



2017

ANNUAL REPORT

to the

KANSAS LEGISLATURE

Submitted by the Honorable Kansas State Treasurer Jake LaTurner
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Dear Governor Colyer, members of the Kansas Legislature, and fellow Kansans,

I'm honored to present you with the 2017 Annual Report for the Kansas State Treasurer's Office. During my time as State Treasurer, the office has seen many accomplishments. The staff works hard daily to help Kansans save for their future. In this report you will find summaries of the functions of our office and a brief review of each department's activities during the 2017 fiscal year.

Through our in-house developed website, paired with supplying lists to legislators and promoting at the state fair and other media outlets, our Unclaimed Property Division is returning millions of dollars to Kansans every month. We have continued to see growth in the Learning Quest 529 Education Savings Program and our brand new ABLE Program. With the start of the New Year, we look forward to continuing to encourage more families to open 529 education and ABLE savings accounts.

The information in this report highlights the important services the State Treasurer's Office is providing to the people of Kansas. I am very pleased with the progress that we have made in 2017 and look forward to sharing with you our 2017 Annual Report for the Kansas State Treasurer's Office.

Respectfully submitted,

Jake LaTurner

Jake LaTurner

Kansas State Treasurer

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The Kansas Education Savings Program

This savings program includes three plans under section 529 of the I.R.S. Code: Learning Quest, Learning Quest Advisor, and the Schwab 529. Our contract for the program with American Century Investments, Inc., currently runs through June 30, 2018.

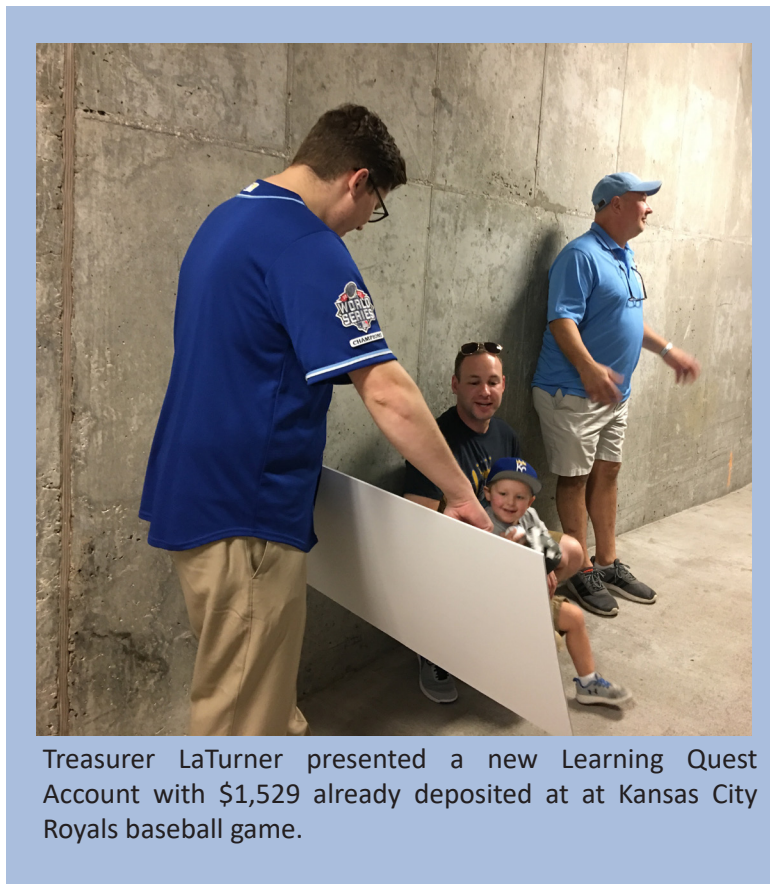
Total Statistics

Assets under management in the program as of June 30, 2017, rose to \$5.86 billion. This was a 14.5 percent increase from the beginning of the fiscal year. We opened 21,508 new accounts this year, 6.9 percent more than the previous year. The number of active accounts increased by 5.2 percent to a total of 216,091. Dollars contributed to the program increased by 17.6 percent over FY2016 to \$620 million. This was after a 5 percent decrease in the prior year.

