State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2016

Table of Contents

Ellen Jeffries, Director – Lansing, Michigan – (517) 373-2768
www.senate.michigan.gov/sfa

State Notes

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Fall 2016

Automobile Insurance, Assigned Claims, and Taxation
By David Zin, Chief Economist

On June 29, 2016, Governor Snyder signed Public Acts 277 and 278 into law. The two acts concern provisions in Michigan's insurance tax laws related to the Assigned Claims Facility (ACF) and the Michigan Automobile Insurance Placement Facility (MAIPF). The Legislation is expected to generate approximately $80.0 million per year, beginning in fiscal year (FY) 2016-17, by eliminating a short-lived tax credit for insurers' payments to the ACF. Before the legislation was enacted, the May 2016 Consensus Revenue Estimate forecasted that insurance tax revenue in FY 2016-17 would total $319.0 million. This article provides background information on the ACF and the MAIPF, including the issues that ultimately led to the adoption of Public Acts 277 and 278.

The Michigan Automobile Insurance Placement Facility

The Michigan Automobile Insurance Placement Facility was created by Public Act 346 of 1969 in order to guarantee that automobile insurance coverage would be available to any person unable to obtain insurance through ordinary means. Although variations of the MAIPF had existed since 1943, the general purpose remained the same. The MAIPF is a nongovernmental organization consisting of all companies writing automobile casualty insurance in Michigan, with a governing board of seven representatives elected from member companies and four members appointed by the Insurance Commissioner (two of whom are to represent insurance agents and two of whom are to represent the public).

While all companies providing automobile insurance in Michigan are members of the MAIPF, the Facility operates as a joint underwriting association. As a joint underwriting association that functions as the insurer of last resort for automobile insurance, the MAIPF has only a limited number of companies acting as service carriers to provide coverage, although the administrative costs, operating results, and risks are shared across all members in proportion to their market shares. Five members currently act as service carriers, four for private passenger coverage and one for commercial. The private passenger servicers are: Auto Club Insurance Association, Auto-Owners Insurance Company, Citizens Insurance Company of America, and State Farm Mutual Auto Insurance Company. The commercial servicer is Amerisure Mutual Insurance Company.

Assigned Claims

Public Act 245 of 1972 substantially restructured automobile insurance in Michigan, introducing the no-fault insurance system that Michigan has operated under for the last 43 years. Among the reforms included in Public Act 245 was a provision for assigned claims. Assigned claims arise when a person is entitled to personal protection insurance benefits but is unable to receive payment because of one of four reasons:

1. No personal protection insurance applies to the injury.
2. No personal protection insurance applicable to the injury can be identified.
3. The applicable insurance cannot be identified because of a dispute between two or more insurers regarding their obligations.
4. The identified insurer is financially unable to fulfill its obligations to provide required benefits.

Examples of such circumstances include the following: an uninsured pedestrian (or bicyclist) who is hit by an uninsured driver or a hit-and-run driver; uninsured occupants (such as minors) of a vehicle owned and operated by an uninsured driver; and situations in which there is a dispute over which of multiple insurers are potentially responsible for benefits (or in what priority). Under these circumstances, the injured person is entitled to insurance benefits but unable to obtain all or a portion of those benefits. As a result, the operator of an assigned claims program pays the claim and then allocates and assesses those costs across all insurers doing business in Michigan. Insurers that are assigned costs also are allowed legal claims against the injuring party in order to seek reimbursement for those costs. Public Act 245 of 1972 initially authorized the Insurance Commissioner to organize and operate an assigned claims facility and plan, but before the legislation took effect, amendments to the law moved the program to the Secretary of State. Consequently, the ACF was originally managed by a governmental agency, unlike the MAIPF, which was always a private entity. The Secretary of State operated the Assigned Claims Facility until, as discussed later, legislation enacted in 2012 moved operation of the ACF to the Michigan Automobile Insurance Placement Facility.

Public Act 204 of 2012

Claims processed under the ACF grew rapidly during the 2000s, with assessments made to companies under the ACF rising an average of 11.0% per year between 2004 and 2011--although the 2004-2006 period experienced much more rapid increases than occurred during the later years, as shown in Table 1. Assigned Claims Facility assessments have risen for a variety of reasons. In some years, the assessment increased because the number of claims grew substantially, while in other years, the number of claims rose slowly (or even decreased), while costs (primarily related to medical costs) associated with claims increased. In some years, these trends (number of claims and average costs) have complemented each other, while in other years they have offset each other to various degrees.

House Bill 6096 was introduced in 2010 to move administration of the ACF from the Secretary of State to the MAIPF, although the bill never progressed beyond being referred to the Committee on Insurance. The move was again proposed by House Bill 4455, introduced in 2011, and eventually enacted as Public Act (PA) 204 of 2012. Proponents of the bill argued that the cost of claims under the ACF had risen more rapidly than personal injury protection (PIP) claims, as shown in Table 2, and that the Secretary of State's office was ill-equipped to evaluate claims. (Primarily, ACF assessments reflect personal injury claims that correspond to personal injury claims under the PIP provisions of traditional vehicle insurance policies.) Furthermore, proponents argued that the MAIPF was better suited to perform insurance-related functions such as evaluating claims.

