
State Treasurer's Annual Report to the Legislature

FY 2001



Submitted by
THE HON. TIM SHALLENBURGER
State Treasurer

January 2002



STATE OF KANSAS

Tim Shallenburger

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Dear Members of the Kansas Legislature:

It is my pleasure to present to you this Annual Report of the Kansas State Treasurer's Office for Fiscal Year 2001.

In this Report you will find summaries of the functions of the State Treasurer's Office as well as brief reviews of each division's activities during the last fiscal year. In some cases, updates on activities from the current year are included.

In particular, I would like to draw your attention to the growth of two programs of the State Treasurer's Office. The Kansas Learning Quest Education Savings Program celebrated its first anniversary and more than 14,000 accounts were opened in the first year of operation and of those accounts almost 9,500 have been opened by Kansans. At the end of the first full year of operation, the total assets of the Learning Quest Savings Plan have topped \$60 million.

Activity in the Unclaimed Property Division continues to set new records. More than \$8 million was returned to its rightful owners during Fiscal Year 2001. It marks the second year in a row that our office has doubled the amount of money returned since 1998.

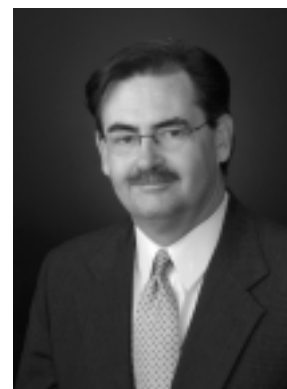
The information you will find in this report reflects the positive impact the Office of the State Treasurer is having on the lives of all Kansans. Our office continues to be one of the most aggressive when it comes to returning unclaimed property and our Learning Quest Education Savings Program has become one of the best in the country.

As you deal with the many problems facing the State of Kansas, and as you explore the opportunities that lie ahead, be assured that you have my best wishes and full cooperation.

Sincerely,

A handwritten signature in blue ink that reads "Tim Shallenburger".

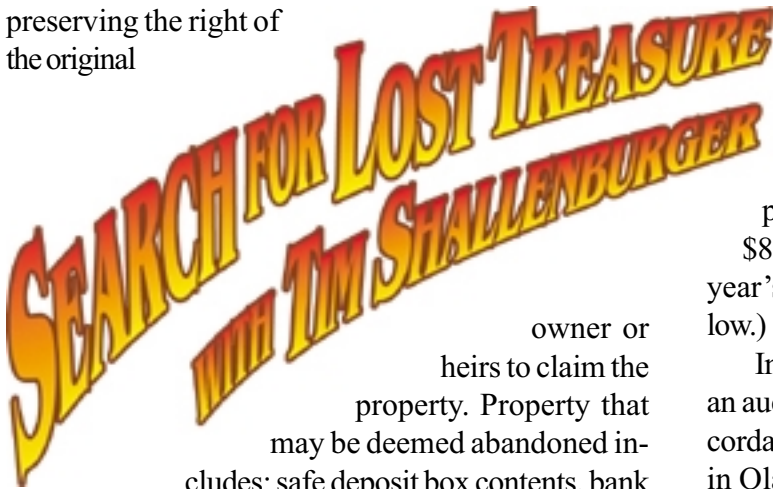
Tim Shallenburger
State Treasurer



Unclaimed Property

Neysa Thomas, Director

The Unclaimed Property program seeks to return unclaimed property to the rightful owners or heirs. After a period of dormancy, the reporting business (“holder”) must remit specified types of abandoned personal property to the State Treasurer, who becomes custodian in perpetuity, preserving the right of the original



owner or heirs to claim the property. Property that may be deemed abandoned includes: safe deposit box contents, bank deposits, shares of stock, dividends, mineral royalties, certified checks, drafts or money orders, unclaimed funds held by insurance companies under life and property and casualty policies, utility deposits, property distributable during the voluntary dissolution of business associations, property held by courts and public officers and agencies, and miscellaneous other intangible property held by one party for another.

