



Michigan Department of
TREASURY

House General Government Appropriations Subcommittee
March 13, 2018

Treasury - Broad Responsibilities

Treasury has a wide range of responsibilities, including:

- ▶ State and local tax policy
- ▶ Economic and revenue forecasting
- ▶ Administration and collection of \$24 billion in taxes and fees
- ▶ Pension investment of approximately \$65 billion in assets
- ▶ Local government and school financial health
- ▶ Higher education student financial assistance and savings plans
- ▶ Managing the State's balance sheet
- ▶ Managing the State's relationship with Wall Street and the rating agencies
- ▶ Processing more than 9 million tax returns

Treasury Building Blocks and Values

Establish standard methodologies for use in continuous improvement and process re-engineering projects.

► Building blocks



ENGAGED EMPLOYEES
Everything starts with the active participation of all 1500 employees



CULTURE OF TAXPAYER SERVICE
Create a culture of taxpayer service—including a speedy response to taxpayer inquiries, consistency of answers, transparency of decision making, and simplicity of compliance. The goal is to move from a culture of enforcement to one of taxpayer service



CONTINUOUS IMPROVEMENT
Developing a practice of continuous improvement—all employees need the tools and the expectation that every day they will come to work, do their work, IMPROVE their work

► Values



Goal is fair and efficient administration of the tax system—not maximum revenue collection at all costs



Broad concept of Taxpayer Service in all we do—always ask “what is the impact on Taxpayers”?



Be metric driven. Measure where we want to go and whether we are making timely progress.



Think outside our department. Use benchmarks and best-in-class whenever possible to help us find innovative solutions



Communicate and celebrate successes

Examples of Our Success

Customer Service, Process Improvements and IT Stabilization: Tax Administration and Tax Policy

2015

- ▶ Processing all individual income tax returns in year filed
- ▶ Increasing number of Revenue Administrative Bulletins (RABs) and Letter Rulings
- ▶ Began work to fix sales, use, & withholding tax (SUW) and stabilize SAP

2016

- ▶ Reducing informal hearings time to less than 6 months
- ▶ Establishing expanded role for Taxpayer Advocate
- ▶ Reducing average audit time
- ▶ Improving quality and clarity of all taxpayer correspondence

2017

- ▶ Improving audit selection and achieving milestone with reduction to average days in audit
- ▶ Processing all taxpayer correspondence in 8 weeks (except SUW)
- ▶ Stabilizing SAP (capacity, accuracy and speed)

Examples of Our Success

Customer Service, Process Improvements and IT Stabilization: Local Government, Financial & Departmental Services and Administration

2015

- ▶ Implementing streamlined unclaimed property audit procedures
- ▶ Reorganizing the Tax Commission
- ▶ Focusing on continuous improvement

2016

- ▶ Began career pathway discussions with staff
- ▶ Reducing new tax processing lock box costs by \$8 million per year
- ▶ Streamlining garnishment processes
- ▶ Closed 638 of 786 Treasury IRS findings
- ▶ Reduced principle residence exemption appeal times from average of 223 days to 40 days
- ▶ Implemented The State Essential Services Assessment Act

2017

- ▶ Developing Diversity Program
- ▶ Improving Treasury's reputation with stakeholders
- ▶ Launching the new *Vault* (intranet)
- ▶ Launching *MI Community Financial Dashboard*
- ▶ Achieving clean Social Security Administration audit

The Future - Concerns

- ▶ *Sustainability of the Cultural Change* - Continuing the positive changes and customer focus that have occurred over the past few years and ensuring they have a lasting affect within the department
- ▶ *Process Improvements* - Continuing a philosophy of internal process review and improvement
- ▶ *SAP Stabilization and IT Strategy* - Continue on our path of stabilization for our critical tax processing systems and continue our aggressive approach to legacy replacement
- ▶ *Local Government* - Continuing to focus on improving the financial outlook for local communities and to successfully implement the new requirements placed on our department

Treasury Best-Operated 2018 Projects

Tax Processing

- ▶ Process SUW returns within tax year received
 - ▶ Reduce SUW average answer speed < 5 minutes
- ▶ Implement new systems
 - ▶ Medical Marihuana
 - ▶ Motor Fuel and Tobacco Tax (MFT)
- ▶ Process clarifications list within 60 days

Tax Compliance

- ▶ Expand focused audits into additional business types
- ▶ Reduce average audit time and increase quality audits
- ▶ Standardize procedures and implementations
- ▶ Audit processing complete in 8 weeks

