

# DEPARTMENT OF TREASURY



## **NICK KHOURI, 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 Licensing and Regulatory Affairs) 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. Effective March 4, 2010, 10 public finance authorities were consolidated into one, the Michigan Finance Authority, an autonomous entity within Treasury, pursuant to Executive Order 2010-2.

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 and the Michigan Finance Authority. The state treasurer serves as sole investment fiduciary and custodian of the judges, public school employees, state employees, and state police retirement funds. The state treasurer also serves as treasurer of the retirement systems, the Legislative Retirement System, and the Mackinac Bridge Authority. The state treasurer is also a member of the following boards and commissions: Local Emergency Financial Assistance Loan Board, Michigan Economic Development Corporation Corporate Board, Michigan State Housing Development Authority, Michigan Strategic Fund, Michigan State Police Retirement Board, and the State Administrative Board.

### ***Executive Office***

Operational responsibilities of the department are handled by the Executive Office, which consists of the state treasurer; the chief deputy treasurer; chief investment officer; deputy treasurers for Tax Administration, Tax Policy, Financial and Departmental Services, State/Local Finance, and Executive Operations. Executive Operations includes Budget, Information Technology, Communications, and Operational Efficiency.

## ***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, 2016, were \$62.2 billion, making the SMRS the 18th largest defined benefit, public pension fund 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 more than 517,000 members (as of September 30, 2016), 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 \$15.4 billion. This includes investment oversight, with advice from the Department of Technology, Management and Budget (DTMB), of the \$7.2 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: Private Equity Division; Venture Capital Division, Short Term Absolute and Real Return Division; Long Term Fixed Income Division; Real Estate and Infrastructure Division; International Equity Division; Defined Contribution, Trust, and Agencies Division; and Domestic Equity Division. The Trust Accounting Division works directly with each division and accounts for and settles investment transactions on a daily basis. The Compliance and Corporate Governance Division is responsible for overseeing: (i) the timely filing of all proof of claim forms for securities litigation; (ii) timely voting of proxies; (iii) compliance with divestment mandates; and (iv) disclosure events of external managers. 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 for a particular fund.

## ***Tax Policy***

Within Tax Policy, Treasury provides the Office of Legislative Affairs, Bureau of Tax Policy, Taxpayer Advocate, and Office of Revenue and Tax Analysis (ORTA).

Legislative Affairs works with the state legislature and with internal Treasury stakeholders to ensure that legislative initiatives are administrable and fit with the governor's policy objectives. It works with legislators to clarify and solve problems and provides information to policymakers to aid in decision making.

The Bureau of Tax Policy consists of the Tax Policy Division and the Hearings Division. The Tax Policy Division helps ensure the consistent application of tax laws and 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 Tax Policy Division provides guidance pertaining to tax statutes through the drafting of revenue administrative bulletins, internal policy directives, and technical advice letters. The division also provides support to the Office of Legislative Affairs by providing bill language and bill analyses, when needed. It also provides support to the Attorney General's staff in substantive tax litigation as it relates to their understanding and presentation of tax laws and 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. Informal conferences are also provided for principal residence exemption denials. Decisions are signed on behalf of the state treasurer by the division administrator or the bureau director. 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 Office of Revenue and Tax Analysis (ORTA) is the forecasting, revenue analysis, and local government revenue sharing section of the Michigan Department of Treasury. ORTA advises the governor, lieutenant governor, treasurer, and state budget director on issues dealing with the economy, revenues, and the state's tax structure, and is responsible for preparing the official economic forecast and revenue estimates for the administration. ORTA also represents the administration at the consensus revenue estimating conferences. In addition to estimating revenues generated by

state taxes, fees, and other sources, ORTA is also responsible for estimating and analyzing the cost of existing tax exclusions, deductions, exemptions, and credits, and the potential fiscal implications of legislatively proposed tax law changes. ORTA also administers and distributes more than \$1 billion annually to local governments through the constitutional revenue sharing program; City, Village and Township Revenue Sharing Program (CVTRS); county revenue sharing programs; Financially Distressed City, Village and Township Grant Program (FDCVT); Convention Facility Development Fund; Airport Parking Tax; Health and Safety Fund; and the Emergency 9-1-1 Fund.

