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# State Treasurer's Annual Report to the Legislature

FY 2003



Submitted by  
THE HON. LYNN JENKINS, CPA  
Kansas State Treasurer

January 2004

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STATE OF KANSAS

## Lynn Jenkins, CPA

TREASURER

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(785)-296-3171

Dear Members of the Kansas Legislature:

It is my pleasure to present to you the 2003 Annual Report for the Kansas State Treasurer's office. 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.

The past year has brought many new and exciting programs for our office. Since our last report we have increased the effort to raise financial literacy awareness for Kansans through a host of activities. Working with the legislature and the State Board of Education, SB 74 was signed into law mandating financial literacy coursework in grades K-12. In addition to this, we conducted four financial planning seminars across the state, work has begun on a youth financial camp and we launched a new children's web page that includes a "homework helper." Last spring, we introduced *MoneyWISE*, a free-electronic newsletter for adults and have begun to communicate with Kansans directly about financial concerns via our monthly news column. On top of this, we have partnered with the Bond Market Foundation to offer a webpage dedicated to the elderly and their financial concerns, our young adults and, for the first time, Spanish-speaking Kansans.

In addition to these new programs we have also expanded many of our existing programs. The Kansas Learning Quest® 529 Education Savings Program celebrated its third anniversary and incurred several major changes. First, we introduced a conservative money market option for investors and then unveiled a multi-manager option through a partnership with American Century Investments and Charles Schwab. In December, we introduced an aggressive 100% equity investment option for more aggressive investors. Since the program launched in 2000 over 55,000 accounts have been opened with assets of nearly \$560 million, of this, Kansans opened 26,134 accounts with assets of nearly \$149 million.

Our office continues to work very hard in the Unclaimed Property division, Bond Services and Cash Management. During a recent unclaimed property event in Wichita we facilitated over 200,000 requests for a potential claim amount in excess of \$1 million. This was a new record for this program, was accomplished in 10 days, at a very low cost, and reinforced our priority to utilize technology to reach the maximum amount of Kansans in the most efficient manner possible.

The information you will find in this report reflects the positive impact that the State Treasurer's office is having on the lives of Kansans. This office continues to be an example for other states when looking to streamline operations while increasing productivity.

It is my honor to serve as State Treasurer for Kansas and I look forward to working with you throughout the coming years.

Sincerely,

A handwritten signature in blue ink that reads "Lynn Jenkins".

Lynn Jenkins, CPA  
Kansas State Treasurer

# Unclaimed Property

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*Peggy Hanna, 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, allowing immediate reference to stored information and prompt updating of files. Holders may file reports on-line or submit information electronically on diskettes or CD-Rom, 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 al-

lowed, as well as the unclaimed property expense fund, using this balance to operate the program.

FY2003 was a very successful year for the Unclaimed Property program. Over \$14.0 million of unclaimed property was received. Unclaimed property returned to its rightful owners exceeded \$8.1 million, another banner year. (See chart.)

We continue to receive positive feedback from claimants via the claimant survey implemented in FY 2001. 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. Over 16,000 inquiries were made, and 2,124 claim forms were generated for a total amount of \$430,119.

Although our Internet site continues to be one of our main outreach tools and generates a great deal of interest and subsequent claims, most of the year the staff spent a good deal of time proactively searching for owners. One staff mem-

**FY 2003 was another banner year for the Unclaimed Property program. Over \$14.0 million of unclaimed property was received. The program returned \$8.1 million to its rightful owners.**

ber was dedicated full-time to this with the rest of the staff searching as time allowed. As new property is reported, a staff member starts searching each name on the Internet. They attempt to make contact with the owner or their heirs and send claims to that person(s). While this may seem like a tedious process, it actually produces a higher percentage of valid claims than some of the more visible outreach efforts.

We began planning and developing a new Internet based tracking system for the Unclaimed Property Division to replace the Windows-based system we are currently using. It is projected this system will be ready for use in FY2005. It will substantially change the way we do business with the companies that report unclaimed property and the citizens who claim their assets. This innovative system will once again set a landmark amongst state unclaimed property programs.

