



Michigan Department of
TREASURY

Engagement. Service. Improvement.

**House General Government
Subcommittee**

March 8, 2022

EXECUTIVE SUMMARY

- Department of Treasury: who we are
 - Our foundation and accomplishments
- FY21-22 Highlights
 - Current year budget summary
 - Significant funding distribution efforts for COVID and disaster relief
- IT investments and projects update
- FY23 Summary of requested changes



Treasury has broad responsibilities

- Administration and collection of \$24 billion in taxes and fees
- State and local tax policy
- Economic and revenue forecasting
- Oversees a broadly diversified portfolio of State of Michigan investments that total nearly \$118 billion.
- 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 approximately 8 million tax returns per year

OUR FOUNDATION

EMPLOYEE ENGAGEMENT

Commitment to an inclusive environment that values diverse perspectives and cultivates employee recruitment, retention, development, and leadership.

CULTURE OF SERVICE

Provide complete, accurate, and timely services to all internal and external customers in a professional manner.

CONTINUOUS IMPROVEMENT

Commitment to proactive and innovative employee-driven solutions in our daily operations and in strategic financial leadership.

OUR MISSION, VISION and VALUES

MISSION

Providing fair and efficient financial services on behalf of taxpayers, governments, students and all Michiganders, for the long-term fiscal health and stability of our state.

VISION

We are the innovative and inclusive resource provider of exceptional financial services for a better Michigan.

VALUES

Integrity ~ Inclusion & Diversity ~ Innovation ~ Public Service

CONTINUOUS IMPROVEMENT

OUR SUCCESSES



Our PROGRESS ^{is} 2021

Engagement. Service. Improvement.

TAX ADMINISTRATION SERVICES

| | | | | | |
|---|---|--|--|---|--|
| Individual Income Tax (IIT) Returns Backlog 0 Down from 350 in 2019 | IIT Correspondence (within 60 days) 95% Down from 98% in 2020 | IIT Call Center Wait Times (minutes) 2:14 Down from 2:22 minutes in 2020 | Sales, Use and Withholding (SUW) Returns Backlog 0 Down from 110,000 in 2018 | SUW Correspondence (within 60 days) 92% Up from 91% in 2020 | SUW Call Center Wait Times (minutes) 3:12 Down from 4:18 minutes in 2020 |
|---|---|--|--|---|--|

TAX COMPLIANCE

| | | |
|---|--|---|
| Processing Inventory < 90 days 70% Up from 57% in 2020 | Audits in Progress (days) 174 Down from 200 days in 2020 | Taxpayer Satisfaction 70% Up from 66% in 2020 |
|---|--|---|

TAX POLICY/HEARINGS

| | | |
|---|--|--|
| Informal Tax Hearings (average months per hearing) 5.1 Down from 5.5 months in 2020 | Revenue Administrative Bulletins (RABs) (total per fiscal year) 9 In the past, RABs were rarely issued | UNCLAIMED PROPERTY – Paying Rightful Owners (in millions) \$116.7 Second best payout year in history |
|---|--|--|

COLLECTIONS

| | | |
|---|--|--|
| Total Collections (in millions) \$393.8 Up by \$140 million in 2020 | Electronic Payments Collected (in millions) \$128.8 Up from \$76.4 million in 2020 | Number of Taxpayers Served by Call Centers and Field Staff 205,428 Up from 183,290 million in 2020 |
|---|--|--|

INVESTMENTS

| |
|--|
| Total Assets Under Management (in billions) \$138.9 Up from \$117.9 billion in November 2020 |
|--|

POSTSECONDARY FINANCIAL SERVICES

| | |
|---|--|
| Students, borrowers, & families served 268,293 | Aversion Assistance provided (borrowers) 58,172 resulting in \$15 million in student loans moved to good standing. |
|---|--|

LOCAL GOVERNMENT

| |
|--|
| Attendance at Outreach Events for Local Governments and Schools 11,056 More than 103 events and trainings were held. Attendees completed satisfaction surveys and 95% were highly satisfied. |
|--|

CONTINUOUS IMPROVEMENT

Treasury's commitment to proactive and innovative employee-driven solutions in our daily operations and in strategic financial leadership have led to improved services for Michigan's 5+ MILLION TAXPAYERS.

99% Of the current year's submitted Individual Income Tax (IIT) Returns have been processed in the year submitted!

This is the fifth consecutive year Treasury's tax processing team has achieved this completion rate. Prior to 2016, this had not previously been accomplished.