The Office of the Taxpayer Advocate serves as an ombudsman within the Department of Treasury to ensure taxpayer's rights are protected and Treasury's processes are fairly administered. As the resource of last resort, the advocate office assists individual and business taxpayers by clarifying and resolving account specific issues that have not been resolved through Treasury's normal channels. The advocate has the ability to review and grant requests for penalty waivers within guidelines established by Treasury. The advocate office is the referral point for taxpayer issues that come from the governor's office, the legislature, congressional delegation, and tax practitioners. Using information gathered in the resolution of customer inquiries, the advocate office provides feedback to other areas of Treasury in order to improve and increase customer service.

### ***Tax Administration***

The purpose of the Tax Compliance Bureau (TCB) is to increase compliance with state of Michigan tax statutes while concurrently providing improved taxpayer service by effectively managing the Taxpayer Bill of Rights. The TCB combines an audit function with discovery and tax enforcement functions and is comprised of four divisions, including Field Audit 1 (instate), Field Audit 2 (IP & outstate), Discovery and Tax Enforcement, and Operations. The Michigan Department of Treasury administers 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 Treasury and taxpayers. Compliant taxpayers effectively make up for the shortfall caused by non-compliant taxpayers that do not pay or under report tax.

The Tax Processing Bureau is responsible for reviewing and processing all major Michigan tax returns and related forms. Annually, more than 8 million individual and business tax returns are processed by the bureau. All tax returns are reviewed for accuracy. The review may result in the issuance of refunds, requests for additional information, adjustments, or assessments as appropriate. The bureau also administers certain licensing functions, registers taxpayers, engages in quality assurance controls, and responds to millions of taxpayer inquiries received through correspondence, phone calls, and web-based contacts. The Tax Processing Bureau includes four divisions: Business Taxes, Individual Income Taxes, Special Taxes, and Support Services.

### ***Financial and Administrative Services***

The Financial and Administrative Services mission is to provide and maintain effective and efficient services for internal and external customers, taxpayers, and citizens of Michigan through Accounting Services, Collections, Departmental Services, Financial Services, and Privacy and Security.

The Office of Accounting Services (OAS) is responsible for overall monitoring and control of the department's accounting system. This includes systems evaluations, security, and assignment of special projects. The office is responsible for issuing payments in lieu of taxes for certain eligible senior citizen facilities and Department of Natural Resources (DNR) managed state land. Staff oversees the processes related to Treasury's central control agency function.

The Office of Collections (OC) is responsible for the centralized collection of all overdue assessed taxes administered by Treasury and delinquent, nontax debts owed to state agencies, including oversight of a private collection agency contract. The office also administers the service of garnishments and legal offset orders served on the state treasurer.

The Office of Departmental Services (ODS) oversees facility, mail, and data operations functions; unclaimed property; purchasing; and forms, documentation, and e-file services. This office is also responsible for management of the department's relationship with the Office of Internal Audit Services and the Office of the Auditor General and facilitates completion of the bi-annual internal control evaluation process. ODS also manages Treasury's real estate leases and maintains building occupancy agreements.

The Office of Financial Services (OFS) serves as the central service agency to all state agencies for the administration of all statewide banking activity, related banking contracts, cash receipting, and disbursements. The office administers the receipting of a majority of state and federal funds. The office also manages the disbursement of state funds including wire transfers, warrants, electronic funds transfers (EFT), payment adjustments (e.g., cancels, undeliverables, reversals, stop payments), and forgery claims.

The Office of Privacy and Security (OPS) establishes policies and enforces practices to ensure the privacy, confidentiality, integrity, and availability of information collected, used, and retained by the department through prevention, detection, and enforcement practices in compliance with applicable laws, regulations, standards, and industry best practices. The OPS administers the disclosure provisions of the Revenue Act, Internal Revenue Code 6103, and other applicable laws for securing and protecting confidential information of the department.

### ***State/Local Finance***

State/Local Finance consists of the Bureau of State and Authority Finance, Bureau of Local Government and School Services, Student Financial Services Bureau, and Legal Services.

The Bureau of State and Authority Finance coordinates the issuance of state and authority bonds and notes, including state general obligation issues and 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, carries out oversight of compliance with the Federal Cash Management Improvement Act (CMLIA) requirements for drawing federal funds, and administers the state's School Bond Qualification and Loan Program.

