
State Treasurer's Annual Report to the Legislature

FY 2002



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

January 2003



STATE OF KANSAS

Lynn Jenkins, CPA

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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 2002.

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 second anniversary. More than 35,300 accounts have been opened in the two years of operation and of those accounts 17,318 have been opened by Kansans. After two years of operation, the total assets of the Learning Quest Savings Plan have topped \$252.1 million. The Agricultural Production Loan Deposit Program continues to be a popular tool for Kansas lenders to assist producers across the state. During its second full year of operation, 129 new loans worth \$19.0 million were funded. Since its inception 612 producers have been the beneficiaries of this reduced interest rate loan program.

Staff continues to work hard in the Unclaimed Property division, Bond Services and Cash Management. We have worked to utilize technology so customers have access to many programs and functions on our website.

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.

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

Sincerely,

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

Lynn Jenkins, CPA
State Treasurer

Unclaimed Property

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. 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 2002 was a very successful year for the Unclaimed Property program. Over \$16.0 million of unclaimed property was received. Unclaimed property

returned to its rightful owners exceeded \$8.4 million, another banner year. (See chart.)

In October 2002, the Treasurer and MetLife settled a pending federal lawsuit against Metropolitan Life Insurance Company (“MetLife”) in the United States District Court of Kansas. The lawsuit, filed in February 2002 by the Treasurer, sought to compel an audit under the Kansas Unclaimed Property Act to determine if MetLife had failed to deliver unclaimed property to the State of Kansas. The court action, the first of its kind in this country, was filed when MetLife and the Treasurer failed to reach agreement on the ability of the Treasurer to conduct an audit to determine if MetLife was holding abandoned property subject to the Kansas Unclaimed Property Act.

Beginning in April 2001, the Treasurer initiated contact with MetLife seeking records concerning potential group life benefits for thousands of railroad workers in Kansas. The Treasurer’s Office had obtained a database listing deceased railroad workers from the Railroad Retirement Pension Board, a federal agency administering a retirement annuity plan for railroad workers. The database included approximately 7,600 Kansas residents and numerous individuals nationwide who possibly had claims under a group term life insurance policy insured or administered by MetLife.

FY 2002 was another banner year for the Unclaimed Property program. Over \$16.0 million of unclaimed property was received. The Program returned to its rightful owners \$8.4 million, an increase over the previous fiscal year’s record of just over \$8 million.

The Treasurer questioned whether beneficiaries knew of their ability to claim the \$2,000 benefit under the policy. The Treasurer maintained that it had a right to conduct an audit to determine if MetLife was holding abandoned property subject to the Kansas Unclaimed Property Act. MetLife maintained, among other things, that the Employee Retirement Income Security Act (“ERISA”), a federal statute governing employee benefit plans, precluded the Treasurer’s Office and other state treasurers from conducting such an audit.

As part of the settlement MetLife has agreed to initiate a national Outreach Program for railroad retiree survivors, in consultation with the Trustees of the Railroad Employees National Health and Welfare Plan. The program is intended to reach out to potential beneficiaries in Kansas and nationwide who may have claims under the applicable group life insurance policies covering eligible retirees of participating railroads. The program will also educate possible beneficiaries concerning available coverage in the amount of \$2,000 per individual and assist them in submitting proper claims under the applicable policies.