New Record in Savings Withdrawals

Withdrawals have continued the trend of growing every year with another record year of \$411.57 million in FY2017. Net new investments (dollars contributed less dollars withdrawn) was \$208.43 million in FY2017, which was 17.9 percent more than the net new investments in FY2016. This was after a decline in net new investments in the prior year. Students who

were only one year old when the program began sixteen years ago have graduated from high school and are old enough to use their funds for qualified higher education expenses. While we do not track whether withdrawals are taken for qualified higher education expenses, significant withdrawals from accounts do not begin until our beneficiaries are eighteen years old when we would expect them to have higher education expenses.



Treasurer LaTurner presented a new Learning Quest Account with \$1,529 already deposited at at Kansas City Royals baseball game.

Kansas Specific Statistics

The growth in both the number of accounts owned by Kansans and the amount they contributed was positive but lagged behind the statistics for non-residents. The number of accounts owned by Kansans increased by 2.1 percent to a total of 66,320 accounts. Kansans contributed just over \$101 million to these accounts, which was 5.2 percent more

than they contributed in FY2016. The year over year growth in contributions by Kansans has consistently been slightly less than industry trends for the last several years.

Kansans also contribute less than the national average when opening an account

Marketing Strategy

We are working with American Century Investments to better understand how the Kansas economy is affecting our contribution rates. One trend we have noticed is that the average age of the beneficiary (the student for whom the funds are invested) at the time the account is opened has risen to over eight years old. This means that many families are missing almost eight years of opportunity to grow their accounts if they had only started investing when their beneficiary was younger. While we have succeeded in getting more families to open an account with the low minimum investment of just \$25, we would encourage investors to set reachable but challenging goals. We have adjusted our goals with American Century Investments to include targets for both accounts opened by Kansans and their contributions.

This year we continued our strategy of shifting more of our marketing budget from television to online digital and social media. This change in strategy allows us to target specific audiences, track the click through and account opening rates for each campaign and make adjustments. Our goal is to reach younger families who look for information online unlike their parents who paid more attention traditional advertising.

Kansas Investments Developing Scholars (K.I.D.S.) Matching Grant Program

This was the 11th year for the K.I.D.S. Matching Grant Program in which investors with a household income below 200 percent of the federal poverty level receive a matching contribution of up to \$600 from the state based on their contributions to their Learning Quest accounts in calendar year 2016. (Example: A family of four with an income less than \$48,600 was eligible to participate in 2016.) Account owners must reapply each year, and the program currently has up to 1200 spaces.

This year, K.I.D.S. participants contributed \$349,044 to 668 accounts. This was a 8 percent decrease from last year. Just under \$3.74 million has been contributed to accounts for students participating in K.I.D.S. in the program's first eleven years. During calendar year 2016, participants withdrew \$145,599 in state contributions and their earnings for their qualified higher education expenses. An equal amount was withdrawn from the participants' contributions and their earnings. Since its inception, the K.I.D.S. Matching Grant Program has provided \$544,111 in state funding for the qualified higher education expenses of participants in addition to participants' contributions and their earnings.

ABLE Savings Program

On April 1st of 2015 the Kansas Legislature passed the Kansas ABLE Act (HB 2216) and on April 15th Governor Brownback signed the act into law.

As stated in K.S.A. 75-651 “The purpose of the Kansas ABLE savings program is to authorize the establishment of savings accounts empowering individuals with a disability and their families to save private funds to support the individual with a disability and to provide guidelines for the maintenance of such accounts.” ABLE Savings Accounts were created by Federal legislation that modeled the accounts after 529 Higher Education Savings Accounts. Contributions into ABLE accounts are made on an after-tax basis and funds within the account grow tax-deferred and are tax-free if used for qualified disability related expenses.

