

DEPARTMENT OF TREASURY



ROBERT J. KLEINE, STATE TREASURER

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The Office of State Treasurer is provided for by article V, section 3, of the Michigan Constitution of 1963. The State Treasurer is appointed by the governor, with the advice and consent of the senate, and serves at the pleasure of the governor.

The department was established by the Executive Organization Act of 1965, as a result of merging the operations of 6 agencies: State Treasurer, Department of Revenue, Municipal Finance Commission, Board of Tax Appeals, State Tax Commission, and Auditor General (except the state audit function). In addition, the Board of Equalization and Board of Escheats were abolished and their functions were absorbed by the new department.

Effective July 1, 1984, the Municipal Finance Commission was abolished, which transferred all powers and duties to the State Treasurer. Effective August 1991, the Michigan Tax Tribunal was transferred to the Department of Commerce (now the Department of Energy, Labor and Economic Growth) pursuant to Executive Order No. 1991-18. Effective May 1992, the Michigan Higher Education Facilities Commission and Michigan Higher Education Facilities Authority were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1992-2. Effective April 8, 1995, the Michigan Higher Education Assistance Authority and Michigan Higher Education Student Loan Authority were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1995-3. Effective January 1, 2000, all administrative responsibilities related to statewide educational assessments were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1999-12. Effective December 21, 2003, the administration of the Michigan Educational Assessment Program (MEAP) tests was transferred to the Superintendent of Public Instruction.

The State Treasurer acts as principal advisor to the governor on tax and fiscal policy issues. The State Treasurer is the chairperson of the Michigan Education Trust, Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, and the Michigan Tobacco Settlement Finance Authority. The State Treasurer serves as sole investment fiduciary to the judges, public school employees, state employees, and state police retirement funds. The State Treasurer also serves as treasurer of the retirement systems as well as the Mackinac Bridge Authority. The State Treasurer is also a member of the following boards, commissions, and task forces: Local Emergency Financial Assistance Loan Board, Michigan Early Stage Venture Investment Corporation, Michigan Economic Development Corporation Corporate Board, Michigan Economic Growth Authority, Michigan Forest Finance Authority, Michigan Higher Education Facilities Authority, Michigan Judges/State Employees/State Police Retirement Boards, Michigan Law Enforcement Officers Memorial Monument Fund Commission, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan State Housing Development Authority, Michigan Strategic Fund, Michigan Underground Storage Tank Financial Assurance Board, the Ronald Wilson Reagan Memorial Monument Fund Commission, the State Administrative Board, and the Strategic Economic Investment and Commercialization Board.

Executive Office

Operational responsibilities of the department are handled by the **Executive Office**, which consists of the State Treasurer, the Chief Deputy Treasurer, Deputy Treasurers for Bond Finance, Investments, Local Government Services, Student Financial Services, and Tax Administration, as well as the Office of Legislative Affairs and the Public Information Office.

Chief Deputy Treasurer

The **Chief Deputy Treasurer** oversees all operations within the Department of Treasury, including direct supervision of Administrative Services, Financial Services, the Office of Human Resources, and the Office of Public/Private Partnerships. In addition, Deputy Treasurers for Bond Finance, Investments, Local Government Services, Student Financial Services, and Tax Administration report to the Chief Deputy Treasurer.

Investments

Pursuant to state law, the State Treasurer is the sole investment fiduciary and custodian for the State of Michigan Retirement Systems (SMRS), as well as other state trust and agency funds.

Total defined benefit pension assets managed as of December 31, 2009, were \$47 billion, placing the SMRS defined benefit plans among the largest pension funds in the United States. The SMRS includes the Michigan Public School Employees' Retirement System; Michigan State Employees' Retirement System; Michigan State Police Retirement System; and Michigan Judges' Retirement System. The SMRS services a total of over 549,000 members, which includes vested working employees and retired members.

The State Treasurer is also responsible for investing state operating and other state trust and agency funds with assets in excess of \$9 billion. This includes investment oversight, with advice from the Department of Management and Budget, of the \$4.3 billion 401K and 457 plans.

