THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
January 17, 2007
Report of the
General Manager
and
Treasurer

HOUSING YORK INC.
WRITE-OFF OF FORMER TENANT BAD DEBTS

1. RECOMMENDATION

It is recommended that:

1. The Board of Directors approve the write-off of seven former tenant accounts totalling $36,845.99 in the 2006 fiscal year.

2. PURPOSE

The purpose of this report is to provide information to support the annual write-off of former tenant accounts receivable where the chances of recovery are viewed to be negligible. This report is presented at this time annually in order to facilitate the year-end closing process and support the process of financial statements.

3. BACKGROUND

Housing York Inc. (HYI) charges rent, parking, and other charges to tenants during their tenancy within a housing property. The monthly charges for the majority of tenants are calculated according to a provincial Rent-Geared-to-Income (RGI) formula. Other tenants are charged market rent based on rents approved by the Board of Directors. HYI also charges tenants additional costs incurred as a direct result of tenant activity, such as damage repairs, NSF bank charges, legal costs and utility bills not paid by the tenant as required.

On an annual basis, the financial statements of HYI are audited to ensure the amounts reported are fair and accurate in accordance with Generally Accepted Accounting Principles and legislation requirements under the *Social Housing Reform Act, 2000.* This requires ongoing evaluation to monitor delinquent tenant accounts for bad debt so that Accounts Receivable is reasonably reflected.

The write-off of delinquent accounts is driven 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. In December 2006, 45 accounts totalling $38,757.25 were written-off as bad debt expense. Compared to 2005, the number of accounts considered for write-off actually decreased by 18 accounts or 25% although dollar values are higher.

4. ANALYSIS AND OPTIONS

Seven former tenant accounts exceed the materiality limit of $3,000 set by policy and therefore require Board approval. It should be noted that all of these accounts were classified as family tenants. Six of the seven were classified as market tenants and one was classified as RGI. Further, with the exception of one personal bankruptcy, all tenants were evicted for non-payment of rent. The legal proceedings for early termination of tenancy followed the due course of the HYI Collection of Rent policy and the statutory requirements of the *Tenant Protection Act, 1997*.

The following is a brief synopsis of the seven accounts:

- This tenant was evicted for arrears of $3,791.00 which includes several months' market rent, legal fees and NSF cheque charges. She occupied a townhouse and maintained a problematic payment history. The exact whereabouts of the tenant has not been confirmed and there is no response to mail issued to the last known address.

- This tenant was evicted for arrears of $6038.00 which includes several months' market rent, legal fees and NSF cheque charges. She occupied a townhouse and maintained a problematic payment history throughout her occupancy. The current location of the tenant has not been confirmed.

- This tenant was evicted for arrears of $7,031.07 which includes several months rent, legal fees and damages to restore the townhouse unit to a liveable condition. Her whereabouts is unknown.

- This tenant was evicted for arrears of $3,404.39 which includes several months market rent, parking, legal fees and NSF charges. She occupied an apartment unit and has not been located since she vacated.

- This couple declared bankruptcy with a balance of $3,972.50 outstanding. The debt is in the hands of the trustee and recovery is presumed unlikely. The arrears represent several months market rent incurred at a townhouse site.

- This couple was evicted for arrears of $9,336.03 which includes several months' market rent, maintenance charges and legal fees. During their tenancy at a townhouse site they maintained a reasonable payment history until April of 2006 at which time they essentially stopped paying their rent. They have not been located following their departure.

- This tenant was evicted for arrears of $3,273.00 which includes several months RGI rent, parking and legal fees. Within a month of her move-out from her apartment unit she provided a payment plan and several months later made a token payment. However, recovery of the full balance is viewed as unlikely.

The possibility of collection for these seven accounts is viewed to be negligible but recovery efforts will continue in accordance with the Collection of Tenant Accounts Policy. In that context, several accounts are being examined for placement in Small Claims Court where a judgement may lead to recovery in the future.

The write-off of these accounts and the 45 previously approved by the General Manager equals $75,603.24. Of this total approximately 75% of the arrears are attributable to families and 25% to seniors. There is a slightly different outcome when assessing the percentage for the rent classification where RGI write-offs equate to 63% versus 37% for market tenants.

The total amount of the write-off represents approximately .4% of annual rental revenue generated by Housing York Inc. The write-off will allow the assets of HYI to be conservatively stated on the financial statements for the period ending December 31, 2006.

5. FINANCIAL IMPLICATIONS

The total write-off of $75,603.24 is against a total bad debts budget projection of $54,592.00. The 2006 bad debts budget was based on historical average dollar values but this year the average value increased from $773.16 to $1,453.91, an increase of 88%. This is the direct result of more family tenants who vacated with outstanding arrears, many of whom were market tenants. Generally, market tenants pay higher rent than RGI tenants and carry a larger exposure when they default.

The budget shortfall is solely attributable to the Provincial Reform program where the benchmark funding model accommodates most of the proposed write off in that program. An unfunded variance of $8,839.24 remains outstanding for HYI to manage from the surplus operating funds it expects to generate in 2006.

In the Public Housing program the bad debts budget actually exceeds the proposed write-offs by $6,023.00. This outcome is ultimately repatriated back to the Service Manager in the overall annual subsidy settlement in accordance with the funding model for this program.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report.

7. CONCLUSION

It is recommended that HYI write off the seven former tenant accounts totalling $36,845.99, concluding write-off activity for the year to fairly state their accounts receivable for 2006.

For more information on this report contact Sylvia Patterson, Assistant General Manager, Housing York Inc.

The Senior Management Group has reviewed this report.

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