Even though FY 2003 was relatively quiet in terms of this program, FY 2004 has already started to reflect the importance Treasurer Jenkins places on the program. In the first four months of the year, we staffed our booth at the State Fair,

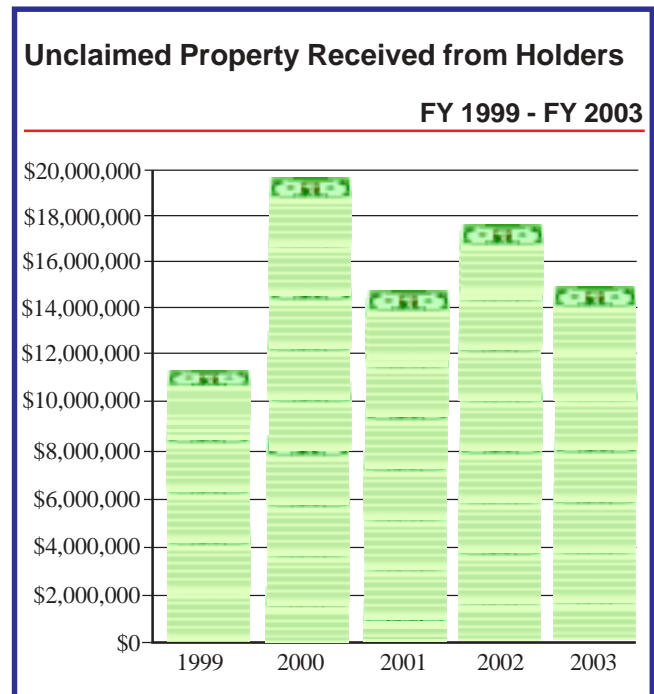
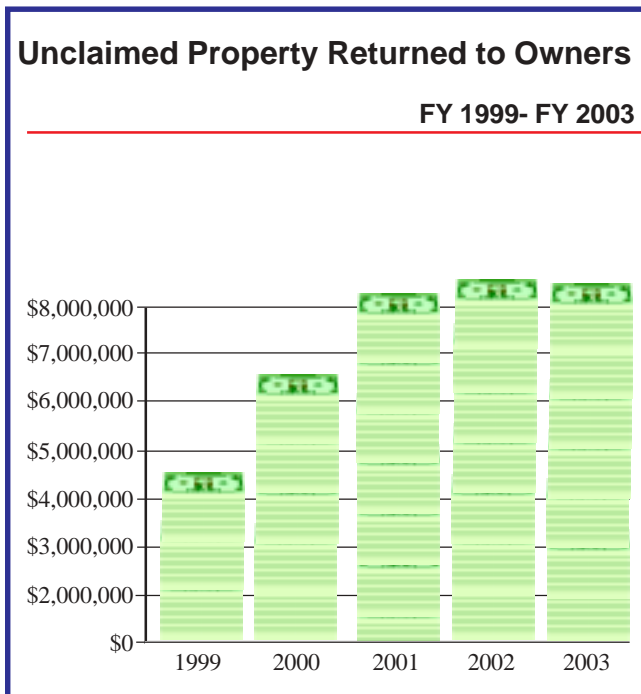
placed advertisements in the weekly and some daily newspapers statewide, Treasurer Jenkins spoke to fraternal organizations and trade associations throughout Kansas and the staff participated in two telethons in November - in Topeka and Wichita. Another is planned for the Kansas City area in February. We are contacting editors for all the newspapers in the state to let them know how they can easily retrieve the listing for any persons who had once lived in their county. We will also be checking current and past elected officials' names for properties as we would like to use them as a resource to find owners of unclaimed property. It will be an exciting year!

