



State of Rhode Island and Providence Plantations
Office of the General Treasurer

Seth Magaziner
General Treasurer

2020 May Revenue Estimating Conference

April 29, 2020

Testimony Notes

UNCLAIMED PROPERTY PROGRAM

Office of the General Treasurer Seth Magaziner

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REVENUES

Special Audits:

- The program contracts with outside firms who conduct audits of companies potentially holding unclaimed property. Special audits in recent years were predominantly examinations of large life insurance companies. The program's auditors activity also includes examination of financial institutions, large corporations, brokerage firms and remittance of accumulated shares and securities. These revenues have historically been reported as Traditional Revenues. For consistency purposes, the Special Audit Revenues reported here are from only large life insurance companies.
- **FY 2020:** The special audit estimate for FY 2020 of \$2.3M is based on current collections and forecasts provided by the program's auditors.
- **FY 2021:** The estimate for FY 2021 is \$2.5 million based on historical averages and through consultation with audit firms about the likely timing of completion of audits in progress.

Stocks:

- Stocks are generally held for a minimum of 1 year before becoming eligible for liquidation pursuant to RIGL 33-21.1-22. Stocks may be liquidated throughout the year if related to a claim, otherwise, a stock sale occurs once per year, usually in April or May.
- **FY 2020:** Based on our analysis of securities liquidated year to date and available for sale, the program estimates revenues of approximately \$2.8 million in FY20.
- **FY 2021:** The program is anticipating \$4.7 million in revenues for stock conversion in FY 2021 based on historical averages.

Traditional Revenues

- Traditional revenues are those not otherwise classified, and include holder receipts from companies, reciprocals from other states, and from typical audit activity. Holder reports are due by November 1 of each year and the program typically receives the bulk of its revenues on or immediately after the deadline.
- **FY 2020:** The program estimates \$19.9 million in traditional revenues for FY 2020, based on previous years deposit volume and an analysis of receipts collected year to date. Deposits of traditional revenues total \$17.6 million as of April 3.
- **FY 2021:** The program projects \$20.4 million in traditional revenue based on historical averages.

Departmental Escheat:

- Under R.I. GL § 33-21.1-3.1, the State must transfer written-off checks to the Unclaimed Property fund like any other holder of unclaimed property. This process was established in conjunction with the Controller's Office and the Department of Taxation beginning in FY 2016, which exhibited a large accumulation of escheatment dating back to 2008.
- **FY 2020:** Treasury computed the escheatment for appropriately aged taxation checks (\$1.1 million), general disbursement checks (\$0.7 million), and payroll taxes (\$19 thousand) and has deposited these revenues to the Unclaimed Property Account in October 2019 (total of \$1.8 million). There are no other deposits expected for FY 2020.
- **FY 2021:** An estimate of the escheatment for FY 2021 is \$2.0 million based on historical averages.

EXPENDITURES

Personnel:

- **FY 2020:** Personnel expenses related to Salary and Wages are estimated to be \$1.2 million, based on direct-line staff, allocated support personnel, and statewide benefit adjustments.
- **FY 2021:** Personnel expense for FY 2021 is expected to be \$1.4 million, corresponding to our budget request submitted on September 20.

Auditors:

- Audit firms are compensated based on the value of property remitted to the program and as such, these expenses are directly correlated to audit income. Regarding securities, the audit fee may be incurred up to a year prior to when revenue is recognized and remitted to the program. These estimates affect both the revenue to the program and the estimate of audit expense.
- **FY 2020:** Audit fees in FY 2020 are estimated at \$470 thousand, slightly less than the November 2019 estimate of \$500 thousand.
- **FY 2021:** Audit fees in FY 2021 are estimated at \$600,000. This increase over FY 2020 corresponds with our FY 2021 Budget request to add a fourth auditing firm.

Other and Administrative Expense:

- **FY 2020:** Administrative expense and other expense are consolidated into a single line item, and includes information technology, mailing, advertising, and data validation services. The combined total is \$351 thousand which is within the FY 2020 Enacted Budget.
- **FY 2021:** The FY 2021 is estimated to be \$360 thousand, corresponding to our budget request.

Claims:

- **FY 2020:** The estimate for claims expense in FY 2020 is \$12.1 million or \$1.9 million less than our November 2019 estimate. Outreach efforts at local fairs and expositions planned for this spring have been cancelled due to COVID-19 social distancing restrictions resulting in the expected reduction in claims.
- **FY 2021:** The estimate of \$14.0 million in claim expense for FY 2021 assumes continued success of the program in reuniting unclaimed property with owners and further implementation of automated efforts to return property through data matching.