While this article does not attempt to evaluate the policy arguments for the legislation, data on the Michigan automobile insurance market suggest that the economics related to ACF assessments are complex. In the early to mid-2000s, ACF assessments grew rapidly, driven by a substantial increase in claims. While the number of uninsured motorists in Michigan increased considerably between 2000 and 2001 (a factor not shown in Table 2), during the 2004-2005 period, the percentage of motorists without insurance actually declined, as did losses attributable to uninsured motorists under traditional policies. During the 2004-2005 period, personal injury protection losses were declining, as were the number and average value of PIP claims. However, not only were ACF claims increasing in number, but so was the average value of an ACF claim.

Between 2005 and the 2008-2009 recession, the share of uninsured motorists remained stable, and PIP losses grew more rapidly than ACF assessments. Losses attributable to uninsured motorists under traditional policies grew more rapidly than ACF assessments and ACF claims.

In every year from 2008 to 2011, PIP losses increased at a more rapid rate than ACF assessments, and both ACF assessments and PIP losses grew at about the same rate in 2012, the year the legislation was enacted. While uninsured motorist losses under traditional policies exhibited widely varying growth rates over the period, the share of uninsured motorists increased substantially, rising from 16.9% of drivers in 2007 to 21.0% in 2012.

Between 2006 and 2012, annual ACF assessments increased 70.7%, compared to a 103.1% increase in PIP assessments, and a 79.8% increase in uninsured motorist losses under traditional policies. These growth rates reflected not only growth in health care costs but also an increased number of claims, partially accounted for by the substantial increase in the number of uninsured motorists in Michigan.

In addition to transferring management of the ACF to the MAIPF, Public Act 204 of 2012 imposed reporting requirements regarding the effectiveness of the assigned claims plan and detailed demographic information on submitted and assigned claims. Furthermore, for companies assigned costs and with a legal right to pursue reimbursement, PA 204 added provisions to impose penalties on individuals who defaulted on any payment arrangements. Such penalties are similar to those imposed on uninsured motorists in other sections of statute. The legislation also included provisions regarding the submission of fraudulent information or claims.

Insurance Taxes and the Fiscal Impact of PA 204 of 2012

In 1987, largely in response to several court decisions, Michigan made significant revisions to the way it taxed insurance companies. Generally, the current tax is levied as a flat percentage of direct premiums written in Michigan, although insurance companies not based in Michigan are subject to special provisions, which are discussed later. Among the changes enacted in 1987, new credits were added to the Single Business Tax (SBT) for payments made to certain funds and insurance facilities to which the State mandates insurers contribute. Credits were available to insurance companies for amounts paid to the following, pursuant to specific chapters of the Insurance Code:

1. Michigan Worker's Compensation Placement Facility
2. Michigan Basic Property Insurance Association
3. Michigan Automobile Insurance Placement Facility
4. Property and Casualty Guaranty Association
5. Michigan Life and Health Guaranty Association

The first three of these organizations essentially function as insurers of last resort: they provide a mechanism for individuals or entities to obtain insurance if they are unable to do so in the voluntary market. The last two organizations are designed to provide coverage to individuals in the event that a company, from which those individuals had obtained insurance, becomes insolvent. Under certain conditions, insurance companies are required to pay into these facilities and/or associations.

The credits were first available for tax years beginning October 1, 1988, and were limited on both a per-taxpayer basis and an aggregate basis for all insurance company taxpayers. The purpose of the limits was to ensure that the new credits did not cause tax revenue to fall below a certain level;

as a result, the credits were not refundable if they exceeded a taxpayer's liability. While the limits varied somewhat in the first few years of the credits, after this transition period the aggregate credits received by all taxpayers were limited such that tax revenue under the insurance tax would not fall below $30.0 million, adjusted for growth in total State General Fund/General Purpose revenue, plus 50% of the examination fees paid under Section 224 of the Insurance Code of 1956. When the Michigan Business Tax (MBT) replaced the SBT, the MBT retained most credits that existed under the SBT. However, because the limit on aggregate credits had exhibited no impact on the allowed credits during any tax year, the limit was not included when the MBT was enacted. Similarly, the Corporate Income Tax (CIT), which replaced the MBT, does not include the limit.

While the Secretary of State operated the Assigned Claims Facility, payments to the ACF were not eligible for a tax credit because payments were made to the Secretary of State, not one of the five facilities/associations identified in statute. However, the statutory language allowing the credit for payments to one of those five facilities/associations does not distinguish between payments that are eligible for the credit beyond those that are paid pursuant to the specified chapters of the Insurance Code. In the case of the MAIPF, any payment made to the Facility as required by Chapter 33 of the Insurance Code (MCL 500.3301 to 500.3390) is eligible for the credit. Public Act 204 of 2012 amended chapter 33 of the Insurance Code to authorize the MAIPF to assess costs associated with the ACF. As a result, ACF payments become eligible for the credit.