**On the Trail of Unclaimed Property**



## Historical Summary of Unclaimed Property Collected and Returned

## Fiscal Years 1999 thru 2003



# Municipal Bond Services

*Carmen J. Klopping, Director*

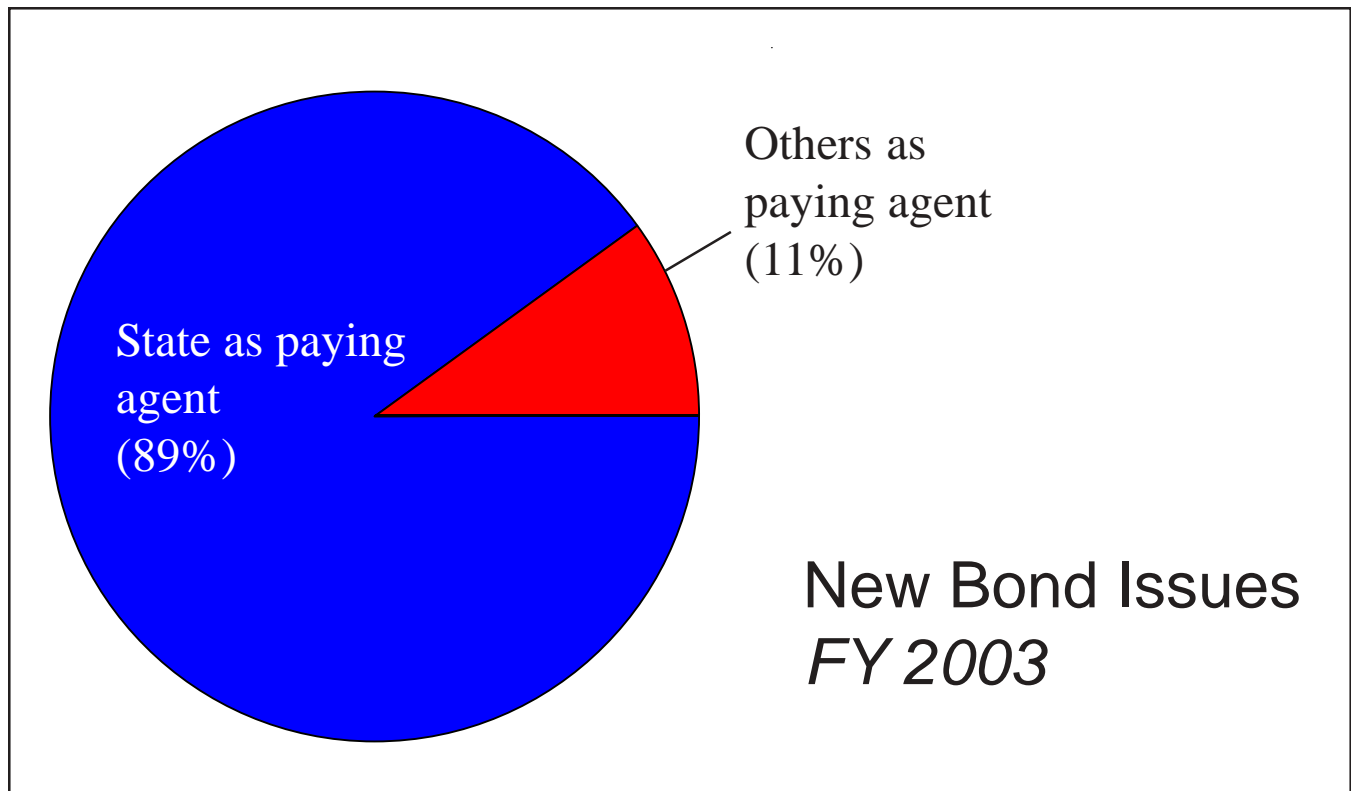
The Municipal Bond Services program is responsible for the registration of all municipal bonds issued in Kansas. In addition, this program provides registrar and paying agent services for the majority of all local municipal bond issues, as well as state issues. During the years 1992 through 1995, and again in 1999, 2000 and 2002, the agency was selected to service the bonds authorized by the Kansas Comprehensive Highway Program.

