

2. PROPOSAL TO WRITE-OFF UN-COLLECTABLE DEFAULTED FINES

At time of transfer approximately \$10.1 million in defaulted fines was transferred to HCS. Currently there is a gross receivables balance of approximately \$13,850,000. The Municipal Partners are proposing that any fines deemed to be “un-collectable” will be written-off.

The province supports this proposal since it had been their standard case management practice to write-off defaulted fines that were deemed to be insignificant because of their small value. The province also recognizes that the municipalities inherited a large volume of aged defaulted fines where all collection efforts had already been exhausted. As a result, the province is actively encouraging all of the municipalities to conduct a review of all defaulted fines that have been identified as un-collectable and to subsequently develop a policy that will allow for the writing-off of these cases. To assist with this initiative, in September 2004 the province issued a report of all cases that are deemed to be un-collectable to their Municipal Partners and they continue to report monthly as new cases are added to this list. In addition, the province created a new write-off code for the exclusive use of the municipalities to assist them in identifying those cases that have been approved for write-off by local councils and to provide a means for reporting back to the province so that they may be removed from the ICON system and all subsequent financial reporting.

It is clearly understood by both the Municipal Partners and the province that the writing-off of defaulted fines does not mean these fines are “forgiven” (*Provincial Offences Act, Section*). Instead, the purpose of this exercise is to address those defaulted fines that are not collectable and to separate them from the outstanding receivables because of their negative impact on the performance statistics of those collections efforts being carried out by the Municipal Partners. While the written-off fines will not actually be “forgiven”, the change in reporting will mean that these receivables will no longer appear in the ICON system or collections system. All original informations will be retained by HCS and these records will remain accessible to administration in the event a defendant still wishes to make payment.

Benefits to the Writing-Off of Un-collectable Receivables

The Municipal Partners are faced with the reality that the gross receivables balance will continue to grow. The Collections Unit has successfully reached budget targets in each year of operation; however, the receivables balance has continued to grow year over year for a total increase of 37% since transfer. If collections efforts were not being made, the receivable balance would have grown by approximately 70% and would be around \$17,270,000 instead of the current balance of approximately \$13,850,000. In addition to creating a more manageable and realistic receivables balance, the writing-off of un-collectable receivables would provide many other benefits including:

- assistance in measuring and motivating collection performance

- opportunity to present a clean database for the impending download of data to the new collections system
- more realistic reporting to Municipal Partners
- ability to focus on defaulted fines that have a greater likelihood of collection
- ability to clean up non-collectible inherited fines from transfer

In summary, the Municipal Partners are seeking approval for the writing-off of those old un-collectable defaulted fines that were inherited from the province and those defaulted fines where there are no viable means of collection.

It is recommended that the following classifications for defaulted fines be written off annually in order to maintain a 12-year aging portfolio:

- **Convictions prior to 1994 (first year) where all previous collection activities failed** - as mentioned previously, these are old defaults inherited from the province and collection efforts have been exhausted.
- **Deceased persons** – determined that best business practice is to not pursue collections through estates.
- **Underpayments (\$30.00 or less)** – these are primarily court costs that remain outstanding and no enforcement options are available. In addition, it is felt it would not be cost effective to pursue collection activity.
- **Bankruptcies** – determined to not be cost effective because outstanding fines are given the lowest priority for distribution of assets by Trustees
- **Closed corporations** – no recourse is available through courts