Although the legislation was enacted in 2012, the MAIPF did not officially begin operating the ACF until December 17, 2012, and ACF payments to the MAIPF were not generally made until 2013. The tax credits are based on payments made in the prior year, so 2013 payments would not be eligible for a credit until tax year 2014--and that year's return would not generally be due until March 2015. As a result, while the legislation that enabled insurance companies to claim ACF payments for a tax credit was enacted in 2012, the fiscal impact did not show up in revenue until halfway through FY 2014-15--nearly three years after the legislation was enacted.

Assessments the ACF made to insurance companies (and self-insurers) operating in Michigan totaled $238.7 million in 2015, up from $226.8 million in 2013. However, the revenue impact of ACF assessments' eligibility for a tax credit is estimated to have lowered State revenue by approximately $60.0 million in FY 2014-15 and is expected to reduce FY 2015-16 revenue by approximately $80.0 million. The difference between the fiscal impact of the credit and the magnitude of the assessments reflects two aspects of the tax on insurance companies. First, the credit is nonrefundable, meaning that if the credit exceeds liability, the difference is not refunded. As a result, if an insurance company pays $30.0 million in ACF assessments but only has $12.0 million in tax before credits, the credit only will reduce revenue by $12.0 million.

Second, the insurance tax is structured so that, for non-Michigan-based insurance companies, the credit may not actually reduce their net liability to the State, or will reduce it by less than the credit even without taking into account the credit's nonrefundability. A non-Michigan-based insurer pays the greater of its tax under the Michigan tax on insurance companies or a "retaliatory" tax, which equals what a Michigan insurance company, operating in the state in which the insurer is based with all of the same characteristics (revenue, losses, premiums, etc.) would pay in that state. For example, a California-based insurance company would pay the greater of its liability as calculated under Michigan's insurance tax or what an identical Michigan-based company would pay under California law if it were operating in California.

Because most non-Michigan-based insurance companies end up with a liability under the "retaliatory" component of tax, claiming a credit for payments to the MAIPF will not lower their final liability. For a non-Michigan-based insurance company that did not pay under the retaliatory provisions of the tax, if claiming the credit caused the taxpayer's liability to fall below the retaliatory level, the taxpayer's liability would fall only by the difference between the retaliatory and "nonretaliatory" liabilities--not the full amount of the credit. For example, assuming a firm's retaliatory liability was calculated at $4.0 million, and the nonretaliatory liability was $5.0 million, if the firm claimed a $2.0 million credit, the liability would fall only to the $4.0 million retaliatory level--not the $3.0 million non-retaliatory level--and the firm's liability would decline by only half the value of the credit because the non-Michigan frim can not pay less than its retaliatory liability. As a result, of the $80.7 million in credits claimed during tax year 2015 (the most recent year for which tax data are available), $72.7 million was claimed by Michigan-based insurance companies and only $8.0 million (about 8.1%) was claimed by firms based somewhere other than Michigan, even though non-Michigan-based insurance companies account for approximately 60% of the assessments paid to the MAIPF.

The retaliatory tax primarily accounts for the difference between the assessments under the ACF and the fiscal impact of Public Act 204 of 2012. In fact, because the credit will not affect their liability, many foreign insurers (companies not based in Michigan) do not even include the credit on their tax form, accounting for the difference between total ACF assessments and the totals claimed on tax returns, shown in Table 3. As a result, while ACF assessments for 2014 totaled $227.7 million, returns for tax year 2015 (the tax year in which the credit for the 2014 assessments would be claimed) claimed only $99.1 million in credits.

For many companies, particularly Michigan-based automobile insurance companies, PA 204 of 2012 substantially reduced firms' tax liabilities. Before the legislation was enacted, the MAIPF credit averaged 3.6% of tax before credits, with the credit averaging 2.8% of tax before credits for Michigan-based insurance companies, and 4.7% for foreign insurers. By tax year 2015, the MAIPF credit averaged 71.8% of tax liability before credits, with the claimed credits actually exceeding tax before credits (100.9%) for Michigan insurers and claimed credits averaging 34.8% of tax before credits for foreign insurers. As a result, for Michigan-based insurance companies, net tax liabilities fell from being 10.5% less than tax before credits prior to the legislation, to being 70.7% less in tax year 2015, implying that PA 204 lowered tax liabilities for Michigan-based insurance companies by approximately 60.2%. The "retaliatory" tax provisions reduced the impact on foreign insurers, for which credits lowered liability by 9.4% before the legislation, but reduced tax liabilities by 28.2% in tax year 2015, implying that the legislation lowered net liabilities for foreign insurers by approximately 18.7%.