As registrar and transfer agent for almost 90% of the outstanding municipal bond issues in Kansas, the State Treasurer maintains records on 31,200 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 2,076 bond issues in registered form, which have been issued since 1983, this program also services 47 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 \$1.6 billion 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 the report year, 347 new issues were recorded and the Treasurer was named paying agent on all but 39 of those bond issues. The total principal amount outstanding on bonds serviced as of June 30, 2003, was in excess of \$8.5 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 im-



portant factor influencing investor willingness to purchase a particular bond issue, and therefore is also believed to affect the rate of interest at which an issue can be sold.

During FY 2003, transfers were submitted timely 99.9% of the time. Total fees collected in FY

2003 were \$723,279, 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.

	<b>FY 2003</b>		<b>FY 2002</b>	
	Number	Amount	Number	Amount
<b>BONDS</b>				
New issues				
Total registered	347	\$2,225,747,435	339	\$2,143,058,828
State as paying agent	308	\$1,617,830,435	295	\$1,274,807,928
State as paying agent Transfers		\$8,597,281,560		\$7,907,644,179
Cancelled	1,950	\$39,912,000	2,916	\$82,610,915
Issued	1,533	\$39,912,000	2,705	\$82,610,915
Calls	225	\$735,208,278	182	\$512,049,256
Registration fees collected		\$13,687		\$15,396
Standard fees collected		\$680,813		\$767,427
Commissions		\$28,779		\$28,659
<b>TEMPORARY NOTES</b>	106	\$411,069,008	153	\$393,567,024
<b>WARRANTS</b>	21,844	\$1,332,454,627	28,650	\$1,304,526,852
<b>RECEIPTS</b>				
Cash & Wire		\$759,623,779		\$775,203,243
Interfund		\$832,941,146		\$602,728,361

# 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 agent of State monies.

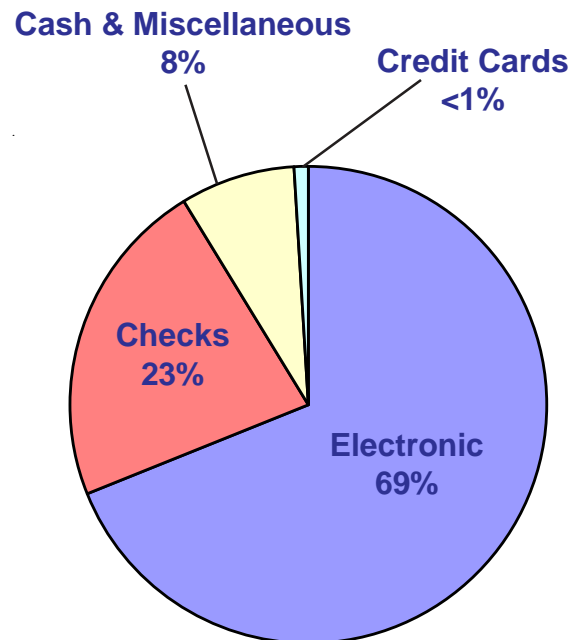
Through the Aid to Local Units of Government Subprogram, the State Treasurer distributes various monies to city and county governments according to statutory provisions. These include: (1) local ad valorem tax reduction aid, (2) county and city revenue sharing aid, (3) local alcoholic liquor fund, (4) special city and county highway fund, (5) local sales and use tax, (6) rental motor vehicle excise tax aid, (7) tax increment financing revenue replacement fund and (8) transient guest tax. Pursuant to

the allotment process, as set forth in KSA 75-3722, available to the Governor, the FY 2003 amount was reduced for the county & city revenue sharing, the local ad valorem tax reduction aid and the special city & county highway fund.

