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# State Treasurer's Annual Report to the Legislature

FY 2000



Submitted by  
THE HON. TIM SHALLENBURGER  
State Treasurer

January 2001

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STATE OF KANSAS

## Tim Shallenburger

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Dear Members of the Kansas Legislature:

It is my pleasure to present to you this Annual Report of the Kansas State Treasurer's Office for Fiscal Year 2000.

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 two new programs of the State Treasurer's Office. The Postsecondary Education Savings Program actually kicked off the first day of Fiscal Year 2000. However, because so much preparatory work had been done in the last fiscal year, and because this program is of such interest to Kansas families, I decided to include some information in this report. Likewise, although the Agricultural Production Loan Deposit Program took effect in the current fiscal year, you will find an update in the Administration section of this report.

The activities for FY 2000 as stated in this report reflect the positive impact the State Treasurer's Office is having on the lives of Kansans, even in this time of tight budgets. As a matter of fact, my SGF for the current fiscal year is 17% lower than FY 2001, even while we have returned more unclaimed property to more owners, initiated one of the finest college savings programs in the nation and administered a new agricultural loan program. I am proud that the Treasurer's Office is doing more with less.

As you deal with the various problems and opportunities facing the State of Kansas, be assured that you have my best wishes and pledge of cooperation.

Sincerely,

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

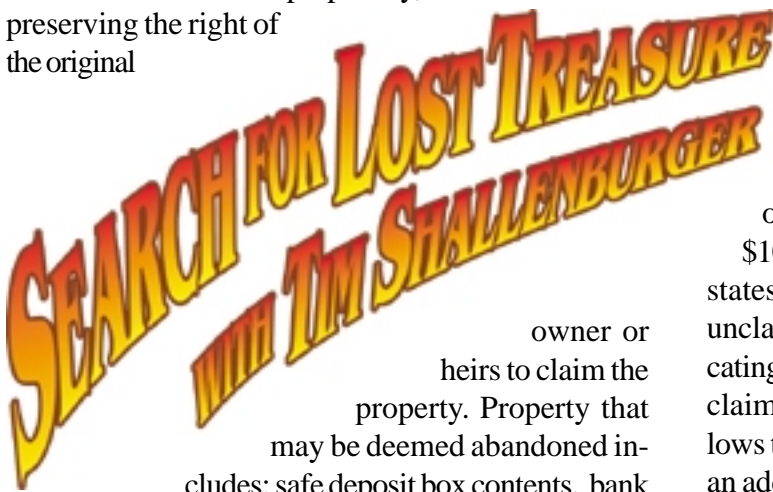
Tim Shallenburger  
State Treasurer



# Unclaimed Property

*Dennis Wilson, 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; funds paid toward the purchase of shares in a financial organization; certified checks, drafts or money orders; unclaimed funds held by insurance companies under life and property and casualty insurance policies; utility deposits; stocks and dividends; 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. Property valued below \$100 may be aggregated together by the holder. 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. After the update of the unclaimed property act in 1994, one Kansas company remitted more than \$20 million of property. It was estimated that approximately \$10 million of that amount would be payable to other states. Consequently, KSA 58-3977 established the unclaimed mineral proceeds trust fund in 1994, allocating \$5 million for the payment of mineral proceeds claims made by other states. KSA 58-3977 also allows the Director of Accounts and Reports to transfer an additional amount, not to exceed \$5 million, from the state general fund to the unclaimed mineral proceeds trust fund with State Finance Council approval. The Unclaimed Property program requested the addi-

**FY 2000 was by far the most successful year for the Unclaimed Property program. Nearly \$19 million of unclaimed property was taken in, representing an 80% increase over the previous fiscal year. Unclaimed property returned to its rightful owners exceeded \$6 million, a 50% increase over the previous fiscal year's record of just over \$4 million.**

tional \$5 million in FY 1998. This fund was depleted during FY 1999. Payments to other states will now be paid from the unclaimed property claims fund.

FY 2000 was by far the most successful year for the Unclaimed Property program. Nearly \$19 million of unclaimed property was taken in, representing an 80% increase over the previous fiscal year. Unclaimed property returned to its rightful owners exceeded \$6 million, a 50% increase over the previous fiscal year's record of just over \$4 million. (See charts below.)

