



City of Richmond

Report to Committee

To: Finance Committee **Date:** August 18, 2020
From: Jerry Chong **File:**
 Director, Finance
Re: Update on Referral Re: 2020 Annual Tax Sale Options

Staff Recommendation

1. Should Council choose to proceed with the tax sale in accordance with the provisions of the Local Government Act, staff recommend that Council approve those measures, process and procedure changes and adjustments, and the designation and change of venue described under the Status Quo Option set out on page 3 of Attachment 1.
2. In the alternative, should Council choose to defer the annual tax sale for 2020, staff recommend:
 - i That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be introduced and given first, second, and third readings; and
 - ii That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be adopted.

Jerry Chong
 Director, Finance
 (604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
SENIOR STAFF REPORT REVIEW	INITIALS:
	N/A
APPROVED BY CAO	

Staff Report

Origin

At the Special General Purposes Committee meeting dated July 27, 2020, the following staff referral was passed:

“That the report titled “2020 Annual Tax Sale Options be referred back to staff and staff continue efforts to work with property owners to arrange payment of tax delinquencies and report back to Council with a status update on the number of tax delinquencies before the end of August 2020.”

Analysis

At the time the 2020 Annual Tax Sale Options report (Attachment 1) was written, there were a total of 331 accounts with delinquent balances totaling over \$1.465M. Since the date of the referral, staff have made every effort to contact all property owners and mortgage holders to advise that the property will be sold at tax sale if the outstanding delinquent balance is not paid by 10a.m. of September 28, 2020.

In addition, titles for all 331 properties were pulled to order to find charge holders of the properties. A total of 209 properties had mortgage liens on title and all mortgage companies were notified of both the delinquent balance and the total outstanding balance on their clients’ properties. Mortgage companies were notified as soon as possible because they will contact their clients to either encourage payment or to pay off all outstanding balances to ensure their interest in the properties are unaffected.

During discussions with property owners or relatives of the owners, it was apparent that there are some owners who are currently locked down in other countries due to COVID and cannot get back into the country to deal with their financial matters.

Since July 27th, 137 property owners have paid off their delinquent balances. When a property is on the tax sale list, their outstanding taxes are broken down into current (2020), arrears (2019), and delinquent (2018) balances. By paying off at least the 2018 delinquent balance from the account, the property will no longer be subject to the 2020 tax sale and will give the owner another year to deal with their outstanding balances.

The following table provides a breakdown of outstanding delinquent balances as of August 17, 2020:

Type	# of Ppties	Delinquent Balance*
Mortgage	128	\$ 482,506.01
Crown	13	\$ 118,933.78
Other	53	\$ 320,067.61
	194	\$ 921,507.40

* O/S delinquent balance before interest

- 128 properties with mortgages registered on title are generally not a big concern since mortgage companies will settle the debt before the tax sale date. If Council chooses to defer this year's tax sale, some mortgage companies may also defer payment in order to give their customers an opportunity to resolve their issue. Once the mortgage company gets involved, they will either refinance the loan at a higher interest rate or call in the loan.
- 13 properties are owned by the Crown and leased to tenants. Municipalities cannot sell properties owned by the Crown and therefore will be working closely with YVR and Vancouver Port in the collections process. Tenants of the Crown appear on delinquent lists often and are usually resolved with assistance from YVR and Vancouver Port.
- 53 properties with outstanding delinquent balances totalling approximately \$320K do not have mortgages on title. These properties have the highest probability of being sold at tax sale. This list of properties can be further broken down into the following:
 - 9 properties totalling \$225K (70% of the total delinquent value of the 53 properties) in delinquent taxes have COVID or financial challenges.
 - 32 properties totalling approximately \$68K are on the tax sale list for the first time. They could be further broken down into:
 - 5 properties owned by seniors. There is a high probability that a couple of the seniors may have passed away or that the seniors have moved into care homes. Further investigation is needed to find the executor of the estates or relatives of the owners.
 - 11 properties where the City does not have any contact information. Often the mailing address used to register the property at the time of sale is no longer the address of the owner. Additional research is necessary to determine whether the mailing address is incorrect or that the owner is currently out of the country.
 - 16 properties where staff advised the owners of the pending sale and the property owner have stated that they will try to pay before the sale date.
 - 11 properties totalling \$27K are properties where the owners pay only the delinquent balance every year. Staff contacted all 11 property owners and advised them of the pending sale.

Of the 53 properties mentioned, the 11 repeat and the 16 first time customers that staff were able to make contact with should settle their outstanding delinquent balances by September 28th. The remaining 25 properties could potentially be sold at tax sale, if held, since the owners are either experiencing financial difficulties or we cannot locate the property owners at all.

As stated in the report titled, 2020 Annual Tax Sale Options, once a property is sold at tax sale, the interest of 5.45% is calculated based on the successful bid amount at tax sale and not on the outstanding taxes. As an example, a property that was sold at the 2019 tax sale for \$8,000 in total outstanding taxes resulted in interest charges of \$75 per day for the owner when a bidder purchased the property for \$480,000. This makes it extremely onerous for a financially

challenged property owner to redeem their property, even though they can redeem at any point during the one year redemption period after the sale.