The Item Processing Subprogram is responsible for the accurate and timely receipt, recording and depositing of all State monies 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 2003

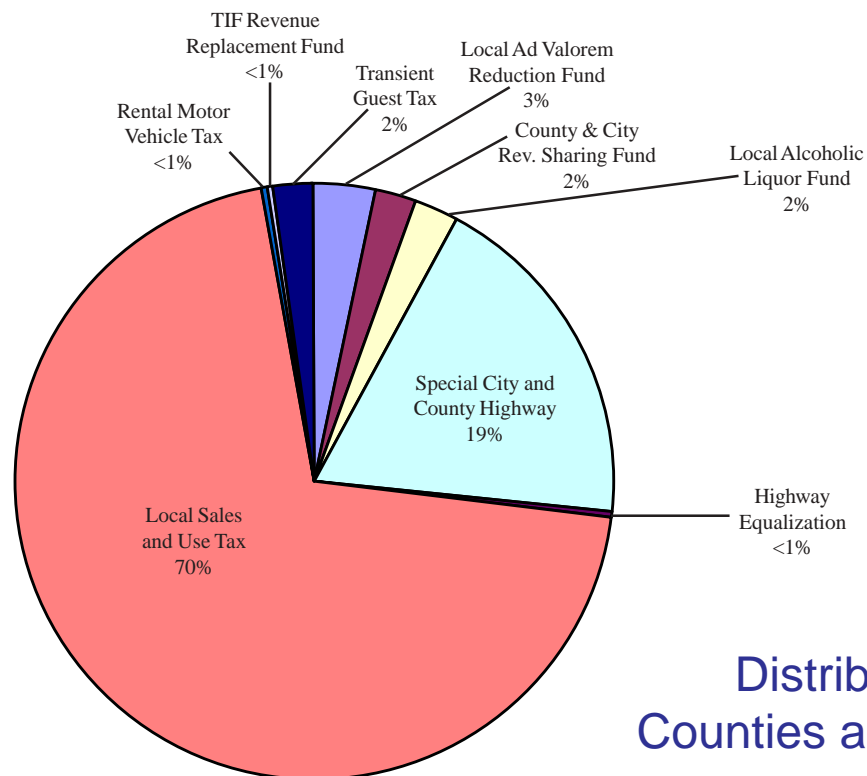
FY 2003	
Checks	\$3,535,295,305
Credit Cards	3,243,709
Electronic	10,733,490,938
Cash & Miscellaneous	1,240,995,122
<b>Total</b>	<b>\$15,513,025,074</b>



## Breakdown of Deposits Received FY 2003

## Distributions to Counties and Cities, FY 2003 and FY 2002

	<u>FY 2003</u>	<u>FY 2002</u>
Local Ad Valorem Reduction Fund	\$26,246,722	\$54,680,691
County & City Revenue Sharing Fund	16,740,644	34,876,349
Local Alcoholic Liquor Fund	18,980,551	18,300,795
Special City & County Highway	147,209,693	150,424,132
Highway Equalization	2,500,000	2,500,000
Local Sales & Use Tax	547,985,063	549,594,363
Rental Motor Vehicle Tax	2,741,485	2,973,813
TIF Revenue Replacement Fund	1,084,204	983,836
Transient Guest Tax	18,368,890	18,365,592
<b>Total Distributions</b>	<b>\$781,857,252</b>	<b>\$832,699,571</b>



**Distributions to  
Counties and Cities  
FY 2003**

# Administration

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*Peggy Hanna, Deputy 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 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. The 2001 Legislature authorized an additional \$5.0 million for the program.

These are neither state loans, nor loans guaranteed by the state. Rather, the state has offered \$55 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. The law provides for the resetting of the interest rate every January 1st and July 1st.

During the 2003 legislative session, the statute regulating the interest rate, financial institutions could charge on the loans to borrowers was changed. Previously, the rate was based on a two percent margin over the investment rate calculated each day by Pooled Money Investment Board. The change allows for a four percent margin over the interest rate on the certificates of deposit. The original intent of the law was to allow lenders a four percent margin, but when the investment rate fell below 2% making the CD rate 0%, their margin fell below four percent.

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 % 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 promotes the program by 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. The additional \$5.0 million was delivered promptly after the beginning of FY 2002. 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.