The Bureau of Investments performs all investment functions and associated accounting functions on behalf of the State Treasurer. The SMRS investment portfolio is diversified and includes domestic and international stock exposure, corporate and government bonds, real estate, and alternative investments. The bureau is organized by major investment disciplines as follows: Alternative Investments Division; Short Term Fixed Income, Absolute and Real Return Division; Long-Term Fixed Income Division; Real Estate Division; Quantitative Analysis Division, and Stock Analysis Division. The Trust Accounting Division works directly with each division and accounts for and settles investment transactions on a daily basis. Public Act 380 of 1965 created an Investment Advisory Committee, which is charged with reviewing investments, goals, and objectives of each of the retirement funds. Members may make recommendations to the State Treasurer.

The bureau's primary goal is to invest each fund prudently, taking into account the purpose of a particular fund. Therefore, asset allocations differ between funds depending upon the type of liability structure or purpose a particular fund has.

Bureau of Tax Policy

The Bureau of Tax Policy helps assure consistent application of existing departmental policies, as well as identifying and developing needed new policies. Policies are usually of a tax-technical nature and relate to other revenue bureaus in the areas of Tax Compliance, Customer Contact, and Return Processing. The division also provides support to the Office of Legislative Affairs by providing bill analyses, when needed. It also provides support to the Attorney General staff in substantive tax litigation as it relates to their understanding and presentation of departmental tax policies.

The Hearings Division provides informal conferences mandated by the Revenue Act on disputed tax matters, including assessments, credit audits, and refund denials. Decisions are signed on behalf of the State Treasurer by the Division Administrator. Decisions and orders issued by the division are subject to further appeal to the Michigan Tax Tribunal or Court of Claims as provided by statute.

The Technical Services Division provides "expert level" services concerning technical issues for most taxes administered pursuant to the Revenue Act, Public Act 122 of 1941, including single business; income; motor fuel; sales, use and withholding; and tobacco taxes. Staff also oversees the disclosure of tax information in accordance with the Revenue Act and agreements with the Internal Revenue Service pertaining to federal tax information. This disclosure oversight activity includes training for all department staff with tax information access, which has recently been enhanced through an award-winning online refresher training program.

The Special Taxes Division administers the motor fuel and tobacco products tax statutes and related activities.

Tax Processing Bureau

The Tax Processing Bureau is responsible for developing procedures governing the data capture and processing of all major tax returns for the department, including individual income tax; Michigan business tax; and sales, use and withholding tax returns. The Tax Processing Bureau also shares responsibility for administering miscellaneous taxes and develops procedures for adjusting returns, issuing refunds, and assessing tax due. The Tax Processing Bureau handles approximately 8 million tax returns annually.

Tax Compliance Bureau

The Michigan Department of Treasury administers its tax programs in a manner that recognizes that most taxes are reported and paid through a voluntary compliance system, with no direct enforcement and minimal interaction between the department and taxpayers. If unchecked, taxes not paid or underreported by non-compliant taxpayers, require compliant taxpayers to make up for the shortfall.

The Tax Compliance Bureau is responsible for:

- Performing audits and tax compliance projects that focus on non-filers and tax under reporters.
- Utilizing its limited resources in the most efficient manner possible to maximize tax compliance.
- Ensuring that all audits and tax compliance projects promote and maintain favorable taxpayer relations by treating each taxpayer with respect and courtesy, and are conducted in a fair, impartial, consistent and timely manner.
- Ensuring that division staff who perform audits and tax compliance projects keep taxpayers informed as to the purpose of the contact, the taxpayer's right to agree or disagree with any determinations, as well as their tax reporting responsibilities.

Customer Service Bureau

The Michigan Department of Treasury's Customer Service Bureau serves as the central management point for all taxpayer contacts. The bureau is designed to effectively guide, develop and manage the state-of-the-art Income Tax and Business Taxes Contact Centers, Quality Assurance and Web Services.

Access to taxpayer inquiries and information is provided to Michigan taxpayers by the department's Customer Contact Division. The majority of telephone contacts are handled within the Interactive Voice Response (IVR) system, which provides automated responses to the most frequent reasons for contact. Taxpayers receive assistance from customer service representatives (CSRs) who provide answers to questions about current state tax laws, tax issues or department rules and regulations. The Contact Center has integrated customer relationship management (CRM) software with the Department's existing tax database. This automatically displays taxpayer records so the CSR can easily and effectively help the caller. CRM allows for data collection from these contacts and can be used to measure the impact of various processing and enforcement efforts and for improving web and automated telephone self-help services.