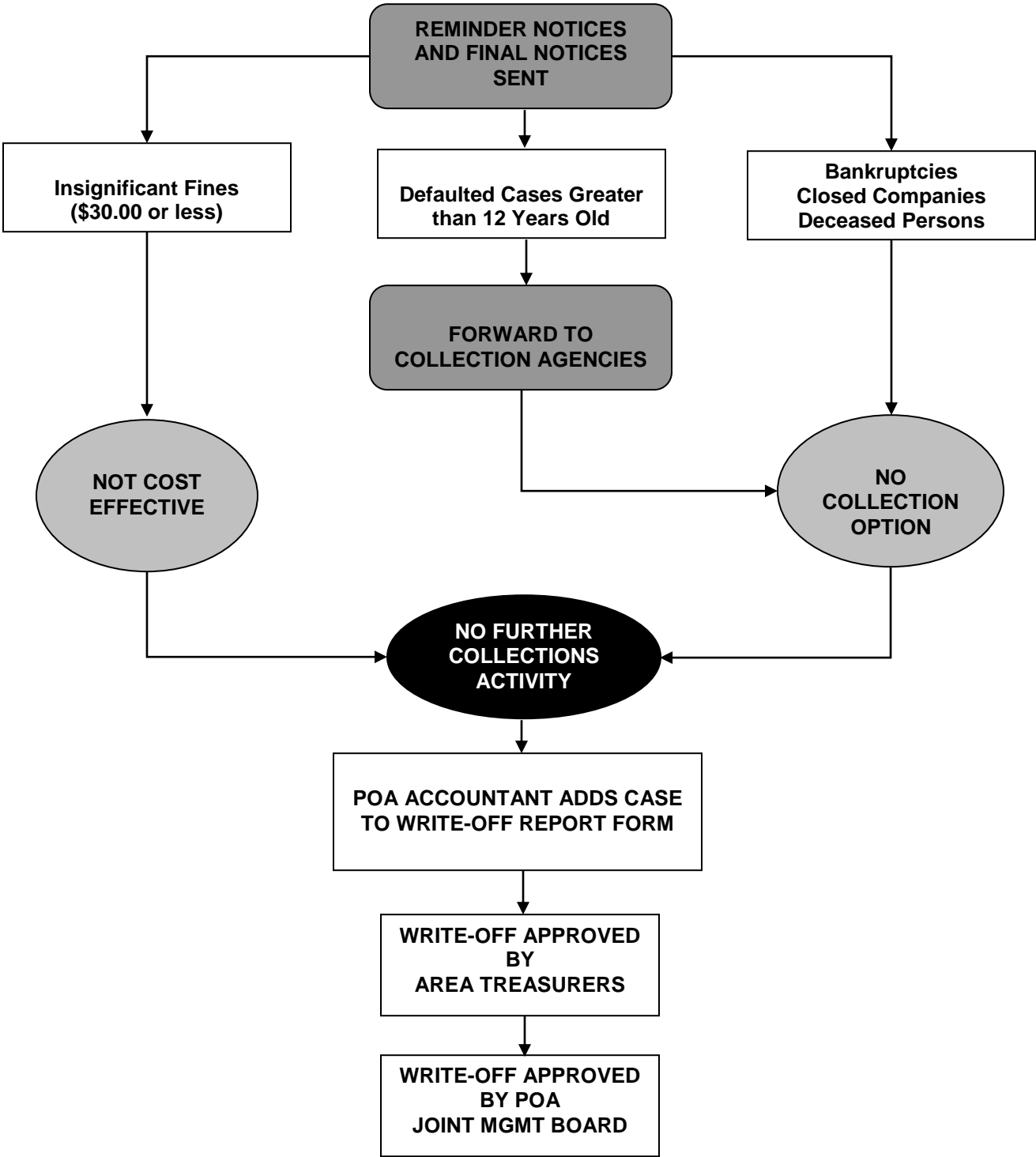
It is expected that the current total receivables of approximately \$13,850,000 will be reduced to \$11,252,909 after completing the first major write-off in 2006. Therefore the **Municipal Partners are requesting that approximately \$2,597,000 in un-collectable defaulted fines be written-off in the first annual write-off.** The Municipal Partners are requesting that further write-offs of un-collectable defaulted fines occur on an annual basis. In future years the recommended annual write-off total should not be nearly as significant as the first write-off as each occurrence will only include an accumulation of cases over the one-year period.

Following is the Policy that the Municipal Partners are proposing for the writing-off of un-collectable defaulted fines:

The POA Accountant will complete a Write-Off Report Form detailing the cases that have been identified for write-off. The reason for write-off and value of each case will also be included. Only cases where there is no collection option available and/or where it is not cost effective to carry out any collection activity will be considered for write-off. These include: defaulted cases more than 12 years old and where every collection effort has been exhausted; cases where no collection options are available (bankruptcies, deceased persons and company closures); and cases of insignificant value (\$30.00 or less) where it is deemed to not be cost effective to pursue any collection activity. The POA Accountant will present the completed Write-Off Report

Form to the Area Treasurers for their approval on an annual basis. Once approved, the Write-Off Report Form will be forwarded to the POA Joint Management Board for their approval. No data will be changed or deleted from either the ICON system or Collections system until all required approvals have been granted.

A detailed list of all of the cases that are being recommended for write-off is attached as Appendix A. Following is a chart that will illustrate the Write-Off Policy and procedures that apply:



Recommendation #2: THAT the Municipal Partners have the authority to initiate the writing-off of all un-collectable receivables up to the end of 2005 for a total of approximately \$2,597,000.

Recommendation #3: THAT the Municipal Partners have the authority to enact the Write-Off Policy for the purposes of writing-off all un-collectable receivables on an annual basis thereafter, following the approval by the Area Treasurers and Joint Management Board.

Write-Of Policy

- 1. The POA Accountant will complete a Write-Off Report Form summarizing the cases that have been identified for write-off.*
- 2. The reason for write-off and total value of each write-off code will be included.*
- 3. Only cases where there is no collection option available and/or where it is not cost effective to carry out any collection activity will be considered for write-off. These include:*
 - i. Defaulted cases more than 8 years old and where every collection effort has been exhausted;*
 - ii. Cases where no collection options are available (bankruptcies, deceased persons and company closures); and*
 - iii. Cases of insignificant value (\$30.00 or less) where it is deemed to not be cost effective to pursue any collection activity.*
- 4. The POA Accountant will present the completed Write-Off Report Form to the Area Treasurers for their approval on an annual basis.*
- 5. Once approved, the Write-Off Report Form will be forwarded to the POA Joint Management Board for their approval.*
- 6. No data will be changed or deleted from either the ICON system or Collections system until all required approvals have been granted.*
- 7. A detailed list of requested write-offs will be made available upon request.*