Public Acts 277 and 278 of 2016

At the time it was enacted, PA 204 of 2012 was anticipated to affect only the administrative costs of the State. The Department of State was predicted to incur some initial costs in order to move the program to the MAIPF, but afterward would likely face reduced operational expenses. Neither the administration nor the Legislature anticipated the tax implications of PA 204 of 2012. In 2015, as insurance companies began to incorporate the credit into their estimated tax payments, insurance tax collections began falling substantially below predicted levels. As a result, the January 2016 Consensus Revenue Estimating Conference lowered the insurance tax revenue estimate for FY 2015-16 by $102.5 million, with most of the decline reflecting the $80.0 million impact of the tax credit.

The Governor's budget proposal for FY 2016-17 recommended changing statute so that payments attributable to the ACF would no longer be eligible for the MAIPF credit. In March 2016, legislation to implement the Governor's recommendation was introduced, and on June 29, 2016, Governor Snyder signed Public Acts 277 and 278, enacting the recommendation into law. However, the legislation did not immediately (or retroactively) end the eligibility of ACF assessments for the credit. Partially in deference to the argument that insurance company rates, which must be approved by the Insurance Commissioner, had already been set for the year and reflected the impact of the credit, the legislation phases-out the eligibility of ACF assessments. For tax year 2016, taxpayers may claim 35% of the ACF assessments when computing the credit, and for tax year 2017 may no longer claim ACF assessments at all. Because of the timing of the amendments' enactment and of estimated tax payments by insurance companies, PA 277 and 278 of 2016 are expected to have a zero or negligible fiscal impact on FY 2015-16 revenue, but will increase revenue in FY 2016-17 and subsequent years by approximately $80.0 million per year (or avert an equivalent revenue loss).

Conclusion

The Insurance Institute of Michigan has contended that Public Acts 277 and 278 will cause Michigan automobile insurance premiums to rise by $40 per vehicle, a figure obtained by taking the $80.0 million impact of the legislation and dividing it by approximately 2.0 million vehicles. However, the incidence of the legislation's impact is much more complex. The 2.0 million vehicles represent the vehicles insured by Michigan-based insurance companies and roughly 25% to 33% of the vehicles in Michigan. Approximately 70% of the ACF assessments are paid by non-Michigan-based companies, the overwhelming majority of which are unable to receive any benefit from the credit (or incur any increase from its reduction/repeal), and thus are unlikely to change their premiums. The premiums of a majority of Michigan vehicle owners are likely to be unaffected by the legislation, just as they were not affected by the 2012 legislation.

Furthermore, the revenue to fund claims under the ACF must be paid by someone. Under the system prior to the 2012 legislation (before the ACF was moved to the MAIPF and ACF payments qualified for the credit), the costs of the ACF were directly handled by all insurance companies operating in Michigan and indirectly by all policy-holders--who subsidized the cost of uninsured motorist claims processed through the ACF via higher rates on their policies. With the tax credit in place, the claims from the ACF were still funded. However, the way they were funded depended on the company. Michigan-based insurers transferred the cost of the ACF to the General Fund, via the tax credit. As a result, that portion of the ACF's cost was borne by all of those who pay taxes directed to the General Fund: the individual income tax, the sales tax, the MBT, the CIT, severance taxes, liquor taxes, cigarette taxes, etc. Implicitly, the cost is then also reflected in lower expenditures in programs supported by the General Fund, such as funding for corrections, higher education, statutory revenue sharing, the State Police, and community health/human services. However, for those with insurance through a non-Michigan-based insurer, the costs for the ACF are included in their premiums. In addition, as individuals who also pay income taxes, sales taxes, etc., this population pays a portion of the cost that would have been paid by those who obtain insurance through Michigan-based insurance companies.

Whether the costs of the ACF should be carried by all of the residents of Michigan (which occurs when the General Fund pays a tax credit for the costs), or only by those Michigan residents who obtain automobile insurance, is a policy question this article does not attempt to answer. However, when ACF assessments became eligible for a tax credit, it generated a situation in which similar classes of individuals were not treated symmetrically. Absent the credit, all vehicle owners with insurance share approximately equally in the costs of the ACF. If the ACF were supported entirely by the General Fund, all taxpayers would share in the costs of the ACF. However, when ACF assessments become eligible for the credit, customers of non-Michigan-based insurance companies incurred a greater proportion of the cost of the ACF than other individuals, both those with insurance from Michigan-based carriers and those who do not carry insurance.

Ultimately, the costs of the ACF, no matter how they are allocated, reflect the cost to Michigan residents of having motorists who do not carry insurance. When claims under the ACF are processed, numerous parties are investigated to determine if they can pay the benefits to which victims are legally entitled. When no such party exists, the ACF provides those benefits. As such, reducing the share of motorists who do not carry insurance, or carry inadequate insurance, would be a direct means of reducing the cost of ACF claims.

