

Kansas State Treasurer's Annual Report to the Kansas Legislature Fiscal Year 2004

Submitted by

**The Honorable Lynn Jenkins, CPA
Kansas State Treasurer**



*To participate in the management of public funds to ensure
safe & sound financial practices that benefit the people of Kansas.
Through efficient & effective use of public & private resources, we will partner
with Kansas citizens in the pursuit of their financial security.*

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Kansas State Treasurer's Office

Dear Members of the Kansas Legislature:

It is my pleasure to present to you the 2004 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 to our office. We continue to give special attention to financial literacy awareness for Kansans through a host of activities. Kansans may choose from a number of educational opportunities. Many are free of charge, including financial planning seminars, monthly newspaper articles, and online resources such as the Kids Zone website. Two of the most exciting activities have been the Save@School and MoneySmart Financial Management Camp programs. Both encourage goal setting and financial responsibility for Kansas children.



*Kansas State Treasurer
Lynn Jenkins, CPA*

The Kansas Learning Quest[®] 529 Education Savings Program launched several initiatives to improve and expand the program, while responding to the demands and interests of Kansans. A few highlights include the legislature increasing the tax-deductible amounts beginning January 1, 2005, the creation of the Treasurer's Advisory Committee (TAC) to offer guidance and advice on Kansas 529 matters, and the addition of several new low-cost investment funds beginning in the first quarter of 2005.

Our Unclaimed Property staff continues to proactively search for Kansas property owners to return their property to them. Our outreach efforts include traveling to Hutchinson at the Kansas State Fair, speaking to civic and professional organizations, and being featured on Wichita, Kansas City and Topeka television stations for Unclaimed Property telethons. We also contact newspaper editors across the state to make them aware that they can easily find the listings of any persons who had once lived in their area and may have cash or property in their name. By utilizing the www.kansascash.com website and face-to-face interactions, the outreach has been beneficial. Over \$7.2 million in money and stock was returned to its rightful owners during Fiscal Year 2004.

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

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 appropriateness.



During a televised Unclaimed Property Telethon at the WIBW TV-13 studio in Topeka, Treasurer Jenkins and staff received calls for five hours from Northeast Kansas citizens. Kansans found nearly \$500,000 by calling or visiting www.kansascash.com. Similar televised events were held in Wichita and Kansas City.

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The great thing about Kansas is that they don't charge you a dime to get your money.

RH, Wakefield

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

FY 2004 was still very successful year for the Unclaimed Property program. Over \$16.0 million of unclaimed property was receipted. Unclaimed property returned to its rightful owners exceeded \$7.2 million in money and stock, another banner year. (See chart.)

We continue to receive positive feedback from claimants via the claimant survey implemented in FY 2001. A survey is e-mailed to every successful Kansas claimant who provides us with an e-mail address. If the claimant does not have an e-mail 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 12,600 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 member 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.

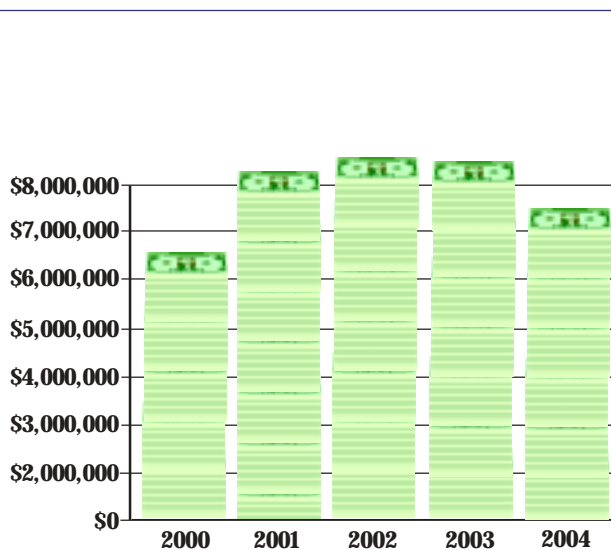
We began planning and developing a new Internet based tracking system for the Unclaimed Property division to replace the Windows-based system we are currently using. It is projected this system will be ready for use in FY 2005. It will substantially change the way we do business with the companies that report unclaimed property and the citizens who claim their assets. This innovative system will once again set a landmark amongst state unclaimed property programs.