Systems

- ▶ Improve SAP stabilization and productivity
- ▶ Finalize legacy long term replacement plan
- ▶ Implement department wide Data Governance plan

Communications

- ▶ Implement electronic newsletter for external stakeholders
- ▶ Develop social media strategy
- ▶ Improve internal supervisor/manager communications

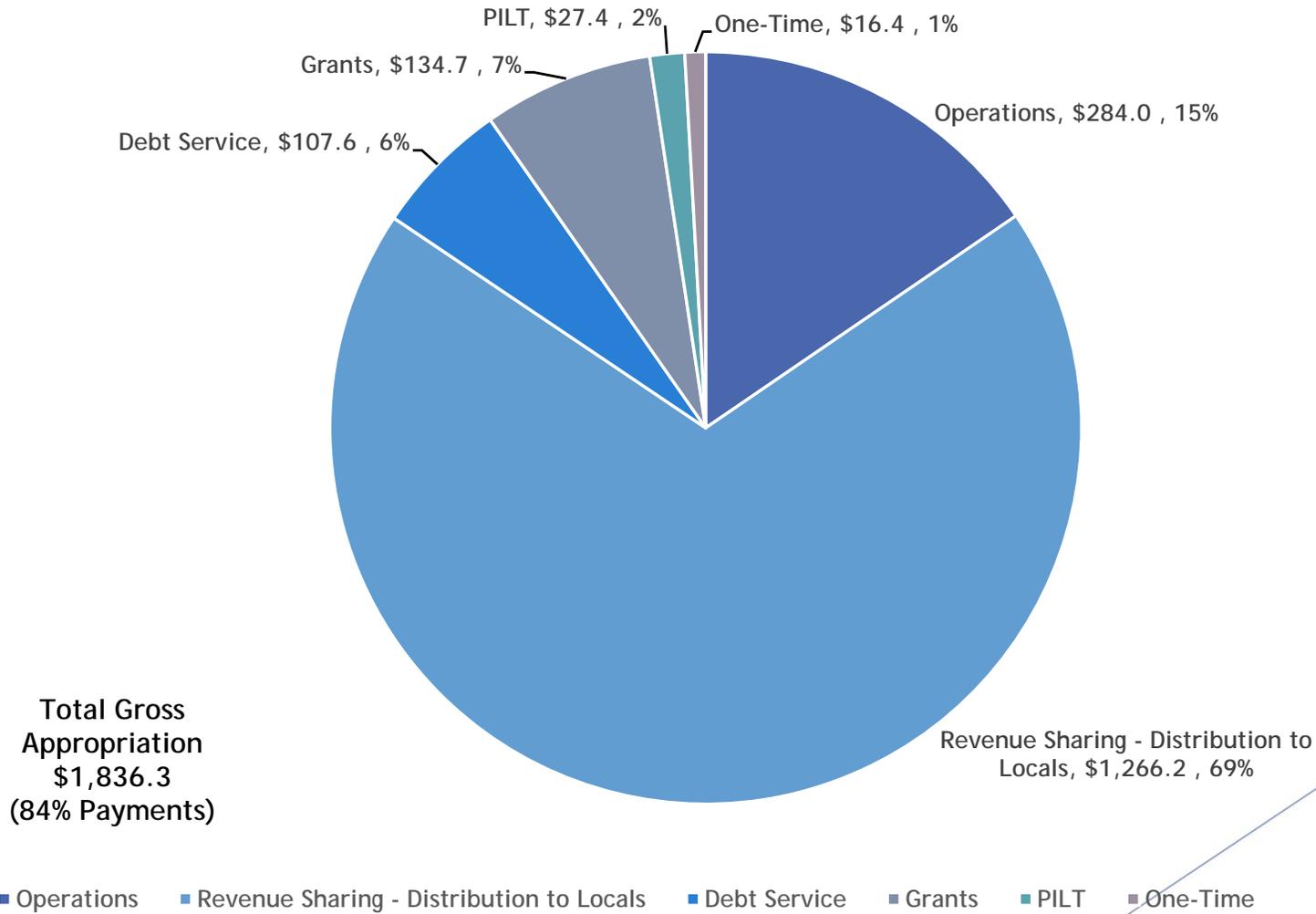
Collections

- ▶ Implement innovative e-services collection tools
 - ▶ Provide Text Message Reminders
 - ▶ Allow Credit Card Payments Through Interactive Voice Responses (IVRs)
 - ▶ Allow Recurring Payments
- ▶ Increase efficiencies within Offer In Compromise (OIC)
- ▶ Complete e-liens Continuous Improvement and Engagement Division (CIED) project (2017) implementation
- ▶ Complete SAC 5-part strategic plan CIED project (2017) implementation
 - ▶ Updated MOU agreements with remaining agencies
 - ▶ Outreach to remaining agencies