CULTURE OF SERVICE

Treasury administered 12 grant programs in response to the Covid-19 pandemic. Approximately \$834 million went to communities and individuals (teachers, school support staff, hospitality workers, emergency responders and more). Treasury successfully coordinated the processing of more than 210,750 payments in 2021.

\$834 million

EMPLOYEE ENGAGEMENT

Treasury is committed to an inclusive environment that values diverse perspectives and cultivates employee recruitment, retention, development and leadership. Employee Resource Groups (ERGs) are one avenue employees have to become engaged in causes that are important to them.

6 ERGs

@MiTreasury
CONNECTED
social media impressions/reach

1,805,039
Treasury, MET, and MI Student Aid

2,497,972
and 235,135 on Instagram
MET/MESPI/Fostering Futures and MI Student Aid

64,132

CONTINUOUS IMPROVEMENT and EMPLOYEE ENGAGEMENT

2021 ACCOMPLISHMENTS

- Administered 12 grant programs in response to the COVID-19 pandemic, distributing approximately \$834 million via more than 210,750 payments to communities and individuals
- Launched new Revenue Sharing/Personal Property Tax IT system for more seamless distributions to local units
- Implemented Trusted Partnership Resource Model to guide local government units and school districts with fiscal matters
- Implemented Standard Quality Audit project; Taxpayer satisfaction has improved to 70% from 66% in first year
- Continued transition to paperless environment to better serve taxpayers – completing 97 projects and eliminating more than 200,000 pieces of paper

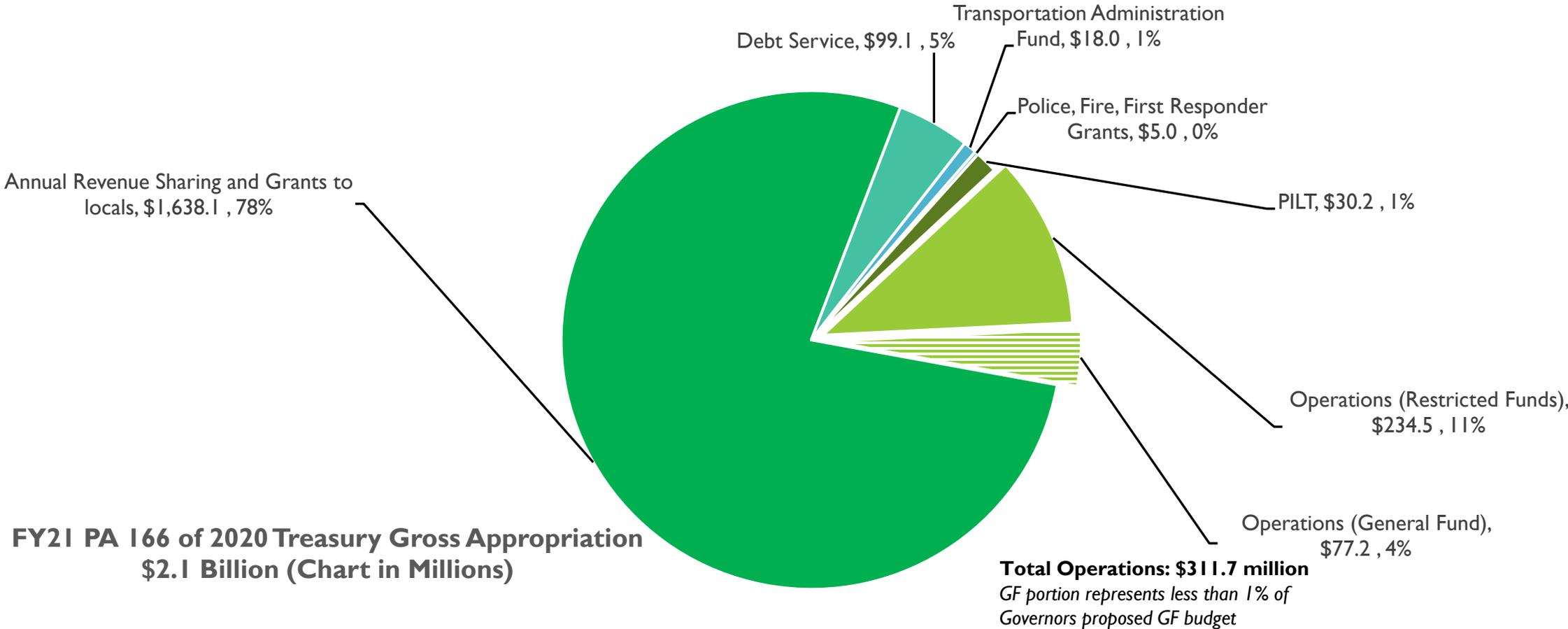
OUR 2022 PROJECTS

- Implement Phase I of the multi-year MiTreas Modernization project to streamline processes and improve taxpayer experience
- Implement Flow Through Entity tax
- Continue and expand workforce development efforts to recruit, develop, engage, and retain an inclusive and diverse workforce focused on service, engagement and continuous improvement

