

Revenue

Departmentwide

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<u>Item #</u>	<u>Title</u>
1	Standard Budget Adjustments



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May, 2021

Joint Committee on Finance

Paper #540

Statewide Debt Collection Positions (Revenue -- Departmentwide)

[LFB 2021-23 Budget Summary: Page 511, #2]

CURRENT LAW

The Department of Revenue (DOR) administers the Statewide Debt Collection (SDC) program for the purpose of collecting debts owed to state agencies, the Courts, the Legislature, state authorities, and local units of government. The program requires DOR to enter into a written agreement to have the Department collect any amount owed to a state agency that is more than 90 days past due, unless: (a) negotiations between the agency and debtor are actively ongoing; (b) the debt is the subject of legal action or administrative proceedings; or (c) the debtor is adhering to an acceptable payment arrangement. Additionally, DOR is authorized (but not required) to enter into similar agreements with courts, the Legislature, authorities, and local units of government.

The Department also administers the Tax Refund Intercept Program (TRIP) for the purpose of offsetting refunds owed a debtor against debts owed by the debtor to state agencies, the courts, the Legislature, state authorities, local units of government, the federal government, federally recognized tribes, and certain ambulance service providers.

Together, TRIP and SDC are provided 31 full-time equivalent (FTE) positions in 2020-21, comprised of 24 debt collector agents (including two lead workers), two supervisors, two business analysts, and three support staff. In addition, between 10 and 14 limited-term employees are typically hired during the months of January through June. Of the FTE positions, 23.0 are permanent and 8.0 are project positions. These individuals perform work for both SDC and TRIP, with about 80% of their time spent on SDC work and 20% of their time spent on TRIP work. This percentage may vary, and some shifting of positions may occur, based on the needs of each program at a given time.

State law authorizes DOR to charge a transaction fee for each debt it collects, under both SDC and TRIP. DOR has set its SDC fee equal to the greater of \$35 or 15% of the debt certified to be collected. The fee is charged to the debtor. Under TRIP, DOR charges the debtor the following amounts per debt it offsets: (a) \$5 for state and municipal debts; (b) \$15 for debts owed the State of Minnesota and its localities; and (c) \$25 for debts owed the IRS and federally recognized tribes. These fees are deposited in DOR's debt collection, program revenue appropriation, and are used to offset its expenses for administering both programs. At the end of each fiscal year, any remaining balance, resulting from fee revenues in excess of program expenses, is deposited in the general fund.

DISCUSSION POINTS

1. The SDC program was created under 2009 Act 28. Prior to the SDC program, agencies utilized the services of private debt collection companies or internal collection staff to collect debts. The Department believed that centralizing state agency debt collection activities in a uniform process administered by DOR would improve the efficiency of state debt collection, and therefore increase resources available to state agencies. The Department has the authority under the SDC program to take certain enforcement actions, which are not available to private collection agencies, such as to administratively attach wages, levy nonwage assets, and seize monies and personal property. Additionally, state law gives DOR the ability to charge collection fees above the amount of debt owed to offset the administrative expenses of collection. In contrast, private debt collection companies are prohibited under state law from collecting any amount in excess of what is owed by a debtor. As a result, state agencies and local units of government utilizing the SDC program can receive the entire outstanding debt, rather than having to remit a portion of the debt to compensate a private collection company.

2. The debt collector agent positions are responsible for collecting debt referred to SDC and TRIP. DOR has the authority under both TRIP and the SDC program to collect debt through offsets of a tax refund or unclaimed property. Beyond these authorities, the Department has several additional tools available to aid in the collection of SDC debt. DOR's preferred option for collecting debt referred to the SDC program is by setting up a voluntary payment arrangement with the debtor to collect payments. This can be done through a payment plan, or by providing an agreed-upon time frame to submit full payment. However, in the event that debt cannot be collected voluntarily, debt collector agents will, most commonly, attach wages through wage certifications or levy a debtor's bank account.

3. The Legislature expanded the SDC program several times during the 2015-17 legislative session. Under 2015 Act 55, an additional 11.0 positions were authorized for the SDC program to address the growing balance of outstanding debts. This expansion increased debt collector positions from seven to 18. Debts referred to the program were further expanded under 2015 Act 355, which authorized restitution payments certified as owed by the Department of Corrections or the Clerk of Circuit Court to be included in SDC agreements. In addition, 2015 Act 59 authorized debts owed to certain ambulance service providers operating under a contract with a municipality or county to be referred to DOR under an SDC agreement.

