



*Michigan Department of*  
**TREASURY**

House General Government Appropriations Subcommittee  
March 14, 2017

# 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.

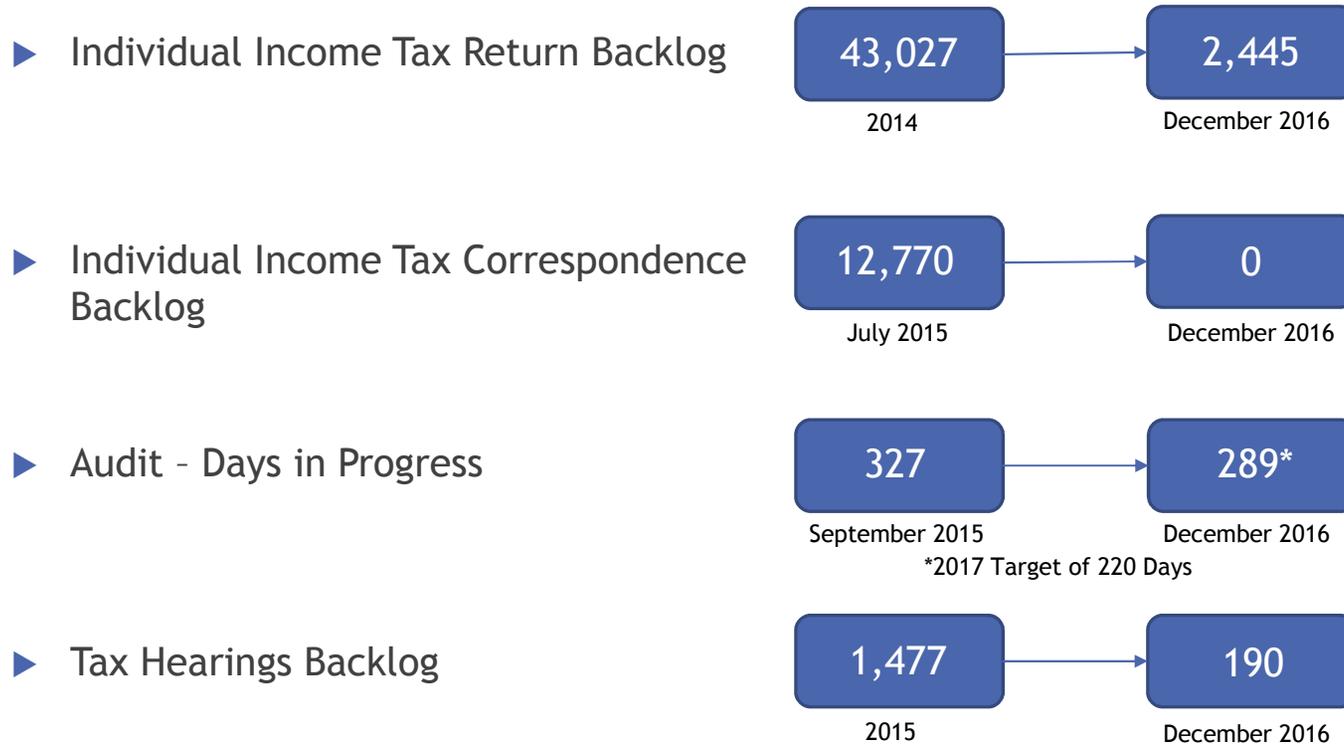


Think outside our department. Use benchmarks and best-in-class whenever possible to help us find innovative solutions



Communicate and celebrate successes

# Treasury Best-Operated 2015-2016 Projects



# Treasury Best-Operated 2017 Projects

## Tax Processing

- ▶ Process taxpayer correspondence within eight weeks
  - ▶ Individual and business
- ▶ Explore improvements in contact centers (percent of first time resolution, <ASA, Quality Assurance training - percent of compliance with policies and procedures)
  - ▶ Individual and business

## Tax Compliance

- ▶ Reduce average audit time by improving audit methodology
- ▶ Improve audit process to better focus on non-compliant taxpayers (from selection to completion)
- ▶ Process taxpayer correspondence in eight weeks (Discovery)

## Systems

- ▶ SAP - Improve capacity, accuracy, and speed
- ▶ Execute city business withholding and city individual income tax and business collections on time and on budget
- ▶ SIGMA - Implement new state-wide financial system

## Communication

- ▶ Implement strategic plan for internal and external communications
- ▶ Continue improvements in quality and clarity of all correspondence sent to taxpayers
- ▶ Establish an external review process for Treasury programs, forms and communications