The Quality Assurance and Web Services Unit is responsible for ensuring and measuring the quality of customer interactions, and has a major role in developing web content, which is key to achieving the goal of moving customers to self-service options on the department's web site and in the IVR.

Financial Services Bureau

The Financial Services Bureau is comprised of 3 divisions: Finance and Accounting, Receipts Processing, and Collections. The bureau operates as the central processing point for accounting services within the Treasury Department, the centralized point for the collection of delinquent tax and state agency debt, and is, essentially, the state's bank.

The Finance and Accounting Division coordinates and oversees the department's accounting function. This includes the processing of vendor payments, direct vouchers, inter-account bills, travel, interfaces, and inventory and asset control. The division reconciles the state's bank statement activity with the state's accounting system. Additionally, it fulfills the department's central control agency relationship with the Michigan Administrative Information Network (MAIN) within the Department of Technology, Management and Budget.

The Receipts Processing Division serves as the central service agency to all state agencies for the administration of all statewide banking activity, related banking contracts, and statewide cash

receipting. This division administers the disbursement and receipting of a majority of state and federal funds, with more than \$15 billion received via Electronic Funds Transfer out of the \$43.7 billion received annually.

The Collection Division is the centralized collection agency for all delinquent assessed taxes administered by the department and debts owed to state agencies, including some universities and courts. The division promotes compliance with Michigan tax laws, which leads to fair and equitable taxation for citizens and is the treasurer's designee to accept service of and process third party garnishments and legal orders.

Administrative Services Bureau

The Administrative Services Bureau provides department-wide support services for all programs in the department involving: Budget, Facility Operations, Forms and Document Services, Mail Operations, Privacy and Security, Purchasing, and Unclaimed Property.

The Budget Division develops, controls, and monitors all phases of the budget process for the Department of Treasury. This involves preparation of the annual budget request; presentation of the executive budget recommendation; serving as liaison with the State Budget Office, legislative fiscal staff, and appropriation committees on budget enactment; and monitoring/controlling department program expenditures.

The Departmental Services Division includes the Forms and Document Services Section, Mail Operations and Facility Services Section and the Purchasing Section.

Forms and Document Services administers the department's centralized forms and documentation programs and the department's records management program for storage and destruction of records. Key responsibilities include developing and implementing department-wide standards for forms and documentation; designing, editing, and coordinating the printing of departmental forms and publications; and administering contracts involving the production and distribution of State Treasurer warrants, motor carrier decals, and principal business and individual income tax forms and instructions.

Mail Operations and Facility Services manages the processing and distribution of 2.8 million pieces of mail the department receives each year, coordinates office space redesign and modifications, worksite adjustments and manages the provision of communication services.

Purchasing provides procurement, contracting, and contract administration services for the department and is responsible for the annual issuance of approximately 300 purchase orders, 15 major contracts, 150 procurement card purchases, and 230 printing applications.

The Privacy and Security Division protects the privacy (confidentiality and integrity) and security (access and enforcement) of information collected and utilized by the Department of Treasury business processes and computer systems. Key responsibilities include: developing privacy and security policies and procedures; controlling system access for critical computer programs; defining, monitoring, and enforcing security access roles and controls; performing investigations and resolving security incidents; and conducting security awareness and training. This division is also responsible for the department-wide development and maintenance of the department's business continuity plan and disaster recovery testing oversight of critical department functions.

The Unclaimed Property Division assumes custody of abandoned and unclaimed property on behalf of the state of Michigan, preserves that property in trust for the owners or their heirs and returns that property to the rightful owner. The division currently holds more than 9.5 million accounts totaling over \$1.2 billion. In 2009, the division received over \$114 million in escheated property, established over 71,000 claims, and returned over \$72 million to rightful owners. In 2009, \$37 million was transferred to the state's general fund.

Bureau of Bond Finance

The Bureau of Bond Finance coordinates the issuance of state and authority bonds and notes including State General Obligation issues, assists the State Treasurer in managing the State's Common Cash and Cash Flow Activity, compliance with federal tax laws, and SEC disclosure requirements. The bureau performs fiscal agent and trust services for various bond issues and public finance programs, oversight of compliance with the Federal Cash Management Improvement Act (CMIA) requirements for drawing federal funds, and administers the state's School Bond Qualification and Loan Program.