The Michigan Finance Authority (MFA) was established by Executive Order 2010-2 to further improve efficiency in state government by consolidating 10 public finance authorities into one. The MFA offers effective, low cost financing to public and private entities that provide essential services to the citizens of Michigan. These include municipalities; healthcare providers; public, private, and charter schools; and higher education loans to college students.

The State Building Authority (SBA) provides capital financing to acquire, construct, furnish, equip, and/or renovate buildings for the use of the state, including public universities and community colleges pursuant to Public Act 183 of 1964. Since its creation, the SBA has financed approximately 300 projects, approaching \$5.1 billion in construction costs. SBA bond issues permit the construction of needed capital outlay projects, which otherwise might be delayed or canceled due to state fiscal constraints, by spreading costs over a portion of the project's useful life. In addition to outlay financing, the SBA houses nonemployee risk management functions for the state. It provides state agencies with commercial property, general liability, aviation, and builder's risk insurance, as well as other needed insurance coverage. The SBA also administers the state's Vehicle Self Insurance Fund, which covers liabilities arising from accidents involving the state vehicle fleet, which numbers in excess of 10,000 vehicles.

### ***Student Financial Services Bureau***

The Student Financial Services Bureau is comprised of three divisions: Student Scholarships and Grants, 529 College Savings Plans, and the Student Loan Repayment Division.

The 529 College Savings Plans Division includes the Michigan Education Trust (MET) which provides a method for families to prepay 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 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. The Michigan 529 Advisor Plan (MAP) provides families with a flexible way to save for future education expenses through an advisor-sold program.

The Student Scholarships and Grants Division (SSG) administers 11 state and federal aid programs that assist students with tuition and fee expenses at Michigan colleges and universities. The division also provides multiple outreach and support services to students, families, and high school counselors. Programs administered include: Children of Veterans Tuition Grant (CVTG), Dual Enrollment for Private Colleges, Fostering Futures Scholarships (FFS), Michigan Competitive Scholarship (MCS), Michigan Nursing Scholarship (MNS), Merit Award, Michigan Tuition Grant (MTG), Police Officers and Fire Fighters Survivors Tuition Grant (STG), and the Tuition Incentive Program (TIP). GEAR UP Michigan and GEAR UP College Day scholarships are federally funded programs administered at the state level.

The bureau's Student Loan Repayment Division no longer issues student loans. The Federal Family Education Loan Program (FFELP) discontinued new loans in 2010. The state's alternative loan program, MI-LOAN, ceased making new loans in 2008. The division is responsible for monitoring its contracted servicer for compliance with federal laws, rules, and regulations governing loans made under FFELP. It is also responsible for required federal reporting and budgeting. The Michigan Guaranty Agency (MGA) is the state designated guarantor for Michigan. The MGA administers guarantees of loans made by various financial lending institutions and administers its outstanding

federal loan portfolio in compliance with federal laws, rules, and regulations. MGA continues to provide default prevention assistance and other types of assistance to students with various issues related to the repayment of their outstanding loans.

In addition, the bureau is responsible for the administration of the Michigan Achieving a Better Life Experience (MiABLE) program. MiABLE is a savings and investment program for individuals who were diagnosed with a disability prior to the age of 26. MiABLE allows individuals to save up to \$14,000 annually for future qualified disability expenses without jeopardizing state and federal means-tested benefits.

### ***Bureau of Local Government and School Services***

The Bureau of Local Government and School 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 bureau is responsible for the administration of Public Act 436 of 2012, the Local Financial Stability and Choice Act; Public Acts 92 and 93 of 2014, the State Essential Services Assessment Act and the Alternative State Essential Services Act; and Public Acts 109 to 113 of 2015, the Revised School Code and the State School Aid Act, which provide early warning and technical assistance to Michigan school districts.

The Property Services Division's main function is to provide staff services for the State Tax Commission and assistance to local assessing officers. The State Tax Commission, which was created by Public Act 360 of 1927, is charged with providing general supervision of the administration of property tax laws of the state of Michigan and to render assistance to assessing officers of the state to ensure proper administration of the laws governing assessments and the levying of taxes in this state. The commission 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 industrial property abatements; adds omitted property to local assessment rolls and corrects erroneous personal property statements under MCL 211.154; arbitrates petitions for change of classification; certifies valuation and assessment of lands purchased by the DNR; assumes superintending control over uncertified local assessment rolls; and provides general supervision of all assessing officers. The commission also provides education, training, examinations, and certification of assessing officers and receives and acts upon disciplinary complaints filed against such assessing officers. Staff provides support for all duties that were transferred to the commission by the 2009 executive reorganization order that abolished the former State Assessors Board.

