



Legislative Fiscal Bureau

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May, 2021

Joint Committee on Finance

Paper #541

Unclaimed Property Permanent Project Positions (Revenue -- Departmentwide)

[LFB 2021-23 Budget Summary: Page 511, #3]

CURRENT LAW

The Department of Revenue (DOR) is responsible for administering the state's unclaimed property program. Under Chapter 177 of the statutes, property is generally considered to be abandoned or unclaimed if the owner does not have active contact with the holder of the property in one to five years, depending on the type of property, and if the holder of the property has been unable to contact the owner of the property. A holder of unclaimed property is generally a financial institution, insurance company, publicly traded corporation, or a similar institution. Unclaimed property typically includes contents of safe deposit boxes, wages, bank deposits, traveler's checks or money orders, stock and other intangible interests in business associations, and distributions caused by certain insurance company activities. A holder of unclaimed property is required to report annually to DOR on the unclaimed property in the holder's possession, consisting of a list of owners and the value of their unclaimed property.

DOR utilizes a number of methods to locate owners, including: (a) maintaining an online searchable database of unclaimed property; (b) annually advertising unclaimed property and its owner in newspapers throughout the state; (c) matching the names of unclaimed property owners with public record information; and (d) matching the names and social security numbers of unclaimed property owners with Wisconsin tax records. DOR began using its automatic data matching process, authorized under 2013 Act 308, in June of 2015. This process uses income tax returns to identify property owners. Each match is classified as an "auto-claim." For property values of \$2,000 or less, property is automatically remitted to its owner by check. For values greater than \$2,000, DOR mails instructions to owners on how to file a claim.

If a property owner cannot be located, the value of the property is applied to the owner's account

for future claims by the owner or the owner's heirs, and the proceeds of the property are deposited to the Common School Fund. The income of the Common School Fund is distributed as school library aids in proportion to the number of people between the age of four and 20 within each school district.

The unclaimed property program is provided base funding and position authority of \$3,852,600 PR and 5.95 PR positions (1.0 supervisor and 4.95 specialists), the funding for which comes from unclaimed property program revenue. The 4.95 PR unclaimed property specialist positions consist of 2.95 permanent positions and 2.0 permanent project positions. These positions analyze, review, and process records and forms to manage and determine unclaimed property claims under statutory provisions, provide direction to owners (or their representatives) regarding claim requirements and eligibility, and compute and determine payments, assets, or securities transferred related to claims. Unclaimed property specialists approve claims for up to \$5,000, review and reconcile holder reports, and provide customer assistance. Claims greater than \$5,000 must be approved by both the unclaimed property specialists and the supervisor. Position and expenditure authority for the 2.0 permanent project unclaimed property specialists is scheduled to end on June 30, 2021, and was removed under standard budget adjustments [see LFB Paper #101].

DISCUSSION POINTS

1. Beginning in 2005-06, 6.0 one-year project positions were provided to the Office of the State Treasurer (which administered the unclaimed property program at that time) to address what was expected to be a temporary workload increase associated with processing abandoned insurance company demutualization properties. The Joint Committee on Finance approved a request under passive review from the State Treasurer to authorize 4.0 positions through June 30, 2007. Position authority for 4.0 two-year unclaimed property project positions was provided under both the 2007-09 and 2009-11 budget acts. Under the 2011-13 budget act, instead of project positions, 4.0 permanent project positions were created with an end date of June 30, 2013. The 2013-15 budget act (2013 Act 20) transferred administration of the unclaimed property program to DOR from the Office of the State Treasurer. Two of the permanent project positions, which were extended for an additional two years under Act 20, were also transferred to DOR. These positions have since been extended every two years, under the 2015-17, 2017-19, and 2019-21 biennial budget acts, and currently have an end date of June 30, 2021.

2. Table 1 shows the amount of unclaimed property remitted to DOR by holders and the amount of property paid out to owners, as a result of owner claims or automatic matches, since 2013-14. There has been some fluctuation in the amount of property remitted and returned to owners, as the quantity and value of property varies from year to year. However, the overall level of activity in the program has not decreased since it was transferred to DOR in 2013-14. Based on the information shown in Table 1, remitted unclaimed property and claims paid to owners has maintained a relatively steady level of activity since 2017-18, indicating that program activity has not diminished.