The State Treasurer was tasked with implementing and administering the Kansas ABLE Savings Program. Soon after the passage of the Kansas ABLE Act, our office began preparations to build a state ABLE program. During the beginning preparations, we quickly determined that there were three viable options to meet our tasked objective of providing ABLE accounts to Kansans: (1) work with a consortium of other states, (2) contract with another larger state, or (3) simply allow Kansans to choose from any plan created by the market place.

Armed with the knowledge that several states developing in house ABLE Savings Plans were estimating start-up costs of over \$3 million the Treasurer’s Office made arrangement to share start-up cost by teaming up with other states planning to launch their own ABLE program. In August of 2015 Kansas began working with a consortium of nine other states. This group of states became known as the “National ABLE Alliance.” We begin program development in December of 2015 and by June of 2016; the National ABLE Alliance issued a RFP in search of a vendor to provide ABLE account maintenance, investment options, marketing tools and a customer service center.

In September of 2016, following an open and competitive bid process, Ascensus College Savings was chosen as administrators of the Kansas ABLE Savings Program. The initial five-year contract can be extended up to an additional five years. When final contracts were signed, the National ABLE Alliance’s fee structure was the lowest in the nation.

The Kansas ABLE Savings Program began enrollment on January 26th 2017. Initially the our ABLE program allowed enrollees to choose between six different investments options but on March 30th the Kansas ABLE Plan took a big step forward by becoming one of the first states in the Nation to offer a FDIC insured checking account along with an ABLE debit card.

In June of 2017, the State Treasurer’s office began its ABLE marketing push. We launched a 105 county awareness campaign. The marketing for this statewide county tour included traditional and social media efforts targeted at the county level. A strong emphasis was also placed on coordinating awareness efforts with various advocacy groups within the disability community. Unlike our LearningQuest 529 Higher Education Savings program, ABLE savings accounts are not easily mass marketed. The growth of the ABLE Savings Program will rely heavily on a strong grassroots effort from the Treasurer’s office.

Next year we will have a full year’s worth of figures and anticipated the 2019 annual report to be a data driven review on the ABLE program.

MUNICIPAL BOND SERVICES PROGRAM

The Municipal Bond Services Program is responsible for the registration of all municipal bonds issued in Kansas. In addition, this program provides registrar and transfer agent services for the majority of all local municipal bond issues, as well as state issues, including bonds authorized by the Kansas Department of Transportation and by the Kansas Development Finance Authority.

As registrar and transfer agent for 91 percent of the outstanding municipal bond issues in Kansas, the State Treasurer maintains and services 2,434 registered bonds and temporary notes, and 8 bearer issues. The State Treasurer was named paying agent on 91 percent of the 217 new issues that were recorded during the fiscal year. In addition, the State Treasurer was named paying agent on 75 percent of the 64 temporary note issues that were recorded. The total principal amount outstanding on bonds serviced as of June 30, 2017

was in excess of \$18 billion.

When the State Treasurer is named as paying agent, the Bond Services Department collects principal and interest amounts from the respective municipalities in advance of maturities to ensure timely payments on the bond issue. For providing the paying agent service, 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.

The State Treasurer is also 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 both are used to support the program. The Bond Services Department is completely funded by these fees. Total fees collected and credited to the bond services fee fund in FY2017 were \$673,614. The payments collected for all bond issues serviced were \$2.5 billion in FY2017. The Bond Services Department has established a level of performance that compares favorably with that of other transfer and paying agents. During FY2017 transfers were submitted timely 100 percent of the time. The Bond Department also boasts prompt and accurate processing that leads to timely payments.



UNCLAIMED PROPERTY

The Unclaimed Property Division has one of the most rewarding missions in the state: returning unclaimed property to its rightful owners or heirs, the people of Kansas. After a period of dormancy, a reporting business (also known as a holder) must remit specified types of abandoned personal property to the State Treasurer, who then becomes custodian in perpetuity. This upholds the right of the original owner or heirs to claim the property. The State Treasurer maintains a balance in the unclaimed property claims fund to pay approved claims. A balance is also maintained in the unclaimed property expense fund to operate the program.