FISCAL YEAR 2022 BUDGET SUMMARY



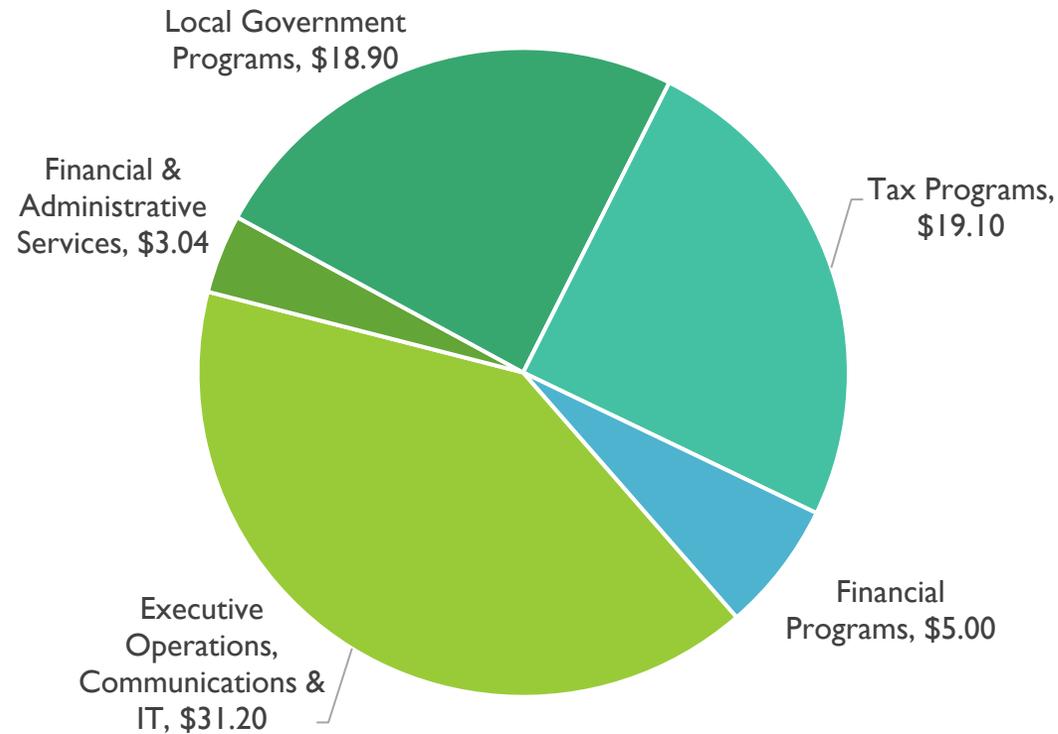
Majority of Treasury's budget is distributed to local units or dedicated to payments



Treasury General Fund Operations Summary

(in millions)

Treasury Programs General Fund Total = \$77.2



Previously Appropriated COVID-19 and Disaster Relief Efforts

| Fiscal Year | Program | Funding |
|-------------|--|----------------------|
| 20 | School Device Purchasing Program for distance learning | \$25 million |
| 20 | First Responder Hazard Pay Premiums | \$40 million |
| 20 | Hospitality Relief Fund | \$2.5 million |
| 20 | Coronavirus Relief Local Government Grants | \$150 million |
| 20 | Public Safety/Public Health Payroll Reimbursement | \$200 million |
| 20 and 21 | Disaster Flooding Relief Grants | \$33 million |
| 21 | MI Classroom Heroes Grants | \$75.5 million |
| 21 | Employee Assistance Fund | \$45 million |
| 21 | Futures for Frontliners | \$15 million |
| 22 | Growing MI Business | \$409 million |
| 22 | First Responder Training and Retention Grants | \$5 million |

Pending FY22 Supplemental Requests

- **\$500 million (ARP Funds)** Hero pay for essential workers during the COVID pandemic
 - Look forward to working with Legislative partners to identify how best to reward workers who were on the frontlines over the last years
- **\$50 million (\$30m GF/ \$20m ARP)** First Responder Retention Payments to state and local law enforcement and public safety personnel
- **\$5 million** deposit to the wrongful imprisonment compensation fund

