THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
January 18, 2012
Report of the
General Manager
and
Treasurer

WRITE-OFF FORMER TENANT BAD DEBTS

1. RECOMMENDATION

It is recommended that:

1. The Board of Directors approve the write-off of two former tenant accounts totalling $14,078.39.

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.

3. BACKGROUND

A bad debt is a default on a charge by a former tenant

Housing York Inc. (Housing York) collects monies for rent, parking, and other services from tenants during their tenancy. Housing York 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. The Collection of Tenants Account Policy, approved by the Board on December 5, 2007, is then applied. This policy ensures fairness and consistency for managing tenant collections. Eviction prevention procedures are balanced with business drivers.

The *Residential Tenancies Act, 2006* is applied to tenants of Housing York and collection is pursued through the Landlord and Tenant Board. When a tenant has vacated the property and left outstanding arrears, other recovery practices are used. In some cases, the account is ultimately determined to be uncollectible. The former tenant arrears deemed uncollectible are considered a bad debt. The 2011 bad debt write-off amount represents approximately 0.3% of annual rental revenue.

Bad debts are reviewed for write-off

The General Manager or Treasurer is authorized to approve the write-off of former tenant accounts less than $6,000 using defined criteria. The Board of Directors, through an annual report, approves the write-off of former tenant accounts greater than $6,000. The threshold of $6,000 was approved by the Board in December 2007.

The write-off is to ensure that accounts receivable balances are fairly stated at year-end in the financial statements. The arrears file remains open, however, and collection efforts continue after the write-off entry has been made.

4. ANALYSIS AND OPTIONS

Two former tenant accounts totalling $14,078.39 require Board approval for write-off

Under the Collection of Tenant Accounts Policy, the General Manager has approved the write-off of accounts less than $6,000. Two accounts, totalling $14,078.39, 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
$6,490.56	RGI	Eviction	Family tenant who owes $5,057.24 for rent, $797.88 for damages, $405.44 for utilities, and $230.00 for legal and returned cheque costs. Contact established but recovery unlikely due to bankruptcy assignment and NSF activity.
$7,587.83	Market	Eviction	Family tenant who owes $6,387.43 for rent, $618.37 for damages, $91.13 for utilities, and $491.00 for legal. Low probability of recovery.
$14,078.39			

Along with the accounts identified in this report, the General Manager has approved the write-off of 33 accounts totalling $32,335.81. This makes a total of 35 bad debt write-off accounts totalling $46,414.20.

By comparison, the 2010 write-off of 35 accounts totalled $49,126.02. Arrears management from a process and resource perspective has remained consistent during both years.

The bad debt expenditures will not exceed budget

Although collection processes are the same for every account, the accounting differs by housing program due to our various funding models.

Table 2 displays the budget variance at the program level and the overall financial impact to Housing York.

Table 2
Comparison of Actual Bad Debts Write-off Against 2011 Budget for Write-offs

Program	Budget	Write-Off	Variance	Financial Impact
Provincial Reform	$75,396	$42,355	$33,041	Favourable budget variance to balance off portfolio.
Public Housing	11,000	3,058	7,942	No impact – unused funds will be returned to the Service Manager.
Regional Program	2,917	1,001	1,916	Unused bad debt budget reduces cost of operation.
Total	**$89,313**	**$46,414**	**$42,899**	

As noted previously, the number of accounts submitted for write-off is the same as in 2010. However, the average dollar value of 2011 accounts submitted for write-off is lower: $1,326 in 2011 compared to $1,404 in 2010. This suggests that some former tenants with arrears have accumulated lower rent arrears before vacating.

Other impacts that the economy has had on former tenant collections are:

- Family tenant households are experiencing the highest rate of delinquency.
- Payment plans for former tenants are at a level marginally higher than 2010; many former tenants do not have the means to clear the debt. Several have made payment plans, but have failed to keep their commitment.
- Our best avenue for recovering former tenant arrears has traditionally been when the former tenant reapplies for subsidized housing. This trend is occurring less frequently but arrears are generally lower. Another recovery avenue is the use of a collection agency. History shows that their success rate is much lower than was anticipated.

Collection efforts will continue after write-off

The write-off approval does not affect the Corporation's ability to collect the outstanding accounts in the future. Even after write-off, the Business Operations and Quality Assurance Unit in the Community and Health Services Department keeps the file open and continues to pursue delinquent accounts.

The third party collection agency also keeps accounts open. Several accounts subject to write-off this year are either already with the collection agency or will be referred in the near future.

Additionally, a listing of delinquent tenant accounts is provided to the Region's Housing Access Unit for notation on the centralized waitlist. This makes the applicant ineligible for subsidized housing anywhere in the Region until the HYI account is satisfied.

Former tenant collection practices – review underway

As the corporation grows and adapts to economic uncertainty, it is important to ensure that our strategies reflect changing business needs. Housing York in collaboration with Business Operations and Quality Assurance had a series of meetings in 2011 with the aim of reviewing former tenant collection practices. Additional meetings will take place in 2012 to determine recommendations and changes aimed at mitigating future bad debt exposure.

Bad debts write-off on a decreasing trend

Bad debts write-off trend is a reflection of the economy with higher levels in 2009 and lower levels in 2010. In 2011 the amount of bad debts write-off has further decreased by 5.5% from 2010 levels suggesting that Housing York tenant incomes were more stable than in prior years.

Table 3 represents Housing York's three-year decreasing trend for bad debt write-offs.

Table 3
Bad Debts Write-off Trend Over Three Years Period

	2009	2010	2011
Write-Off Amount	$93,635.51	$49,126.02	$46,414.20
Write-Off Accounts	36	35	35
Percentage of Rental Revenue	0.7%	0.4%	0.3%

In comparison to the private sector, arrears recovery is prolonged because Housing York has a process in place aimed at avoiding tenant eviction which is very costly. Homelessness is known to be a costly outcome for the overall service system and therefore, taking reasonable steps to avoid an eviction is desirable. Negotiating payment agreements and assisting households with accessing financial assistance has proven to be highly successful towards maintaining tenancies and avoiding eviction.

5. FINANCIAL IMPLICATIONS

At a consolidated level, the write-off of delinquent accounts is lower than budget by $42,899. The actual impact to the bottom line under the funding formula is a positive variance in the amount of $33,041. This variance will contribute to balancing off the operating funds generated in 2011.

The total 2011 write-off amount of $46,414.20 represents 13% of the tenant accounts receivable balance as at November 14, 2011 and represents approximately 0.3% of annual rental revenue generated by Housing York. The write-off will allow the assets of Housing York to be conservatively stated on the financial statements for the period ending December 31, 2011.

6. LOCAL MUNICIPAL IMPACT

Housing York Inc. applies fair and consistent collection practices to all of the tenants in its communities throughout York Region. While eviction prevention practices are used, it still remains that tenants must live up to their rental obligations.

7. CONCLUSION

There are a total of 35 bad debt write-off accounts totalling $46,414.20 for 2011. Of these, two accounts totalling $14,078.39 require Board approval. Despite efforts to collect these bad debt accounts, recovery is now considered unlikely. Collection efforts will continue on any written-off accounts.

For more information on this report, please contact Sylvia Patterson, Assistant General Manager, Housing York Inc. at Ext. 2091.

The Senior Management Group has reviewed this report.

Recommended by:

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December 15, 2011

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