FY 2004 reflects 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 was held jointly with the state of Missouri for the Kansas City area in February. We contacted 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 also checked current and past elected officials' names for properties. We would also like to use them as a resource to find owners of unclaimed property. It was an exciting year!

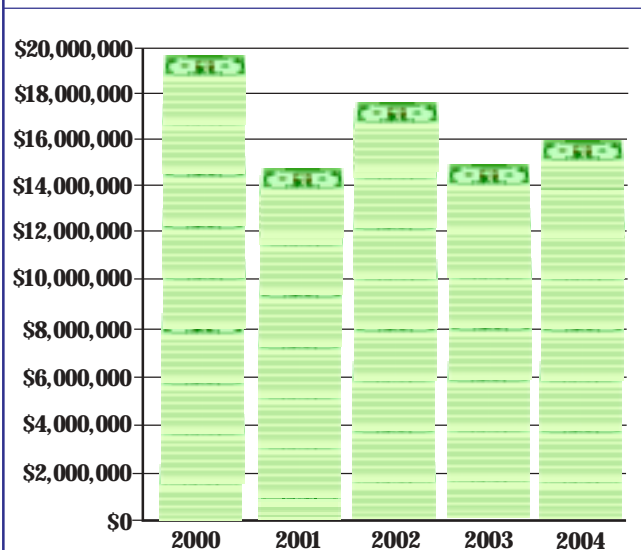
*Submitted by Peggy Hanna,
Director of Unclaimed Property*

Historical Summary of Unclaimed Property Collected & Returned Fiscal Years 2000 through 2004

Unclaimed Property Returned to Owners
FY 2000 - FY 2004



Unclaimed Property Received from Holders
FY 2000 - FY 2004



Municipal Bond Services

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 1999 through 2004, the agency was selected to service the bonds authorized by 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 31,300 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 2,128 bond issues in registered form, which have been issued since 1983, this program also services 26 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, K.S.A. 10-506, K.S.A. 10-603 and K.S.A. 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 \$1.4 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 which is used to support the program.

During the report year, 293 new issues were recorded and the Treasurer was named paying agent on all but 35 of those bond issues. On January 1, 2004 the Treasurer began servicing 57 city of Wichita outstanding bond issues. The total principal amount outstanding on bonds serviced as of June 30, 2004, was in excess of \$10.3 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 issue, and therefore is also believed to affect the rate of interest at which an issue can be sold.

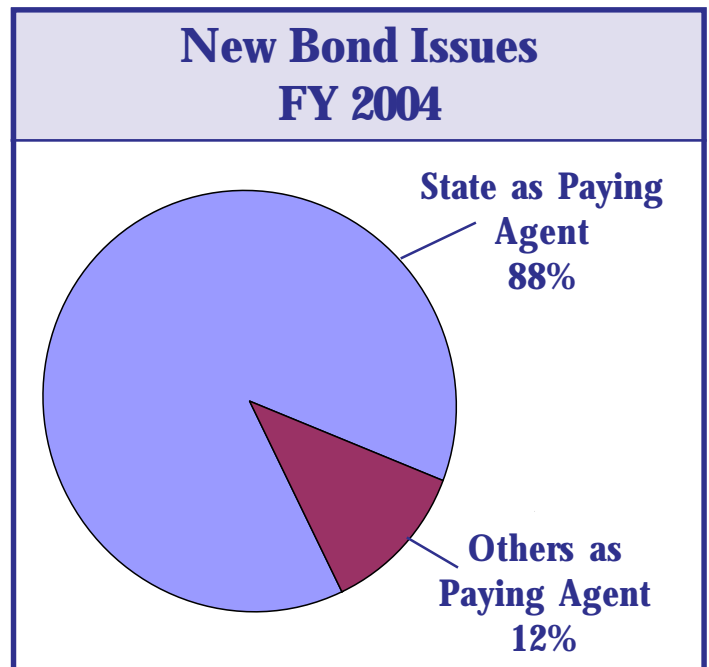
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It has been such a pleasant experience having the State Treasurer’s office as the paying agent. The transition to your office was flawless. Every problem that surfaced was worked through with precision and every foreseeable issue was dealt with accordingly.