Some common forms of abandoned property include: safe deposit box contents, bank accounts, shares of stock, dividends, mineral royalties, certified checks, drafts or money orders, insurance policy payouts, utility deposits, property distributable during the voluntary closure of business associations, court deposits, funds from public agencies, and miscellaneous intangible property held by one party for another.

PROPERTY RECEIVED FROM HOLDERS

All property that meets statutory requirements for presumption of abandonment must be reported and remitted to the State Treasurer along with the last known contact information for the owner. Any properties valued below \$100 may be combined into one lump sum and turned in to the State Treasurer as aggregate. Holders have many efficient,

business-friendly options to file reports, including uploading their own reports online, electronically on diskettes or CD-ROM, or through written reports that are hand-entered into the system by unclaimed property staff. This unclaimed property data is stored and processed on a secure web-based system, allowing immediate reference to reported information and prompt updating of files. All properties valued \$5.00 and up are listed on the Treasurer's website, where any person claiming an interest in a property may then file a claim with the State Treasurer. The Unclaimed Property Division reviews the claims for appropriateness, ensuring each claim is paid out only to verified owners or heirs of the property.



Tangible property turned over from safety deposit boxes -such as jewelry- is kept by the Treasurer's office for up to three years before being sold at auction. The proceeds are then held for the owner to claim.

amount resulted from the sale of stock received in an earlier year, as required by law. The amount of unclaimed property returned to its rightful owners exceeded \$20 million in money and stock. That means more than 47 percent of property taken in during FY2017 was paid out to its rightful owner, a percentage far exceeding most states.

In FY2017, the Unclaimed Property Program had another banner year returning property to the people of Kansas. The Unclaimed Property Division mailed out a record number of claim forms and received over \$42 million in unclaimed property funds from holders. A portion of this

UNCLAIMED PROPERTY (Continued)

The principal mission for the Unclaimed Property Division is to return property to its rightful owners. The website continues to be the most widely used outreach tool for the department. Kansans may go online and use a simple search function to find out if their name is on the unclaimed property list. One very successful feature of the website allows users to file a claim online. Thanks to a new law passed in FY2013, the State Treasurer's Office may now use a claimant's state-issued driver's license or identification card to validate the person's identity against their last known tax record on file with the Department of Revenue. Therefore, if a property meets certain criteria and the claimant holds a valid Kansas driver's license or identification card, the system validates the license against the Department of Revenue driver's license database and the claimant is informed instantly whether or not the claim can proceed as paperless. Unclaimed property staff then review the claim online and either approve or deny it. Claims that are approved online allow the claimant to receive their check much faster, usually less than one week from the date the claim was approved. This example of cooperation and good government has opened up an entirely new avenue for locating Kansas



property owners; more than 10,000 claims for over \$430,000 were paid out using this approval process in FY2017.

In addition, staff members proactively search for property owners. One staff member dedicates a majority of her time to outreach while other staff members search as time allows. As new property is reported, staff members begin searching for owners using a variety of methods, mainly address verification software or websites that provide current contact information for individuals. They attempt to make contact with the owner or the heirs and deliver a claim packet

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.

Once again, the State Treasurer's Office maintained a booth at the Kansas State Fair in September. Over 2,160 claim forms were generated from this event alone for a total amount of \$1,082,784 that could be claimed.

One of the most effective forms of outreach is the Treasurer himself. Treasurer LaTurner routinely makes unclaimed property a focus as he travels throughout the state. He regularly visits county treasurers and provides them with the most up to date unclaimed property list for their counties. In addition, he speaks with a wide variety of groups around the state, always promoting the Unclaimed Property Program.

The Kansas State Treasurer's Office continues to operate one of the most innovative Unclaimed Property Divisions in the nation. It remains our goal to find new ways to quickly and efficiently return unclaimed property to its rightful place, the people of Kansas.

CASH MANAGEMENT DIVISION

The Cash Management Division serves as the State's bank - recording and depositing all state receipts and accurately accounting of all disbursements made through the payment process. The division serves as 'collateral custodian' for the PMIB, administers two linked deposit programs, distributes designated taxes to local units of government, disbursing of license plate royalty fees, distributions through the Aid-to-Local Units of Government programs, receives County taxes and receives the District and Municipal Court fees.