4. In response to the increase in debts referred, the program was again expanded under the 2017-19 biennial budget act (2017 Act 59). Act 59 provided 8.0 project positions (7.0 debt collector agents, including 1.0 lead worker, and 1.0 support staff position) to the SDC program. At the time of their authorization, it was estimated that the positions would increase the amounts transferred from DOR's debt collection appropriation to the general fund by \$750,000 on an annual basis. These positions are scheduled to expire on September 30, 2021.

5. In 2017, DOR stated that the authorization of 8.0 project positions, rather than permanent positions, would allow the Department to reexamine the productivity of these positions after four years to determine if the positions are necessary. Now, DOR indicates that the program has grown beyond the Department's prior expectations, making these positions necessary to maintain the current level of debt collection activity under the SDC program. Under current law, project positions cannot exist for more than four years.

6. Under Assembly Bill 68/Senate Bill 111, the Governor recommended providing \$454,200 in 2021-22 and \$614,100 in 2022-23 and 8.00 FTE permanent positions annually to DOR's collection of taxes -- debt collection appropriation to assist in the collection of debts owed to state and local governments. These permanent positions would replace the 8.00 project positions, authorized under Act 59, that are set to expire on September 30, 2021. These positions were removed under standard budget adjustments [see LFB Paper #101].

7. The fiscal year ending balance, new debts referred, and debts collected since 2015-16 can be seen in Table 1. The amount of debts collected includes both agency debts and fees collected by DOR to offset the expenses of the program. Totals for the current fiscal year, through April 2, 2021, are also included. The table shows the number of debt collector agents for the SDC program each year, as well as per-agent collections. The total outstanding balance of debts referred to DOR under the program has grown considerably in recent years. Between 2015-16 and 2019-20, DOR data show that the year-end debt balance increased by nearly 550%, from \$71.3 million to \$462.8 million. Over that same time period, the annual amount of debts collected increased by 216%, from \$20.7 million in 2015-16 to \$65.3 million in 2019-20. Moreover, DOR data demonstrate that annual collections per debt collector agent have increased each year, from \$1.2 million per agent in 2015-16 to \$2.7 million per agent in 2019-20. It should be noted that a portion of debts can be returned to agencies if deemed uncollectible, which reduces the SDC closing balance.

TABLE 1**SDC Balance, Debts Referred, Collections, and Debt Collectors (\$ In Millions)
2015-16 through April 2, 2021**

<u>Fiscal Year</u>	<u>SDC Closing Balance</u>	<u>New Debts Referred</u>	<u>SDC Collections</u>	<u>Debt Collector Agents</u>	<u>SDC Collections per Agent</u>
2015-16	\$71.29	\$41.99	\$20.67	18	\$1.15
2016-17	123.57	83.16	28.01	18	1.56
2017-18	213.49	141.38	43.00	24	1.79
2018-19	372.08	235.89	62.46	24	2.60
2019-20	462.83	172.33	65.32	24	2.72
April 2, 2021	493.43	101.87	47.07	24	TBD

Source: Department of Revenue

8. As shown in Table 1, the amount of debts collected has been less than half of the new debts referred each year, resulting in a growing ending balance of debts. While annual debt collections continue to grow each year, this amount grew at a slower rate in 2019-20. DOR indicates two reasons for this slow-down. First, in response to the COVID-19 recession, DOR reduced its involuntary collection actions to provide relief to vulnerable individuals from April through July of 2020. Collection actions resumed on a limited basis in August, 2020, but are still more limited than the normal level of collection activity. Second, with current resources, DOR states that the SDC program is nearing its capacity in terms of the amount of debts it can collect without creating overflow to tax agents. Without additional staffing for the program, the amount of debt collected annually is expected to soon level off.

9. As the amount of debt referred to DOR has increased, the number of debt collection bills (bills for individual debtors) referred to the Department has also grown. Data from DOR indicate that the average monthly number of new debt collection bills referred per FTE increased from 160 in 2015-16 to 679 in 2019-20, or an increase of approximately 424% on a per-agent basis. As such, DOR reports that its current SDC staffing level is insufficient to meet the growing number of participating agencies and the corresponding growth in overall debt volumes.

10. As shown in the Attachment, the number of agreements with SDC partnering agencies, active debts, amount of debts recovered, and the outstanding balance of debts to be collected have steadily increased since 2015-16. Active debts represent the number of unresolved debts held with DOR by agency type, as of June 30 of each fiscal year. Restitution payments were added to the list of authorized debts to refer in 2016-17, following enactment of 2015 Act 355. The Attachment shows that the largest increase in active debts occurred in 2018-19, following a large increase in court and municipal debts referred to the SDC program (which contributes to the spike in 2018-19 new debts referred in Table 1).