**FISCAL
YEAR 2023
BUDGET
REQUESTS**



New Grant Programs: One Time Priority Investments

- \$50 million to provide rebates for the purchase of electric vehicles or at home charging equipment
 - Valuable investment to support Michigan jobs and transition toward electric vehicles
- \$40 million for Local Transition Support Grants to assist with communities who have experienced significant impacts from departure or disinvestment of major employers



Focused on IT investments and tax implementation

- IT continues to be a focus for continuous improvement and drives many of our investment priorities
- Kicked off MiTreas Modernization Project, which was funded in part from \$40 million in ITIF
 - Excited about the improved efficiency and customer service this project will bring
- In process of implementing Flow Through Entity tax which was passed in late December, we quickly allowed businesses to issue payments in order to utilize for Tax Year 2021
- We have three ITIF requests impacting Treasury for FY23
 - \$4.2 million for business tax archiving systems changes to allow for better data management, avoid service interruption risk, and avoid future storage costs
 - \$2 million to modernize Electronic Local Government and Tax Evaluation System (ELITES) to add functionality for both internal and external users
 - \$8.9 million to update enterprise contact centers. This project would be managed by DTMB but would impact Treasury's contact centers

Investment in workforce and organizational development

\$751,300 (ongoing)
5 FTE

- Recruiting and retaining a talented, diverse, and engaged workforce is one of Treasury's key strategic goals
- We are a customer service driven and having a talented and engaged workforce is integral to our success
- This request would build off our existing efforts in this space by adding 5 additional FTEs to improve recruitment, retention, and improve and standardize training across the department
- Would build off our existing efforts to make Treasury a great place to work

Office of Postsecondary Financial Planning

\$2,900,000 GF
(ongoing)
5 FTE

- Several programs have been added to OPFP's portfolio in recent years, including Reconnect, and the newly proposed New Educator Recruitment programs
- New Educator Recruitment is a proposed \$350 million investment that Treasury will have a role in administering in partnership with higher education institutions
- Funding would be primarily devoted to outreach efforts to “move the dial” on enrollment and retention in community colleges, including their skilled trade programs, and universities by improving awareness of scholarship opportunities
- Supports the Governor's 60/30 mission
- Existing scholarship and grant program portfolio is approximately \$194 million in FY22

Additional changes highlights

- \$1.4 million related to ongoing administration of Flow Through Entity Tax
 - As of February Treasury has accepted nearly \$500 million in payments since only December
 - Those payments will generate refund requests and potentially significant correspondence and phone inquiries
 - Treasury was appropriated \$4.6 million one-time for IT related implementation, this request would support staffing needs
- \$1.25 Million for Information Technology costs supporting Revenue Sharing/ PPT system and Motor Fuel and Tobacco tax systems that have come online in recent years
 - New RS/PPT system went live in October and has processed \$527,675,879 in payments to date
- \$1.2 million (one-time) related to implementation of pension tax changes, would be spread over phase in period of tax changes to answer expected calls and respond to correspondence from taxpayers
- \$2.5 million net-to-zero fund shift from State Agency Collection Fees to Delinquent Tax to reflect changing collection activity, primarily from the elimination of Driver's responsibility fees.