## Collections

- ▶ Implement e-services installment agreements (phase four)
- ▶ Implement e-liens with 35 county register of deeds
- ▶ Implement a five part strategic plan for State Agency Collections

# Business Improvements

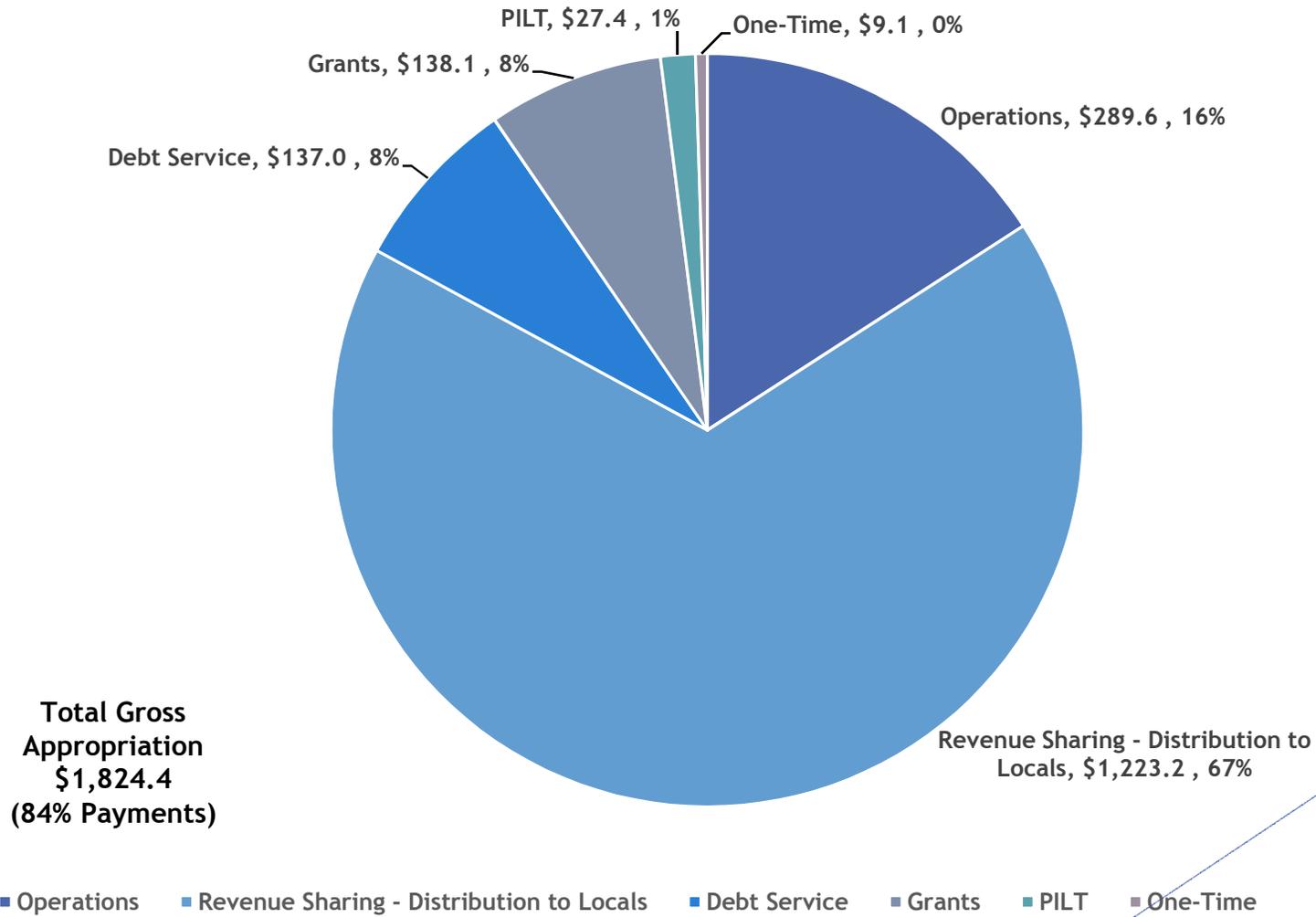
## Michigan Treasury Online/Sales Use and Withholding (SUW)

In April 2015 Treasury made a commitment to fix the SUW automated taxpayer system. Updates began in January 2016 and the third phase of project went live in January 2017.

- ▶ 24/7 online access to your Treasury business account
- ▶ Single sign-on for all MTO related services
- ▶ Manage business registration information
- ▶ File and pay SUW taxes and Essential Services Assessment (ESA)
- ▶ View, print, manage and save returns and payments
- ▶ Upload W-2 and other wage statements
- ▶ Final phase of four part upgrade launch planned for June 2017
- ▶ And more ...