TABLE 1

**Unclaimed Property Remitted to DOR and Claims Paid to Owners (\$ In Millions)
2013-14 through 2019-20**

<u>Fiscal Year</u>	<u>Remitted Unclaimed Property</u>	<u>Percent Change</u>	<u>Claims Paid to Owners</u>	<u>Percent Change</u>
2013-14	\$46.3		\$21.7	
2014-15	66.6	43.8%	28.6	31.8%
2015-16	58.4	-12.3	45.1	57.7
2016-17	43.7	-25.2	26.8	-40.6
2017-18	65.0	48.7	29.5	10.1
2018-19	61.8	-4.9	33.8	14.6
2019-20	63.9	3.4	33.7	-0.3

3. As shown in Table 1, \$33.7 million of unclaimed property was paid to owners in 2019-20. The Department estimates that removal of the two expiring positions could reduce the amount of unclaimed property returned to owners by \$5 million to \$10 million annually. Additionally, if funding for the positions is not provided, base expenditures of unclaimed property program revenue for program administration would be reduced in the 2021-23 biennium. Under Article X, Section 2 of the Wisconsin Constitution, the clear proceeds of all fines and forfeitures (including unclaimed and escheated property) are deposited to the Common School Fund. Therefore, any decrease in unclaimed property being returned to its owners could result in a corresponding increase in revenue to the Common School Fund.

4. The unclaimed property specialists spend most of their time processing property claims and holder reports. The level of work associated with these activities can be seen in Table 2, which shows the number of claims received, active holders, and holder reports received, since 2015-16. The number of claims and holder reports received are annual measures, representing new claims and reports received by DOR each year. The number of active holders is an ongoing measure, building off the previous year's amount. Each has grown since 2015-16 (aside from the spike in 2015-16 claims received), indicating an increase in workload for unclaimed property staff, while maintaining the same staffing level. DOR indicates that the spike in the number of claims received in 2015-16 can be attributed to the implementation of the automatic data matching process, which generated a significant number of auto-claims in that year. Reliable data for the program is not available prior to 2015-16.

TABLE 2

**Number of Claims Received, Active Holders, and Holder Reports Received
2015-16 through 2019-20**

Fiscal Year	<u>Number of Claims Received</u>	<u>Number of Active Holders</u>	<u>Number of Holder Reports Received</u>
2015-16	149,827	26,753	8,189
2016-17	37,522	27,657	8,515
2017-18	56,104	28,699	8,226
2018-19	42,700	29,673	9,696
2019-20	59,500	31,427	12,920*

*Excludes 12,000 out-of-state \$0 holder reports filed in error.

5. DOR states that removing the 2.0 permanent project positions would delay processing of holder reports and property claims. State law requires that all claims received by DOR be processed within 90 days after they are filed. According to DOR, it could potentially be sued if it were not able to meet this statutory timeline, resulting in additional administrative expenses for the Department. Additionally, because the purpose of the unclaimed property program is to reunite owners with their property, it could be argued that the state would not be fulfilling the statutory purpose of the program if position authority were insufficient to process claims in a timely manner.

6. As noted previously, the project positions for the unclaimed property program were first authorized as "permanent" project positions in 2011 to allow for reevaluation of the necessity of the positions after two years. The Legislature chose to extend the permanent project positions for another two years in 2013, following the transfer of the program to DOR. The administration indicates that the initial shift of the unclaimed property program to DOR could have led to a short-term surge in claims to process, warranting another extension of the permanent project positions. In 2015, the implementation of the automatic data matching process could have resulted in another short-term surge in claims processed, and the positions were extended for another two years. The permanent project positions were again extended for two years in 2017 and in 2019. The Governor recommends providing \$124,700 PR annually to extend the 2.0 permanent project positions for another two years, from an end date of June 30, 2021, to an end date of June 30, 2023. Extending the positions for two more years would maintain base position and expenditure authority for the unclaimed property program through the 2021-23 biennium. However, both the administration and DOR indicate that the strong performance of the unclaimed property program, since it was transferred to DOR, is reason to consider making the positions permanent.

7. The Unclaimed Property Professionals Organization, an advocacy group for holders, conducted a five-year study from 2013 to 2017 comparing the unclaimed property return rate of all states and the District of Columbia. The 2017 report ranked Wisconsin third in the country, with a five-year return rate of 65.1%. This rate is calculated by dividing the total amount of unclaimed property paid to owners by the total amount of property received by the state, not including proceeds

from sales of stocks, mutual funds, and safe deposit box contents. DOR indicates that the state's return rate has improved since the 2017 report (69.6% in 2018; 65.4% in 2019; and 68.2% in 2020).

8. The Department attributes the high return rate, in part, to its automatic data matching process. Table 3 shows total claims approved since 2015-16, broken out between auto-claims and manual claims. Total claims approved represent the number of owners who receive their unclaimed property each year (if that property is not used to offset the owner's outstanding tax debts). Auto-claims consist of all claims resulting from the data matching process, including claims that require some manual work when they are not a perfect match. Manual claims include all other claims. The unclaimed property program saw an initial surge in claims approved in 2015-16, as the automatic data matching process analyzed all property the program had on file (going back to 1970). Since that time, auto-claims have comprised 66% of all claims approved.