Table 1

Assigned Claims Fund Assessments						
Year	**Assessments**	**Pct. Change**	**Claims**	**Pct. Change**	**Average Claim**	**Pct. Change**
2004	$82,955,356	16.6%	1,395	NA	$59,466	NA
2005	102,232,840	23.2	1,542	10.5%	66,299	11.5%
2006	119,721,603	17.1	1,751	13.6	68,373	3.1
2007	128,962,504	7.7	1,701	(2.9)	75,816	10.9
2008	141,423,725	9.7	1,902	11.8	74,355	(1.9)
2009	148,455,608	5.0	2,410	26.7	61,600	(17.2)
2010	160,023,835	7.8	2,847	18.1	56,208	(8.8)
2011	172,733,186	7.9	2,991	5.1	57,751	2.7
2012	204,401,454	18.3	3,124	4.4	65,429	13.3
2013	226,759,696	10.9	3,399	8.8	66,714	2.0
2014	227,748,456	0.4	3,162	(7.0)	72,027	8.0
2015	238,737,085	4.8	3,807	20.4	62,710	(12.9)

Note: NA indicates not available

Sources: Michigan Secretary of State, Michigan Automobile Insurance Placement Facility

Table 2

Assigned Claims Fund Assessments Compared to Other Michigan Insurance Trends (Dollar amounts in millions)

Year	Assigned Claims Fund Assessments	Pct. Change	Personal Injury Protection Losses	Pct. Change	Uninsured Motorist Bodily Injury Losses	Pct. Change	Total Losses Incurred	Pct. Change	Liability Premiums Written in Michigan	Pct. Change	Estimated Percent of Uninsured Motorists
2004	$83.0	16.6%	$1,486.5	(16.2%)	$54.0	(3.1%)	$1,943.4	(16.5%)	$2,851.0	9.3%	17.5%
2005	102.2	23.2	1,282.7	(13.7)	45.3	(16.2)	1,731.4	(10.9)	2,934.4	2.9	15.9
2006	119.7	17.1	1,429.6	11.5	54.7	20.9	1,876.2	8.4	2,889.4	(1.5)	16.5
2007	129.0	7.7	1,587.8	11.1	58.7	7.2	2,063.1	10.0	2,880.6	(0.3)	16.9
2008	141.4	9.7	1,762.7	11.0	52.9	(9.9)	2,212.7	7.2	2,763.5	(4.1)	18.7
2009	148.5	5.0	2,016.0	14.4	71.6	35.3	2,587.2	16.9	2,795.6	1.2	19.5
2010	160.0	7.8	2,243.1	11.3	85.5	19.5	2,845.5	10.0	3,017.3	7.9	17.3
2011	172.7	7.9	2,462.0	9.8	91.9	7.4	3,111.5	9.3	3,411.9	13.1	19.2
2012	204.4	18.3	2,903.3	17.9	98.4	7.1	3,568.9	14.7	3,816.3	11.9	21.0

Note: Total losses include all losses paid under automobile insurance policies, not just losses under personal injury protection and uninsured motorists provisions.

Sources: Insurance Research Council, Michigan Automobile Insurance Placement Facility, Michigan Secretary of State, National Association of Insurance Commissioners

Table 3

Tax Characteristics of Insurance Companies Claiming Credits for MAIPF Assessments
(Dollar amounts in millions)

Michigan Insurers

Tax Year	Direct Premiums Written in Michigan	Percent Change	Tax Before Credits	MAIPF Credits	Tax After Credits	Percent Change	MAIPF Credit Share of Tax Before Credit
2008	$1,163.9	---	$14.5	$0.1	$13.1	---	1.0%
2009	3,632.4	212.1%	45.1	0.4	38.1	191.5%	1.0
2010	4,084.6	12.4	51.1	2.0	42.2	10.7	3.9
2011	3,985.1	(2.4)	49.8	1.6	45.5	7.7	3.1
2012	3,909.7	(1.9)	48.9	2.0	44.9	(1.2)	4.1
2013	5,541.0	41.7	69.3	1.7	65.6	46.2	2.5
2014	6,013.3	8.5	75.2	72.7	21.6	(67.1)	96.7
2015	6,221.9	3.5	77.3	78.0	22.7	4.9	100.9

Non-Michigan Insurers

Tax Year	Direct Premiums Written in Michigan	Percent Change	Tax Before Credits	MAIPF Credits	Tax After Credits	Percent Change	MAIPF Credit Share of Tax Before Credit
2008	$2,231.2	---	$27.9	$0.7	$24.2	---	2.5%
2009	1,927.5	(13.6%)	24.1	0.4	21.6	(10.8%)	1.5
2010	2,001.1	3.8	25.0	0.9	22.2	2.7	3.8
2011	3,173.7	58.6	39.7	2.3	36.3	63.8	5.7
2012	2,369.2	(25.3)	29.6	0.9	28.1	(22.5)	3.2
2013	2,837.7	19.8	35.5	3.4	32.3	15.0	9.5
2014	3,413.8	20.3	42.7	8.0	35.9	11.1	18.8
2015	4,858.5	42.3	60.7	21.1	43.6	21.5	34.8