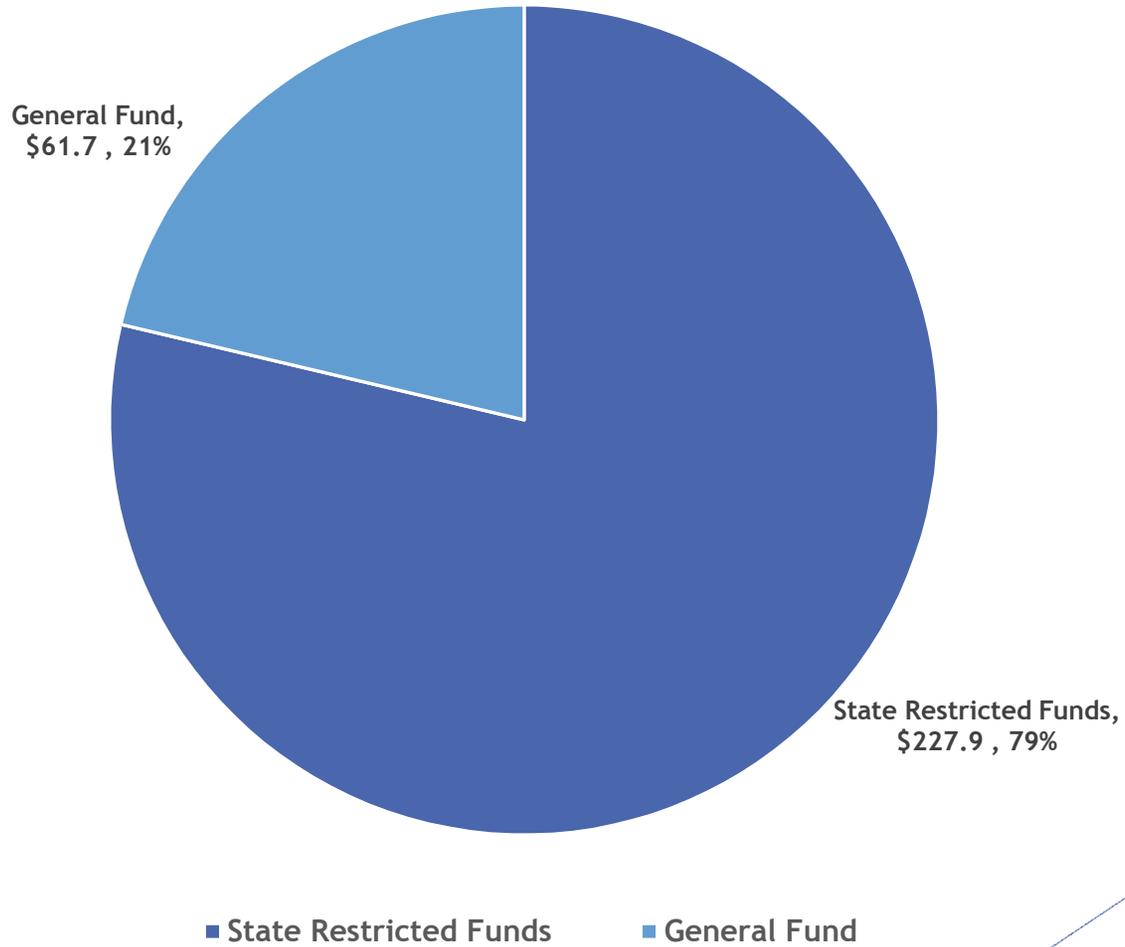
# Treasury Budget FY17-18

## Total FY17 Treasury Gross Appropriation (\$ in Millions)



## FY17 Operations Appropriations Funding Type (\$ in Millions)

Total Operations \$289.6



# New Programs

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

## 2015

- ▶ Essential Services Assessment - Legislative Transfer
- ▶ City Income Tax - FTEs Only
- ▶ Financial Independence Teams
- ▶ State Building Authority Transfer
- ▶ Data Governance Staff
- ▶ Scholarships and Grants IT Funding
- ▶ Technical Resolutions Unit
- ▶ Office of Tax Plan Implementation
- ▶ International Fuel Tax Agreement - IT
- ▶ Driver Responsibility Community Service
- ▶ Fraud Prevention
- ▶ Tax Programs - Credit Card Payment Program
- ▶ Financial Review Commission - Executive Director Hire
- ▶ MBT Legislative Changes - IT
- ▶ Personal Property Tax Reform - One Time
- ▶ **Total - \$13.9 million**