TABLE 3
Unclaimed Property Claims Approved
2015-16 through 2019-20

<u>Fiscal Year</u>	<u>Auto-Claims Approved</u>	<u>Manual Claims Approved</u>	<u>Total Claims Approved</u>	<u>Claims Received But Not Approved*</u>
2015-16	116,850	21,905	138,755	11,072
2016-17	12,343	15,350	27,693	9,829
2017-18	32,378	13,219	45,597	10,507
2018-19	20,551	12,667	33,218	9,482
2019-20	25,815	5,794	31,609	27,891

*Claims received and not approved in one fiscal year may be approved in a subsequent fiscal year.

9. According to the Department, while the automatic data matching process has improved DOR's efficiency in matching property with its owner, it has also increased the workload for the unclaimed property staff, as they must test the system annually, respond to claimant and holder questions generated by this matching process, and perform additional work when it identifies claims that are not a perfect match. DOR states that the decline in manual claims approved in 2019-20 can be attributed to a staffing issue related to temporary high turnover among unclaimed property specialist positions.

10. Table 4 shows the amount of claims paid to owners each year, broken out between auto-claims paid and manual claims paid. As mentioned, the implementation of the automatic data matching process resulted in a surge in claims paid in 2015-16. Since that time, the amount of auto-claims paid has comprised only 13% of total claims paid, while the number of auto-claims approved has comprised 66% of all claims approved. DOR indicates that this is because auto-claims help with simple matches, therefore reducing the amount of time unclaimed property staff need to spend on these smaller claims. Manual claims generally represent more complex matches that require more of the staff's time. As seen in Table 4, the auto-claim process helps to match smaller property values with their owners, while manual claims are processed for higher valued properties. For example, while

the average paid unclaimed property claim in 2019-20 was \$1,066, the average manual claim paid (\$4,884) was for significantly higher valued property than the average auto-claim paid (\$209).

TABLE 4

Claims Paid, 2015-16 through 2019-20

<u>Fiscal Year</u>	<u>Auto-Claims Paid (Millions)</u>	<u>Average Auto-Claim Paid</u>	<u>Manual Claims Paid (Millions)</u>	<u>Average Manual Claim Paid</u>	<u>Total Claims Paid (Millions)</u>	<u>Average Claim Paid</u>
2015-16	\$15.9	\$136	\$29.2	\$1,333	\$45.1	\$325
2016-17	2.4	194	24.4	1,590	26.8	968
2017-18	5.4	167	24.1	1,823	29.5	647
2018-19	3.4	165	30.4	2,400	33.8	1,018
2019-20	5.4	209	28.3	4,884	33.7	1,066

11. Under state law, a project position is defined as a position which is normally funded for six or more consecutive months and which requires employment for 600 hours or more per 26 consecutive biweekly pay periods, either for a temporary workload increase or for a planned undertaking which is not a regular function of the employing agency and which has an established probable date of termination. A project position may not exist for more than four years. The 2.0 project positions at DOR are the only such "permanent" project positions in state government.

12. State law does not provide for "permanent" project positions, and the statutes do not allow for the same project positions to be reauthorized after they have existed for at least four years. These project positions were created for a one-year period in 2005-06, extended through 2006-07, and have been renewed for a two-year period each biennium under the unclaimed property program. The Committee could determine that the positions are necessary to maintain the current level of service in returning unclaimed property to owners, and provide these positions as permanent positions [Alternative 1].

13. However, if the Committee wishes to review the positions again in two years, the Committee could extend the current 2.0 project positions for another two years, as recommended by the Governor, with an end date of June 30, 2023 [Alternative 2]. In addition to Alternative 2, the Committee could clarify that the extension of these project positions is permitted by creating a nonstatutory provision that would explicitly authorize these project positions to exist for more than four years [Alternative 3]. On the other hand, the Committee could choose to take no action and allow the permanent project positions to expire. This alternative would result in less unclaimed property being returned to owners and may result in additional unclaimed property proceeds being deposited to the Common School Fund [Alternative 4].

ALTERNATIVES

1. Provide \$124,700 PR and 2.0 permanent positions annually to DOR to maintain

unclaimed property program staffing at its current level.

ALT 1	Change to Base	
	Funding	Positions
PR	\$249,400	2.00

2. Provide \$124,700 PR and 2.0 permanent project positions annually to DOR to maintain the unclaimed property program staffing at its current level during the 2021-23 biennium. Extend the permanent project positions two years, from an end date of June 30, 2021, to an end date of June 30, 2023.

ALT 2	Change to Base	
	Funding	Positions
PR	\$249,400	2.00

3. Provide \$124,700 PR and 2.0 permanent project positions annually to DOR to maintain the unclaimed property program staffing at its current level during the 2021-23 biennium. Extend the permanent project positions two years, from an end date of June 30, 2021, to an end date of June 30, 2023. Specify that these permanent project positions are being reauthorized for the 2021-23 biennium, notwithstanding the current law prohibition that project positions cannot exist for more than four years.

ALT 3	Change to Base	
	Funding	Positions
PR	\$249,400	2.00

4. Take no action.

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