**Kristi, Department of Finance,
City of Wichita**

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During FY 2004, transfers were submitted timely 99.9% of the time. Total fees collected in FY 2004 were \$715,266, 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.

*Submitted by Carmen J Klopping,
Director of Municipal Bond Services*



Municipal Bond Services cont...

Municipal Bonds Activities FY 2004 & 2003				
	FY 2004		FY 2003	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BONDS				
New Issues				
Total Registered	293	\$ 2,756,039,686	347	\$2,225,747,435
State as Paying Agent	258	\$ 2,307,440,723	308	\$1,617,830,435
State as Paying Agent	2,154	\$10,328,340,390		\$8,597,281,560
Transfers				
Cancelled	3,901	\$ 130,675,261	1,950	\$ 39,912,000
Issued	1,463	\$ 130,675,261	1,533	\$ 39,912,000
Calls	255	\$ 517,622,238	225	\$ 735,208,278
Registration Fees Collected		\$ 11,041		\$ 13,687
Standard Fees Collected		\$ 676,005		\$ 680,813
Commissions		\$ 28,220		\$ 28,779
TEMPORARY NOTES				
Total Registered	126	\$ 493,446,273	146	\$ 479,991,058
State as Paying Agent	51	\$ 95,504,200	40	\$ 68,922,050
PAYMENTS				
		\$ 1,418,069,574		\$1,580,456,191
RECEIPTS				
Cash & Wire		\$ 878,537,416		\$ 759,623,779
Interfund		\$ 541,494,309		\$ 832,941,146

Cash Management

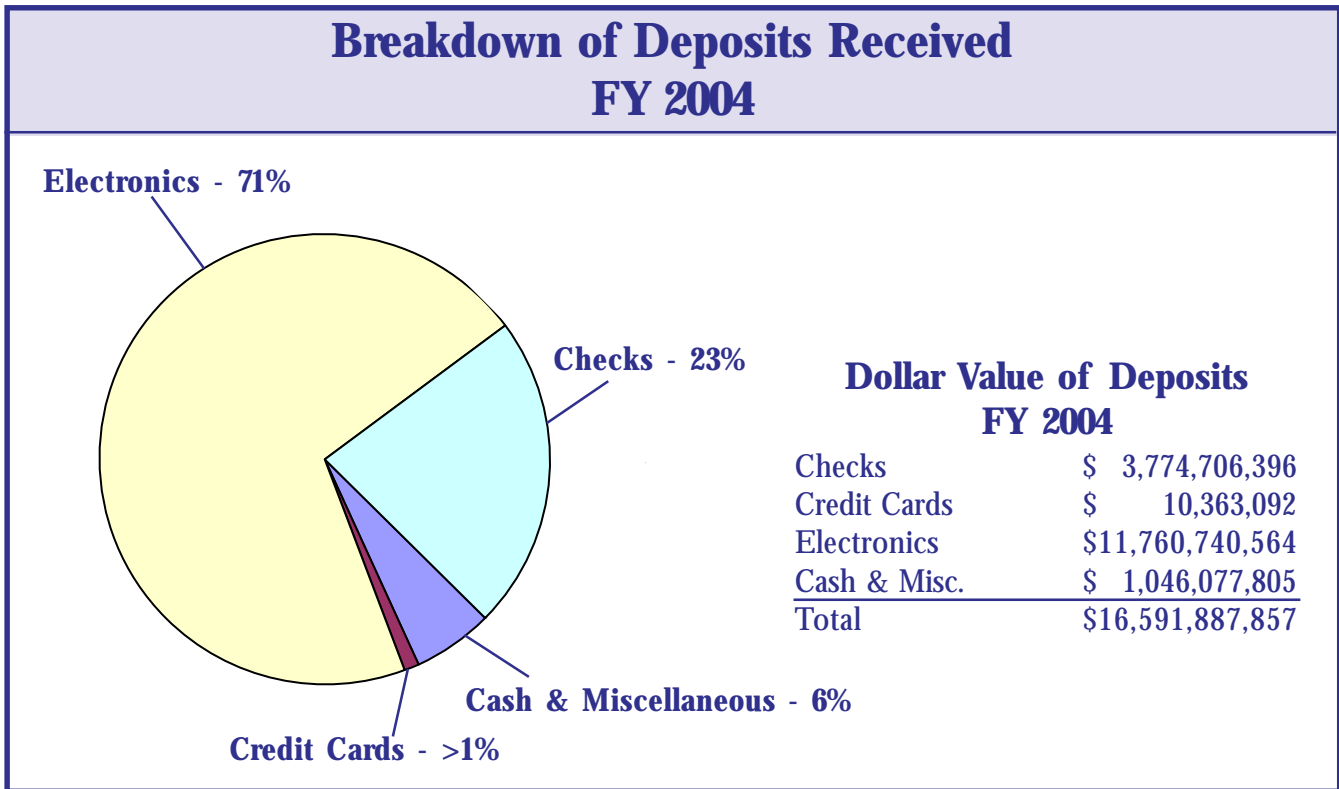
The Cash Management program consists of two subprograms: Aid to Local Units of Government and Item Processing. While each of these subprograms serves a different function, they each serve as a receiver and/or disbursing agent of state monies.