In an effort to ensure all processes are as efficient as possible, we strongly encourage the use of electronic technologies whenever possible. In fiscal year 2017, 93% of the state's receipt dollars were received electronically and 93% of the state's disbursement dollars were processed electronically. All checks received by state agencies are scanned, balanced and then electronically deposited with our contract bank. In fiscal year 2017, the items received electronically represented 65% of the total items received.

In fiscal year 2017, 87% of the distribution items were processed electronically. The number of checks issued by the State continued to decrease – from 1,227,187 in FY 2010 to 760,758 in fiscal year 2017. Much progress has been made in moving to electronic processing of receipts and disbursements, but we continue to work with all suppliers and payers to encourage the use of electronic methods.

To assist District and Municipal courts and county treasurers in reporting and remitting specific fees and taxes to the State, the Treasurer's Office developed and has enhanced an on-line reporting tool called "The CAGE". The ACH payment option provides entities an efficient electronic payment method. This system has reduced the amount of paper and postage costs incurred by the Judiciary and County Treasurers. We continue to work to make this system as efficient as possible for our partners.

The Cash Management program must ensure that the money deposited in any Kansas bank is secured either by FDIC insurance or by an approved collateral type. Weekly, the PMIB places available cash with Kansas banks in the form of Certificates of Deposit. The value of the CD and the value of the pledged collateral is tracked on a special software application called "The VAULT". The collateral is priced weekly by the State's contract bank. All changes in pledged collateral are monitored to make sure the State's funds are fully protected according to statute.

The Cash Management program is also charged with monitoring and improving the State's cash management practices. Each day the State's pooled-cash position is calculated and reported to the PMIB. The available monies are then invested by PMIB according to statute.

We provide cash concentration service to several agencies; Dept. of Children and Families, Dept. of Corrections and Dept. of Wildlife, Parks and Tourism. At the direction of their fiscal staff, we bring excess dollars from their fee accounts into the State's investment pool, maximizing the cash availability and investment earnings.

Working with the Department of Revenue, the Treasurer's Office facilitates the returning of taxes and fees to local entities: Sales Tax, Compensating Use Tax, Transient Guest Tax, Liquor Tax, Vehicle Excise Taxes, Distinctive License Plate Royalty Fees, Community Development District Tax, etc.

Cash Management serves as escrow agent for state money designated for STAR Bonds and Economic Revitalization. At the end of FY 2017, there were ten active STAR Bond projects and two Special Economic Revitalization programs. These had a combined balance of \$35.2 million. The program balances are monitored and the money distributed to the

CASH MANAGEMENT DIVISION (Continued)

designated bond-paying agent as required by the bond documents.

As the State's bank, we continue to work with agencies to make sure the State's resources are used in the most efficient manner and to the greatest benefit of the State.

Kansas Agricultural Production Program

The Agricultural Production Loan Deposit Program, has been administered by the Treasurer's Office since it was created by the 2000 Legislature. This is a cooperative program with Kansas banks. The program is a method to assist agricultural borrowers with high debit-to-asset ratios and/or whose lenders might not have sufficient cash to fund additional loans. As the financial environment fluctuates, so does the demand for these loans. Each borrower is limited to one loan at a time, but can move in and out of the program as needed— paying off one loan as farm products are sold, then requesting another loan when purchasing product or inventory for the next season. Lenders who want to participate in the program are required to sign a participation agreement with the State Treasurer's Office and the Pooled Money Investment Board (PMIB). Each borrower must certify that they meet the legal criteria and will use the proceeds of the loan as intended by the program. The lender must certify as to the borrower's eligibility. Most lenders and borrowers find this to be a very simple process.

The Legislature limited the funds available for these loans to \$55 million. As loans are paid off or as principal payments are received, the Treasurer's Office makes the dollars available to fund new loans. Since July 2000, \$241.1 million in loans have been funded. 37 loans were funded in FY 2017, and 43 loans matured during this same time. At the end of FY 2017, there were 95 outstanding loans with a balance of \$14.9 million, representing 30 Kansas counties.