The Property Services Division staff also receives, reviews, and prepares recommendations for approval of applications for various tax exemption programs, such as the Industrial Facilities Tax, Air, and Water Pollution Control; Neighborhood Enterprise Zone; Obsolete Property Rehabilitation; Commercial Redevelopment Act; and New Personal Property. Of significance, the division conducts audits of claims for the principal residence exemption in counties that have opted out of conducting such audits and reviews appeals of principal residence exemption denials in those counties. In addition, the division administers certain specific taxes and tax exemptions, oversees the state's tax reversion process, administers the foreclosure process for eight counties for which the state is the foreclosing governmental unit, and monitors and audits the remittances of state taxes collected by units of local government for completeness and correctness.

The Essential Services Assessment (ESA) Division is responsible for the administration of the State Essential Services Assessment Act and the Alternative State Essential Services Assessment Act and the specific tax authorized under these acts for eligible manufacturing personal property (EMPP) that is exempt from taxation under the General Property Tax Act. In addition to the collection of the ESA tax, the division provides policy guidance for taxpayers and practitioners and is responsible for auditing claims and submissions, as well as defending related actions required in the administration of the acts.

The Local Fiscal Accountability Division provides guidance to and monitors statutory compliance of units of local government. Staff members perform financial audits, single audits, legal compliance audits, and internal control reviews of units of local government, when requested or at the discretion of the department. The division approves or denies the issuance of debt by and monitors the financial position of units of local government. Division staff provides technical support to local units, the Local Emergency Financial Assistance Loan Board, emergency managers, Receivership Transition Advisory Boards, and consent agreement consultants.

The School Fiscal Accountability Division provides early warning financial and technical assistance to Michigan school districts, intermediate school districts, and public school academies facing potential fiscal stress or incurring a general fund deficit. The division makes recommendations to the Emergency Financial Assistance Loan Board regarding the management by Treasury of certain school districts and coordinates with the Department of Education.

## ***Bureau of State Lottery***

The Bureau of State Lottery, an autonomous entity within the Department of Treasury, was created by Public Act 239 of 1972. State law requires that all net proceeds from lottery games go to the state School Aid Fund.

The Michigan Lottery was the fastest growing lottery in the nation in 2016 and for fiscal year 2016 reported record performance in a number of major areas: \$888.9 million contributed to the state School Aid Fund, a 12 percent increase from the previous record set in 2015; \$3.1 billion in player purchases, eclipsing the previous mark from 2015; instant game purchases hit \$1.1 billion; players won \$1.9 billion in prizes; and the lottery's 11,000 retailers — many of them small, family-owned businesses — earned \$231.7 million in commissions, breaking the previous mark set in 2015.

The Bureau of State Lottery's Charitable Gaming Division is responsible for the licensing and regulation of non-profit organizations operating bingo games, raffles, and selling charity game tickets. In fiscal year 2016, non-profits licensed by the Charitable Gaming Division raised \$59.3 million to support a variety of activities and services in their communities.

## ***Michigan Gaming Control Board***

In November 1996, Michigan voters approved Proposal E, effectively authorizing three licensed casinos to be built in the city of Detroit. Proposal E was adopted into law as the Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996). Created by Public Act 69 of 1997, the Michigan Gaming Control Board (MGCB) is responsible for implementing, administering, and enforcing the provisions of the initiated law related to licensing, regulating, and collecting taxes and fees from the three authorized Detroit casinos. In calendar year 2016, the combined state wagering taxes paid by the three Detroit casinos and deposited into the School Aid Fund totaled \$112 million. The three casinos also paid \$175.4 million in wagering tax and development agreement payments to the city of Detroit. MGCB's executive director also is responsible for the licensing and regulation of Michigan horse racing and charitable gaming millionaire party events and suppliers along with providing oversight of the 12 tribal-state compacts for the 23 tribal casinos throughout Michigan.