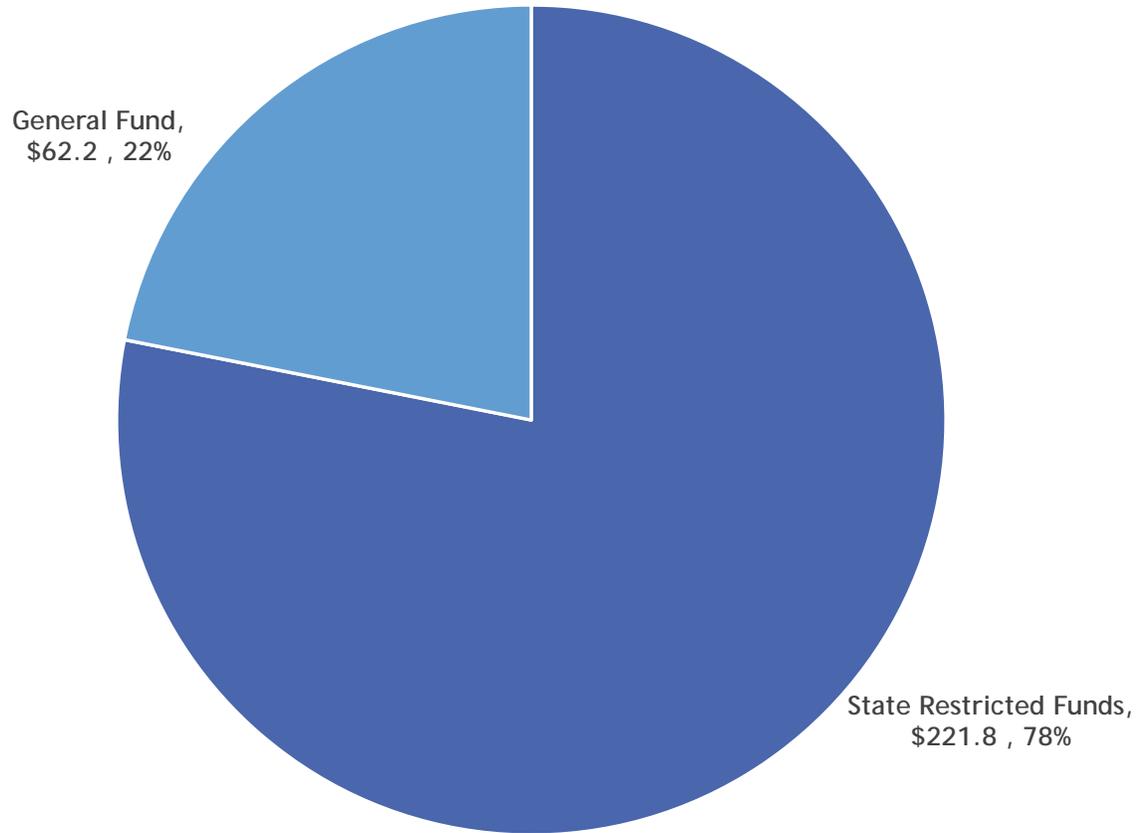
Treasury Budget FY18

Total FY18 Treasury Gross Appropriation (\$ in Millions)



FY18 Operations Appropriations Funding Type (\$ in Millions)

Total Operations \$284.0



■ State Restricted Funds ■ General Fund

New Programs

Over the long-term, Treasury has been able to keep base spending flat, as increases reflect new statutory and program requirements.