All Insurers

Tax Year	Direct Premiums Written in Michigan	Percent Change	Tax Before Credits	MAIPF Credits	Tax After Credits	Percent Change	MAIPF Credit Share of Tax Before Credit
2008	$3,395.2	---	$42.4	$0.9	$37.3	---	2.0%
2009	5,559.9	63.8%	69.2	0.8	59.7	60.2%	1.2
2010	6,085.7	9.5	76.1	3.0	64.4	7.8	3.9
2011	7,158.8	17.6	89.5	3.8	81.7	27.0	4.3
2012	6,278.9	(12.3)	78.5	2.9	73.0	(10.7)	3.7
2013	8,378.7	33.4	104.7	5.1	98.0	34.2	4.8
2014	9,427.1	12.5	117.8	80.7	57.5	(41.3)	68.4
2015	11,080.3	17.5	138.0	99.1	66.3	15.3	71.8

Note: Direct premiums reflects total premiums for all types of insurance by companies that claim the MAIPF credit, not just premiums related to automobile insurance. The table does not include any information for insurance tax filers that do not claim the MAIPF credit.
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

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TOPICS OF LEGISLATIVE INTEREST

Fall 2016

General Fund Revenue at Michigan Public Universities and Community Colleges
By Bill Bowerman, Associate Director

Introduction

Tuition and fee revenue has become the dominant source of funding for public postsecondary institutions. State appropriations for universities and community colleges peaked in fiscal year (FY) 2001-02. Even before that time, however, tuition was growing as a share of the general fund revenue for university and college operations. General fund revenue is the operating revenue for postsecondary institutions and does not include revenue designated for auxiliary enterprises such as student housing. This article provides an overview of tuition and fee increases for FY 2016-17, and includes background on how operations revenue sources have evolved for public universities and community colleges.

Michigan Public Universities

Background. Michigan public universities have two major sources of general fund revenue: tuition and fees, and State appropriations. Rising costs of higher education and decreasing State aid have resulted in an increased reliance on tuition to support university general fund operating expenditures. In FY 1978-79, State funding for higher education accounted for 65.6% of university general fund revenue on a statewide basis. State funding as a percentage of general fund at individual institutions ranged from 58.0% at Central Michigan University, to 78.9% at University of Michigan (UM) - Flint. By FY 2001-02, State aid accounted for 45.4% of university general fund revenue. As shown in Table 1, by 2014-15, State aid represented 21.5% of university general fund revenue, ranging from 16.5% at UM - Ann Arbor to 35.2% at Northern Michigan University. Conversely, tuition and fees increased statewide as a percentage of university general fund revenue: from 47.0% in FY 2001-02, to 71.1% in FY 2014-15.

Table 1
University General Fund Revenue Sources

	FY 2001-02	% of Total	FY 2014-15	% of Total
Tuition and Fees..........	$1,669,729,870	47.0%	$4,427,223,300	71.1%
State Appropriations	1,615,486,200	45.4	1,339,958,200	21.5
Other...........................	270,173,165	7.6	458,390,606	7.4
Total...........................	**$3,555,389,235**	**100.0%**	**$6,225,572,106**	**100.0%**

Source: Higher Education Institutional Data Inventory (HEIDI)

From FY 2001-02 to FY 2016-17, annual university statewide average undergraduate tuition and fees have increased by 150.9%, from $4,948 to $12,413. During the same time period, State aid for university operations decreased by 13.3%, from $1,615,486,200 to $1,400,345,000 in nominal dollars (unadjusted for inflation).[1]

FY 2016-17 Tuition and Fee Increases. Resident undergraduate tuition and fees at Michigan public universities increased by an average of 3.9% in FY 2016-17 from FY 2015-16. Increases ranged from 2.53% at Central Michigan University to 4.20% at Michigan Technological University, Northern Michigan University, and Saginaw Valley State University. Appendix A provides a listing by university of tuition and fees. The FY 2016-17 unweighted statewide average totals $12,416, based on 30-credit hours. Annual tuition and fees range from $9,345 at Saginaw Valley State University, to $16,051 at Michigan Technological University.

Since FY 2011-12, State appropriations have included tuition restraint conditions in an attempt to limit annual tuition and fee increases. Financial penalties result when universities exceed percentage increases that are set in Section 265 of the State School Aid Act. Between FY 2011-12 and FY 2016-17, three universities have not complied with tuition restraint (Wayne State University in FY 2013-14, and Eastern Michigan University and Oakland University in FY 2015-16). Table 2 lists tuition restraint caps included in the budget since FY 2011-12.