TRANSFER TO THE GENERAL FUND and YEAR END LIABILITY

- **FY 2020:** The projected surplus is calculated based on the revenues, expenditures, and claim liability expected in the fiscal year. The transfer to the general fund surplus for FY 2020 is estimated to be \$11.2 million versus \$9.9 million estimated in November 2019.
- **FY 2021:** The transfer to the general fund surplus for FY 2021 is estimated to be \$9.6 million. The estimate is a function of the projected prior year carry forward, and refinements to revenues and expenditures described above.
- The liability holdback calculation is done at year-end and will be the greater of 25%, or the five-year average of the ratio of current-year claims paid out from previous year's revenues. (For FY 2020 the estimated liability holdback is 30.77% and for FY 2021 the estimated liability 32.97%, see Worksheet A). The liability is adjusted through an expense to the program reflecting the change from the previous year's liability.

WORKSHEET A
Unclaimed Property - GASB 21 Claim Liability Calculation
Office of the General Treasurer
 APRIL 29, 2020
 Revenue Estimating Conference

1	2	3	4	5	6	7	8	9
FY	PREV YR NET REV	BALANCE FORWARD	TOTAL CLAIMS	BAL FOR / CLAIMS %	CLAIMS (OLD) JUL TO MAR	CLAIMS/ BAL FOR %	CLAIMS (NEW) APR TO JUN	OLD CLAIMS / PREV YR REV %
2009	\$ 28,254,631	\$ 7,063,658	\$ 8,462,512	83%	\$ 5,133,418	73%	\$ 3,329,094	18.17%
2010	\$ 14,338,192	\$ 3,584,548	\$ 8,540,855	42%	\$ 5,535,973	154%	\$ 3,004,882	38.61%
2011	\$ 16,409,162	\$ 4,430,474	\$ 7,808,124	57%	\$ 4,720,830	107%	\$ 3,087,294	28.77%
2012	\$ 17,047,480	\$ 4,665,895	\$ 7,984,255	58%	\$ 5,695,904	122%	\$ 2,288,351	33.41%
2013	\$ 28,011,241	\$ 8,334,641	\$ 25,394,886	33%	\$ 6,066,657	73%	\$ 19,328,229	21.66%
2014	\$ 31,187,291	\$ 6,333,042	\$ 9,007,918	70%	\$ 5,776,447	91%	\$ 3,231,472	18.52%
2015	\$ 23,504,945	\$ 6,627,040	\$ 10,003,201	66%	\$ 7,257,900	110%	\$ 2,745,301	30.88%
2016	\$ 25,371,701	\$ 6,761,020	\$ 11,607,078	58%	\$ 5,903,548	87%	\$ 5,703,531	23.27%
2017	\$ 27,635,572	\$ 7,060,234	\$ 12,355,204	57%	\$ 8,607,363	122%	\$ 3,747,841	31.15%
2018	\$ 26,350,284	\$ 6,612,463	\$ 14,747,256	45%	\$ 10,517,752	159%	\$ 4,229,504	39.92%
2019	\$ 28,462,789	\$ 7,362,999	\$ 13,003,517	57%	\$ 8,527,189	116%	\$ 4,476,328	29.96%
2020	\$ 27,508,885	\$ 8,536,920	\$ 12,089,372	71%	\$ 8,129,529	95%	\$ 3,959,843	29.55%
2021	\$ 24,305,809	\$ 7,478,449	\$ 14,000,000	53%	\$ 8,337,076	111%	\$ 5,662,924	34.30%

5 Year Average	
FY 2020	30.77%
FY 2021	32.97%

Column

2 THIS IS THE REVENUE RECEIVED THE PREVIOUS YEAR. (e.g. 2011 IS THE REVENUE RECEIVED IN 2010) THE BUDGET YEAR USING THE
 THE PROJECTIONS CALCULATED FOR THE REVISED YEAR ON WORKSHEET B.

3 BALANCE FORWARD (3) IS THE PREVIOUS YEARS LIABILITY HOLDBACK

4 TOTAL CLAIMS PAID FOR THE FULL FISCAL YEAR (COL 6 and 8). CURRENT AND FUTURE YEARS ARE BASED ON 5 YEAR AVERAGE, OR
 OTHER KNOWLEDGE REGARDING INCREASE/DECREASE IN CLAIMS ACTIVITY.