These records reflect an increased emphasis on securing unclaimed property from holders and returning that property to its legitimate owners. A new advertising campaign, employing an "Indiana Jones" theme, asked Kansans to "search for lost treasure." The campaign used cable television ads and movie theater slides. Presentations of large checks to several Kansans, along with

other news events, generated virtually free publicity for the program and accounted in part for the 849,897 inquiries on the State Treasurer's Unclaimed Property web page during the fiscal year.

During the fiscal year, a total of 66,678 claims were filed, worth \$10,170,562.

A new feature introduced during FY 2000 is the ability to download claim forms from the Internet.

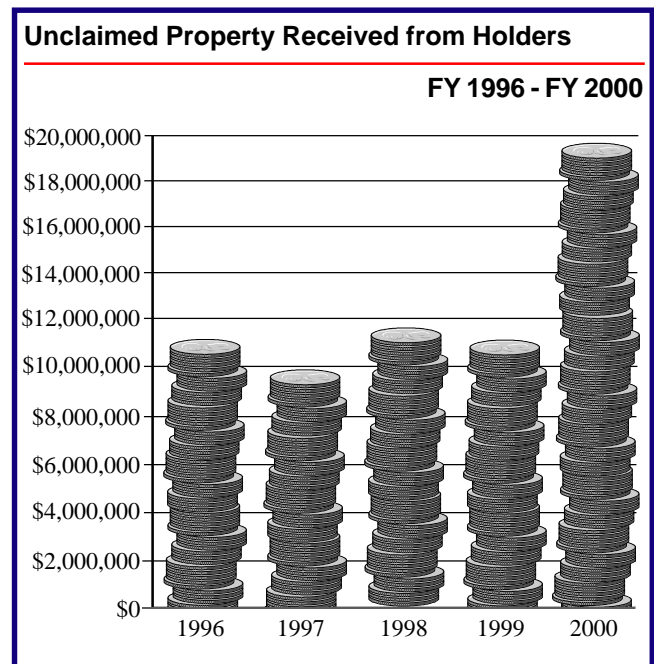
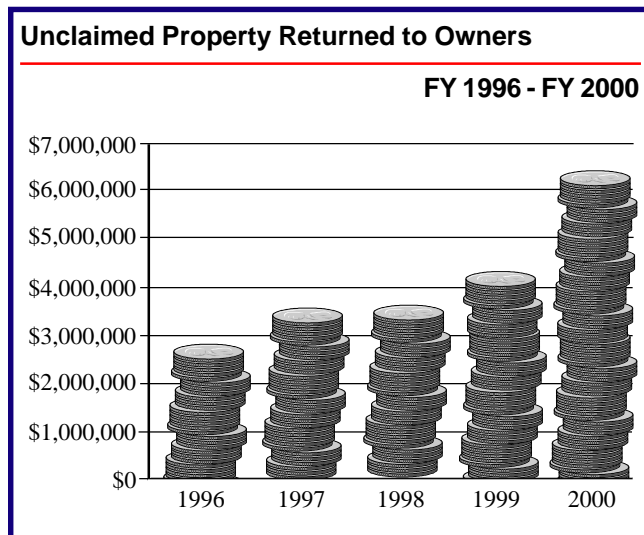
For the second year, the State Treasurer took the show on the road with the Caravan of Ca\$h, a mobile unit that permits Kansans attending local events around the state to search the more than 300,000 names in the unclaimed property database.

The State Treasurer's Office maintained its usual booth at the Kansas State Fair in September, where nearly 22,000 inquiries were made by attendees, yielding 2,855 claims worth more than \$500,000.