## 2016

- ▶ Financial Review Commission - Built into Base
- ▶ Personal Property Tax/Essential Services Assessment - Permanent Funding
- ▶ City Income Tax - (Detroit) Permanent Funding
- ▶ Dual Enrollment
- ▶ MTO Project Funding
- ▶ **Total - \$15.5 million**

## 2017

- ▶ Free E-File
- ▶ IT Subject Matter Experts
- ▶ Medical Marihuana Excise Tax
- ▶ Wrongful Imprisonment Payments
- ▶ School Millage Reimbursement
- ▶ **Total - \$3.6 million**

**Cumulative Total - \$33.0 million**

# IT System Improvements

## COMPLETED

- ▶ Michigan Treasury Online (MTO) enhancements
- ▶ Essential Services Assessment (ESA)
- ▶ Corporate Income Tax/Flow-Thru Withholding/Michigan Business Tax (CIT/FTW/MBT) year-end changes
- ▶ Detroit city income tax
- ▶ Detroit corporate tax
- ▶ Detroit corporate and income tax withholding
- ▶ CIT/FTW/MBT year-end changes 2016
- ▶ ESA year-end 2016

## IN PROCESS

- ▶ SIGMA
- ▶ Medical Marihuana Excise Tax
- ▶ MTO phase 4
- ▶ CIT/FTW/MBT year-end changes 2017
- ▶ MTO year-end 2017
- ▶ ESA year-end 2017
- ▶ Motor Fuel and Tobacco Tax legacy system replacement
- ▶ Personal Property Tax and Revenue Sharing legacy replacement
- ▶ Garnishments and Levies legacy replacement
- ▶ Testing automation
- ▶ SAP system assessment
- ▶ Data capture retrieval system
- ▶ Hearings system
- ▶ Fiduciary tax

# FY17 New Funding Received

- ▶ Information Technology Business Integration Division
  - ▶ \$750,000 and 4.0 FTEs
    - ▶ All FTEs filled
    - ▶ All staff are trained and operational in their positions; taking on testing, communications, training and project management
    - ▶ Less costly remediation after go-live
    - ▶ Returned 32.0 full-time FTEs and saved a total of 57.0 FTEs scheduled to move into testing for FY17
  
- ▶ Provide Free E-File for Individual Income Tax
  - ▶ \$2.8 million in one-time funding
    - ▶ Reviewing vendor and customized options
    - ▶ Goals:
      - ▶ Provide a free e-file option for taxpayers
      - ▶ Reviewing additional functionality to improve customer service
        - ▶ Mobile application
        - ▶ 'Where's My Refund' functionality
        - ▶ Text Alerts on refund status
        - ▶ Mobile e-pay

# FY17 New Funding Received - In DTMB's Budget for Treasury IT Needs - ITIF Funding

- ▶ \$7.5 million (no FTEs)
- ▶ Planned
  - ▶ Legacy replacement roadmap
  - ▶ SAP system assessment
- ▶ Active
  - ▶ SAP upgrades and enhancement packs (5 versions behind, 3 enhancement packs)
  - ▶ Production support staffing and knowledge transfer
  - ▶ Outstanding system issues submitted prior to January 2016 fixed
  - ▶ Outstanding system breaks reduced from 342 to an average of 55
  - ▶ Contract staff reduced from a high of 45 to an average of 15
  - ▶ Automated testing initiative
  - ▶ Reports project and training implementation
  - ▶ Testing, project management and communications training
  - ▶ Business process reviews on all critical projects

# FY18 Funding Requests

- ▶ Treasury's proposed operating budget for FY18:
  - ▶ General Fund increase of \$2.992 million
    - ▶ Tax Processing Customer Service - \$992,000 on-going
    - ▶ SAP Stabilization - \$2.0 million one-time
  - ▶ Spending Authorization (Pass through costs) of \$6.6 million
    - ▶ City Income Tax - \$3.8 million, 20.0 FTEs
    - ▶ City Income Tax IT Costs - \$1.5 million
    - ▶ Lien Fees Statutory Increase - \$1.3 million
  - ▶ State Restricted Funding of \$675,000
    - ▶ Medical Marihuana Excise Tax Administration - \$675,000, 6.0 FTEs - Marihuana Regulatory Fund
  - ▶ Total increase is \$10.26 million