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. The Omnibus Bill in 2003 suspended the FY 2004 distributions for the county and city revenue sharing and the local and valorem tax reduction aid.

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.

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We have had a common goal of distributing local taxes back to cities and counties in an accurate and timely manner. Together we have implemented policies that enabled us to meet that goal.
Steven, Kansas Dept. of Revenue
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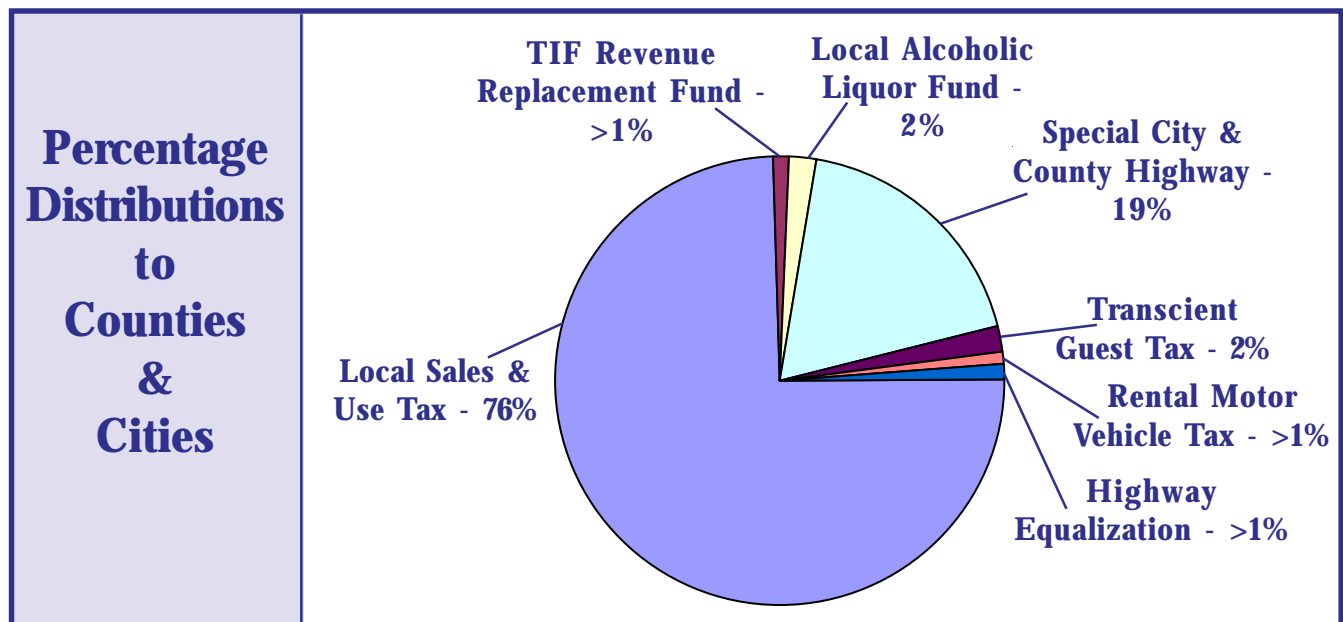
*Submitted by Lucinda Anstaett,
 Director of Cash Management*



Cash Management cont...