All property that meets statutory requirements for presumption of abandonment must be reported and remitted to the State Treasurer. The holder may aggregate property valued below \$100 together. Any person claiming an interest in such property may then file a claim with the State Treasurer. The Unclaimed Property Division reviews all claims for the return of abandoned property received by the State Treasurer for accuracy and completeness.

Unclaimed property information is stored and processed on a personal computer local area network (LAN) system. On-line terminals allow immediate reference to stored information and prompt updating of files. Holders may submit information electronically on diskettes or tapes, as well as written reports which are

keyed into the system by Unclaimed Property staff.

The State Treasurer deposits amounts received from the disposition of unclaimed property into the state general fund. However, the Treasurer maintains a balance in the unclaimed property claims fund, using this balance to pay claims allowed, as well as the unclaimed property expense fund, using this balance to operate the program.

FY 2001 was a very successful year for the Unclaimed Property program. Over \$14 million of unclaimed property was received. Unclaimed property returned to its rightful owners exceeded \$8 million, a 25% increase over the previous fiscal year’s record of just over \$6 million. (See charts below.)

In May 2001 the Unclaimed Property Division held an auction of the contents of safe deposit boxes in accordance with K.S.A. 58-3955. The auction was held in Olathe, Kansas as that city appeared to offer the most favorable market for the items to be sold. The 2001 auction grossed the highest proceeds of any previous auctions. Sale proceeds for the 2001 auction to-

FY 2001 was another record breaking year for the Unclaimed Property program. Nearly \$14 million of unclaimed property was taken in. Unclaimed property returned to its rightful owners exceeded \$8 million, a 25% increase over the previous fiscal year’s record of just over \$6 million.

taled \$56,911.00 as compared to \$32,233.00 for the last auction held in 1996.

These records reflect an increased emphasis on securing unclaimed property from holders and returning that property to its legitimate owners. A new advertising campaign, employing an “Indiana Jones” theme, asked Kansans to “search for lost treasure.” The campaign used cable television ads and movie theater slides. Presentations of large checks to several Kansans and participation in a national website sponsored by the National Association of Unclaimed Property Administrators, along with other news events, generated virtually free publicity for the program and accounted in part for the 889,856 inquiries on the State Treasurer’s Unclaimed Property web page during the fiscal year.



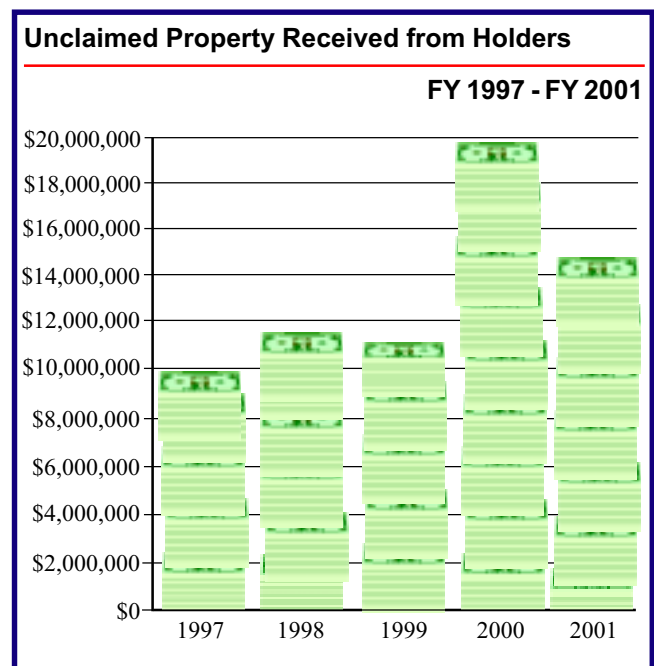
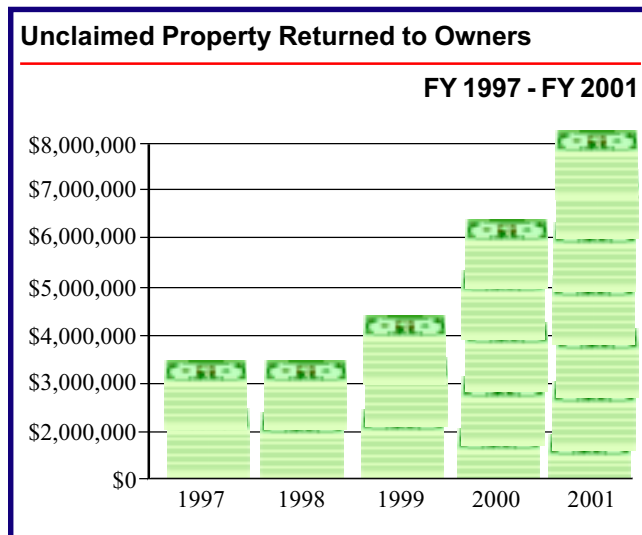
Potential bidders examine items to be auctioned by Kansas State Treasurer Tim Shallenburger at May 2001 event.