Table 2

Tuition Restraint	
Fiscal Year	Percent Limit
2011-12	7.1%
2012-13	4.0
2013-14	3.75
2014-15	3.2
2015-16	3.2
2016-17	4.2

Michigan Public Community Colleges

Background. Michigan public community colleges rely on three major revenue sources to support their costs: tuition and fees, property taxes, and State appropriations. The ability to generate revenue from tuition and fees and property taxes varies from college to college. Factors that affect revenue include taxable values, millage rates, tuition rates, and student population. Due to State aid reductions since FY 2001-02, and declining taxable values that occurred from 2009 through 2012, community college tuition and fees have grown over the years as a percentage share of college general fund revenue. In FY 2001-02, State aid accounted for 30.3% of college general fund revenue while tuition represented 26.8% of general fund revenue. State funding as a percentage of general fund revenue at individual institutions ranged from 17.3% at Oakland Community College, to 62.4% at Gogebic Community College. As shown in Table 3, by FY 2014-15, tuition and fees had increased to 41.2% of college general fund revenue and State aid declined to 19.6%. State funding as a

[1] Amounts represent university operation funding and do not include Michigan State University (MSU) AgBioResearch, MSU Extension, or Michigan Public School Employees' Retirement System (MPSERS) reimbursements.

percentage of general fund revenue at individual institutions ranged from 12.7% at Wayne County Community College District, to 42.7% at Gogebic Community College.

Table 3
Community College General Fund Revenue Sources

	FY 2001-02	% of Total	FY 2014-15	% of Total
Tuition and Fees	$280,043,137	26.8%	$643,567,637	41.2%
Property Tax	416,867,238	39.9	531,499,183	34.0
State Aid	316,410,944	30.3	307,191,300	19.6
Other	31,890,847	3.1	81,075,846	5.2
Total	**$1,045,212,166**	**100.0%**	**$1,563,333,966**	**100.0%**

Source: Michigan Community Colleges Activities Classification Structure (ACS)

Due to reliance on tuition to fund increasing college costs and offset other declining sources of funding, annual in-district tuition rates increased by 97.2% from FY 2001-02 to FY 2016-17. During the same time period, State funding for community college operations decreased by 1.0%, from $319,196,318 to $315,892,000 in nominal dollars.[2]

FY 2016-17 Tuition and Fee Increases. Statewide, community college in-district tuition and fees in FY 2016-17 increased by 5.3% over FY 2015-16, from $122.32 per contact/credit hour[3] to $128.81. Average annual costs, based on 30 contact/credit hours per year, total $3,864. Appendix B lists increases by college. Appendix C delineates tuition and fee charges, and estimates the total annual cost based on 30 contact/credit hours. While the Legislature has included university tuition restraint as a part of the higher education budget since FY 2011-12, no comparable limit has been included for community colleges.

Conclusion

Tuition and fee revenue has become the principal source of general fund revenue for Michigan public universities and community colleges. Percentage increases for the State share of funding now represent a small portion of total institutional general fund revenue. On a statewide basis, a 1.0% increase in State aid represents 0.2% of an institution's general fund revenue. Substantial increases in State funding would be required to affect the long-term trend of reliance on tuition and fees to support costs at Michigan public universities and community colleges.

[2] Amounts represent college operations appropriations and do not include MPSERS reimbursements.
[3] Twenty of the 28 Michigan public community colleges assess tuition on a contact-hour basis and eight colleges charge on a per-credit-hour basis.

Appendix A

Michigan Public Universities
FY 2016-17 Resident Undergraduate Tuition and Fee Rates

University	FY 2015-16	FY 2016-17 Tuition and Fees					Percent Change	Cost Per Credit Hour
		Fresh	Soph	Junior	Senior	Average		
Central	$11,850	$12,150	$12,150	$12,150	$12,150	$12,150	2.53%	$405
Eastern	11,638	12,062	11,209	12,604	12,604	12,120	4.13%	404
Ferris	11,610	11,760	11,760	12,090	12,090	11,925	2.71%	398
Grand Valley	11,363	11,520	11,520	12,144	12,144	11,832	4.13%	394
Lake Superior	10,580	11,214	10,954	10,954	10,954	11,019	4.15%	367
Michigan State	14,333	14,063	14,063	15,698	15,698	14,880	3.82%	496
Michigan Tech	15,403	14,634	14,634	17,467	17,467	16,051	4.20%	535
Northern	9,680	10,012	9,766	10,282	10,282	10,086	4.20%	336
Oakland	12,431	11,970	11,970	13,875	13,875	12,923	3.95%	431
Saginaw Valley	8,969	9,345	9,345	9,345	9,345	9,345	4.20%	312
UM-Ann Arbor	14,729	14,402	14,402	16,218	16,218	15,310	3.94%	510
UM-Dearborn	11,697	12,032	12,032	12,332	12,332	12,182	4.15%	406
UM-Flint	10,527	10,884	10,884	11,028	11,028	10,956	4.08%	365
Wayne State	12,807	12,519	12,269	14,287	14,287	13,340	4.16%	445
Western	11,633	11,793	11,493	12,599	12,599	12,121	4.19%	404
Average	**$11,950**					**$12,416**	**3.90%**	**$414**

Notes:
1) Rates are based on full-time course load of 30 credit hours at the tuition rate paid by a majority of resident undergraduates.
2) Rates are averaged across all four undergraduate class levels.
3) Fees not paid by a majority of students in a class level (such as course fees) are not included.
4) Tuition restraint for FY 2016-17 is 4.2% (Sec. 265 of PA 249 of 2016).