Financial Impact

With a tax sale, the City will be able to collect the full \$921K in delinquent taxes to help with cash flow needs but will forgo the 5.45% interest income generated on the delinquent balance.

Conclusion

Should Council choose to proceed with the tax sale in accordance with the provisions of the Local Government Act, staff recommends that Council approve those measures, process and procedure changes and adjustments, and the designation and change of venue described under the Status Quo Option set out on p. 3 of the 2020 Annual Tax Sale Options report, dated July 20, 2020.

In the alternative, should Council choose to defer the annual tax sale for 2020, staff recommends:

- i. That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be introduced and given first, second, and third readings; and
- ii. That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be adopted.



Ivy Wong
Manager, Revenue
(604-276-4046)

IW:iw

Att. 1: 2020 Annual Tax Sale Options report

Att. 2: Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199



City of Richmond

Report to Committee

To: General Purposes Committee

Date: July 20, 2020

From: Jerry Chong
Director, Finance

File: 03-1240-01/2020-Vol
01

Re: 2020 Annual Tax Sale Options

Staff Recommendation

1. Should Council choose to proceed with the tax sale in accordance with the provisions of the Local Government Act, staff recommends that Council approve those measures, process and procedure changes and adjustments, and the designation and change of venue described under the Status Quo Option set out on page 3 of this report.
2. In the alternative, should Council choose to defer the annual tax sale for 2020, staff recommends:
 - i That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be introduced and given first, second, and third readings; and
 - ii That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be adopted.

Jerry Chong
Director, Finance
(604-276-4064)

REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Law	<input type="checkbox"/>	_____
SENIOR STAFF REPORT REVIEW	INITIALS:	APPROVED BY CAO

Staff Report

Origin

The Local Government Act s.645 requires the City to hold an annual tax sale at 10am on the last Monday in September to publically auction all properties with outstanding delinquent tax balances. Due to the financial hardship that COVID-19 has had on many British Columbians, the Minister of Public Safety and the Solicitor General, under the Emergency Program Act, passed Ministerial Order M159 on May 15, 2020, giving local governments the authority to delay the annual tax sale for 2020 by one year. In order to delay the sale, a bylaw must be adopted by Council on or before August 31, 2020.

This report supports Council's Strategic Plan 2018-2022 Strategy #5 Sound Financial Management:

Accountable, transparent, and responsible financial management that supports the needs of the community into the future.

Analysis

All properties with outstanding 2018 charges on the property tax account are considered delinquent in taxes under the Community Charter. As part of the City's tax billing procedure, a notification of a possible tax sale if the delinquent balance is not paid before the last Monday in September was printed on all tax notices with delinquent balances. As of July 22, 2020, there are 331 accounts with delinquent balances totaling over \$1.465M or 0.35% of the total tax billing. The number of delinquent accounts and the total outstanding amount are normal for this time of year.

Annually, after the July 2nd rush of tax payments, tax staff dedicate a majority of their time to reducing the number of properties going to tax sale by trying to collect the delinquent balance from property owners, property managers, or mortgage companies. Even though many municipalities, including the City of Richmond have extended the tax penalty date this year to October 1, 2020, staff have been trying to contact delinquent property owners to encourage early payment. In past years, staff were able to reduce the number of properties going to tax sale to less than 10 properties per year.

It is staff's intention to utilize their best efforts to remove properties from going to tax sale in order to minimize the interest burden for property owners. Bidders at Richmond's tax sale are often willing to increase their bids to at least 50% of the property's assessed value because many view this as a low risk, short term investment with a higher than average return. Current interest charged on arrears and delinquent balance is 5.45%. When properties are sold at tax sale to the highest bidder, the original property owner has one year from the date of the auction to redeem the property by paying the upset price (all the outstanding tax and interest charges to the date of sale) plus a daily per diem interest charge based on the final sale price for the property at the auction.

An example of the interest calculation is as follows:

Upset Price	Per Diem Interest – (at 5.45%) charged in the tax account	Sale Price	Per Diem Interest – After Tax Sale (at 5.45%)
\$10,000	\$1.49	\$450,000	\$67.19

If the total arrears and delinquent balance outstanding on an account is \$10,000, the daily interest charged is \$1.49. If the same property was auctioned at tax sale and was sold for \$450,000, the daily interest would increase by over 4,409% to \$67.19.