The lower than market rate authorized by the statute is calculated by the PMIB staff each day and is published on their webpage. Banks are allowed a four percent spread between the rate they pay on the certificates of deposit with the State - the maximum rate they are allowed to charge the borrower as a means to offset risk.

The State does not risk losing principal or interest on these loans. The interest rates change on existing loans every six months: July 1 and January 1. All interest payments are collected June 30 and December 31 and are credited to the state general fund. Since July 2000, the program has earned \$9.25 million in interest income for the State General Fund. \$62,408 was deposited during fiscal year 2017. The 2009 Legislature passed HB 2331, placing a minimum of 0.5 percent on Certificates of Deposits. The CD interest rate as of July 1, 2017, was 0.5.

Kansas Housing Loan Deposit Program

A second linked deposit program was created by the 2008 Legislature with SB 387. They created the Kansas Housing Loan Deposit Program and it has also been administered by the Treasurer's Office Cash Management division. The program was modeled after the Agricultural Production Loan Deposit Program and was implemented July 1, 2008. \$60 million was designated for the program, splitting the funds between specific disaster areas and the areas outside those disaster areas. The money was to be used for building or rehabilitating a home. The interest rate would be calculated by the PMIB staff each day and published on their website. A minimum CD interest rate of 0.5 percent was established by the 2009 Legislature with the passage of HB 2331. The original regulations required that the home value not exceed 350% of the median family income as reported by the most recent census and be reported on the Treasurer's website. The 2010 Legislature made additional changes to the program, in hopes it would

CASH MANAGEMENT DIVISION (Continued)

be able to assist more constituents.

- Available to fund multi-family dwellings
- Maximum value now would be linked to the federal MRB rate (\$287,434 for single-family or \$552,757 for multi-family)
- Developers would now be able to borrow up to \$2 million in multiple loans
- Rehabilitation would now be eligible

Further modifications to the program took place with the 2012 Legislature. The program expanded availability to Not-for-profit Adult care facilities with a \$2 million maximum.

At the end of fiscal year 2017, there were no outstanding loans. This is the third consecutive year this program has not been utilized. The current mortgage market is favorable to borrowers, therefore, they are not currently needing additional resources. We continue to provide information to community leaders, lenders, developers, realtors and others related to this specific Linked Deposit Loan Program.

Aid to Local Units of Government

Through the Aid to Local Units of Government subprogram, the State Treasurer distributes monies to city and county governments according to the statutory provisions. In FY 2017, the City and County Highway Distribution and the Highway Equalization subprograms and the Tax Increment Revenue Replacement were the only programs disbursing money.

FINANCIAL LITERACY

Throughout this last year, the State Treasurer’s Office has focused on supporting consumer education initiatives that foster cooperative, concentrated approaches in financial literacy outreach through partnerships with local financial institutions and organizations.

Our office has partnered with the office of the State Bank Commissioner, Kansas Department of Credit Unions, Kansas Attorney General’s Office, and of the Office of the Kansas Securities Commissioner to create a joint one-stop shop website, www.kansasmoney.gov, which offers a collective and efficient method for the distribution of financial literacy resources provided by Kansas state agencies.

The office continues to support Wichita’s Money Smart Week and Kansas City’s Money Smart Month, in addition to serving on the Money Smart Kansas steering committee. Through these initiatives, spearheaded by the Federal Reserve, financial education providers across Kansas coordinate campaigns that provide the public with financial education information and resources to assist them in making positive financial decisions. The office also serves as a partner for the Kansas Jump\$tart Coalition, a 501- c-3 tax-exempt non-profit organization committed to advancing financial literacy among pre-school through college-age youth. Both MoneySmart and Jump\$tart have provided great opportunities for financial institutions and educational providers to foster a cooperative, concentrated approach in financial literacy outreach across the state.

Of course in addition to these initiatives, the office continues to pursue opportunities to partner with other state agencies, streamline collaborative efforts, and collectively strengthen consumer educational support for Kansans.