11. To the extent that DOR's debt collection program enhances revenues for state agencies and local units of government, the program limits the need to provide these entities with

additional expenditure authority. DOR indicates that there is still the possibility for additional debts to be referred, as Milwaukee County Circuit Court has yet to join the SDC program. It is estimated that this entity would increase the current SDC debt balance by more than \$100 million.

12. As noted, DOR charges a collection fee in excess of debts owed to offset the administrative expenses of the SDC program. At the end of each fiscal year, any fees collected in excess of expenses are transferred to the general fund.

13. Table 2 shows SDC fees collected, expenses incurred, and the amount transferred to the general fund since 2015-16. Since the 8.0 project positions were authorized in the 2017-19 biennial budget act, the annual transfer to the general fund increased by \$2.3 million in 2017-18 and \$5.4 million in 2018-19, compared to 2016-17 levels. DOR attributes the slight decline in 2019-20 fees collected to the reduced ability for individuals to pay and DOR reducing involuntary collection activity during the COVID-19 recession.

TABLE 2
SDC Fees Collected, Expenses Incurred, and
Amount Transferred to the General Fund (In Millions)
2015-16 through 2019-20

<u>Fiscal Year</u>	<u>Fees Collected</u>	<u>DOR Expenses</u>	<u>General Fund Transfer</u>
2015-16	\$3.39	\$1.32	\$2.07
2016-17	4.57	1.57	3.00
2017-18	7.23	1.97	5.26
2018-19	10.54	2.15	8.39
2019-20	9.97	1.80	8.17

Source: Department of Revenue

14. It should be noted that the totals shown for fees collected in Table 2 will not match similar data in the Attachment. According to DOR, fee data shown in Table 2 is obtained from reports generated for an August to July fiscal year, while data for the Attachment is obtained from reports generated for a July to June fiscal year.

15. DOR estimates that allowing these eight project positions to expire would: (a) reduce fees collected by DOR by \$2,200,000 in 2021-22 and \$2,900,000 in 2022-23; (b) reduce expenses incurred by \$454,200 PR in 2021-22 and \$614,100 PR in 2022-23; and (c) reduce the year-end transfer to the general fund by an estimated \$1,745,800 in 2021-22 and \$2,285,900 in 2022-23. DOR also estimates a loss of approximately \$14 million in annual debts collected and remitted to agency partners if these positions expire.

16. Given that the SDC program has grown significantly since the 8.0 project positions were authorized in 2017, and that data suggests the positions are necessary to maintain the current

level of debt collection activity, the Committee could decide to provide 8.0 permanent positions to replace the expiring project positions [Alternative 1]. In addition to Alternative 1, the Committee could consider whether to provide additional positions to reduce the growing balance of debts referred to DOR.

17. On September 24, 2019, a request was submitted to the Joint Committee on Finance under s. 16.515/16.505 (2) to convert the 8.0 project positions to permanent positions and to create an additional 15.0 permanent positions for collection of SDC debt. An objection was raised and the request was not approved. DOR stated that it had reached its capacity for collecting debts with the current resources available. Since 2016-17, the balance of outstanding debts referred to the SDC program has grown from \$123.6 million to \$493.8 million at the current staffing level, despite the amount of debt collected per agent increasing each year. The Committee could consider providing 15.0 PR positions, in addition to making the existing 8.0 positions permanent, to reduce the outstanding balance of SDC debts owed to state agencies, municipalities, and other SDC partners [Alternative 2].

18. According to DOR, if the Committee provided an additional 15.0 permanent positions, it could increase staffing in the SDC program by 13.0 debt collector agents, one lead worker, and one supervisor. The Department estimates that increased expenditure authority of \$991,200 in 2021-22 and \$1,203,400 in 2022-23 would support the additional 15 positions, assuming that the positions would begin on October 1, 2021. It is estimated that these additional 15.0 positions would: (a) increase fees collected by DOR by \$2,000,000 in 2021-22 and \$4,000,000 in 2022-23; (b) increase expenses incurred by \$991,200 PR in 2021-22 and \$1,203,400 PR in 2022-23; and (c) increase the year end transfer to the general fund by an estimated \$1,008,800 in 2021-22 and \$2,796,600 in 2022-23. DOR also estimates that the additional debt collector agents would increase debt amounts recovered for participating agencies and municipalities by \$26 million on an annual basis.