Additional changes highlights

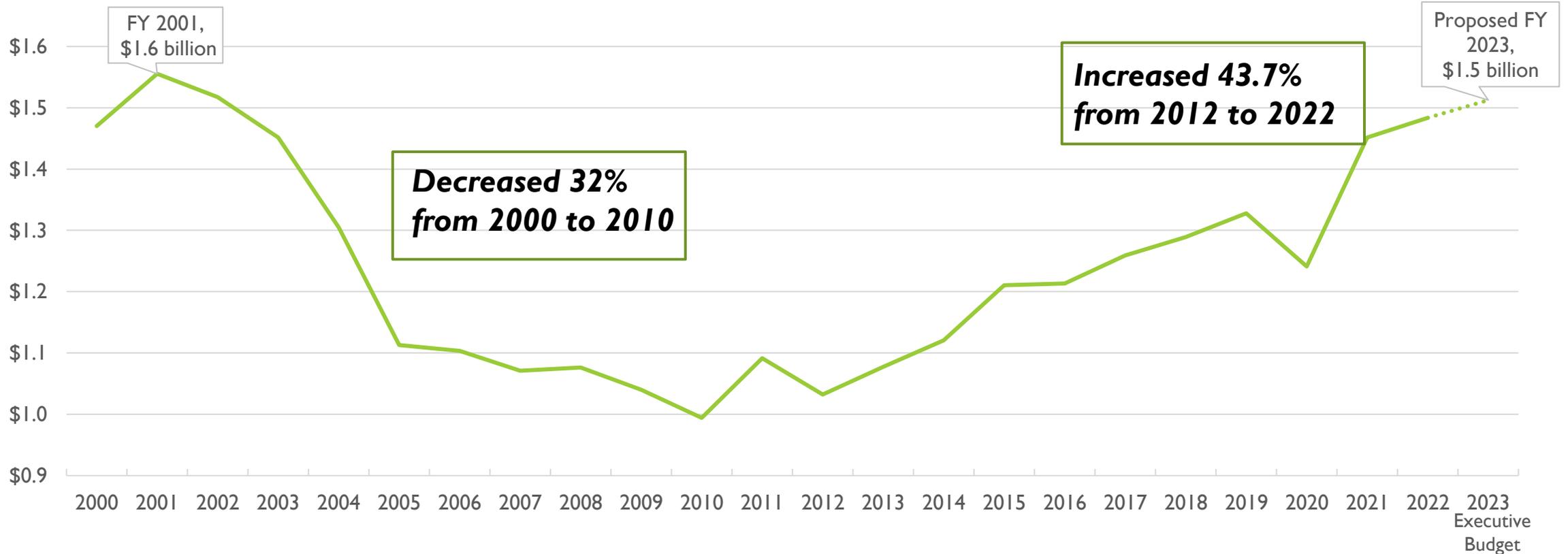
- \$20.58 million increase in anticipated payments for recreational marihuana grants
- \$150,000 increase for Senior Citizen Cooperative Housing payments
- Combine office of Accounting Services and Office of Financial services into one line to allow for improved organizational efficiency and to reflect coordinated efforts of those areas.
- Transfer 5 FTEs and \$367,000 from Collections Service Bureau to Department Services to reflect administrative internal changes

**FISCAL
YEAR 2023
REVENUE
SHARING
CHANGES**



State Funding for Local Government Has Increased but Still Below 2001 Levels

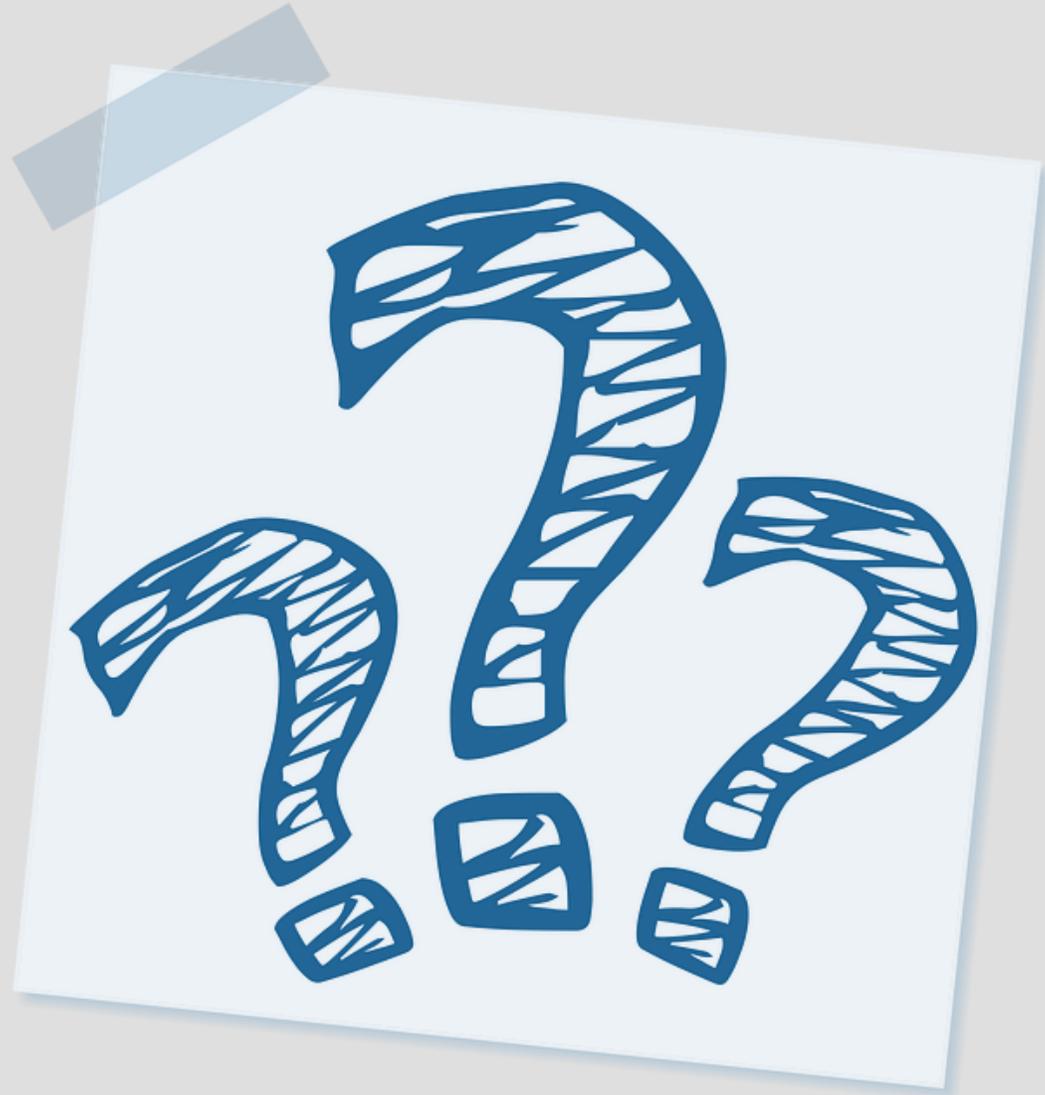
Total Revenue Sharing
(in billions)