## **Agency Funding Mechanism**

The State of Kansas faced many difficult budget decisions during the past year. As budget shortfalls continued to loom, the Governor and the Legislature scrambled to meet the needs of Kansans. In previous years, the Treasurer’s budget had been partially funded with tax dollars. However, the 2003 session ended with the Treasurer’s office becoming completely fee-funded. Learning Quest, Unclaimed

Property and the Bond Services divisions had always been fee-funded but a change in the law required cash management fees to be assessed to cover the operating budgets of Cash Management and Administration divisions.

The fees being charged are: 1) a pass-through of the bank service fees charged by the contractor banks; 2) a per line item transaction fee on all SOKI<sup>3</sup> accounting entries; and 3) a per item transaction fee on all non-payroll warrants—paper and electronic. A number of agencies are fee funded and some are able to bring

in federal funds to help offset their new costs.

Between mid-April when the legislation passed and the implementation date of July 1, 2003, the Treasurer’s office was able to develop, build and implement a new module into the SOKI<sup>3</sup> system to accommodate the billings to the agencies. Existing staff members have absorbed the work load required to accomplish the monthly billings. Overall the process has worked well.

Since this funding mechanism was set by proviso in the omnibus bill, the agency will ask for permanent authorizing legislation during the 2004 Legislative session.

### SOKI<sup>3</sup>

The State of Kansas Interactive Internet Interfunds System (SOKI<sup>3</sup>), 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 to include the billing module. The module is used to collect and track activity throughout the month, then once a month an electronic billing is created.

Various activity types were identified based on activities transacted at the bank plus SOKI<sup>3</sup> activity types and warrants issued types. Transaction counts for the activity types are accumulated through computer-generated files and through manual tracking by Treasurer’s staff. When the service fee statement is received from the bank, those amounts are entered into the billing system. The SOKI<sup>3</sup> charges are prorated against a base monthly amount of \$15,000. The warrants issued charges are prorated against a base monthly amount of \$81,600. The amounts for the last two fee types are set by proviso in the omnibus bill for FY 2004. They may be adjusted in FY 2005.

When the amounts are entered into the billing system, the system calculates the individual agency billings, creates an interfund voucher (IFV) for each agency and emails the contact person in each agency notifying them of the billing. The agency can then view the IFV. For the most part, this detail information is sufficient to explain the billing. If the person needs assistance, the IFV contains the email address and the telephone number for the contact person at the Treasurer’s office.

<b>Selected Statistics of Agricultural Production Loan Deposit Program FY 2003</b>		
Approved Banks		77
Participating Banks		45
Participating Farm Credit System Offices		6
Loans Funded in FY 2003		75
Borrowers Assisted Life of Program		635
Outstanding Loan Balances as of 6/30/03	\$54.8 million	
Total Loan Funded Life of Program	\$956 million	
Number of Outstanding Loans as of 6/30/03		468
Loans Paid Off During FY 2003		92
\$ Amount of Requests Outstanding as of 6/30/03	\$2.5 million	
CD interest rate 7/01/03		0.00%
Max. loan rate 7/01/03		4.00%

# Kansas Postsecondary Education Savings Program

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*Melissa Hunsicker Walburn, Director*

The Kansas Learning Quest® Education Savings Program (Learning Quest) was created by the 1999 Kansas Legislature, in accordance with Section 529 of the Internal Revenue Service Code, to authorize investment savings accounts for higher education. The State Treasurer administers the program, and American Century® Investment Company, Inc. currently serves as the program manager.



The program, officially opened on July 1, 2000, provides individuals and organizations a tax-deferred option to save money for future higher education expenses. The program has been self-funded since FY 2002.

According to provisions of the Learning Quest program, individuals or organizations as account owners may fund an account for a beneficiary designated when the account is opened. The account owner initially selects a portfolio based on individual needs and risk tolerance. The program manager, American Century Investment Company, Inc., determines investment strategy for the model portfolios for the investment type chosen, but the account owner has the option pursuant to federal law to change investment portfolios once a year or each time a new beneficiary is named. Beneficiary designation can occur at any time, as long as a new beneficiary is an eligible family member of the current beneficiary according to the definition of “family” as determined by the Internal Revenue Service.