A new feature introduced during FY 2001 is the claimant survey. A survey is emailed to every successful Kansas claimant who provides us with an email address. If the claimant does not have an email address a paper survey is mailed to him/her. The claimant survey allows this office to monitor how efficient our claims process is, how helpful our staff members are, and provides the claimants with a means to easily communicate with this office.

The State Treasurer’s Office maintained its usual booth at the Kansas State Fair in September. While attendance at the State Fair was lower than usual, presumably due to the September 11th terrorist attacks, over 16,000 inquiries were made, and 2,396 claim forms were generated for a total amount of \$513,141.00.

Historical Summary of Unclaimed Property Collected and Returned

Fiscal Years 1997 thru 2001



Municipal Bond Services

Carmen J. Klopping, Director

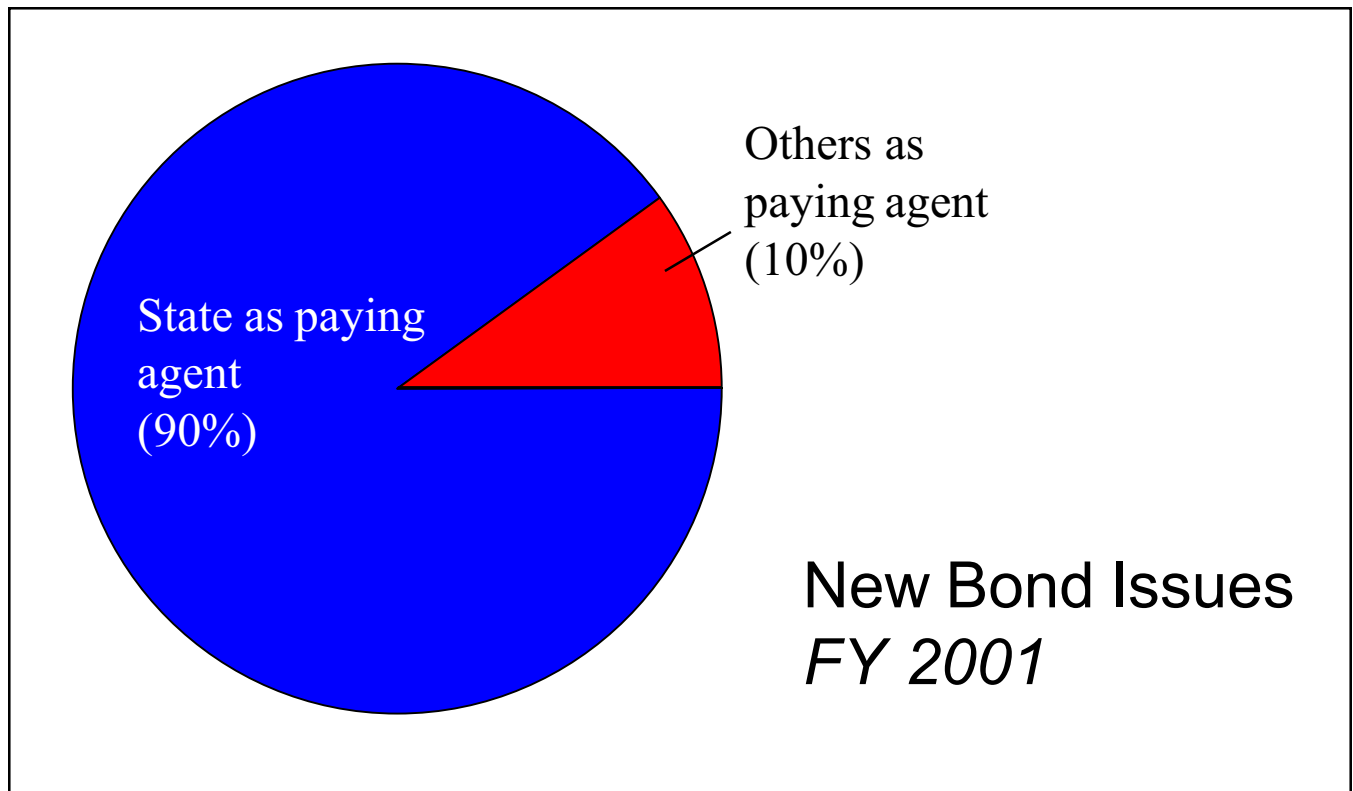
The Municipal Bond Services program is responsible for the registration of all municipal bonds issued in the State. In addition, this program provides registrar and paying agent services for the majority of all local municipal bond issues, as well as state issues. During the years 1992 through 1995, and again in 1999 and 2000, the Agency was selected to service the bonds authorized by the Comprehensive Highway Program of the State of Kansas.

As registrar and transfer agent for approximately 90% of the outstanding municipal bond issues in the State, the State Treasurer maintains records on 30,700 bond holders to permit prompt and accurate processing of transactions, as well as timely payments of principal and interest to owners. In addition to the 2,030 bond issues in registered form, which have been issued since 1983, this program also services 111 bearer-form issues. When the State Treasurer is named the fiscal agent, a fee is charged to the issuing municipality for the services provided. Under current law, KSA 10-506, KSA 10-603 and KSA 10-627, as amended July

1, 2000, amounts are received and deposited in the State Treasury and credited to the Bond Services Fee Fund. Funds are collected from the respective municipalities in advance of maturities to ensure timely payments. Payments for all issues serviced is approximately \$920 million annually.

The State Treasurer is authorized to charge and collect fees for the registration of bonds for which the State Treasurer is not the paying agent. These fees are credited to the Bond Services Fee Fund and are used to support the program.

During Fiscal Year 2001, 267 new issues were recorded and the Treasurer was named paying agent on all but 24 of those bond issues. The total principal amount outstanding on bonds serviced as of June 30, 2001, was in excess of \$7.5 billion. The Bond Department has established a level of performance which compares favorably with that of many other transfer and paying agents. The efficiency of the transfer and paying agent is believed to be an important factor influencing investor willingness to purchase a particular bond is-



sue, and therefore is also believed to affect the rate of interest at which an issue can be sold.

During FY 2001, transfers were timely submitted 99.9% of the time.

Total fees collected in FY 2001 were \$520,684, credited to the Bond Services Fee Fund. Although not

recorded as such, the interest earned on the bond monies between the time of receipt and subsequent payout has a positive impact on funds available for investment and consequently to the State General Fund.