19. The Committee could consider whether the amount of debts referred may diminish in future years. Although the amount of new debts referred continues to exceed the amount of debts collected, the amount of new debt referred to the SDC program declined in 2019-20 compared to 2018-19, and year-to-date debts referred indicate that new debts referred in 2021-20 may be slightly lower than the prior year. The Committee could provide an additional 15.0 project positions to be authorized for a four-year period, rather than permanent positions, if the Committee wished to review whether the current pace of debts referred remains [Alternative 3].

20. Finally, the Committee could decide to take no action, allowing the 8.0 project positions to expire on September 30, 2021 [Alternative 4]. Compared to current program activity, it is estimated that the amounts of debts collected would be reduced by \$14 million annually, and the transfer to the general fund would be reduced by \$2,285,900 annually. However, the fiscal impact of the reduced expenditure authority and lower transfer to the general fund has been accounted for under base estimates for departmental revenues and standard budget adjustments, so this alternative would not impact revenues or expenditures under the bill.

ALTERNATIVES

1. Provide \$454,200 PR in 2021-22 and \$614,100 PR in 2022-23 and 8.0 PR permanent positions annually to DOR's collection of taxes -- debt collection appropriation. Estimate increased PR-REV of \$2,200,000 in 2021-22 and \$2,900,000 in 2022-23. Increase the estimated year-end general fund transfer by \$1,745,800 in 2021-22 and \$2,285,900 in 2022-23.

ALT 1	Revenue	Change to Base Funding	Positions
PR		\$1,068,300	8.00
PR-Rev	\$5,100,000		
GPR-Rev	\$4,031,700		

2. Provide \$1,445,400 in 2021-22 and \$1,817,500 in 2022-23 and 23.0 PR permanent positions annually to DOR's collection of taxes -- debt collection appropriation. Estimate increased PR-REV of \$4,200,000 in 2021-22 and \$6,900,000 in 2022-23. Increase the estimated year-end general fund transfer by \$2,754,600 in 2021-22 and \$5,082,500 in 2022-23.

ALT 2	Revenue	Change to Base Funding	Positions
PR		\$3,262,900	23.00
PR-Rev	\$11,100,000		
GPR-Rev	\$7,837,100		

3. Provide \$1,445,400 in 2021-22 and \$1,817,500 in 2022-23 and 23.0 PR positions annually (8.0 permanent positions and 15.0 project positions) to DOR's collection of taxes -- debt collection appropriation. Specify that the end date of the project positions would be September 30, 2025. Estimate increased PR-REV of \$4,200,000 in 2021-22 and \$6,900,000 in 2022-23. Increase the estimated year-end general fund transfer by \$2,754,600 in 2021-22 and \$5,082,500 in 2022-23.

ALT 3	Revenue	Change to Base Funding	Positions
PR		\$3,262,900	23.00
PR-Rev	\$11,100,000		
GPR-Rev	\$7,837,100		