Source: State School Aid Act Section 265 reports and university websites.

Appendix B

Michigan Public Community Colleges
FY 2016-17 In-District Tuition and Fee Rate Increases

	FY 2015-16	FY 2016-17	Difference	% Change
Alpena	$138.00	$143.00	$5.00	3.6%
Bay de Noc	145.00	153.00	8.00	5.5%
Delta	113.17	119.17	6.00	5.3%
Glen Oaks	132.00	138.00	6.00	4.5%
Gogebic	124.00	130.00	6.00	4.8%
Grand Rapids	123.30	126.30	3.00	2.4%
Henry Ford	115.07	116.07	1.00	0.9%
Jackson	163.00	175.00	12.00	7.4%
Kalamazoo Valley	102.00	107.33	5.33	5.2%
Kellogg	112.50	119.50	7.00	6.2%
Kirtland	125.33	130.00	4.67	3.7%
Lake Michigan	138.00	143.00	5.00	3.6%
Lansing	100.67	111.67	11.00	10.9%
Macomb	102.33	106.00	3.67	3.6%
Mid Michigan	119.33	125.33	6.00	5.0%
Monroe	124.33	129.33	5.00	4.0%
Montcalm	118.00	148.00	30.00	25.4%
Mott	153.13	158.26	5.13	3.4%
Muskegon	126.33	134.33	8.00	6.3%
North Central	122.75	128.00	5.25	4.3%
Northwestern	119.22	127.64	8.42	7.1%
Oakland	90.33	94.67	4.33	4.8%
Schoolcraft	118.80	127.87	9.07	7.6%
Southwestern	158.75	163.00	4.25	2.7%
St. Clair	120.00	124.13	4.13	3.4%
Washtenaw	101.00	101.00	0.00	0.0%
Wayne County	116.38	117.43	1.05	0.9%
West Shore	102.20	109.53	7.33	7.2%
Average	**$122.32**	**$128.81**	**$6.49**	**5.3%**

Source: State School Aid Act Section 225 reports and college websites.

Appendix C

Michigan Public Community Colleges
FY 2016-17 In-District Tuition and Fee Rates

	FY 2016-17 Tuition	Contact/Credit Hour Fees	Per Semester Fees	Total Cost Per Credit/ Contact Hour	Annual Tuition and Fee Costs
Alpena	$125.00	$16.00	$30.00	$143.00	$4,290
Bay de Noc	116.00	37.00	0.00	153.00	4,548
Delta	99.50	17.00	40.00	119.17	3,575
Glen Oaks	109.00	29.00	0.00	138.00	4,140
Gogebic	110.00	16.00	60.00	130.00	3,900
Grand Rapids	111.00	5.50	147.00	126.30	3,789
Henry Ford	93.00	17.00	91.00	116.07	3,482
Jackson	135.00	40.00	0.00	175.00	5,250
Kalamazoo Valley	100.00	0.00	110.00	107.33	3,220
Kellogg	104.50	15.00	0.00	119.50	3,585
Kirtland	109.00	21.00	0.00	130.00	3,900
Lake Michigan	97.00	46.00	0.00	143.00	4,290
Lansing	99.00	11.00	25.00	111.67	3,350
Macomb	97.00	5.00	60.00	106.00	3,180
Mid Michigan	108.00	12.00	80.00	125.33	3,760
Monroe	107.00	20.00	35.00	129.33	3,880
Montcalm	105.00	43.00	0.00	148.00	4,440
Mott	132.62	16.80	132.62	158.26	4,748
Muskegon	102.00	30.00	35.00	134.33	4,030
North Central	108.00	20.00	0.00	128.00	3,840
Northwestern	103.70	19.55	65.80	127.64	3,829
Oakland	88.00	0.00	100.00	94.67	2,840
Schoolcraft	102.00	23.00	43.00	127.87	3,836
Southwestern	115.25	47.75	0.00	163.00	4,890
St. Clair	105.00	14.00	77.00	124.13	3,724
Washtenaw	94.00	7.00	0.00	101.00	3,030
Wayne County	107.10	7.00	50.00	117.43	3,523
West Shore	96.00	13.06	7.00	109.53	3,266
Average	**$106.38**			**$128.81**	**$3,864**

Source: State School Aid Act Section 225 reports and college websites.