## Historical Summary of Unclaimed Property Collected and Returned

## Fiscal Years 1996 thru 2000



# Municipal Bond Services

*Carmen Klopping, Director*

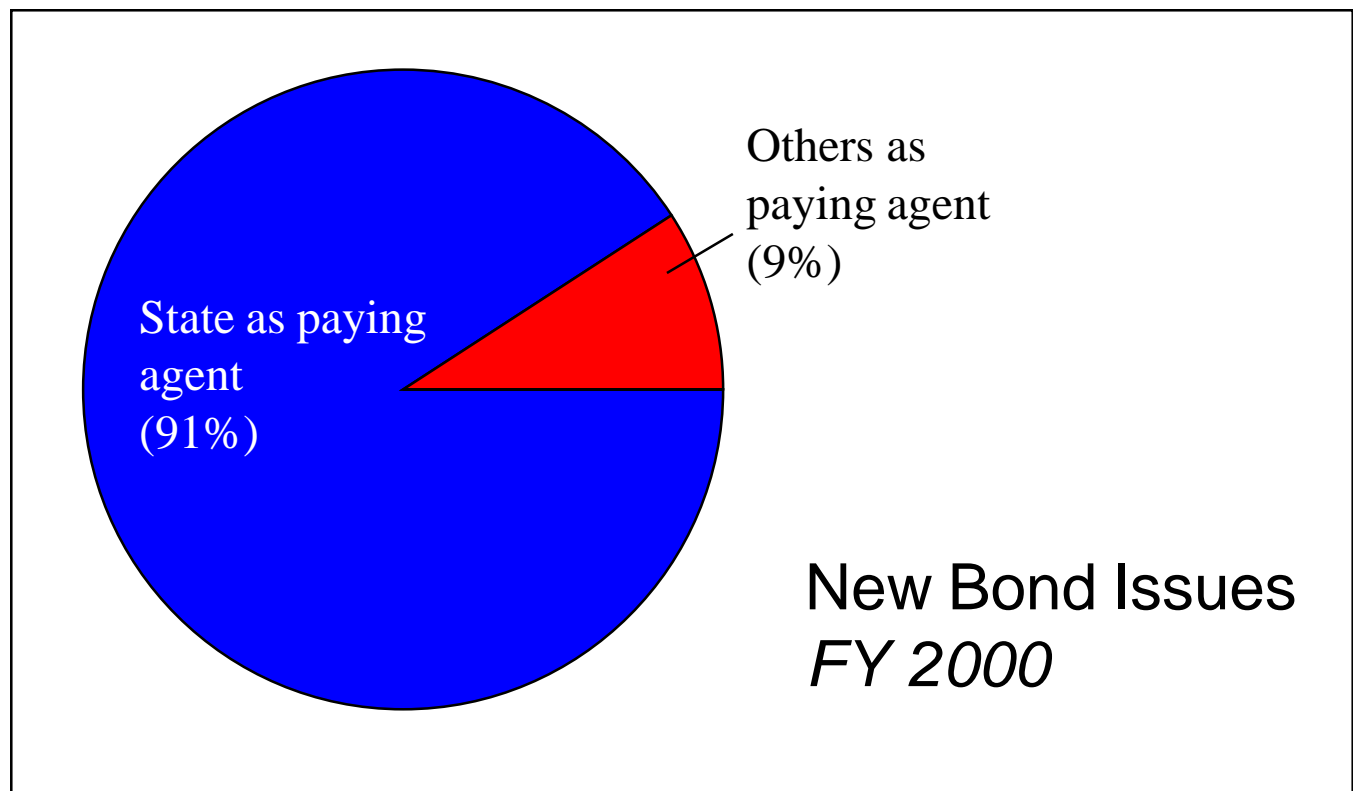
The Municipal Bond Services program is responsible for the registration of all municipal bonds issued in the State. In addition, this program provides registrar and paying agent services for the majority of all local municipal bond issues, as well as state issues. During the years 1992 through 1995,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

As registrar and transfer agent for approximately 90% of the outstanding municipal bond issues in the State, the State Treasurer maintains records on 30,500 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 1,984 bond issues in registered form, which have been issued since 1983, this program also services 176 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 \$900 million annually.

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

During Fiscal Year 2000, 229 new issues were recorded and the Treasurer was named paying agent on all but 21 of those bond issues. The total principal amount outstanding on bonds services as of June 30, 2000, was in excess of \$6.7 billion. The Bond Department has established a level of performance which compares favorably with that of many other transfer and paying agents. The efficiency of the transfer and paying agent is believed to be an important factor influencing investor willingness to purchase a particular bond is-



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

During FY 2000, transfers were timely submitted 99.9% of the time.