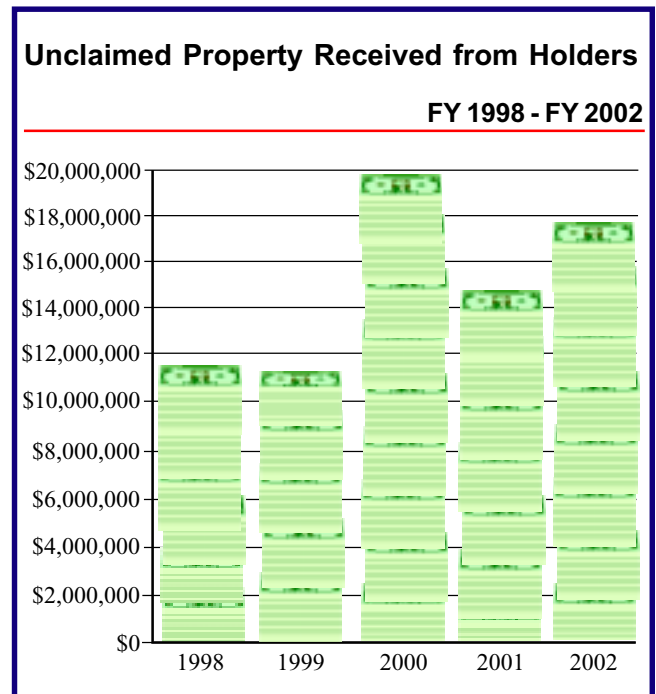
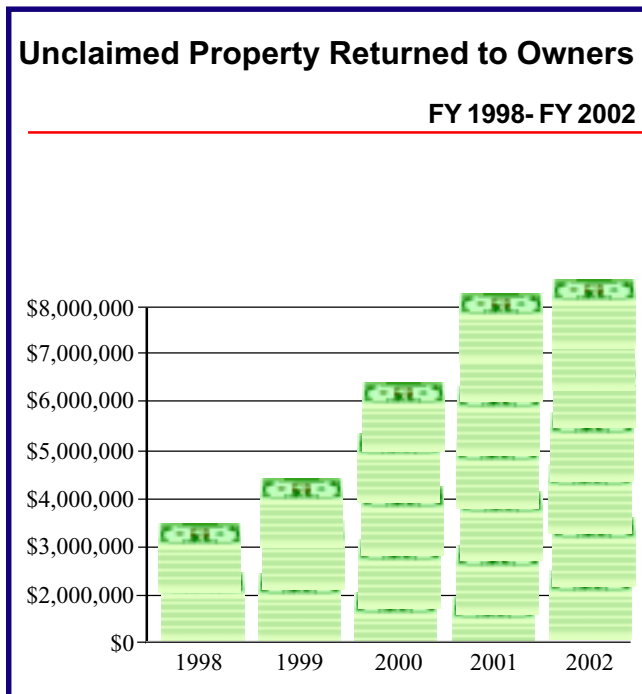
The Outreach Program is designed to handle claims generally within 30 days, and the program will last for at least one year. In agreeing to this settlement, neither the Treasurer nor MetLife nor the Railroad Plan has suggested that any particular persons are in fact covered by MetLife life insurance policies or entitled to benefits.

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 2,724 claim forms were generated for a total amount of \$525,400.

Historical Summary of Unclaimed Property Collected and Returned

Fiscal Years 1998 thru 2002



Municipal Bond Services

Carmen J. Klopping, Director

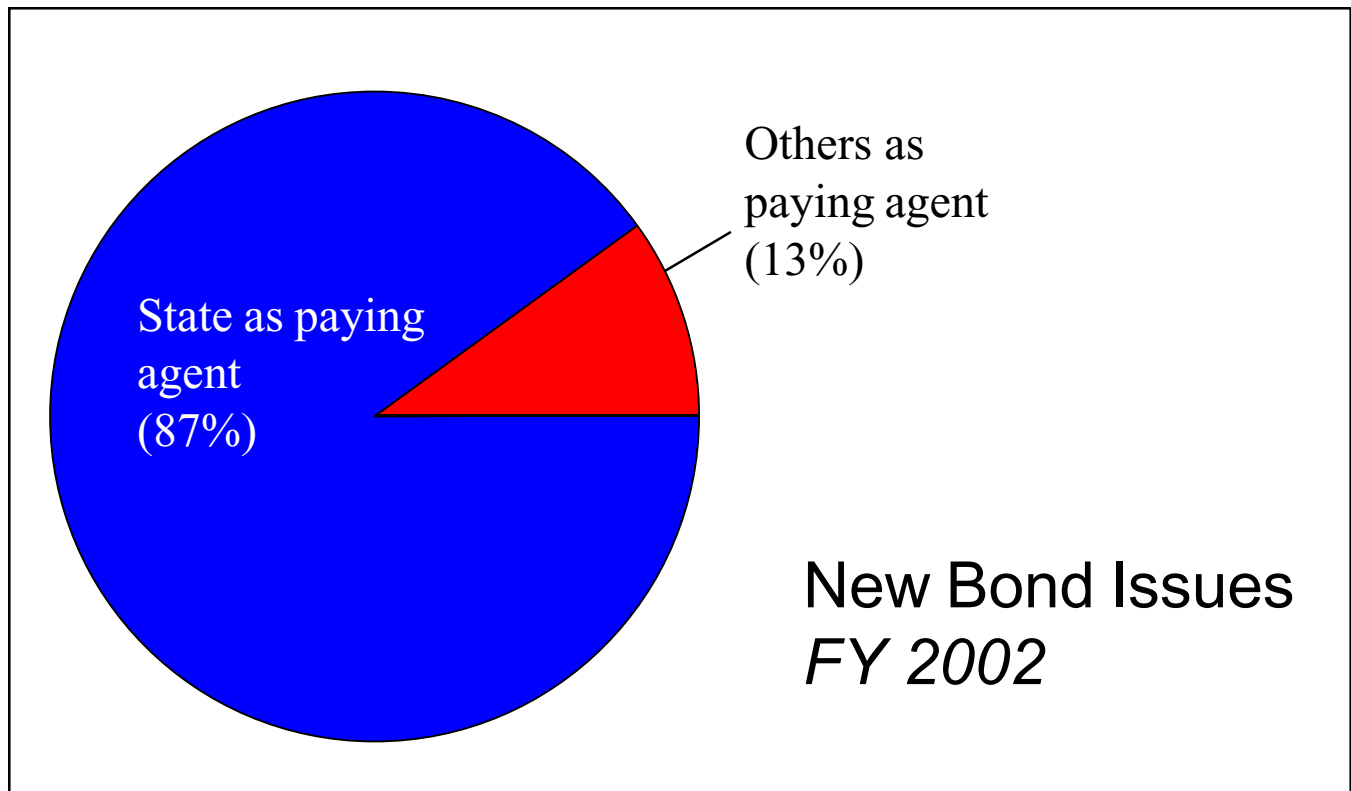
The Municipal Bond Services program is responsible for the registration of all municipal bonds issued in the State. In addition, this program provides registrar and paying agent services for the majority of all local municipal bond issues, as well as state issues. During the years 1992 through 1995, 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 almost 90% of the outstanding municipal bond issues in the State, the State Treasurer maintains records on 31,000 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 2,047 bond issues in registered form, which have been issued since 1983, this program also services 71 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 \$1.3 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, 339 new issues were recorded and the Treasurer was named paying agent on all but 44 of those bond issues. The total principal amount outstanding on bonds serviced as of June 30, 2002, was in excess of \$7.9 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.