	FY 2001		FY 2000	
	Number	Amount	Number	Amount
BONDS				
New issues				
Total registered	267	\$1,712,041,494	229	\$1,469,093,240
State as paying agent	243	1,316,531,874	208	1,152,094,919
State as paying agent		7,576,670,757		6,734,964,048
Transfers				
Cancelled	3,563	113,292,475	4,163	126,434,500
Issued	3,209	113,292,475	4,345	126,434,500
Calls	124	154,955,566	129	190,742,115
Registration fees collected		11,151		12,089
Standard fees collected		509,533		499,981
TEMPORARY NOTES	178	\$290,299,547	174	\$186,753,637
WARRANTS	33,723	\$907,894,613	41,210	\$944,629,782
RECEIPTS				
Cash & Wire		\$545,448,405		\$514,528,099
Interfund		373,956,328		359,151,065

Cash Management

Carol L. Sprague, Director

The Cash Management program consists of two subprograms: Aid to Local Units of Government and Item Processing. While each of these subprograms serves a different function, they each serve as a receiver and/or disbursing of State monies.

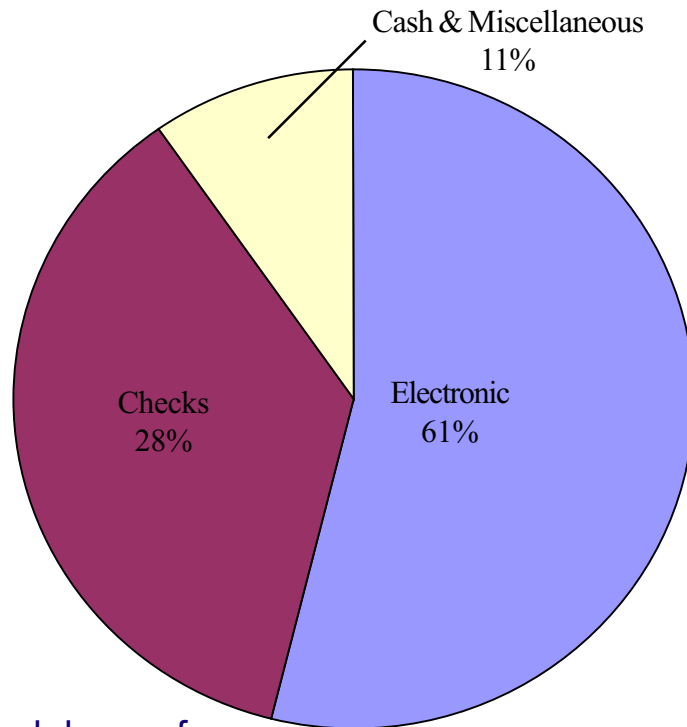
Through the Aid to Local Units of Government Subprogram, the State Treasurer distributes various moneys to city and county governments according to statutory provisions. These include: (1) local ad valorem tax reduction aid, (2) county and city revenue sharing aid, (3) local alcoholic liquor fund, (4) local sales and use tax, (5) special city and county highway fund,

(6) rental motor vehicle excise tax aid, and (7) tax increment financing revenue replacement fund.

The Item Processing Subprogram is responsible for the accurate and timely receipt, recording and depositing of all State moneys and also for the accurate recording of all disbursements made through the warrant writing process. A vital part of the Item Processing Subprogram is to ensure that the money deposited in any Kansas bank is secured, either by FDIC coverage or by proper collateralization. Additionally, this subprogram is responsible for improving the State's cash management practices.