4. Take no action.

Prepared by: Sydney Emmerich
Attachment

ATTACHMENT

**SDC Participants and Collections
2015-16 through 2020-21**

<u>SDC Participant</u>	<u>Number of Agreements</u>	<u>Active Debts</u>	<u>Fiscal Year Ending Balance</u>	<u>Debts Recovered</u>	<u>Collection Fee</u>	<u>Total SDC Collections</u>
Fiscal Year 2015-16						
Local Agency	91	5,024	\$4,953,772	\$893,745	\$231,320	\$1,125,065
Local Agency (Utility)	24	2,346	1,126,117	264,964	56,392	321,356
Court	7	6,283	5,483,952	196,976	63,251	260,227
Municipal Court	49	12,968	5,667,786	927,464	215,652	1,143,116
State Agency	25	3,220	13,327,330	1,171,665	261,549	1,433,214
Technical College	11	8,909	11,366,489	3,337,037	724,341	4,061,378
UW System	<u>20</u>	<u>10,325</u>	<u>29,362,721</u>	<u>10,481,167</u>	<u>1,843,344</u>	<u>12,324,511</u>
Total	227	49,075	\$71,288,167	\$17,273,018	\$3,395,849	\$20,668,867
Fiscal Year 2016-17						
Local Agency	127	8,490	\$8,613,470	\$1,410,423	\$322,745	\$1,700,596
Local Agency (Utility)	24	2,224	1,216,635	335,754	63,367	423,562
Court	23	41,567	26,435,738	2,290,303	567,869	2,856,599
Municipal Court	103	49,115	21,721,971	3,015,655	805,281	3,829,066
State Agency	24	3,441	16,262,032	1,266,101	314,241	1,580,342
Technical College	11	10,655	13,011,990	4,587,058	892,008	5,479,066
UW System	26	11,569	35,629,795	10,531,553	1,597,235	12,128,788
Restitution	<u>8</u>	<u>177</u>	<u>680,514</u>	<u>5,526</u>	<u>4,715</u>	<u>11,814</u>
Total	346	127,238	\$123,572,145	\$23,442,373	\$4,567,460	\$28,009,833
Fiscal Year 2017-18						
Local Agency	177	12,730	\$17,143,158	\$2,317,023	\$538,326	\$2,855,350
Local Agency (Utility)	23	2,633	1,179,071	336,041	64,487	400,528
Court	32	100,808	70,723,562	7,254,932	1,669,449	8,924,380
Municipal Court	147	115,728	48,728,311	8,090,088	2,032,597	10,122,685
State Agency	24	3,835	21,035,692	1,512,564	283,630	1,796,193
Technical College	12	10,926	12,796,370	4,854,088	840,951	5,695,039
UW System	27	11,104	34,632,313	11,338,583	1,677,865	13,016,448
Restitution	<u>12</u>	<u>1,198</u>	<u>7,251,032</u>	<u>101,306</u>	<u>85,790</u>	<u>187,097</u>
Total	454	258,962	\$213,489,509	\$35,804,626	\$7,193,095	\$42,997,720
Fiscal Year 2018-19						
Local Agency	185	17,727	\$19,551,571	\$2,956,527	\$621,195	\$3,577,722
Local Agency (Utility)	29	2,876	1,419,711	363,382	67,610	430,992
Court	50	224,010	155,840,744	17,114,833	3,711,560	20,826,393
Municipal Court	168	177,897	75,852,729	12,563,465	2,811,052	15,374,517
State Agency	25	4,398	39,535,048	1,787,127	311,466	2,098,593
Technical College	13	14,387	16,444,735	5,121,391	918,751	6,040,141
UW System	31	12,063	39,615,642	11,131,977	1,724,690	12,856,667
Restitution	43	6,041	23,069,447	730,613	390,350	1,120,963
Housing Authority	<u>20</u>	<u>373</u>	<u>754,261</u>	<u>111,757</u>	<u>24,970</u>	<u>136,727</u>
Total	564	459,772	\$372,083,888	\$51,881,072	\$10,581,643	\$62,462,715

<u>SDC Participant</u>	<u>Number of Agreements</u>	<u>Active Debts</u>	<u>Fiscal Year Ending Balance</u>	<u>Debts Recovered</u>	<u>Collection Fee</u>	<u>Total SDC Collections</u>
Fiscal Year 2019-20						
Local Agency	218	23,090	\$26,865,596	\$3,263,721	\$736,143	\$3,999,864
Local Agency (Utility)	32	2,859	1,438,899	314,480	58,416	372,896
Court	58	289,030	205,521,738	18,840,626	3,569,949	22,410,575
Municipal Court	178	223,408	96,182,119	13,003,075	2,821,991	15,825,066
State Agency	27	4,479	39,506,977	1,310,683	302,616	1,613,299
Technical College	14	14,827	16,325,343	5,598,197	1,022,399	6,620,596
UW System	33	12,937	42,532,791	11,194,563	1,619,032	12,813,595
Restitution	56	8,211	33,618,917	1,167,074	352,229	1,519,303
Housing Authority	<u>21</u>	<u>364</u>	<u>832,965</u>	<u>120,368</u>	<u>28,112</u>	<u>148,480</u>
Total	637	579,205	\$462,825,345	\$54,812,788	\$10,510,886	\$65,323,674
YTD 2020-21 through 3/31/2021						
Local Agency	222	24,379	\$28,611,587	\$2,368,716	\$457,216	\$2,825,932
Local Agency (Utility)	30	3,177	1,704,648	267,314	\$55,995	323,309
Court	59	320,359	231,679,120	14,862,466	\$2,701,831	17,564,297
Municipal Court	183	249,020	106,255,858	9,445,197	\$1,989,644	11,434,841
State Agency	23	3,899	34,473,141	1,037,373	\$222,779	1,260,152
Technical College	14	12,934	13,979,236	3,032,643	\$454,663	3,487,306
UW System	33	10,573	34,642,690	7,716,307	\$941,504	8,657,810
Restitution	57	9,308	41,149,818	1,046,422	\$368,988	1,415,410
Housing Authority	<u>21</u>	<u>338</u>	<u>938,460</u>	<u>80,389</u>	<u>18,160</u>	<u>98,549</u>
Total YTD	642	633,987	\$493,434,557	\$39,856,828	\$7,210,779	\$47,067,606

Source: Department of Revenue



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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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