2015

- ▶ Financial Independence Teams
- ▶ State Building Authority - Transfer
- ▶ Data Governance Staff
- ▶ Scholarships & Grants IT Project
- ▶ International Fuel Tax Agreement
- ▶ Technical Resolutions Unit
- ▶ Office of Tax Plan Implementation
- ▶ Driver Responsibility Fees
- ▶ Fraud Prevention Services
- ▶ Credit Card Payment Program
- ▶ Financial Review Commission - Director
- ▶ MBT Legislative Changes - IT, One-time
- ▶ Personal Property Tax Reform, One-time
 - ▶ Total - \$13.6 Million

2016

- ▶ Financial Review Commission
- ▶ Personal Property Tax/Essential Services Assessment
- ▶ City Income Tax Administration - Initial Authorization
- ▶ Dual Enrollment
- ▶ Michigan Treasury Online Project, Portion One-Time
 - ▶ Total - \$15.5 Million

2017

- ▶ Free E-file, One-time
- ▶ IT Subject Matter Experts
- ▶ Wrongful Imprisonment Payments
- ▶ School Millage Reimbursement
 - ▶ Total - \$8.6 Million

2018

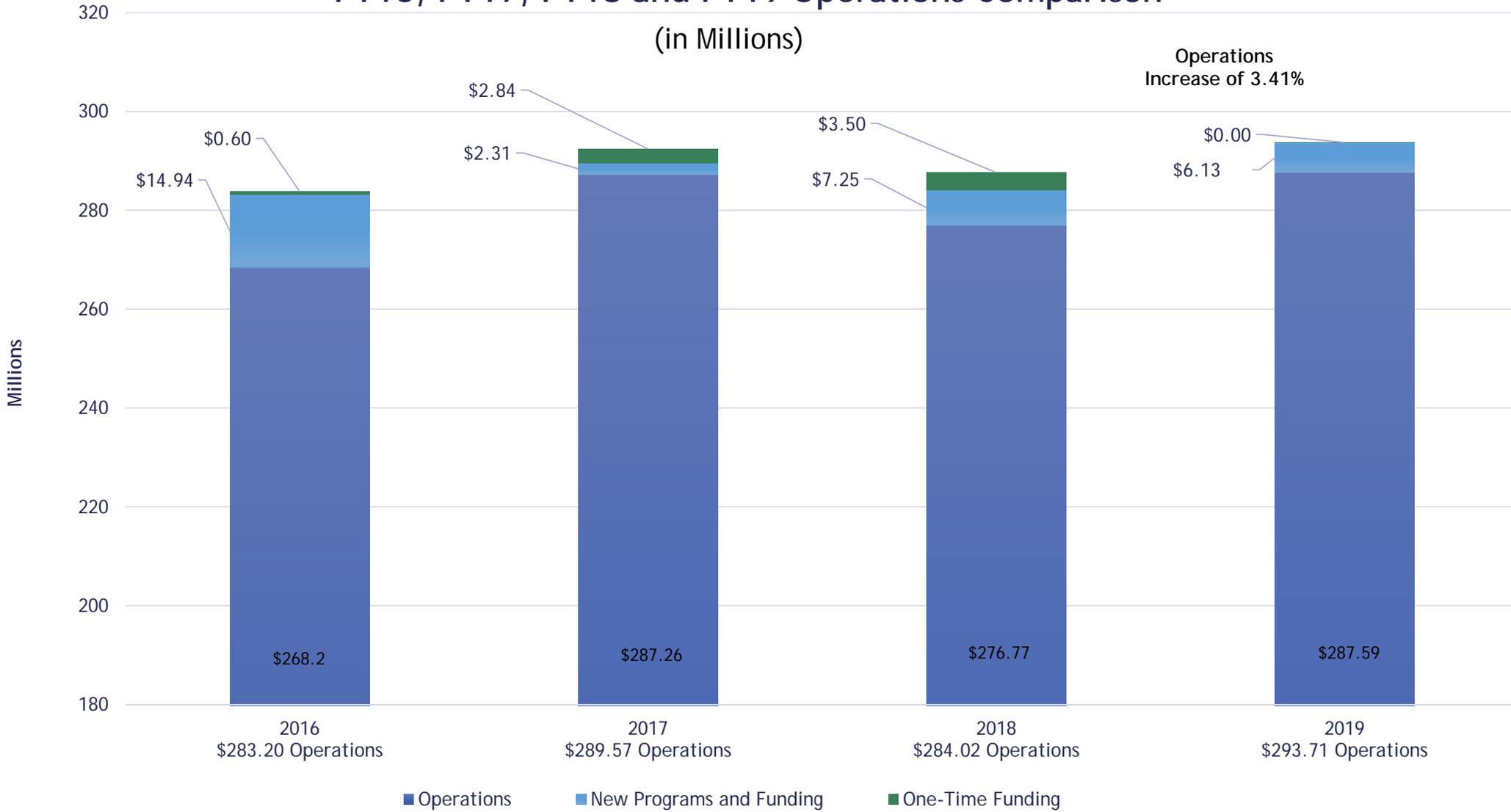
- ▶ Medical Marijuana Administration & Excise Tax
- ▶ Tax Processing Customer Contact
- ▶ City Income Tax Administration - Expansion
- ▶ Lien Fees Increase in Authorization
- ▶ Dual Enrollment
- ▶ Information Technology, One-time
- ▶ Support for Locals, Other Post-Employment Benefits
- ▶ MI Thrive
- ▶ Tax Increment Financing
 - ▶ Total - \$14.9 Million

