



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #740

Unclaimed Property Program -- Project Positions (State Treasurer)

Bill Agency

[LFB 2007-09 Budget Summary: Page 520, #2]

CURRENT LAW

The Office of the State Treasurer (OST) is responsible for administering the state's unclaimed property program under Chapter 177 of the Wisconsin state statutes. Under state law, 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 or abandoned properties typically include contents of safe deposit boxes, wages, bank deposits, travelers 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 OST on the unclaimed property in the holder's possession. OST is required to publish in each county a legal notice of unclaimed properties reported during the previous reporting cycle (November of each year). Generally, if OST is unable to locate the owner of the unclaimed property within three years after the receipt of the property, the property is sold. However, securities and mutual funds are generally held by OST for two years and then liquidated. In both cases, the sale proceeds are applied to the owner's account for future claims by the owners or heirs.

In January and June of each year, OST reviews its cash balances from holder reporting and securities liquidation. The amount is discounted by a reserve for future claim payouts and administrative expenses, and the remaining funds, if any are transferred to the common school trust fund.

Funding for the unclaimed property program is program revenue from the sale of unclaimed property. Currently, the program operates with 3.95 permanent positions and 4.0 project positions. In addition, OST has agreements with independent contractors (auditors) for the identification, processing, and delivery of unclaimed property, and for securities custody and management services for the OST securities portfolio.

GOVERNOR

Provide \$165,200 PR in 2007-08 and \$166,800 PR in 2008-09 to extend 4.0 PR project positions in the unclaimed property program for two years. Under current law, the positions terminate as of June 30, 2007.

DISCUSSION POINTS

1. The staff of the unclaimed property program is responsible for the following activities: (a) holder reporting (cash receipts and distribution); (b) claim review and approval; (c) securities management; and (d) safe deposit box custody.

2. Currently, the unclaimed property program is staffed with the following permanent positions: 1.0 administrator; 2.25 financial specialists; 0.5 operations program associate; and 0.2 information technology (IT) support. The last increase in permanent staff was in 1992, when the unclaimed property program had custody of approximately \$30 million in cash and securities. Currently, the total value of such holdings is approximately \$325 million.

3. In the last four fiscal years, \$56.5 million in previously unclaimed property was returned to property owners (mostly Wisconsin citizens and businesses) through the unclaimed property program. During the same period, over \$70 million was deposited to the common school trust fund.

4. Under 2005 Act 25, 6.0 project positions and associated funding was provided to assist OST in processing abandoned insurance company demutualization properties for 2005-06, when an increased workload was anticipated as a result of the following: (a) an increase in the number of mutual insurance companies that were demutualizing; and (b) an acceleration in the reporting requirement for unclaimed insurance company demutualization proceeds, which was enacted under 2003 Act 33.

5. The following table shows the value of cash, the shares of securities, and the number of owners reported under the unclaimed property program during each year from 2002-03 through 2006-07 (the 2006-07 figures are year-to-date as of April 5, 2007). While the largest cash value was in 2003-04 (as a result of two large insurance companies demutualizing), the general trend has been toward increasing amounts of cash and securities.

Unclaimed Property Program -- Reports of Cash and Securities

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07*</u>
Cash	\$23,816,000	\$49,971,000	\$25,477,000	\$36,151,000	\$37,429,000
Shares of Securities	577,857	1,067,023	1,060,769	285,807	5,760,641

*As updated by OST through April 5, 2007.

6. In April, 2006, OST submitted a request to the Department of Administration (DOA) under the Joint Committee of Finance's 14-day passive review process for continued authorization of the 6.0 project positions that had been provided for 2005-06 under Act 25. DOA recommended that the Committee authorize 4.0 project positions through June 30, 2007, and associated funding for 2005-06. The request was approved without objection in July, 2006.

7. DOA's recommendation to the Committee that 4.0 project positions receive continued authorization attributed the need for the positions to the increased workload associated with the insurance company demutualization. According to the administration, while the primary delivery of these shares was reported in 2003-04, supplemental reports were delayed, in some cases by years. It is expected that OST will receive supplemental reports associated with the MetLife demutualization for several years. Based on this analysis, the Governor's proposal would extend funding for the 4.0 project positions through 2008-09.

8. However, OST reports that there has been an increase in the reporting of unclaimed property over and above the increases associated with demutualization. The following table provides information on cash and securities receipts for the same period as the table shown above, but without the demutualization funds and securities. As can be seen from this table, annual receipts of cash and securities in the unclaimed property program have increased since 2003-04 even in the absence of the effect of demutualization.

**Unclaimed Property Program -- Reports of Cash and Securities
Excludes Reports from Demutualization**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07*</u>
Cash	\$23,816,000	\$21,809,400	\$24,886,000	\$36,151,000	\$37,429,000
Shares of Securities	577,857	276,286	544,399	285,807	5,760,641

*As updated by OST through April 5, 2007.

9. According to OST staff, accounting changes mandated under the federal 2002 Sarbanes-Oxley Act (also known as the Public Company Accounting Reform and Investor Protection Act of 2002) may be contributing to the general trend toward increasing reports of

unclaimed property. More recently, under 2005 Act 400, the dormancy period for stock or other intangible ownership interests of a business association was reduced from five years to three years, effective May 25, 2006. OST expects this law change to contribute to larger securities remittances and corresponding increases in agency activities such as recording stock shares, confirming delivery to the custodial bank used by the unclaimed property program, and reconciling the stock and mutual fund portfolios. Based on recent historical data and the law changes described above, OST expects its need for additional staff to continue, as indicated in the agency's budget request, which requested that the 4.0 project positions be converted to permanent positions.