5 BALANCE FORWARD (3) AS A PERCENTAGE OF CLAIMS (4)

6 CLAIMS PAID FROM 7/1 TO 3/31. IT IS ASSUMED THAT THESE CLAIMS ARE MOSTLY FROM MONIES COLLECTED IN PRIOR FY

7 PERCENTAGE OF OLD CLAIMS (6) TO THE BALANCE FORWARD (3).

8 CLAIMS PAID FROM 4/1 TO 6/30. IT IS ASSUMED THAT THESE CLAIMS ARE MOSTLY FROM MONIES COLLECTED IN CURR

9 PERCENTAGE OF OLD CLAIMS (6) TO PREVIOUS YEARS REVENUE (2)

WORKSHEET B
Unclaimed Property - Transfer to General Fund Surplus
Office of the General Treasurer

PROJECTED REVENUES AND EXPENDITURES FOR APRIL 29, 2020 REC TESTIMONY

	FY2015 Complete	FY2016 Complete	FY2017 Complete	FY2018 Complete	FY19 Complete	FY20 Estimate Nov-19	FY20 R Revised Estimate May-20	FY 2020 Difference Nov vs May more (less)	FY 2021 Estimate May-20
Revenues									
Prior Year Carry Forward	\$ 6,627,040	\$ 6,761,020	\$ 7,060,234	\$ 6,612,463	\$ 7,362,999	\$ 8,536,920	\$ 8,536,920	\$ -	\$ 7,478,449
Current Year Revenues:									
Special Audits	2,077,484	5,161,742	2,951,062	2,619,965	2,241,787	2,462,562	2,329,090	(133,472)	2,535,476
Stock Sale	3,129,065	2,904,515	5,038,297	4,908,776	5,853,049	4,005,163	2,846,542	(1,158,621)	4,661,666
Traditional Revenues	22,582,777	17,728,913	19,578,359	22,197,033	19,791,844	19,824,037	19,949,385	125,348	20,379,155
Departmental Escheat		4,844,548	1,617,673	1,847,742	2,532,278	1,758,417	1,758,418	1	1,939,028
Child Support	32,924	83,539	147,404	56,785	146,470	108,549	123,019	14,470	118,419
Auction Revenues	379,316								
Total Current Year Revenue Received:	28,201,515	30,723,256	29,332,795	31,630,301	30,565,428	28,158,729	27,006,454	(1,152,275)	29,633,745
Revenue Offsets	2,732,767	2,957,278	2,927,809	3,163,437	3,056,543	2,815,873	2,700,645	(115,227)	2,963,374
Less Indirect Cost Recoveries not billed at 6/30 close	87,385	116,444							
Revenue Transfers for Centralized Services	9,663	13,963	54,702	4,074					
Total Revenue Offsets:	2,829,815	3,087,684	2,982,511	3,167,511	3,056,543	2,815,873	2,700,645	(115,227)	2,963,374
Net Current Year Revenues:	25,371,700.66	27,635,572	26,350,284	28,462,789	27,508,885	25,342,856	24,305,809	(1,037,047)	26,670,370
Total Revenues	\$ 31,998,741	\$ 34,396,592	\$ 33,410,518	\$ 35,075,253	\$ 34,871,884	\$ 33,879,776	\$ 32,842,729	\$ (1,037,047)	\$ 34,146,819
Expenditures									
Personnel									
Payroll	930,399	1,058,587	1,148,775	1,187,659	1,201,057	1,295,541	1,213,489	(82,052)	1,390,564
Auditors	409,915	393,429	371,987	627,041	370,910	500,000	470,264	(29,736)	600,000
Centralized Services (Revenue Transfer Pre-2018)									
Other	107,860	38,202	40,112	59,239					
Personnel Total	1,448,175	1,490,218	1,560,874	1,891,963	1,571,967	1,795,541	1,683,753	(111,788)	1,990,564
Administrative Expenses	74,566	71,119	156,952	162,910	180,876	359,459	350,824	(8,635)	360,359
Claims Paid	10,003,201	11,607,078	12,355,204	14,747,256	13,003,517	14,000,000	12,089,372	(1,910,628)	14,000,000
adjustment to meet transfer									
Sub-total Operating Expenditures	11,525,941	13,168,414	14,073,030	16,802,129	14,756,360	16,155,000	14,123,949	(2,031,051)	16,350,923
Transfer to Surplus (Tot Rev less Op.& Liability)									
Year End Liability (GASB 21)**	13,711,780	14,166,740	12,725,026	10,910,124	11,578,604	9,921,126	11,240,330	1,319,205	9,591,915
Year End Change in Liability (not included in Total Expenditure bc	6,761,020	7,060,234	6,612,463	7,362,999	8,536,920	7,803,651	7,478,449	(325,201)	8,205,981
adjustment to meet transfer	133,980	299,214	(447,771)	750,536	1,173,921	(733,269)	(1,058,471)	(325,201)	727,532
Total Expenditures-including GASB 21	\$ 31,998,741	\$ 34,395,388	\$ 33,410,519	\$ 35,075,253	\$ 34,871,884	\$ 33,879,776	\$ 32,842,729	\$ (1,037,047)	\$ 34,146,819