# FY18 Funding Requests

## ▶ Proposal for Change Request - Spending Authority

### ▶ City Income Tax Administration

- ▶ \$3.8 million on-going and 20.0 FTEs for City Income Tax Administration Program
- ▶ \$1.5 million one-time IT funding for city implementation
  - ▶ FTEs and funding to expand city income tax administration from individual income tax to include corporate income tax and withholding tax
  - ▶ Increase processing speed for business and individual tax filers
  - ▶ Provide better service through expanded reporting and tracking
  - ▶ City of Detroit has requested and approved additional reporting capabilities
  - ▶ Increased bank processing fees and IT costs
  - ▶ Ability to add an additional city after successful testing and launch for city of Detroit
  - ▶ On-going costs borne by Detroit and any new city
  - ▶ Improvements in customer service for Detroit residents:
    - ▶ Increased the number of filings for City individual - better compliance rate
    - ▶ Ability to file and pay electronically
    - ▶ Self-serve options available on web
    - ▶ Customer Service - call center processing staff, including Spanish speaker options

# FY18 Funding Requests

- ▶ **Proposal for Change Request**

- ▶ Customer Contact Support - Tax Processing

- ▶ \$992,000 and 9.0 FTEs to support the customer contact areas for individual income tax and business registration

- ▶ Additional FTEs to provide direct taxpayers services
      - ▶ Maintain historically low call times and elimination of backlogs through replacing half of the temporary staff with permanent employees
      - ▶ Provide enhanced services to business taxpayers for tax clearances and registration service requests
      - ▶ Eliminate instability of fluctuating temporary staff
      - ▶ Expansion of capabilities of staff to handle a full variety of tax questions
      - ▶ Improve call times and correspondence through a more experienced staff
      - ▶ Create a sustainable staffing model with lower turnover to provide greater customer service

# FY18 Funding Requests

- ▶ **Proposal for Change Request - Spending Authority**

- ▶ Lien Fee Increase - Office of Collections

- ▶ \$1,300,000 to support legislative changes to the increased filing fees for liens

- ▶ Treasury is required to pay lien fees, which have increased in statute (MCL 600.2567) from \$10 per filing to \$30 per filing
      - ▶ Increase spending authorization to pay the fees as required by statute
      - ▶ Department authorized to recover costs

# FY18 Funding Requests

- ▶ Proposal for Change Request

- ▶ SAP Stabilization

- ▶ \$2.0 million in one-time funding for contract staff for SAP and MTO systems and testing support
    - ▶ Focus on capacity, accuracy and speed
    - ▶ Reduce cost of projects and increase strategic planning
    - ▶ DTMB will transfer these contractor staff to state staff within the next 12 months
    - ▶ Benefits:
      - ▶ Allows us to sustain gains achieved in the last 18 months (significantly improved outcomes)
      - ▶ Allows for redesign of the IT candidate approval process to accommodate for increasing maintenance costs and staff redesign
      - ▶ Allows time to implement automated testing which will reduce the pressure for regression testing, currently done manually

# FY18 Funding Requests

- ▶ **Current Services Baseline Adjustment - New Program**
  - ▶ Administrative Costs for Medical Marihuana Excise Tax
    - ▶ \$675,000 in State Restricted Funding and 6.0 FTEs
      - ▶ Administrative costs to implement and administer the Medical Marihuana Excise Tax for Tax Processing, Tax Compliance and Collections
      - ▶ Funding will come from the newly created Marihuana Regulatory Fund created by statute (MCL333.27101-333.27801)

# Appendix - IT Legacy Replacement Projects

# New Programs and Legacy Replacement Plan

## Completed

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

## In Process

- Ayava to Cisco IP Telephony
- Composite Filer
- Customer Financials
- Data Capture Retrieval System
- Garnishments & Levies
- Hearing System
- Intelligent Work Design - Business
- Lottery Offset
- Motor Fuel Tax
- Paradox Delphi Replacement
- Personal Property Tax Payment System
- Power of Attorney System
- SIGMA
- Tobacco Taxes
- Marihuana Tax
- Fiduciary Tax
- Warrant Writing
- Revenue Sharing
- Off Set Management - SIGMA

## 10-Year Plan

- Accounting Services Access Database System
- Airport Parking Tax
- Bottle Deposit
- Convention Facility Development
- Customer Relationship Management - Call Center (Siebel)
- ESKORT Audit System
- Estate Tax
- HMO Use Tax
- Home Heating Credit
- Individual Income Tax
- Municipal Loan and Bond System
- Offset Debt Management Services
- Principal Residence Exemption
- Real Estate Transfer Tax
- Revenue and Tax Planning Program Analysis System
- Severance Tax
- State Treasury Accounts Receivable
- Statutory Refund
- TreasLAN Security

**\$100 Million  
Remaining  
Investment**