10. Chapter 177 requires OST to process claims related to property paid or delivered under the unclaimed property program within 90 days of the filing of such claims. In the case of noncompliance with this requirement, OST is subject to legal action by an affected claimant. According to OST, without the 4.0 positions, the Office might not be able to meet the 90-day claims processing requirement. Transfers of revenues to the common school trust fund could also be delayed because of the unknown value of pending unpaid claims, which would require a larger reserve to ensure ability to pay claims over a longer period of time. In addition, the administrator's duties related to contract management, procurement, and other management-level activities and planning would be neglected as the administrator's time would have to be spent primarily on claims review, approval, and reconciliation activities.

11. Staff members in the unclaimed property program are trained to use a commercial software product, "Unclaimed Property 2000." The software serves as the data source of interactive websites and allows potential claimants to gain information about unclaimed property and to request claims forms. Staff also perform extensive daily Internet-based tasks such as stock transfer requests and confirmations, custodial reports, claim file transmissions, and holder report downloads. Such tasks require consistent, on-site technical assistance. OST reports that the current permanent position of 0.2 IT support is inadequate to address the ongoing technical needs of the program.

12. Based on information compiled by the National Association of Unclaimed Property Administrators (NAUPA), as updated by staff of the Wisconsin unclaimed property program, states with unclaimed property programs of similar total value as Wisconsin's (currently valued at approximately \$325 million) are generally staffed at significantly higher levels than the 3.95 permanent positions in the Wisconsin program. The following table shows the number of permanent positions and total program value (cash and stock) in these other states:

**Property Staff and Program Values --
Other States with Similar Program Values**

	<u>Indiana</u>	<u>Louisiana</u>	<u>Minnesota*</u>	<u>Tennessee</u>
Permanent Full-Time Employees	25.0	27.0	5.0	13.0
Total Program Value	\$325.0	\$301.7	\$290.0	\$273.6

*Minnesota transfers additional agency staff members to the unclaimed property unit as needed.

13. As shown in the table, three of the four states utilize more than 10 permanent positions. The fourth state, Minnesota, operates with five permanent positions. However, based on information provided by the Chief Financial Officer of Minnesota's unclaimed property program, three additional positions in the Minnesota Commerce Department, where the state's unclaimed property program is housed, who are classified as fiscal staff essentially work full-time on unclaimed property. In addition, four to five part-time employees assist the unclaimed property program in peak periods. In Minnesota, as in Wisconsin, the auditing work related to unclaimed property is primarily accomplished through contracts with outside vendors.

14. Based on the NAUPA survey, two other states, New Mexico and Maine, reported having 4.0 permanent positions manage their unclaimed property programs. As of August, 2006, New Mexico reported a total program value of \$112.2 million; Maine's program value at the time was \$141.0 million. The State of Iowa reported that 7.0 positions manage the state's unclaimed property program, whose program was valued at \$179.0 million as of August, 2006. In each case, the total value of these states' programs was considerably less than the \$325 million of value in Wisconsin's unclaimed property program.

15. As noted, the Governor's proposal would provide funding for the 4.0 project positions through 2008-09, after which the positions would no longer be authorized. Another option would be to provide the funding for the 2007-09 biennium and also to convert the positions from project to permanent status, in anticipation of the ongoing need of the unclaimed property program for the additional positions. Converting the positions to permanent positions would make it easier for the program to retain staff and receive the resultant benefits from an experienced workforce. Compared to the Governor's proposal, there would be no additional cost in the 2007-09 biennium. However, under this option, the positions would become part of OST's base for the 2009-11 biennial budget deliberations.

16. It could be argued that providing funding and authorization for 4.0 project positions through 2007-09 would provide the unclaimed property program with resources needed in the 2007-09 biennium, and that a decision about whether or not to provide the positions in the following biennium could, therefore, be postponed. However, OST management stresses that, in order to maintain current program operations efficiency and to comply with internal control requirements (which limit the cross-training of staff members), it is important to retain current staff to the extent

possible. Minimizing staff turnover would enhance continuity of service, institutional knowledge of contacts and practices in the securities, insurance, and banking industries, expertise with the unclaimed property software, and knowledge of OST policies and procedures. A decision at this time to provide OST with 4.0 permanent positions, rather than the project positions, would make it more likely that such continuity in staff and services would occur.

ALTERNATIVES TO BILL

1. Approve the Governor's proposal to provide authorization and funding for 4.0 project staff for the unclaimed property program. Under this option, there would be no change to the bill. Compared to current law, this alternative would provide \$165,200 PR in 2007-08 and \$166,800 PR in 2008-09, and 4.0 project positions in each year.

ALT 1	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	\$0	0.00	\$332,000	4.00

2. Approve funding amounts recommended by the Governor and convert the 4.0 project positions to permanent positions.

ALT 2	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	\$0	0.00	\$332,000	4.00

3. Delete provision.

ALT 3	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	-\$332,000	- 4.00	\$0	0.00

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