During FY 2002, transfers were timely submitted 99.9% of the time.

Total fees collected in FY 2002 were \$811,482, 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 2002		FY 2001	
	Number	Amount	Number	Amount
BONDS				
New issues				
Total registered	339	\$2,143,058,828	267	\$1,712,041,494
State as paying agent	295	\$1,274,807,928	243	\$1,316,531,874
State as paying agent Transfers		\$7,907,644,179		\$7,576,670,757
Cancelled	2,916	\$82,610,915	3,563	\$113,292,475
Issued	2,705	\$82,610,915	3,209	\$113,292,475
Calls	182	\$512,049,256	124	\$154,955,566
Registration fees collected		\$15,396		\$11,151
Standard fees collected		\$767,427		\$509,533
Commissions		\$28,659		\$25,396
TEMPORARY NOTES	153	\$393,567,024	178	\$290,299,547
WARRANTS	28,650	\$1,304,526,852	33,723	\$907,894,613
RECEIPTS				
Cash & Wire		\$775,203,243		\$545,448,405
Interfund		\$602,728,361		\$373,956,328

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.

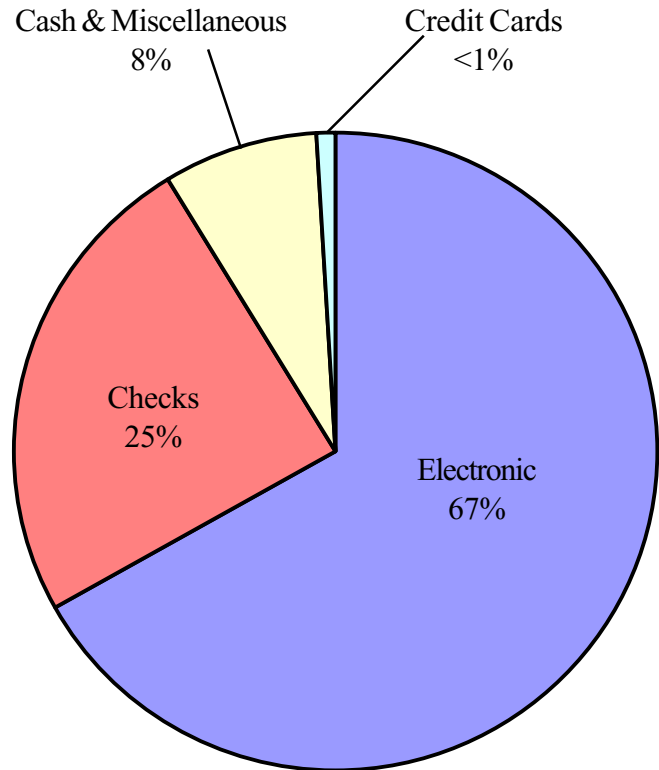
Through the Aid to Local Units of Government Subprogram, the State Treasurer distributes various moneys to city and county governments according to statutory provisions. These include: (1) local ad valorem tax reduction aid, (2) county and city revenue sharing aid, (3) local alcoholic liquor fund, (4)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

ment financing revenue replacement fund and (8) transient guest tax.

