

Department of Treasury

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$101,606.4			\$159,973.5	\$158,786.0	\$123,880.2
All Funds	\$1,329,189.7			\$2,047,135.7	\$1,991,977.2	\$1,968,066.3
		% Change - GF/GP			-0.7%	-22.0%
		% Change - All Funds			-2.7%	-1.2%

KEY ISSUES	GF/GP	All Funds
Federal Grant for State Education Assessments	\$0.0	\$10,698.8
Grants to Local Government Units	\$10,000.0	\$10,000.0
Costs For Transportation Related Tax Collection And Audit	\$0.0	\$8,000.0
Annualize Tax Reverted Property Systems Costs	\$0.0	\$3,071.7
Investments Management Services	\$0.0	\$2,350.0
Diesel Equity and Simplification Package	\$0.0	\$2,225.0
Health and Safety Grants	\$0.0	\$1,150.0
Commercial Mobile Radio Grants	\$0.0	\$1,000.0
Senior Citizens Cooperative Housing Tax Exemption Payments	\$650.0	\$650.0
School Bond Loan Reviews	\$0.0	\$70.0
Debt Service Requirements	(\$41,034.9)	(\$41,034.9)
Revenue Sharing Payments	\$0.0	(\$11,800.0)
Transfer School Bond Loan Debt Service to School Aid Budget	(\$4,673.7)	(\$5,373.7)
Reduce Funding for Technology Plan Due To Implementation of Customer Service Initiative	\$0.0	(\$3,000.0)
Adjust Lottery Administrative Budget to Expected Spending Level	\$0.0	(\$1,781.8)
Remove Administrative Costs for 2002 Tax Amnesty Program	(\$1,500.0)	(\$1,500.0)
Technical Adjustment - Department of Agriculture Grant	\$0.0	(\$1,300.0)
Remove Administrative Costs for Prescription Tax Credit	\$0.0	(\$182.5)
Reduce City of Benton Harbor Enterprise Zone Payment	(\$42.5)	(\$42.5)
Adjustments To Reflect End of 1997 Early Retirement Payouts	(\$74.0)	(\$203.7)
Economic Adjustments	\$1,950.8	\$3,274.2
Staff Reductions to Pay for Employee Economics (3.0 FTE's)	(\$181.5)	(\$181.5)
Subtotal	(\$34,905.8)	(\$23,910.9)
FY 2003 Executive Recommendation	\$123,880.2	\$1,968,066.3

Department of Treasury

The Governor's fiscal year 2003 budget recommendation of \$2.0 billion, of which \$123.9 million is general fund, supports the Department of Treasury's primary responsibilities of collecting state taxes; investing, controlling and disbursing state funds; managing one of the nation's largest pension funds; and protecting the state's credit rating. Treasury also manages the \$1.5 billion revenue sharing program, which distributes unrestricted financial support to all local units of government in the state.

Achievements of Engler Administration

Strong Financial Management. Citing improved financial controls, sound fiscal policies and realistic budgeting, Wall Street rating agencies upgraded Michigan's credit rating five times over the last decade. In 2000, Wall Street boosted

Michigan's rating to AAA, the highest possible, for the first time in 24 years. Michigan is the largest state to achieve this status, sharing it with nine other states. As a result, Michigan can borrow at lower interest rates, saving Michigan taxpayers millions while freeing up financial resources for other important priorities. As a result of the AAA bond rating and other debt service initiatives, debt service requirements dropped over \$30.0 million from fiscal year 1999 to fiscal year 2000 and have remained at least \$25.0 million below fiscal year 1999 levels.

"Ultimate judgment on the status of state government's finances is not made in Michigan but on Wall Street by the major securities rating services. There, Michigan is notching straight A's."

Grand Rapids Press, October, 8, 2000

Tax Cuts. Michigan state and local taxes have been cut by \$25.3 billion from FY 1992 through FY 2002. This has enhanced the growth of the Michigan economy, witnessed by historically low unemployment rates and strong job growth. Additionally, Proposal A reduced high property taxes and at the same time provided long awaited school finance reforms. Michigan's reduced tax burden provides an improved business climate and enables the state to be competitive with other states for new businesses. A lower tax burden also provides the opportunity for families to enjoy a higher standard of living.