Deposits Received, FY 2001

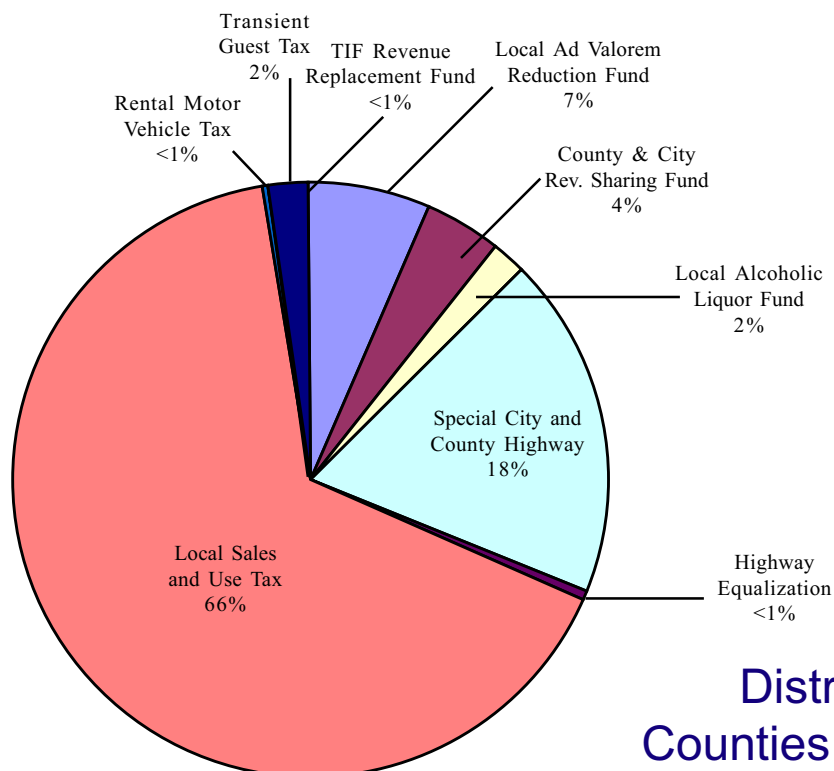
FY 2001	
Checks	\$3,967,909,799
Electronic	8,725,827,904
Cash & Miscellaneous	1,605,072,379
Total	\$14,298,810,082



Breakdown of Deposits Received
FY 2001

Distributions to Counties and Cities, FY 2001 and FY 2000

	<u>FY 2001</u>	<u>FY 2000</u>
Local Ad Valorem Reduction Fund	\$54,137,407	\$57,902,971
County & City Revenue Sharing Fund	34,531,131	36,931,689
Local Alcoholic Liquor Fund	17,009,266	15,808,675
Special City & County Highway	151,703,393	149,793,684
Highway Equalization	2,500,000	2,500,000
Local Sales & Use Tax	542,699,710	513,552,162
Rental Motor Vehicle Tax	2,720,232	2,578,541
TIF Revenue Replacement Fund	840,188	607,405
Transient Guest Tax	17,547,797	16,813,900
Total Distributions	\$823,689,124	\$796,489,027



**Distributions to
Counties and Cities
FY 2001**

Administration

Peggy Hanna, Asst. Treasurer

Agricultural Production Loan Deposit Program

The Kansas Agricultural Production Loan Deposit Program was created by the 2000 Legislature to make production loans available to Kansas individuals, families and farming corporations whose current debt might otherwise make it difficult to find financing. The State Treasurer was given responsibility under the statute for administering this new program.

The purpose is to provide incentives for the making of agricultural production loans by “eligible lending institutions,” defined as banks that are eligible to be depositories of state funds or institutions of the Farm Credit System if they provide securities acceptable to the Pooled Money Investment Board. An “eligible borrower,” under the bill, is any individual, limited liability agricultural company, limited agricultural partnership, or family farm corporation as defined by the Kansas Corporate Farming Law involved in farming.

These are neither state loans, nor loans guaranteed by the state. Rather, the state has offered \$50 million in deposit loans to eligible lending institutions at two percentage points below the market rate. The institution, in turn, may lend the money out for agricultural production loans at no more than two percentage points above the market rate, providing the lender with up to a four-point margin. The law provides for the resetting of the interest rate January 1st and July 1st.