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Treasury FY19 Funding Requests

FY16, FY17, FY18 and FY19 Operations Comparison

(in Millions)



FY19 Funding Requests

MI Thrive

\$214,300 and 1.0 FTE

- ▶ PA 46 of 2017 allows incremental sales and income tax capture on transformational brownfield projects approved by the MEDC
- ▶ Treasury will provide calculation and verification of the sales and income tax generated and provide data to the MEDC

Support for Locals, Other Post-Employment Benefits

\$464,000 and 2.0 FTEs

- ▶ PA 202 of 2017 requires pension and health care plan reviews for local units of government
- ▶ Treasury will provide monitoring, evaluation, and technical assistance to local units to meet the requirements of this act

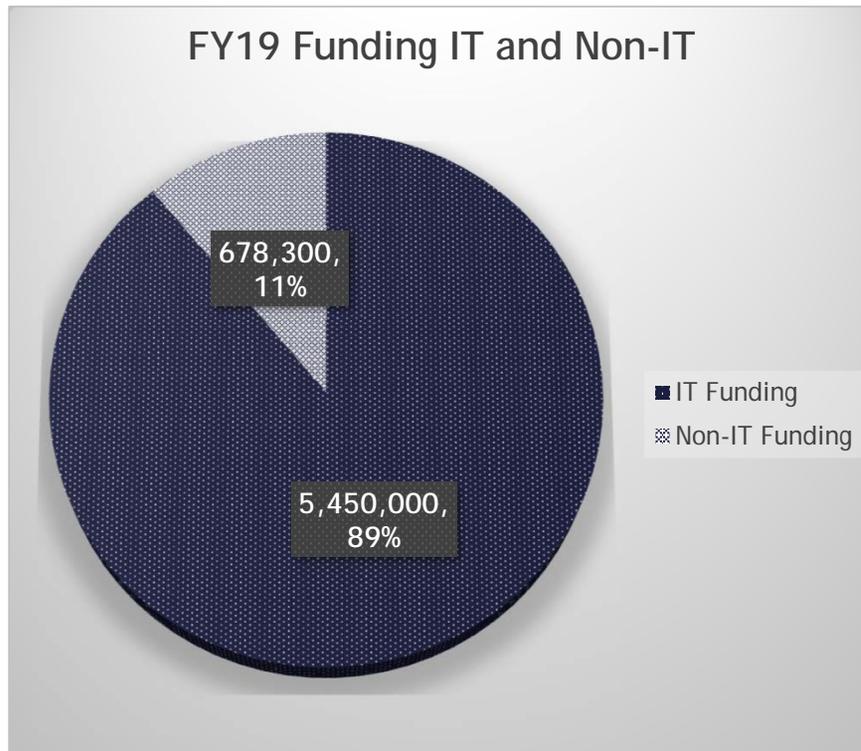
FY19 Funding Requests

\$5,450,000 AND 10.0 FTEs (DTMB)

Information Technology

- ▶ DTMB staff to provide day to day support of Treasury systems and projects.
 - ▶ This staff will assist with legacy system replacement and improved technology delivery.
 - ▶ Goals for new staff:
 - ▶ Reduction in Red Projects
 - ▶ Increased focus on customer service enhancements
 - ▶ Strategic reduction in overall systems utilized by Treasury
 - ▶ Reduction in the need for change requests to existing projects
- ▶ Introduce SAP business tax private cloud hosted infrastructure platform.
 - ▶ It is mandated that we move to a cloud solution. This will increase the cost of hosting but the private cloud was \$1.6 million less than the state alternative.
 - ▶ Project includes the replacement of all end of life servers currently supporting our SAP business taxes and includes no cost upgrades going forward.
- ▶ Unisys mainframe escalating hosting costs need to be offset during legacy replacement strategy implementation.
 - ▶ As more state agencies move off of the Unisys mainframe, Treasury will be required to pay the full cost of this system.
 - ▶ This will result in cost increases for Treasury of about 103% over the next 3 years.
- ▶ Funding Breakdown:
 - ▶ \$2,250,000 Staffing
 - ▶ \$2,800,000 Cloud Hosting
 - ▶ \$400,000 Unisys Mainframe Costs