Tax Sale Options for 2020:

1. Status quo:

Due to the pandemic, additional public health and safety measures will need to be implemented and current auction procedures will require changes and/or adjustments in order to accommodate a tax sale for 2020. These would include:

- Relocating the tax sale to the Minoru Centre in order to increase attendance up to 45 bidders (plus staff to meet the 50ppl max). With distancing requirements, Council Chambers currently accommodates less than 20 people. To effect this relocation, Council would be required to temporarily designate the bidding area of the Minoru Centre as “council chambers” for the duration of the tax sale in order to satisfy s.645 of the Local Government Act.
- In order to participate in the September 28, 2020 auction, bidders must pre-register by paying a pre-registration fee of \$175 and providing proof of funds in the form of a certified cheque or bank draft payable to the City of Richmond for the maximum amount that they are willing to spend for the day prior to admission to the bidding area. This ensures that only serious bidders are allowed into the room and that the sold properties are paid for immediately after the sale.
- Depending on the number of serious bidders and bidding area capacity (factoring in social distancing rules and other health and safety measures) of the facility used for the auction, further restrictions may be set to ensure that only interested bidders on a specific property will be allowed into the bidding area. This may require limiting entrance to the bidding area to those with the largest available certified funds (original certified amount less purchases made) to bid on a specific property. This may also require temporary pauses to the auction process after each property to accommodate the movement of old and new bidders.

The status quo option will have the following pros and cons:

Pros:

- A tax sale will force property owners to at least pay the delinquent balance in order to remove the property from sale.
- Delinquent taxes are a result of property owners not paying their debt to the City for 3 years. As the debt was not a result of the pandemic, changes to the tax sale process is not necessary.

Cons:

- The pandemic has created financial hardship for many people and may have further hampered the ability of property owners to pay their delinquent taxes. The number of properties actually going to auction may be higher than normal.
- Currently, most municipalities in the Lower Mainland have passed bylaws or will be passing bylaws to defer the tax sale. At this time, with only 1 confirmed local municipality holding an auction on September 28, 2020, there may be more interested bidders from other municipalities attending the City's auction.
- There may be logistical challenges with all the changes required of the bidders. If there are too many interested bidders, the movement of people between the auctioning of each property and to ensure proper physical distancing is maintained may cause additional confusion and frustration. Additional staff will be required to ensure a smooth transition of bidders between properties.
- With the due dates extended for property tax and Q1 metered utility bills, priority shifts in the department to deal with the increased tax/utility workload results in less staffing dedicated to the delinquent collections effort.
- Adds a higher interest burden to financially distressed property owners when redeeming their property.
- While the annual tax sale is a legislated process, auctioning properties during the pandemic may be viewed negatively as the City being insensitive to the plight of taxpayers.

2. Defer annual tax sale:

Ministerial Order M159 gives local governments the authority to delay the annual tax sale for 2020 to September 27, 2021. If a bylaw to defer annual tax sale is adopted, staff have 2 weeks from the date of adoption to inform property owners that the tax sale date has been extended. As part of the notification process, staff will make every effort to negotiate a repayment schedule with the property owner to try to reduce the amount outstanding.

Deferring the annual tax sale option will have the following pros and cons:

Pros:

- Provides temporary relief to property owners who may be financially impacted by COVID-19 in that they have an additional year to pay the delinquent taxes before their property is auctioned.
- Lowers the interest burden on property owners since interest is calculated on the outstanding balance in the account instead of the sale price after the auction.
- Provides evidence that Council is empathetic to the financial challenges of tax payers during the pandemic.
- Avoids the possible logistical and social distancing challenges that may arise from the increase in bidders as a result of the deferment of tax sales at other municipalities.

Cons:

- Removes the impending threat of losing their property and therefore property owners may delay paying the delinquent taxes.
- If not paid prior, property owners will need to pay 2 years of delinquent taxes in 2021 in order to keep their properties from the auction.

Financial Impact

None.

Conclusion

1. Should Council choose to proceed with the tax sale in accordance with the provisions of the Local Government Act, staff recommends that Council approve those measure, process and procedure changes and adjustments, and the designation and change of venue described under the Status Quo Option set out on p. 3 of this report.
2. In the alternative, should Council choose to defer the annual tax sale for 2020, staff recommends:
 - i That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be introduced and given first, second, and third readings; and
 - ii That the Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199 be adopted.



Ivy Wong
Revenue Manager
(604-276-4046)

IW:iw



**City of
Richmond**

Bylaw 10199

Bylaw to Defer Annual Tax Sale for 2020, Bylaw No. 10199

The Council of the City of Richmond enacts as follows:

1. The annual tax sale for 2020, provided for under Division 7 [*Annual Municipal Tax Sale*] of Part 16 [*Municipal Provisions*] of the *Local Government Act*, is deferred until September 27, 2021, with the effect that the annual tax sale would be on that date in respect of the upset price described in section 649 [*upset price for tax sale*] of that Act.
2. This Bylaw is cited as “Bylaw to Defer Annual Tax Sale for 2020, Bylaw No.10199”.

FIRST READING

SECOND READING

THIRD READING

ADOPTED

CITY OF RICHMOND
APPROVED for content by originating dept. <i>[Signature]</i>
APPROVED for legality by Solicitor <i>[Signature]</i>

MAYOR

CORPORATE OFFICER