Bonding Authorities*

The **Michigan Municipal Bond Authority** (MMBA) was created by the Shared Credit Rating Act, Act 227 of 1985 as amended, to provide Michigan local units of government and schools an

alternative source of financing for infrastructure projects and cash flow needs through low-cost access to the public finance market.

The **Michigan Public Educational Facilities Authority (MPEFA)** was created by Executive Order 2002-3 to provide public school academies (PSAs) with access to the effective, low-cost financing utilized by traditional school districts.

The **Michigan State Hospital Finance Authority (MSHEA)** was created by Act 38 of 1969 to issue bonds and make loans to hospitals, nursing homes, homes for the aged, hospices, and certain retirement housing providers to finance and refinance the acquisition, construction, improvement or alteration of hospital facilities, and equipment purchases.

The **Michigan Higher Education Facilities Authority (MHEFA)** was created by Act 233 of 1964 and Act 295 of 1969 to issue bonds in order to make loans to private nonprofit colleges and universities for various capital needs including: construction of new facilities, renovation of existing facilities, and equipment purchases.

The **Michigan Tobacco Settlement Finance Authority (MTSFA)** was created by Act 226 of 2005 to issue bonds secured by a pledge of a percentage of tobacco settlement proceeds that were used to finance projects under the 21st Century Jobs Fund and make deposits to the state school aid fund and the general fund.

The **Michigan Higher Education Student Loan Authority (MHESLA)** was created by Act 222 of 1975 to ensure Michigan students access to financial assistance to pursue a postsecondary education at the school of their choice. The Student Loan Authority provides loans to students and parents of students and it also purchases student and parent loans from other lenders.

The **Michigan Higher Education Assistance Authority (MHEAA)** was created by Act 77 of 1960, as amended. MHEAA was established to enhance the freedom of choice and equality of access to Michigan students seeking a postsecondary education. MHEAA administers a wide variety of state and federal scholarship, grant, and loan programs. The MHEAA membership is identical to the Student Loan Authority membership. However, the 2 authorities are separate entities with different responsibilities and functions.

Student Financial Services Bureau

The Student Financial Services Bureau has a longstanding commitment to serve Michigan citizens by providing equality of access and freedom of choice to students seeking a postsecondary education.

The Office of Scholarships and Grants administers 6 state and 4 federally funded scholarship and grant programs. Annual distribution of funds for these programs exceeds \$89 million awarded to students at Michigan's postsecondary educational institutions.

The Office of the Michigan Guaranty Agency administers the Federal Family Education Loan Program that includes the Subsidized Federal Stafford Loan Program, the Unsubsidized Federal Stafford Loan Program, the Federal PLUS Loan Program, the Federal Consolidation Loan Program, and the Federal Supplemental Loan for Students Loan Program.

The Office of the Michigan Higher Education Student Loan Authority's purpose is to provide educational loans to students and parents for postsecondary education. It is also responsible for the accounting and reporting, cash management and investing, budget, and technical analysis activities for the Michigan Higher Education Student Loan Authority and the Michigan Higher Education Assistance Authority.

The Michigan Education Trust (MET) was created by Act 316 of 1986 to provide a method for families to pre-pay a student's future Michigan college tuition costs. The trust offers contracts to purchasers, collects and invests the funds, and pays out tuition to colleges and universities when enrollees attend college.

The Michigan Education Savings Program (MESP) was created by Act 161 of 2000 to provide families with a flexible way to save for future education expenses through a choice of investment options and is also administered by the State Treasurer.

Bureau of Local Government Services

The Bureau of Local Government Services is responsible for the administration and enforcement of state laws that implement provisions of the Michigan Constitution requiring taxation of real and tangible personal property; a uniform system of accounting and auditing for units of local government; and the preservation of the credit of the state.

The Assessment and Certification Division provides staff services for the State Tax Commission and assistance to local and county assessing officials. The State Tax Commission, which was created by 1927 PA 360, establishes the state equalized value for each class of property for each county total; prepares assessment rolls for state assessed public utilities; approves applications for exemptions for air and water pollution control facilities and neighborhood enterprise zones and for industrial property abatements; adds omitted property to local assessment rolls and corrects erroneous personal property statements under MCL 211.154; arbitrates petition for change of classification; certifies valuation and assessment of lands purchased by the department of natural resources; assumes superintending control over uncertified local assessment rolls; and provides general supervision of all assessing officials. The commission also provides training, examinations, and certification of assessing officials and receives and acts on revocation petitions filed against such officials, duties which were transferred to the commission by a 2009 executive reorganization order that abolished the former State Assessors Board.

