



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

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General Treasurer

**2021 May Revenue Estimating Conference**

**April 29, 2021**

**Testimony Notes**

**UNCLAIMED PROPERTY PROGRAM**

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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 auditor's 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 2021:** The special audit estimate for FY 2021 of \$4.4 million is based on current collections and forecasts provided by the program's auditors.
- **FY 2022:** The estimate for FY 2022 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 2021:** The program estimates revenues of \$2.5 million in FY21.
- **FY 2022:** The program is anticipating \$4.3 million in revenues for stock conversion in FY 22.

**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 2021:** The program estimates \$28.4 million in traditional revenues for FY 2021, an increase of nearly \$8 million from the November REC projection. This increase is driven by an email initiative undertaken earlier this year reminding those who have remitted in the past to review their records and remit any outstanding property.
- **FY 2022:** The program projects \$20.6 million in traditional revenue based on previous years 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 2021:** Treasury computed the escheatment for appropriately aged taxation checks (\$1.5 million), general disbursement checks (\$1.5 million), and payroll taxes (\$29 thousand) and has deposited these revenues to the Unclaimed Property Account in October 2020 (total of \$3.0 million). There are no other deposits expected for FY 2021.
- **FY 2022:** An estimate of the escheatment for FY 2022 is \$2.3 million based on historical averages.

## EXPENDITURES

### Personnel:

- **FY 2021:** Personnel expenses related to Salary and Wages are estimated to be \$1.4 million, based on direct-line staff, allocated support personnel, and statewide benefit adjustments.
- **FY 2022:** Personnel expense for FY 2022 is expected to be \$1.4 million, corresponding to our FY 22 budget request.

### 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 2021:** Audit fees in FY 2021 are estimated at \$490 thousand.
- **FY 2022:** Audit fees in FY 2022 are estimated at \$600,000. This increase over FY 2021 corresponds with our FY 2022 Budget request to add a fourth auditing firm.

### Other and Administrative Expense:

- **FY 2021:** 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 expenditure is expected to be \$166 thousand, or \$228 thousand less than estimated in November. This is driven by the cancelation of planned outreach efforts and subsequent reduced mailings and advertising due to Covid-19 social distancing restrictions and staff working staggered remote schedules.
- **FY 2022:** The FY 2022 Administrative expense is estimated to be \$457 thousand, corresponding to our budget request and assuming in person outreach events and historical mailings and advertising resume.

### Claims:

- **FY 2021:** The estimate for claims expense in FY 2021 is \$13.0 million based on current and expected claims.
- **FY 2022:** The estimate of \$13.0 million in claim expense for FY 2022 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 2021:** 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 2021 is estimated to be \$15.6 million versus \$10.3 million estimated at the November 2020 Revenue Estimating Conference. This is the result of higher than expected revenues received in FY 2021.
- **FY 2022:** The transfer to the general fund surplus for FY 2022 is estimated to be \$14.2 million. The estimate is a function of the projected prior year carry forward and the expected 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 2021 the estimated liability holdback is 33.11% and for FY 2022 the estimated liability 32.02%; see Worksheet A). The liability is adjusted through an expense to the program reflecting the change from the previous year's liability.