The program requires that the lending institution apply all usual lending standards to determine the credit worthiness of borrowers. Under the provisions of the statute, no single agricultural production loan to any one borrower may exceed \$250,000. Loans are made only to eligible agricultural borrowers who have debt-to-asset ratios of 40 percent or greater, and cannot be amortized for a period of more than eight years. The borrower is required to certify that the reduced rate loan will be used exclusively for operating expenses involved in farming.

The State Treasurer’s Office actively promoted the program – disseminating information and providing loan packages to eligible lending institutions. The institutions

forwarded to the Treasurer an agricultural production loan deposit loan package, which included information regarding the amount of the loan requested by each eligible borrower as well as other information, such as the term of the loan.

The interest in these loans was nothing less than astounding. The new law took effect on July 1 and \$50 million in state funds became available the following Monday, July 3. By the end of that day, more than \$40 million had been claimed by banks and other lending institutions for loans they had arranged. By mid-morning on Wednesday, July 5, all funds in the program were exhausted. Some of these loans were short-term and have already been repaid. As the lending institutions forward repaid principal back to the state, these funds are made available for additional loans.

The 2001 Legislature authorized an additional \$5 million for this program. Those funds were disbursed in total in the early part of FY 2002.

The new law also permits state banks, national banking associations, production credit associations, or agricultural credit associations chartered by the Farm Credit Administration, which extend or renew agricultural production loans to eligible agricultural borrowers to claim a tax credit under certain conditions. In order to obtain the tax credit, the lenders are required to make the agricultural production loans at least one percentage point below the prime interest rate specified by the banks for equally collateralized loans, or in the case of production credit associations, at least one percentage point below the lowest agricultural production loans being made by them. The loans will have to be made between the effective date and July 1, 2004.

The law limits the tax credit by allowing the credit to be based on interest rate reductions on the total principal amount not exceeding 15 percent of agricultural production loans. Likewise, in the case of production credit associations and agricultural credit associations, the base amount will be 15 percent of the agricultural production loans for calendar year 1999 as reported to the Farm Credit Administration. Further, the tax credit on any one agricultural production loan is not to ex-

Selected Statistics of Agricultural Production Loan Deposit Program *FY 2001*

Approved Banks	75
Participating Banks	42
Participating Farm Credit System Offices	6
Loans Funded	521
Outstanding Loan Balances as of 6/30/01	\$49.9 million
Outstanding Loan Balances as of 12/31/01	\$54.4 million
Number of Outstanding Loans as of 6/30/01	445
Number of Outstanding Loans as of 12/31/01	488
Loans paid off during FY 2001	76
\$ Amount of Requests Outstanding as of 6/30/01	\$6.6 million
\$ Amount of Requests Outstanding as of 12/31/01	\$793,000
CD interest rate 7/01/01	2.11%
Max. loan rate 7/01/01	6.11%
CD interest rate 1/01/02	0.34%
Max. loan rate 1/02/02	4.34%

ceed an amount equal to three percent per annum on the unpaid principal balance of the loan.

The law sets the tax credit at the amount by which interest income had been reduced. The tax credit for any taxable year will not be permitted to exceed one-fifth of the total tax credit, with the unused tax credit available to be used in future years as a credit against tax liability. The credit for any tax liability will be used for taxable years commencing after December 31, 1999.

The interest rate reduction provided by the law may be applied only when the eligible borrower can reasonably be expected to service the principal and interest for the term of the loan.

Institutions claiming the tax credit could not use the funds provided as a part of the Kansas Agricultural Production Loan Deposit Program to qualify for the tax credit.