Faster Filing, Faster Returns. Reducing tax processing time continues to be a priority for the Department of Treasury. In 1992, the Michigan Department of Treasury began a pilot program to test the feasibility of electronically filing Michigan Individual Income Tax returns. That year, 117 returns were submitted electronically. Since then, e-filing has expanded each year to more than one million tax returns filed electronically in 2001. That number is expected to grow as Treasury expands its promotional efforts and the computer software needed for e-filing becomes more readily available to taxpayers.

The Customer Comes First. As part of an effort to better serve its customers, the Department of Treasury will begin utilizing its Customer Relationship Management system in early 2002. The system will allow customer service representatives to provide greater responsiveness to taxpayer inquiries and better access to tax law and information. This effort, with a budget appropriation of \$3.5 million in fiscal year 2003, will eventually be expanded to include customer service capabilities through the Internet and e-mail. With those features, taxpayers will be able to interact with Treasury department personnel, view account data, and submit e-mail forms for additional service requests, 24-hours a day, seven days a week.

Michigan Taxpayers Save \$25 Billion
From 1992 to 2002
(millions)



Rewarding Education Excellence. Treasury administers three programs that spotlight students and schools that excel on the Michigan Educational Assessment Program (MEAP) tests. High school graduates who score well are rewarded with \$2,500 for college expenses as recipients of the Michigan Merit Award. In 2001, more than 48,700 Michigan high school students qualified for Merit Award scholarships. High schools with the highest number of Merit Award recipients are in turn rewarded with the Governor’s Cup, while elementary schools whose students perform well on the MEAP tests can win Golden Apple Awards. In addition, higher education in Michigan has been made more affordable through the following programs: the Michigan Education Trust (MET) and the Michigan Education Savings Program. MET allows parents, grandparents and others to purchase prepaid tuition contracts for students based on current tuition rates at Michigan public colleges and universities. Purchasers of MET contracts qualify for a state income tax deduction for the total contract price, and distributions are exempt from federal and state income tax, when used for qualified educational expenses. The Education Savings Plan, implemented in November 2000, allows parents, grandparents, and others to establish a “college savings account” for a beneficiary with a minimum \$25 contribution.

Response to Revenue Decline

The Department of Treasury, through the reduction of temporary staff for tax processing and other management initiatives, has been able to protect its core mission responsibilities while reducing expenditures over \$2.0 million. These reductions are expected to minimally affect tax processing and refund service time. In addition, Executive Order 2001-9 shifted \$8.0 million in general fund support for the collection of motor fuel taxes to the Michigan Transportation Fund, which directly benefits from the collection of these taxes.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 recommendation continues the reductions and funding shift included in Executive Order 2001-9. In addition, by taking advantage of current low interest rates and restructuring debt service obligations, the state will realize a reduction in debt service costs of \$41.0 million. A funding reduction of \$3.0 million is recommended for the customer service initiative, which will be completed during fiscal year 2002. In addition, the Governor recommends that funding for the School Bond Loan Program be transferred to the School Aid budget, thus saving \$4.7 million general fund.

The Governor's recommendation includes \$10.7 million for assessment testing requirements associated with the federal "No Child Left Behind Act of 2001." This act requires states to implement annual reading and math assessments for grades 3 through 8.

The recommendation also includes the following restricted fund increases: \$3.0 million for full year implementation of the tax reverted property program; \$2.4 million for investment management services to manage the \$48+ billion state pension system; and \$2.2 million to implement a electronic motor fuel reporting system that will improve compliance and increase collections to the Michigan Transportation Fund. The recommendation also includes several funding initiatives to benefit local units of government including \$1.1 million for health and safety grants; \$1.0 million for commercial mobile radio service grants to service providers and local units of government to expand 911 emergency services; and \$650,000 for Senior Citizens Cooperative Housing grants to local units of government for payments in lieu of taxes on senior and disabled occupied housing facilities.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to improve the accuracy and timeliness of the tax process, increase the percentage of tax returns filed electronically	29%	52%	56%	60%
In order to improve the accuracy and timeliness of the tax process, increase the percentage of error free tax returns filed	88%	90%	90%	91%
In order to improve department efficiency, increase the percentage of all payments processed electronically	21%	25%	32%	40%
Increase the annual percentage of unclaimed property held by the state that is returned to rightful owners	32%	43%	41%	42%