**Distributions to Counties & Cities
FY 2003 & 2004**

	FY 2004	FY 2003
Local Ad Valorem Reduction Fund	\$ 0	\$ 26,246,722
County & City Revenue Sharing Fund	\$ 0	\$ 16,740,644
Local Alcoholic Liquor Fund	\$ 19,907,450	\$ 18,980,551
Special City & County Highway	\$151,966,342	\$147,209,693
Highway Equalization	\$ 2,500,000	\$ 2,500,000
Local Sales & Use Tax	\$611,305,312	\$547,985,063
Rental Motor Vehicle Tax	\$ 2,703,409	\$ 2,741,485
TIF Revenue Replacement Fund	\$ 1,053,173	\$ 1,084,204
Transient Guest Tax	\$ 19,962,831	\$ 18,368,890
Total	\$809,398,517	\$781,857,252



Kansas Post-Secondary Education Savings Program

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. At the request of the legislature, a task force was created to develop more program specific statutes to actually create and govern a 529 program in Kansas. The legislation, created by the task force, passed the legislature and Learning Quest was created. With legislative authority and statutory guidelines in place, the State Treasurer's office developed and executed a request for proposal to contract with an investment firm to manage investments, marketing, customer service, and account maintenance aspects of program management. Complying with statutorily governed Kansas bid law, American Century Investments was awarded the contract by the task force to manage the program administered by the Kansas State Treasurer. The contract providing for American Century Investments' management of Learning Quest expires in 2006.

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 at the time the account is opened. The account owner selects an investment option suitable for their individual investment preferences and goals for the future. The program manager, American Century Investments, determines investment strategy for the program's investment options, but the account owner has the ability pursuant to federal law to change



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Learning Quest is a great program. With the increasing costs of attending college, my husband and I knew that a college savings program like Learning Quest would be of tremendous value as we save for our two children's future college expenses. We also enjoy the benefit of the tax break. I am thankful to the State of Kansas for offering such a program.

Leslie H., Topeka

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, post secondary educational expenses as defined by Section 529 of the Internal Revenue Service Code. Currently, the definition of “qualified expenses” 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.

Beginning in 2001 upon the passage of the Tax Relief Reconciliation Act of 2001, earnings on withdrawals for qualified education expenses made after December 31, 2001 and before January 1, 2011 are exempt from federal and Kansas income taxes. Possible repeal of the 2010 sunset provision to make the exemption permanent is under consideration by Congress at this time.

Besides the benefit of tax savings at the time of withdrawal, Kansas residents have an additional incentive to make saving for college expenses a priority. Kansas residents may annually deduct

contributions per beneficiary up to \$2,000 for an individual filer, \$4,000 for married couples filing jointly. Treasurer Jenkins and the Kansas Legislature successfully raised those deduction maximums to \$3,000 and \$6,000 beginning January 1, 2005.

In 2003, Treasurer Jenkins launched several initiatives to improve and expand the program, while responding to the demands and interests of Kansans. 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. In 2003, the Treasurer announced the addition of the Learning Quest Money Market portfolio (containing high-quality, short-term securities of banks, governments and corporations); and the 100% Equity Portfolio (investing exclusively in equity funds and seeking long-term capital growth). The Treasurer also launched a two-fold successful initiative in partnering with Charles Schwab. Schwab distributes and markets Learning Quest, and additionally provides the Schwab 529 College Savings Plan, a multiple manager structure product, to Kansans.