SECTION III

RESERVE FUND

Status of POA Capital Reserve Fund

The POA Capital Reserve Fund was created with a \$300,000 deposit from the POA provincial contributions in 2001, as approved by the Partnership. Annual contributions of \$100,000 were made between 2002 and 2004. Due to the nature of the collections system leasing arrangement, the \$100,000 implementation cost set aside in the reserve fund for 2005 was no longer required for this project. Consequently, the Area Treasurers and Joint Management Board agreed that the contributions to the reserve fund would be put on hold for 2005 and 2006 once it was determined that the balance required by the Reserve Fund Policy would still be maintained after allowing for capital expenditure spending in 2006. With interest income it is projected that the balance of the Reserve Fund will reach approximately \$602,400 at the end of 2005.

2006 Expenditures

There are three recommended hardware, software and equipment capital expenditure purchases for 2006:

- Upon the recommendation of Burlington's IT Department, an upgrade to the server and related software connecting the Burlington court operation to the ICON system is required. Currently the connectivity's software is four versions behind the current standard recommended for optimum performance and reduced risk of breakdown.
- Currently the courtroom tape-recording and transcription equipment utilized by HCS are outdated and SONY has advised that these particular models have been discontinued from their product line. As such, replacement parts for repairs and maintenance requirements are difficult to obtain.
New digital equipment is now available in North America and is currently being implemented in various courtrooms throughout Canada. This equipment allows staff to record, manage and store court proceedings in a higher quality and more efficient manner. Professional audio playback control software, designed to assist with the transcription of audio recordings is also a component of this new equipment.
- Litco electronic distribution of reports
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Recommendation #5: THAT the \$50,000 standard annual contribution to the Reserve Fund be placed on hold for 2006.

Recommendation #6: THAT \$100,000 in capital spending for upgrades to the current systems connectivity, courtroom recording equipment and Litco software be approved.

Reserve Fund Policy

The adequacy of the reserve fund is to be reviewed annually by the POA administration to ensure that it accurately reflects future capital cost requirements. Based on the capital budget forecast it has been determined that placing a hold on the annual \$50,000 contribution in 2005 and 2006 will still satisfy the requirement that the minimum balance of the Reserve Fund not fall below the amount of \$300,000.

Following is the Capital Budget Forecast for the period 2006 to 2008:

CAPITAL BUDGET FORECAST FOR THE YEARS ENDING 2006 THROUGH 2008				
Year	Requirements	Amount	Annual Contribution	Projected Year-end Balance (incl. interest earned)
2005	Projected year-end balance			\$ 602,400
2006	Recording Equipment Replacement	\$ 50,000		
	Technology Upgrades (ICON servers)	\$ 20,000		
	Software Upgrades (ICON reports)	\$ 30,000		\$ 502,400
2007	To be determined		\$ 50,000	\$ 552,400
2008	To be determined		\$ 50,000	\$ 602,400

SECTION IV
REPORTING OBLIGATIONS

Halton Court Services will continue to report quarterly in 2006 to each of the Municipal Partners and the Region of Halton as set out in the Inter-Municipal Agreement. The quarterly reports will provide all required financial, operational and collections information.

In 2006, the Administrator will undertake a review of the current statistical and financial reporting with a consideration to making changes that will enhance the format, quality, and relevance of information being forwarded to the Municipal Partners. It is expected that any changes/improvements to the current reporting process will also assist the Administrator when considering various strategic options for the future of HCS (see Section V).

2. HCS will continue to report to the Ministry of the Attorney General all relevant information that describes the performance of HCS in order to facilitate effective operational planning, performance management, early identification and early-stage resolution of issues and the sharing of best practices.

Reporting requirements to the province remain the same for 2006. The Performance and Progress Report will be forwarded in August and it will outline:

- Status of HCS' ability to meet provincial standards as set out according to legislative and regulatory requirements.
- Checklist and summary of HCS' compliance to all of the guiding principles as set out according to the Transfer Agreement.
- Summarize any administrative and prosecutorial issues and incidents that have occurred in the previous twelve months. Any incidents or issues that arise are to be reported to the province **as they occur**.

In addition, HCS will continue to file a Municipal POA Financial Report twice annually. This form provides various collections data and remittances to the Province by HCS. The Year-End Financial Report and Audited Financial Statements must be filed with the Ministry of the Attorney General by June 30th. An Interim Financial Report for the period January 1st to June 30th must also be filed with the province by August 31st.

It was reported in previous Business Plans that the province was planning to create a formal Quality and Assurance Unit. It was anticipated that this Unit would work with the municipalities to develop performance standards and further means of measuring operational and prosecutorial performance. The Municipal Partners have since learned that the province will not be pursuing this avenue of performance management. Instead, they will be relying on their audits of each court site to provide feedback and recommendations to the court sites about their operational and prosecutorial performance.

The province has advised their intention is to conduct an audit at each court site every three years.