Total fees collected in FY 2000 were \$499,981, of which \$487,892 was credited to the State General

Fund and \$12,089 was 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 2000		FY 1999	
	Number	Amount	Number	Amount
<b>BONDS</b>				
New issues				
Total registered	229	\$1,469,093,240	329	\$1,657,757,060
State as paying agent	208	1,152,094,919	294	1,091,656,073
State as paying agent		6,734,964,048		6,175,240,064
Transfers				
Cancelled	4,163	126,434,500	6,538	264,876,230
Issued	4,345	126,434,500	7,083	264,876,230
Calls	129	190,742,115	143	241,626,800
Registration fees collected		12,089		20,555
Standard fees collected		499,981		636,369
<b>TEMPORARY NOTES</b>	174	\$186,753,637	164	\$250,277,455
<b>WARRANTS</b>	41,210	\$944,629,782	49,880	\$921,041,368
<b>RECEIPTS</b>				
Cash & Wire		\$514,528,099		\$656,876,327
Interfund		359,151,065		307,633,554

# 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, (3) local sales and use tax, (4) special city and county highway fund,

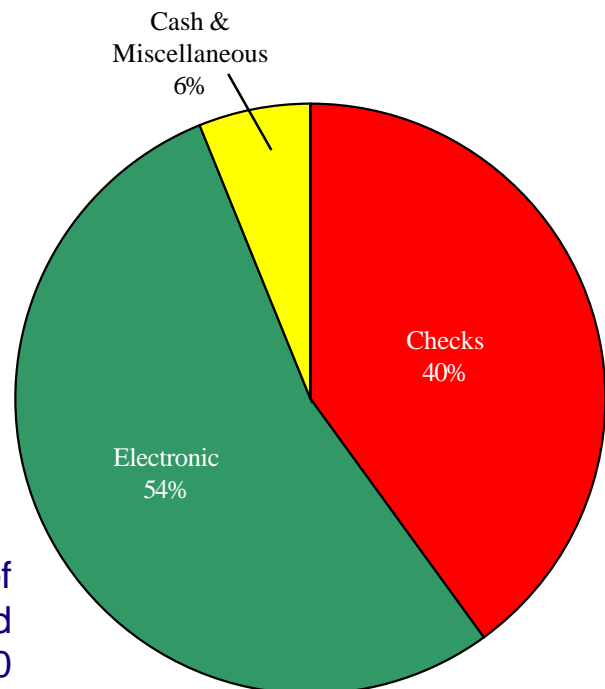
(5) rental motor vehicle excise tax aid, and (6) tax increment financing revenue replacement fund.