SOKI³

In keeping with the agency mission and philosophy, FY 2001 was another momentous year of building on earlier initiatives as well as developing new methods of positively impacting the citizens of Kansas. The State of Kansas Interactive Internet Interfund System (SOKI³), developed and implemented in FY 1999 as a joint venture between the Treasurer's office and the Department of Administration's Division of Accounts and Reports, was enhanced by the addition of on-line journal entry capability. By June 30, 2001, all state agencies were using the system and in the last month of FY 2001 they entered 1,195 vouchers with more than 13,500 lines of accounting information totaling more than \$325 million, while SOKI interfunts module processed 33,000 vouchers with more than 300,000 accounting entries totaling over \$1.7 billion. Before SOKI³ that type of accounting information would have been entered onto a paper form by the initiating agency and the reciprocating agency, then staff from the Department of Administration would have re-keyed the information into the central accounting system. While it is difficult to measure the hard dollars saved by the presence and use of this system, it is accepted that efficiency and productivity have been increased.

Kansas Postsecondary Education Savings Program

Blanche C. Parks, Director

The Kansas Learning Quest Education Savings Program was created by the 1999 Kansas Legislature to authorize the establishment of savings accounts for higher education. The program permits individuals and organizations to contribute to accounts to pay postsecondary education expenses for individuals they designate or for themselves. As of FY2002, this became a self-funded program.



The State Treasurer administers the program, with American Century Investment Company currently serving as the program manager. In 2001, the program manager received approval to sub-contract with Charles Schwab & Co., Inc. to market the program to Schwab clients.

With the passing of the Tax Relief Reconciliation Act of 2001, the program gained significant tax advantages. Earnings on withdrawals made after December 31, 2001 for qualified expenses are exempt from federal and Kansas income taxes. Previously earnings were taxable at the beneficiary's rate. In addition, Kansas taxpayers may deduct up to \$2,000 (\$4,000 married, filing jointly) in contributions annually for each beneficiary. The contribution limit was raised from \$127,000 to \$235,000 to better reflect the estimated cost of a five-year college education at a Midwest institution of higher learning in the year 2020.

In April 2001, a special assistant was hired to work with the program director on promoting the program throughout the state. Numerous presentations have been given to State agencies, businesses, and civic groups statewide. Currently, over 200 businesses are offering the option to participate in Learning Quest through payroll deduction as a benefit

to their employees.

Several advancements have been made to the learningquestsavings.com website. Learning Quest worked with the Kansas School for the Blind to develop a text only version of the site that is accessible to the visually impaired. The ability to enroll and manage accounts online were also added. Accounts may also be accessed by phone.

Any person (the account owner) may open an account for any other person (the beneficiary). When an account is opened, a beneficiary is named, an investment track is chosen (conservative, moderate, aggressive) and a portfolio is selected based on the time when the money is needed. After the account is opened, the account owner does not have control over the investment strategy, but has the option to change investment portfolios each time a new beneficiary is named, or once a year without changing beneficiaries. The new beneficiary must be an eligible family member of the current beneficiary.



State Treasurer Tim Shallenburger shakes hands with a Learning Quest beneficiary on the first anniversary of the program.

The money in the account can be used to cover qualified education expenses at any accredited public or private college or university in the United States. Also, vocational or technical schools that are eligible to receive federal financial aid.

Education expenses, as defined in section 529 of the federal Internal Revenue Code, includes tuition, fees, books, room and board, supplies and other expenses required for the beneficiary’s field of study. Recently added were special needs expenses for beneficiaries with special needs.

Kansas Learning Quest continues to be a leader in promoting savings for higher education. Kansas has maintained its “5-Cap Rating”—the highest available—on the savingforcollege.com website since its inception. Kiplinger’s Personal Finance named Learning Quest as one of the top four plans in the nation.



State Treasurer Tim Shallenburger at the Kansas School for the Blind during the unveiling of the visually impaired accessible version of the Learning Quest website.

Learning Quest Education Savings Program Statistics for FY 2001

Number of accounts opened	13,533
<i>Number from Kansas</i>	9,159
<i>Number from other states</i>	4,374
Total assets	\$61.1 million
Calls to 800 number	32,469
Hits on Learning Quest website	167,599
Requests for Learning Quest enrollment kits	49,336

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