

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 895 (Senate Finance Committee Substitute) Gift Certificates - Escheat

SHORT TITLE: Gift Certificates - Escheat

SPONSOR(S): Senator Soles

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES					
Escheat Fund	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)
State Education Assistance Authority		(\$30,000)	(\$60,000)	(\$90,000)	(\$120,000)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of State Treasurer – Escheat and Unclaimed Property Program					
EFFECTIVE DATE: The act is effective when it becomes law.					

BILL SUMMARY: The bill subjects gift certificates and electronics gift cards to the unclaimed property laws if unredeemed after three years. The amount to be escheated is 60% of the face value of the gift card or gift certificate. The property is not escheated if it has no expiration date. The bill adds a \$5 administrative fee for each report filed by a business remitting unclaimed gift certificates or gift cards.

BACKGROUND: The Department of State Treasurer defines escheat as “the succession of abandoned property to the state.” The State Treasurer attempts to recover over 100 different types of unclaimed or abandoned property belonging to North Carolina citizens and reunite this property with the rightful owners. In FY 1997-98, the State Treasurer’s Escheat and Unclaimed Property Program received \$35.1 million in funds and securities from state courts, banks, credit unions, insurance companies, public utilities and other businesses. In the same year, the State Treasurer made 6,718 refunds to individuals totaling \$8.6 million. The balance in the Escheat and Unclaimed Property Fund as of June 30, 1998 was \$184.4 million. The interest from this fund is deposited with the North Carolina State Education Assistance Authority (SEAA) to

provide financial assistance to students in state supported schools of higher education. SEAA received \$13.2 million last fiscal year and provided 3,813 low interest loans. In the past 26 years, the Escheat and Unclaimed Property Fund has contributed \$110.5 million in interest to the SEAA.

ASSUMPTIONS AND METHODOLOGY:

The Director of the Escheat and Unclaimed Property Program in the Department of State Treasurer estimates that the Escheat Fund will lose \$500,000 per year in unclaimed assets by eliminating gift certificates or electric gift cards from escheat. The loss of \$500,000 also means a loss of interest transferred each year to the State Educational Assistance Authority.

The \$500,000 annual loss is believed to be a conservative estimate by the Department of State Treasurer. In 1998, the state received \$117,522 from five companies that listed gift certificates as a specific property type. However, this is the exception and not the norm since most gift certificates and gift cards are grouped together with other property types that are reported by businesses. The state collected \$6.9 million in unclaimed property from businesses other than banks, insurance companies, and utilities in 1998. It is unknown what percentage of this amount is from gift certificates.

The Director of the Escheat and Unclaimed Property Program, Terry Allen, believes his program has only begun discovering unclaimed gift certificates, phone cards, and electronic gift cards. Mr. Allen reported that \$10 billion in gift certificates were sold last holiday season and that 5% to 35% of those certificates will not be redeemed. The State Treasurer has 6 auditors and 2 contract audit firms that search for unclaimed property in North Carolina and in other states. A recent multi-state audit of Wal-Mart found \$1 million in unclaimed gift certificates in North Carolina. This \$1 million will be remitted to the state over the next four years unless prohibited by SB 895.

The interest on Escheat Fund investments in future years is calculated at 6% per year. This is the short-term investment rate recommended by the State Treasurer. It is assumed that the interest will accrue the year after the property is escheated. This interest would have been deposited with the State Education Assistance Authority to be used for student loans. The interest lost each year from an annual reduction of \$500,000 in the Escheat Fund is as follows:

	<u>Cumulative</u>	<u>Interest</u>
FY 1999-00	\$500,000	
FY 2000-01	\$1,000,000	\$30,000
FY 2001-02	\$1,500,000	\$60,000
FY 2002-03	\$2,000,000	\$90,000
FY 2003-04	\$2,500,000	\$120,000

Since the State Treasurer does not anticipate any reports filed with unclaimed gift certificates, no revenue is estimated from the \$5 administrative fee.

FISCAL RESEARCH DIVISION 733-4910

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