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

## Deposits Received, FY 2000 and FY 1999

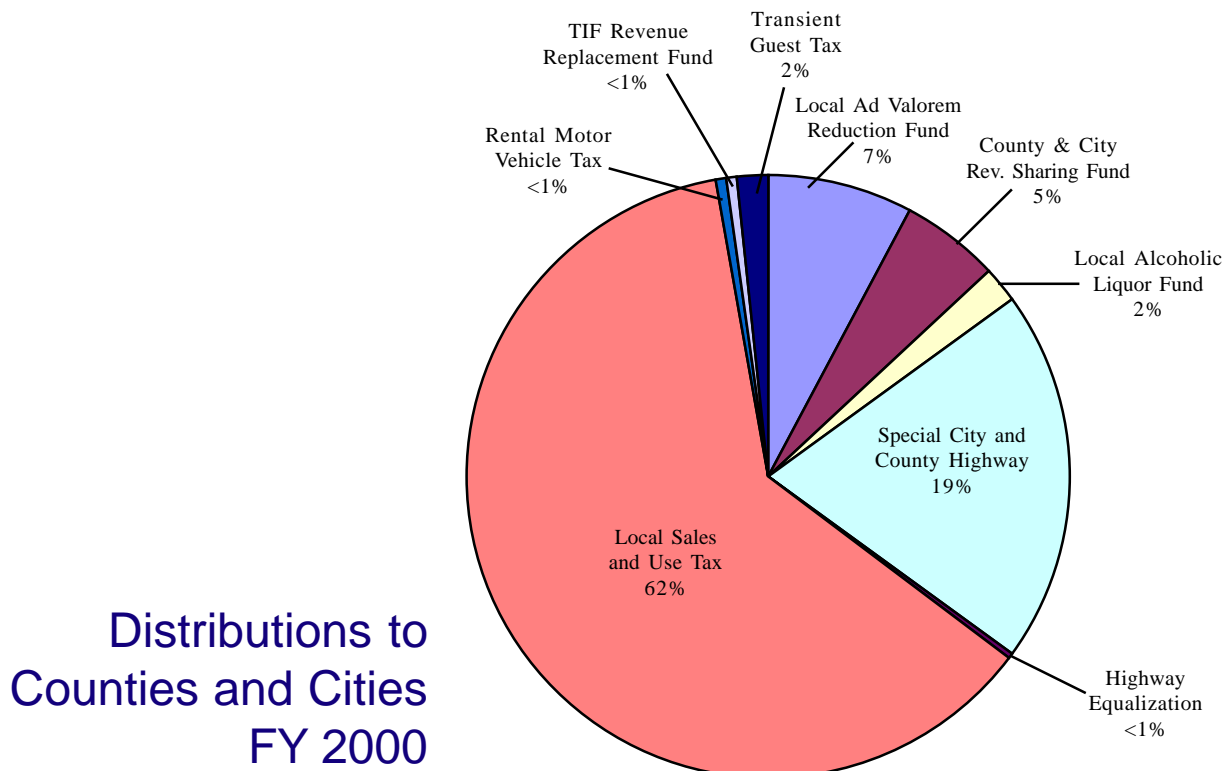
	<b>FY 2000</b>	<b>FY 1999</b>
Checks	\$5,090,660,862	\$5,170,613,372
Electronic	6,883,615,797	6,313,141,806
Cash & Miscellaneous	767,101,237	786,755,569
<b>Totals</b>	<b>\$12,741,377,896</b>	<b>\$12,269,510,747</b>

Breakdown of Deposits Received  
FY 2000



## Distributions to Counties and Cities, FY 2000 and FY 1999

	<u>FY 2000</u>	<u>FY 1999</u>
Local Ad Valorem Reduction Fund	\$57,902,971	\$55,121,894
County & City Revenue Sharing Fund	36,931,689	36,566,027
Local Alcoholic Liquor Fund	15,808,675	14,911,740
Special City & County Highway	149,793,684	139,630,146
Highway Equalization	2,500,000	2,500,000
Local Sales & Use Tax	513,552,162	470,248,323
Rental Motor Vehicle Tax	2,578,541	2,618,506
TIF Revenue Replacement Fund	607,405	363,082
Transient Guest Tax	16,813,900	15,891,284
<b>Total Distributions</b>	<b>\$796,489,027</b>	<b>\$737,851,002</b>



# Administration

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*Peggy Hanna, Asst. Treasurer*

## **Agricultural Production Loan Deposit Program**

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

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

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

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

The State Treasurer’s Office actively promoted the

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

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

The 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

## Selected Statistics of Agricultural Production Loan Deposit Program *FY 2000*

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Participating Banks	39
Participating Farm Credit System Offices	5
Initial Loans Funded	432
\$ amount of initial loans funded	\$50 million
Loans paid off	35
Loans not funded (money returned)	4
Subsequent loans funded	30
\$ amount of subsequent loans funded	\$4.994 million
\$ amount of loans currently waiting to be funded	\$1.3 million

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 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.

### **Office Remodeling**

The State Treasurer's Office is undergoing a physical transformation. Utilizing unused dollars from prior years' budgets, the Treasurer was able to partner with the Department of Administration to upgrade the 1970s style decor in the second floor offices of Landon State Office Building. What had probably been state-of-the-art finishes in 1979 had become just plain old looking. If you have not experienced the "yellow lights" in the main area of the office, you may not truly appreciate the renovations. Also, as happens in most offices, the furnishings had been accumulated over the years and were less practical.