The money in the account can be used for qualified educational expenses as defined by Section 529 of the Internal Revenue Service Code. Currently, the definition includes tuition, fees, books, room and board, supplies and other expenses required for the beneficiary’s field of study, as well as special needs expenses associated with beneficiaries having special needs.

In 2001, the program gained significant tax advantages. Previously, earnings at the time of withdrawal for a qualified education expense were taxed at the beneficiary’s rate. With the passing of the Tax Relief Reconciliation Act of 2001 earnings on withdrawals for qualified education expenses made after December 31, 2001 and before December 31, 2010 are exempt from federal and Kansas income taxes. The tax-free treatment of qualified withdrawals may be extended beyond 2010 with Congressional authorization. Another favorable tax benefit allows Kansas taxpayers to annually deduct contributions for up to \$2,000 for an individual filer, \$4,000 for married couples, filing jointly for each beneficiary.

In 2002, the program experienced additional developments including the launch of Learning Quest Advisor (LQA), a product offered only through financial advisors. The LQA product offering expands the distribution of Learning Quest through diversified marketing. Also significant, the contribution limit was raised from \$127,000 to \$235,000 to align more closely with estimated cost associated with a five-year college education at a Midwest institution of higher learning in 2020, and the annual \$10 administrative fee charged to Kansans was eliminated.

At the program’s inception, investors could choose from “target year” portfolios based on risk tolerance (conservative, moderate, or aggressive) and the target year in which account monies would be used. While that investment track and the multiple options it provides continue to be attractive for many investors, the program continued to deliver even more options to Kansas families saving for college with the addition of two static investment choices in 2003. In September, the Treasurer announced the addition of the Learning Quest Money Market portfolio, which contains high-quality, short-term securities of banks, governments and corporations. Dividends accrue daily, and are reinvested into the account each month. The money market portfolio option addresses the interests of

conservative investors seeking an investment option offering capital preservation and liquidity.

In December, to address the needs of investors seeking more aggressive investment options, the State Treasurer announced the launch of the 100% equity portfolio. The most aggressive investment option offered by the program, the 100% equity portfolio invests exclusively in equity funds and seeks to provide long-term capital growth, but does not annually rebalance like the target-year portfolios.

This year, the State Treasurer implemented a multiple manager option for investors, the Schwab 529 College Savings Plan. Offering the same state and federal tax benefits and incentives, the Schwab 529 College Savings Plan utilizes multiple investment managers and offers investors six static investment options, as well as four age-based portfolios.

Marketing and promotion of Learning Quest has been ongoing throughout the year. In addition to statewide radio and newspaper advertisements, the Governor proclaimed September as College Savings Month, which brought additional attention to the program. Learning Quest continues to sponsor the Kansas Youth Soccer Association and its 11-12 activities. In the fall, Learning Quest sponsored an essay contest open to all 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> graders in the state. In response to the topic *“Why is college important and how will I prepare for it,”* over 500 students from 40 schools submitted essay entries, with one winner chosen from each grade level.

Most recently, Learning Quest sponsored a sweepstakes to give away a \$10,000 college savings investment account. The sweepstakes generated thousands of marketable contacts for the program. Learning Quest continued to be a participant at the Kansas State Fair and participates in many outreach endeavors such as human resource benefits fairs, professional expositions, financial literacy events, and provides support for organizations requesting individual Learning Quest presentations.



At an all-school assembly held at West Bourbon County Elementary School in Uniontown, Treasurer Jenkins presents Abbie Smith with her award for the writing the essay that won the sixth grade division of the Learning Quest Essay Contest.

## Learning Quest Education Savings Program Statistics for FY 2003

<b>Number of accounts opened</b>	<b>50,305</b>
<b>Number from Kansas</b>	<b>23,449</b>
<b>Number from other states</b>	<b>26,856</b>
<b><i>Total assets as of 6/30/03</i></b>	<b><i>\$453,508,101</i></b>

# Office of the State Treasurer

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