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 2002

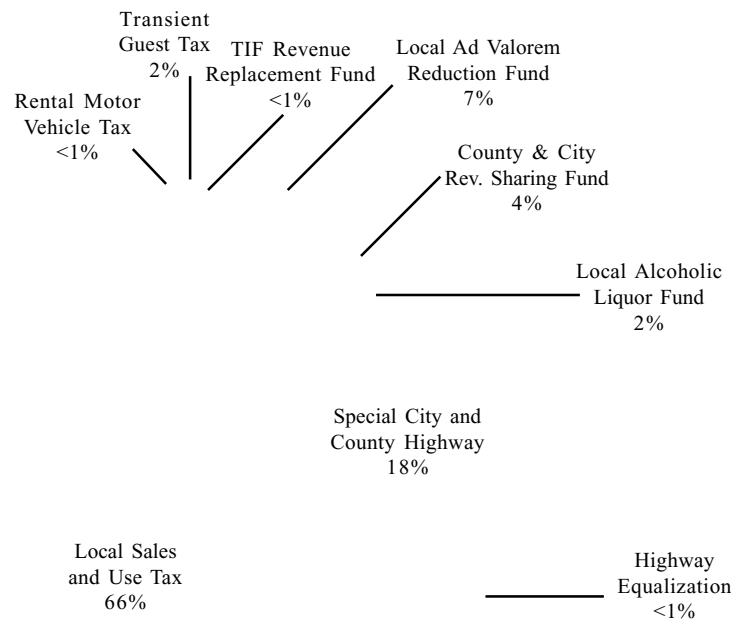
	FY 2002
Checks	\$3,684,072,906
Credit Cards	2,309,055
Electronic	9,806,543,760
Cash & Miscellaneous	1,071,667,291
Total	\$14,564,593,012



Breakdown of Deposits Received FY 2002

Distributions to Counties and Cities, FY 2002 and FY 2001

	<u>FY 2002</u>	<u>FY 2001</u>
Local Ad Valorem Reduction Fund	\$54,680,691	\$54,137,407
County & City Revenue Sharing Fund	34,876,349	34,531,131
Local Alcoholic Liquor Fund	18,300,795	17,009,266
Special City & County Highway	150,424,132	151,703,393
Highway Equalization	2,500,000	2,500,000
Local Sales & Use Tax	549,594,363	542,699,710
Rental Motor Vehicle Tax	2,973,813	2,720,232
TIF Revenue Replacement Fund	983,836	840,188
Transient Guest Tax	18,365,592	17,547,797
Total Distributions	\$832,699,571	\$823,689,124



**Distributions to
Counties and Cities
FY 2002**

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. 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.

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 initially 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 additional \$5.0 million was delivered promptly after the beginning 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

exceed 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

Selected Statistics of Agricultural Production Loan Deposit Program FY 2002	
Approved Banks	77
Participating Banks	43
Participating Farm Credit System Offices	6
Loans Funded in FY 2002	129
Outstanding Loan Balances as of 6/30/02	\$54.8 million
Outstanding Loan Balances as of 12/31/02	\$54.5 million
Number of Outstanding Loans as of 6/30/02	485
Number of Outstanding Loans as of 12/31/02	483
Loans paid off during FY 2002	95
\$ Amount of Requests Outstanding as of 6/30/02	\$4.8 million
\$ Amount of Requests Outstanding as of 12/31/02	\$3.3 million
CD interest rate 7/01/02	0.19%
Max. loan rate 7/01/02	4.19%
CD interest rate 1/01/03	0.00%
Max. loan rate 1/01/03	3.41%

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. According to the Kansas Department of Revenue, no tax payer has taken advantage of this tax credit, as of this reporting.

SOKI³

In keeping with the agency mission and philosophy, FY 2002 was another momentous year of building on earlier initiatives. 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 receipts entry capability. As of June 30, 2002, the system was available for use by state agencies and was mandatory in October, 2002.