The Local Audit and Finance Division issues guidance and monitors statutory compliance of local units of government. Staff members perform financial audits, single audits, legal compliance audits, and internal control reviews of local units of government when requested or at the discretion of the department. Through the review of qualifying statements and prior approval applications, the division approves or denies the issuance of debt by units of local government.

The Property Services Division administers the state's tax reversion process and conducts the foreclosure process for 12 counties that have opted out of handling the process under Act 123 of 1999. The division also receives, reviews, and prepares, for State Tax Commission approval, applications for various tax exemption programs, such as the Industrial Facilities Tax, Air and Water Pollution Control, Neighborhood Enterprise Zone, Obsolete Property Rehabilitation, and New Personal Property.

Office of Public/Private Partnerships

The state of Michigan is committed to exploring innovative ways to address the economic needs of Michigan, including the use of public/private partnerships. These partnerships leverage private sector capital and resources to provide services to, and help address critical infrastructure needs of, the people of Michigan. By partnering with the private sector to develop and maintain assets and provide services, the state has the opportunity to access additional financial, management, technical, and operating expertise to help create jobs, accelerate projects and leverage long-term investment throughout Michigan.

The Office of Public/Private Partnerships is housed within the Department of Treasury. The office will work with state agencies and departments to assess opportunities and effectively evaluate the use and application of the public/private partnership model, where appropriate.

Office of Internal Audit

The Office of Internal Audit Services (OIAS) within the State Budget Office is responsible to provide independent, objective assurance and consulting services to state departments and agencies that are designed to improve the operations of the state of Michigan. OIAS will assist the state in obtaining its objectives by bringing a systematic, disciplined approach to examine, evaluate, and improve the effectiveness of the risk management, internal control, and governance processes. The Government Services Division (within OIAS) provides internal audit services to the Department of Treasury.

Bureau of State Lottery

The **Bureau of State Lottery** was created by Act 239 of 1972 and was transferred from the Department of Management and Budget as an autonomous entity to the Department of Treasury pursuant to Executive Order No. 1991-2. Revenue from the operation of the state lottery, less operating costs, goes to the State School Aid Fund.

The Michigan Lottery reported annual sales of \$2.38 billion in fiscal year 2009, and generated \$724.5 million in net revenue for the state School Aid Fund. Retailers received annual commissions of \$174.2 million, while Michigan Lottery players collected prizes worth \$1.4 billion.

The Bureau of State Lottery also has responsibility for licensing and regulation of organizations operating bingo games, millionaire parties, raffles, and selling charity game tickets.

Michigan Gaming Control Board

In November 1996, Michigan voters approved Proposal E, effectively authorizing three licensed casinos to be built in Detroit. Proposal E was adopted into law as the Michigan Gaming Control and Revenue Act.

The **Michigan Gaming Control Board**, which is responsible for implementing, administering, and enforcing the provisions of the act related to licensing, regulating, and collecting taxes and fees from authorized casinos, was created by Public Act 69 of 1997. The three Detroit casinos generated \$153.6 million in state wagering tax and fee revenues in 2009.



Bonding Authorities*

*On March 4, 2010, Governor Granholm issued Executive Order No. 2010-2, consolidating 10 public finance authorities into one Michigan Finance Authority. The new finance authority will be an autonomous entity within the Department of Treasury. The 10 public finance authorities whose functions will be consolidated into the Michigan Finance Authority are:

- Michigan Forest Finance Authority (bond and note issuance functions to be transferred; other functions and State Forester to remain with the Department of Natural Resources and Environment);
- Michigan Higher Education Facilities Authority;
- Michigan Higher Education Assistance Authority (grant and scholarship programs transferred to the Department of Treasury);
- Michigan Higher Education Student Loan Authority;
- Michigan Municipal Bond Authority;
- Michigan Public Educational Facilities Authority;
- Michigan Tobacco Settlement Finance Authority;
- Michigan Underground Storage Tank Financial Assurance Authority;
- State Higher Education Facilities Commission; and
- State Hospital Finance Authority.