FY19 Funding Request Breakdown



Total Funding Request
\$6,128,300

Appendix - IT Legacy Replacement Projects

IT System Improvements FY17-18

COMPLETED

- ▶ CIT/FTW/MBT/ESA/SUW/City Individual/City Corporate - Year-End Changes 2017
- ▶ Corporate Income Tax/Flow-Thru Withholding/Michigan Business Tax (CIT/FTW/MBT) Year-End Changes
- ▶ Data Cap - City Tax
- ▶ Detroit Individual, Corporate and Withholding Collections Functionality
- ▶ Essential Services Assessment (ESA)
- ▶ Genesys IWD - Individual and Corporate
- ▶ IIT Year End Project 2017
- ▶ MiABLE
- ▶ MICWRAP - SAP
- ▶ MTO Phase 4 - Michigan Treasury Online (MTO) Enhancements
- ▶ PCI Compliance Project
- ▶ SAP System Assessment
- ▶ Serena Legacy Replacement - Team Foundation Server
- ▶ SIGMA
- ▶ Testing Automation

IN PROCESS

- ▶ Avaya to Cisco Phone Conversion
- ▶ Business Tax Registration Upgrades
- ▶ Fiduciary Tax
- ▶ FIORI User Experience Enhancement
- ▶ Garnishments and Levies Legacy Replacement
- ▶ Genesys IWD - Tax Compliance
- ▶ HANA SAP Platform Upgrade
- ▶ Hearings System Legacy Replacement
- ▶ Interactive Voice Response System Legacy Replacement
- ▶ Investment Accounting System Replacement
- ▶ Medical Marihuana Excise Tax
- ▶ MET System Replacement
- ▶ MICWRAP - Data Warehouse
- ▶ MI Thrive Statutory System Requirements
- ▶ Motor Fuel and Tobacco Tax Legacy System Replacement
- ▶ OPEB Statutory System Requirements
- ▶ Personal Property Tax and Revenue Sharing legacy Replacement
- ▶ Property Tax Assessment Requirement System
- ▶ Scholarships and Grants Data Management System
- ▶ State Equalization System
- ▶ State Revolving Fund Loan Administration
- ▶ Unclaimed Property System Replacement
- ▶ Windows 10 Migration

New Programs and Legacy Replacement Plan

Completed

- Business Tax Registration
- City Income Tax Corporate
- City Income Tax Individual
- City Income Tax Withholding
- Centralized Correspondence
- Corporate Income Tax
- Essential Services Assessment
- FileNet Document Management
- Flow Through Withholding Tax
- Fraud Detection System - Experian
- Health Insurance Claim Assessment
- Human Resources Database
- Intelligent Work Design - Business
- Intelligent Work Design - Individual
- International Fuel Tax Connection
- Local Government Audit System
- Michigan Business Tax
- Michigan Treasury On-Line
- Offset Management - SIGMA
- Sales, Use and Withholding Phase 1-3
- Service Timekeeping System
- SIGMA
- Warrant Writing

In Process

- Assessor Renewal Certification
- Ayava to Cisco IP Telephony
- Composite Filer
- Customer Financials
- Data Capture Retrieval System
- Fiduciary Tax
- Garnishments & Levies
- Hearing System Legacy Replacement
- Infrastructure Financing Software
- Intelligent Work Design - Compliance
- Marihuana Tax
- MET System Replacement
- Motor Fuel Tax
- Personal Property Tax Payment System
- Power of Attorney System
- Revenue Sharing
- Scholarships & Grants Data Management System
- State Finance Accounting System
- State Revolving Fund Loan Administration
- Tobacco Taxes
- TreasLAN Security
- Unclaimed Property

10-Year Plan

- Accounting Services Access Database System
- Customer Relationship Management - Call Center
- Individual Income Tax
- Lottery Offset
- Misc Smaller Legacy Tax Systems
 - Airport Parking Tax
 - Bottle Deposit
 - Convention Facility Development
 - Estate Tax
 - HMO Use Tax
 - Home Heating Credit
 - Real Estate Transfer Tax
 - Severance Tax
 - Statutory Refund
- Offset Debt Management Services
- Revenue and Tax Planning Program Analysis System
- State Treasury Accounts Receivable

**\$80 Million
Remaining Investment**