approve a policy revision to the Collection of Tenant Rent Policy to authorize the General Manager to write-off debt up to $6,000, a change from the current $3,000 limit, and report annually on all write-off activity for the year.

2. PURPOSE

This report seeks approval to write-off debt owed by former tenants to Housing York Inc. where the debt has been determined to be uncollectible and to endorse policy revisions to the Collection of Tenant Accounts Policy to improve operations and reflect changed market rental rates.

3. BACKGROUND

What is a bad debt?

Housing York Inc. collects monies for rent, parking, and other services from tenants during their tenancy. Housing York Inc also charges tenants for costs incurred as a direct result of tenant activity, such as damage repairs, NSF bank charges, legal costs and delinquent utility bills.

Occasionally, some tenants default on these charges. When the tenant is living in a Housing York Inc. property, collection is pursued through the Landlord and Tenant Board. When a tenant has vacated the property and left outstanding arrears, other recovery opportunities are pursued. In some cases the account is ultimately determined to be uncollectible. These uncollectible arrears are considered a bad debt.

Why and how are bad debts reviewed for write-off?

Delinquent former tenant accounts are routinely monitored and pursued. The write-off of delinquent accounts is governed by the Collection of Tenant Accounts Policy approved by the Board in June 2004. This policy enables the General Manager or Treasurer to approve the write-off of delinquent former tenant accounts less than $3,000 using defined criteria. The Board of Directors, through an annual report, approves the write-off of delinquent former tenant accounts greater than $3,000.

4. ANALYSIS AND OPTIONS

4.1 Nine family accounts totalling $45,366.14 require Board approval for write-off.

Under the Collection of Tenant Accounts Policy, the General Manager has approved the write-off of 43 accounts less than $3,000 in 2007. Nine former tenant accounts exceed the materiality limit and therefore require Board approval. These accounts are summarized in Table 1.

Table 1

Accounts Requiring Board Approval for Write-Off

Amount	Rent Type	Reason for Move Out	Disposition
$3,160.40	Rent-Geared-to-Income	Voluntary	Tenant owes rent, legal fees and damage costs. A bankruptcy is noted. There is little chance of recovery.
$4,232.48	Rent-Geared-to-Income	Voluntary	Tenant owes rent, utilities, legal fees and damage costs. Location is known but little chance of recovery.
$4,971.13	Rent-Geared-to-Income	Evicted	Tenant owes rent, legal fees and damage costs. Unable to determine location of tenant. There is little chance of recovery.
$3,826.33	Market	Evicted	Tenant owes rent and legal fees. Tenant has been located and is employed. Good probability of recovery through collection

Amount	Rent Type	Reason for Move Out	Disposition
			agency.
$6,919.42	Market	Evicted	Tenant owes rent and damage costs. Mail has been returned. Good probability of recovery through collection agency.
$3,915.00	Rent-Geared-to-Income	Evicted	Tenant owes rent and legal fees. Location and employment leads will be traced through collection agency.
$3,206.00	Market	Evicted	Tenant owes rent and legal fees. Location is known but tenant unresponsive. Good probability of recovery through collection agency.
$6,526.73	Market	Voluntary	Tenant owes rent, legal fees and damage costs. Defaulted on payment plan. Good probability of recovery through collection agency.
$8,608.65	Market	Evicted	Tenant owes rent and legal fees. Unable to determine location of tenant. Good probability of recovery through collection agency.

The write-off of these accounts does not preclude further collection action such as the use of a collection agency. All former tenants with delinquent accounts are listed with the Housing Access Unit making them ineligible for subsidized housing as long as the debt remains outstanding.

4.2 Significant collection efforts in 2007 show promising results

Dedicated resources were applied to address escalating numbers of delinquent accounts in 2007. As a result, only 33 of the 52 delinquent accounts in 2007 are related to debt incurred in 2007. Housing York Inc. will continue its collection efforts to reduce the number of bad debt accounts in future years. Table 2 provides a comparison of 2006 and 2007 bad debt write-offs.

Table 2
Comparison of 2006 and 2007 Bad Debt Write-Offs

2006	Less Than $3,000	Greater Than $3,000	Total	Average
Number of Accounts	45	7	52	
Value	$38,757	$36,846	$75,603	$1,453
2007	**Less than $3,000**	**Greater Than $3,000**	**Total**	**Average**
Number of Accounts	43	9	52	
Value	$34,049	$45,366	$79,415	$1,527

4.3 Proposed policy changes to the Collection Policy would enhance recovery efforts and bad debt processes

4.3.1. Earlier use of collection agency improves recoveries

The Housing York Inc. Collection of Tenant Accounts Policy endorses the use of a collection agency once the account is written off. However, earlier involvement of the collection agency significantly increases the chance of recovery. Under the current policy, the collection agency is actioned following the annual bad debt review. In the proposed policy revision, the agency will be contacted when all internal efforts have been exhausted. This would potentially be weeks or months in advance of the annual bad debt review.

4.3.2 New materiality limit enhances information flow to Board of Directors

A policy revision is proposed with respect to the materiality threshold for Board approval. The current limit of $3,000 was approved several years ago. It was intended to represent three months market rent at $1,000 per month with the assumption being that it takes about three months to proceed with eviction. However, market rents have increased in recent years and average nearly $1,100 per month. Additionally, it now requires up to five months to complete eviction proceedings. To enhance administrative effectiveness a new materiality limit of $6,000 is recommended. This would permit management write-off of most former tenant delinquent accounts except those of extraordinary value that would be of interest to the Board. Staff would report all account write-off activity to the Board on an annual basis.

5. FINANCIAL IMPLICATIONS

5.1 Annual write-off has a negligible impact on the 2007 Budget

The total write-off of $79,015.04 includes 2007 accounts of $67,586.33 and new charges against 2006 accounts totalling $15,586.51 less recoveries of $3,575.80. This is against a total bad debts budget provision of $73,757.00. The difference of $5,658.04 is 7.6% higher than the bad debts budget and can be managed from surplus operating funds.

Excluding the impact of the 2006 adjustments, 2007 performance would have been 8% less than budget. These results reflect the strong emphasis that has been placed on arrears and the firmer business model that Housing York Inc. has adopted. The outcomes are considered positive in the overall collection strategy.

The 2007 write-off amount of $79,015.04 represents 25% of the tenant accounts receivable balance as at October 31, 2007 and represents approximately 0.4% of annual rental revenue generated by Housing York Inc. The write-off will allow the assets of Housing York Inc. to be conservatively stated on the financial statements for the period ending December 31, 2007.

6. LOCAL MUNICIPAL IMPACT

Housing York Inc. applies fair and consistent collection practices to all of the tenants in its communities throughout York Region.

7. CONCLUSION

There is a total write-off of $79,015.04, of which $45,366.14 requires Board approval. Nine former tenant accounts account for the $45,366.14 and this concludes write-off activity for the year allowing Housing York Inc. to fairly state accounts receivable for 2007. Housing York Inc. will also revise its Collection of Tenant Accounts Policy to reflect the earlier use of a collection agency and to raise the threshold of Board write-off approval to $6,000.

For more information on this report contact Sylvia Patterson, Assistant General Manager, Housing Services Branch in the Community and Health Services Department.

The Senior Management Group has reviewed this report.

Reviewed by:

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Recommended by:

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November 21, 2007

KC/SP/sv

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