We think the public will find the office more inviting in appearance and the staff will be able to function more effectively. The new plan was designed with balance and efficient use of space in mind.

# Kansas Postsecondary Education Savings Program

*Blanche Parks, Director*

The Kansas Postsecondary Education Savings Program was created by the 1999 Kansas Legislature to authorize the establishment of savings accounts for most forms of higher education. The program permits individuals and organizations to contribute to accounts to pay postsecondary education expenses for individuals they designate or for themselves.

The State Treasurer administers the program. During the past year, the Treasurer developed rules and



regulations to implement the program. Beginning in FY 2002, this will be a self-funded program.

There are attractive federal and state tax benefits to persons who open these accounts. Both federal and state taxes on the earnings derived from the investments are deferred until the money is withdrawn. At that time, the tax due is calculated at the beneficiary's rate, which should be lower than that of the account owner. In addition, Kansas residents may deduct up to \$2,000 in contributions annually for each beneficiary. A married couple filing jointly may deduct up to \$4,000 annually for each beneficiary. There is no limit on the number of beneficiaries for whom accounts may be established.

In December 1999, following a negotiated bid process, Treasurer Shallenburger contracted with American Century Investments as the program manager. Under the direction of the State Treasurer, the program manager is responsible for marketing the program, opening and administering customer accounts, managing investments, responding to customers and reporting to the Treasurer. It is the responsibility of the Treasurer to ensure that the program complies with federal Internal Revenue Code section 529, which allows states to implement these programs. Each year the Treasurer

will establish a contribution limit per account which will limit total contributions for each student by the average expenses of five years of higher education in midwestern states. That limit for calendar year 2000 was set at \$127,000. Because the Treasurer must also stay closely involved in the ongoing program, a director was hired to work with the program manager and to promote the program throughout the state.

Pursuant to the enabling statute, the first deposits were accepted on July 1, 2000.

Any person (the account owner) may open an account for any other person (the beneficiary) and is not restricted to family members. When an account is opened, a beneficiary is named, an investment track is chosen (conservative, moderate or aggressive) and the year of graduation is selected. The program manager will invest the funds based upon these decisions.

After the account is opened, the account owner does not have control over the investment strategy but does have control over the account for the purpose of: 1) closing the account (after a two-year waiting period); however, the withdrawal would be subject to a 10% penalty on any earnings and could be subject to taxation;



State Treasurer Tim Shallenburger talks with a parent about the Learning Quest Education Savings Program at the Kansas State Fair in September.



State Treasurer Tim Shallenburger looks on as Gov. Bill Graves opens a Learning Quest Educational Savings account for First Daughter Katie in July.

2) transferring the account to another beneficiary who must be related to the original beneficiary, or directing the program manager to pay educational expenses for the beneficiary.

Education expenses, as defined in section 529 of the federal Internal Revenue Code, includes tuition, fees, books, room and board (in certain cases), supplies and other expenses required for the beneficiary’s field of study. The expenses may be paid only to accredited postsecondary institutions eligible to participate in federal student aid programs.

Kansas law does not limit the student to attend a Kansas school.

If the beneficiary dies, becomes disabled or receives a scholarship, the account owner may withdraw all or part of the funds with no penalty, or funds may be transferred to a family member of the original beneficiary.

The features of the Learning Quest program have quickly established Kansas as one of the nation’s leaders in promoting savings for higher education. Shortly after the program debuted in July, Kiplinger’s Magazine named Learning Quest one of the nation’s Top 10 College Savings programs. The [savingforcollege.com](http://savingforcollege.com) web site gave the Kansas program a “5-Cap Rating,” its highest rating for college savings program for in-state students.

## Vital Stats of Learning Quest Education Savings Program *thru December 31, 2000*

Number of accounts opened	7,842	Calls to 800 number	19,458
<i>Number from Kansas</i>	<i>4,216</i>	Hits on Learning Quest web site	39,461
<i>Number from other states</i>	<i>1,351</i>	Requests for Learning Quest enrollment kits	27,507
Total assets	\$29.7 million		

## Office of the State Treasurer

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