FY23 Revenue Sharing Highlights

- Constitutional Revenue sharing projected to be \$964.6 million
- City, Village and Township Revenue Sharing (CVTRS)- recommended 5% ongoing and 5% one-time increase from FY22 to \$292.9 million
- County Revenue Sharing recommended 5% ongoing increase and 5% one-time increase, total of \$255.1 million
- \$50 million payment to cities, villages, or townships to hold them harmless for payments made last year before 2020 census data was available
- Financially Distressed Cities, Villages, Or Townships program maintained at \$2.5 million

Questions



Appendix: Proposed policy changes

SUMMARY OF PROPOSED CHANGES TO RETIREMENT INCOME
TREATMENT AND EARNED INCOME TAX CREDIT

Retirement Income Current Law

- Treatment is based on the year the taxpayer was born
- Tier 1 – born prior to 1946
 - Deducts qualifying retirement or pension benefits
 - All qualifying public benefits may be deducted with private benefits deductible up to \$56,961 on a single return, \$113,922 on a joint return
- Tier 2 – born 1946 through 1952
 - Deduction of \$20,000 single/\$40,000 joint against all income
- Tier 3 – born after 1952
 - At age 67, deduction of \$20,000 single/\$40,000 joint against all but the benefit of the deduction is reduced by amounts deducted for personal exemptions or Social Security included in AGI

Retirement Income Proposed Changes

- Phased in return to treating all retirees like those born prior to 1946
 - Beginning in 2022, taxpayers with qualifying benefits would be able to choose to deduct those benefits
 - Those choosing to deduct retirement benefits would not take the deduction against all income, but the deduction against all income would remain an option
 - Tax year 2022 – those age 65 and older can deduct retirement benefits up to 25% of the limit imposed on private benefits for Tier I
 - Tax year 2023 – those age 62 and older could deduct retirement benefits up to 50% of the limit
 - Tax year 2024 – those age 59 and older could deduct up to 75% of the limit
 - Tax year 2025 – The deduction that currently applies to those born prior to 1946 would apply to all Michiganders with qualifying benefits

Retirement Income Changes Impact

- The proposal would save approximately 500,000 households an average of \$1,000 per year
- Proposal protects School Aid Fund revenue
- Impact by fiscal year:
 - FY 2022 -\$13 million
 - FY 2023 -\$107 million
 - FY 2024 -\$285 million
 - FY 2025 -\$495 million



Earned Income Tax Credit Increase

- Proposal would increase the Michigan EITC to 20% of the federal EITC, up from 6%, beginning in tax year 2022
- The EITC provides support to low-income working families
- Nearly 750,000 families would receive an average increase of more than \$300 each
- Impact by fiscal year:
 - FY 2022 \$0 (accounting rules put refundable IIT credits into the year paid)
 - FY 2023 -\$262 million
 - FY 2024 -\$267 million

Thank You!