Before the implementation of this module of SOKI³, each year agencies would prepare either by hand, typewriter or PC, nearly 33,000 paper receipt vouchers totaling over \$10.0 billion containing many accounting records into an electronic tracking system so the data could be uploaded into STARS, the central accounting system.

With the Receipts module of SOKI³, agencies enter their own accounting records into the on-line system. The staff member who previously had data keyed all the accounting records was able to transfer from one division to another division within the Treasurer’s Office filling a vacancy in that division. The Treasurer’s Office approves and uploads that data only when the money received agrees with document totals. Agencies depositing checks and cash are still required to bring those items to the Treasurer’s Office for deposit purposes; however, agencies that receive their funds electronically are not required to bring any documentation to this office. All agencies can use the SOKI³ system as their means of archiving voucher information, because the data will be available for multiple years. The SOKI³ system is a reflection of the potential for state agencies to work together for the benefit of all parties.

Kansas Postsecondary Education Savings Program

Blanche C. Parks, Director

The Kansas Learning Quest Education Savings Program (Learning Quest) was created by the 1999 Kansas Legislature to authorize the establishment of savings accounts for higher education. The State Treasurer administers the program, with American Century® Investment Company, Inc., currently serving as the program manager.



The program officially opened on July 1, 2000 and permits individuals and organizations to contribute to accounts to pay postsecondary education expenses for individuals they designate or for themselves. The program has been self-funded since FY 2002.

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 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 in accordance with the IRS definition of family.

The money in the account can be used to cover qualified education expenses at any accredited public, private college or university, vocational or technical school in the United States 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.

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.

In 2002, the program manager continues to sub-contract distribution through Charles Schwab & Company, Inc. to market the Learning Quest program to its Schwab Signature clients.

In spring 2002, Learning Quest expanded distribution by adding Learning Quest Advisor (LQA), which is only offered through Financial Advisors. The launch of the product was supported by multiple marketing efforts as well as specific outreach efforts with Kansas.

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.

The Treasurer eliminated the annual \$10 administrative fee charged to Kansans.

Throughout 2002, the special assistant, hired to work with the program director, promoted the program throughout the state. The office has spoken to thousands of Kansans about the benefits of the investment program. Numerous presentations have been given to State agencies, businesses, and civic groups statewide to further promote the program to Kansas citizens. Currently, over 200 businesses are offering the option to participate in Learning Quest through payroll deduction as a benefit to their employees.

In FY 2002, Learning Quest provided extensive marketing projects and initiatives to

Kansans of all ages. Examples include the sponsorship of the Kansas Youth Soccer Association in the State. Also, this past fall the program sponsored a statewide essay contest open to all 6th, 7th and 8th graders. Students were asked to address the topic “Investing in me – how I will save and plan for my future.” The month of September was proclaimed “College Savings Month”. Multiple activities centered on program exposure during that month. Another marketing initiative in September included Learning Quest as the primary sponsor of the “Wild Science” exhibit at the Kansas State Fair. This sponsorship provided exposure to thousands of Kansas young people while participating in exciting science projects. The program also provided a booth in a separate building.

Additional marketing efforts included the Learning Quest Hospital Outreach program, test marketed to reach new mothers and grandparents in four Kansas hospitals.

The program provided a coordinated statewide newspaper, radio and TV advertising campaign to publicize the benefits of investing for college.

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 was also added. Accounts may also be accessed by phone.

Changes in federal tax laws have affected the program. The changes to the 2001 Tax Act were as follows:

- *10% federal penalty added;*
- *Expansion of family member to include cousin;*
- *Qualified withdrawals tax free until 2010;*
- *Expansion of qualified withdrawals to special needs students;*
- *Contribution to both Coverdell Education Savings Account and 529 plans in the same year is now accepted.*

Additional federal changes included:

IRS Notice 2001-55 – permits a change to investment direction.

IRS Notice 2001-81 - shifted responsibility of verification of withdrawals to account/owner/beneficiary.

This past year, additional Kansas Legislative changes included:

- *The addition of Creditor Protection;*
- *No limitation as to who can contribute to a Learning Quest account;*
- *The elimination of the 10% Kansas Penalty;*
- *The waiting period for a qualified withdrawal was reduced to one year and only affects Kansas residents.*

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.

Learning Quest Education Savings Program

Statistics for FY 2002

Number of accounts opened	35,365
<i>Number from Kansas</i>	<i>17,318</i>
<i>Number from other states</i>	<i>18,047</i>
Total assets as of 6/30/02	\$252.1 million

Office of the State Treasurer

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