In addition to the legislative enhancement increasing the tax deductible amounts for 2005, FY 2004 has brought change of its own. This year the Treasurer created an additional level of oversight for the Kansas 529 program by assembling the Treasurer's Advisory Committee (TAC) to offer guidance and advice on Kansas 529 matters. An ad hoc committee, TAC evaluates timely issues relating to the administration of the 529 program and makes recommendations to the Treasurer accordingly. TAC is a non-partisan committee comprised of seven members of various backgrounds and is staffed by the

Treasurer, Assistant State Treasurer, Deputy Assistant Treasurer, Learning Quest Director, and legal counsel. Service on TAC is entirely voluntary and uncompensated.

The Treasurer has also contracted with an independent auditing/consulting firm to provide oversight and independent evaluation of the investment options provided in the Kansas 529 program.

Besides administrative enhancements, the Treasurer is pleased to announce that beginning first quarter, 2005, the Kansas plan will offer new investment choices in addition to the current line-up. For investors seeking low cost, index-style investment options in addition to the array of other choices offered by the program previously discussed, the new investments are a probable investment choice.

Marketing and promotion of Learning Quest has been ongoing throughout the year as well. In addition to statewide radio and newspaper advertisements, Learning Quest is advertising on television statewide. Learning Quest continues to sponsor the Kansas Youth Soccer Association and its activities. In the fall, Learning Quest sponsored an essay contest open to all 7th and 8th graders in the state, and has continued to offer sweepstakes giveaways throughout the year to promote awareness of Learning Quest. In addition to being actively promoted by Treasurer Jenkins in speaking engagements and presentations throughout the year, Learning Quest participates in many outreach endeavors such as human resource benefits fairs, professional expositions, and financial literacy events.

*Submitted by: Melissa Hunsicker Walburn,
Director of Learning Quest*

Learning Quest Education Savings Program Statistics FY 2004	
Number of Accounts Opened by Kansans	29,752
From Other States	36,101
Total Number of Accounts opened	65,853
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Total assets as of 6/30/04	\$760,992,240

Administration

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 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 four percentage points above the certificate of deposit 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

“*This is an important topic most people neglect/ignore/downplay because they live in the moment. I would like others to understand more about their financial future.*”

**Financial Planning Seminar Attendee,
Wichita**

\$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 promotes the program by disseminating information and providing loan packages to eligible lending institutions. The institutions forward to the Treasurer an agricultural production loan deposit loan package, which includes information regarding the amount of the loan requested by each eligible borrower as well as other information, such as the term of the loan.

Initially, 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 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 continued to face 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 division had always been fee-funded but a change in the law required cash management fees to be assessed to state agencies 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 SOKI³ 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 SOKI³ 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 again ask for permanent authorizing legislation during the 2005 Legislative session.

Financial Literacy

Various financial literacy programs and educational opportunities to benefit Kansans of all ages have been developed during the past year. It is the belief of the current administration that we must provide Kansans with the tools necessary to be successful and to ensure a financially secure future. As a result, a number of unique educational tools have been developed and made available to Kansans. From financial planning seminars and monthly newspaper articles, to online resources such as the Kids Zone website, Kansans may choose from a number of programs offered through the Kansas State Treasurer's Office, many of which are free of charge. The two most popular activities have been the Save@School and Money\$mart Financial Management Camp programs. Both encourage goal setting and financial responsibility for the young people of Kansas.

Donations from concerned citizens and businesses that believe it is crucial that we teach all Kansans, especially our young citizens, that they are primarily responsible for their financial future have funded the financial literacy efforts.

*Submitted By Peggy Hanna,
Deputy Assistant Treasurer*

Selected Statistics of the Agricultural Production Loan Deposit Program FY 2004			
Approved Banks	77	Total Loan Funded Life of Program	\$110.3 million
Participating Banks	46	Number of Outstanding Loans as of 6/30/04	478
Participating Farm Credit System Offices	6	Loans Paid off During FY 2004	94
Loans Funded in FY 2004	104	Dollar Amount of Requests Outstanding as of 6/30/04	\$1.5 million
Borrowers Assisted Life of Program	699	CD Interest Rate 7/01/04	0.32%
Outstanding Loan Balances as of 6/30/04	\$54.8 million	Maximum loan rate 7/01/04	4.32%