



MINNESOTA'S OUT-MIGRATION COMPOUNDS STATE BUDGET WOES

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FEBRUARY 2010

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Minnesota's Out-Migration Compounds State Budget Woes

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Minnesota's Out-Migration Compounds State Budget Woes

EXECUTIVE SUMMARY

The latest revenue forecast for Minnesota's state budget revealed a \$1.16 billion shortfall for the current biennium. Of the total shortfall, \$827 million (70 percent) is due to lower individual income tax collections. In this study, we demonstrate that a significant long-term driver of lower individual income tax revenue is the out-migration of Minnesota's residents to other states— not just “snow birds” in search of warmer weather, but also individuals gravitating to a friendlier tax climate.

Where are Minnesota's out-migrants going and why? According to the Internal Revenue Service (IRS), between 1995 and 2007, the top five states are Florida (21,256), Arizona (19,605), Wisconsin (9,449), Colorado (6,894) and Texas (6,551)— states with far more competitive state tax structures.

Why should policymakers care about out-migration? These out-migrants also take their incomes with them. Between 1995 and 2007, the total amount of income leaving the state was at least \$3,698,692,000. More disturbingly, income left Minnesota in every year—even in years when more people moved in than moved out—which suggests that people with higher-than-average incomes have been leaving the state. Had this income stayed in Minnesota, state and local governments would have collected an estimated \$423,317,000 in additional taxes.

Economists have long studied migration between the states because migration is the ultimate expression of citizens “voting with their feet.” In other words, more people moving into a state is a good sign of social and economic progress, whereas more people leaving a state is not a healthy sign. Therefore, a thorough

understanding of Minnesota's migration patterns is essential to understanding progress on much larger public policy issues.

Out-migration represents a relatively recent development for Minnesota. Between 1991 and 2001, Minnesota gained 104,295 residents from other states, according to the U.S. Department of Commerce's Census Bureau. In 2002, however, the trend abruptly reversed. Between 2002 and 2009, Minnesota lost 54,113 residents to other states. Clearly Minnesota now has a severe out-migration problem.

Of course, when someone leaves, state and local governments don't just lose income and taxes for one year, but for all future years as well. Compounding these figures over the thirteen years assessed in this study, Minnesota has lost \$22,703,034,000 in net income and \$2,548,131,000 in state and local tax revenue due to out-migration. Surely these higher tax collections would have helped Minnesota's state and local governments during the current economic downturn.

What can policymakers do about out-migration? Understanding why folks are leaving the state is the first step in reversing it. One way to do this is to compare various aspects of Minnesota with those of destination states. The data shows that people with higher-than-average incomes are leaving Minnesota for states where taxes are lower (especially income taxes), union membership is lower, population density is higher, cost of housing is lower, and the weather is warmer.

Clearly, not all of these variables can be addressed by policymakers—weather cannot be changed through legislative action. Most variables, however, can be affected by policymakers on an annual basis—tax burdens can be reduced.

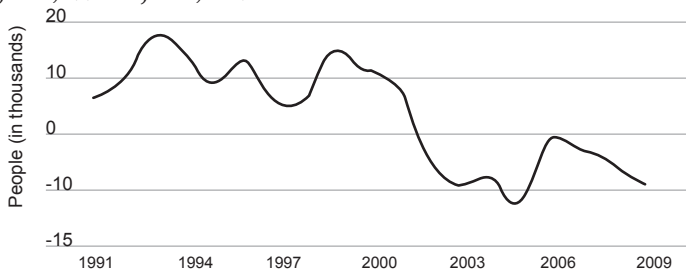
Indeed, some variables can only be influenced by legislation and even then, will take years to establish measurable change such as union membership, population density and cost of housing. Minnesota should work toward reducing the tax burden via reductions in the income tax which would encourage both people and their incomes to stay in Minnesota or move into the state. Both Florida, with no income tax, and Arizona have lower tax burdens.

While identifying specific remedies for each of these issues is beyond the scope of this study, without action by the legislature and the governor, out-migration will surely continue reducing the ability of both the private and public sector to ensure Minnesota's economy remains strong and vibrant.

CHART 1

Minnesota's Net Domestic Migration

JULY 1, 1991 TO JULY 1, 2009



Source: U.S. Department of Commerce: Census Bureau

Measuring Minnesota's Out-Migration Problem

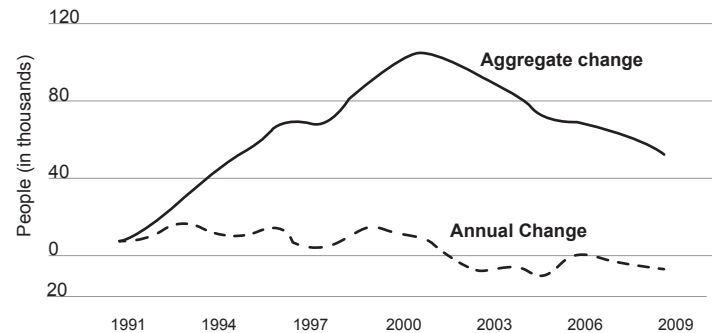
The most comprehensive data available on domestic migration comes from the U.S. Department of Commerce's Census Bureau.ⁱ Chart 1 and Table 1 show that between 1991 and 2001, Minnesota gained 104,295 residents from other states. However, in 2002, Minnesota's in-migration quickly reversed into out-migration. Between 2002 and 2009, Minnesota has lost

ⁱ The migration data is a subset of data known as "Components of Population Change." The most recent data for Minnesota can be found here: <http://www.census.gov/popest/states/NST-comp-chg.html> The data's timeframe is not the typical calendar year as it begins and ends on July 1.

CHART 2

Minnesota's Net Population Gain/Loss to Other States

JULY 1, 1991 TO JULY 1, 2009



Source: U.S. Department of Commerce: Census Bureau

54,113 residents to other states. Chart 2 shows that over half the gain in residents between 1991 and 2001 has already been lost. Clearly Minnesota now has a severe out-migration problem.

While the Census Bureau data is comprehensive, it is also very shallow. Fortunately, the Internal Revenue Service (IRS) provides an annual snapshot of taxpayer migration via tax returns which provides for a much richer picture of migrants.ⁱⁱ The IRS has access to actual tax returns, an accurate proxy for the number of households; it also provides the number of exemptions, which is a proxy for the number of people in the household and their reported Adjusted Gross Income (AGI), which is a proxy for household income.

Table 2 shows the IRS's aggregate migration for the state of Minnesota. In 2007 (the latest data available), 48,586 taxpayers left the state while 44,158 taxpayers entered the state—a net loss of 4,428 taxpayers. Overall, Minnesota also lost 6,233 exemptions and \$378,757,000 in AGI.

For the entire period between 1995 and 2007, Minnesota has lost 18,961 taxpayers, 4,352 exemptions and \$3,698,692,000 in

ⁱⁱ The IRS migration data is available at the state and county levels and can be found here: <http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96943,00.html> The IRS data is free for the most current year, but charges a nominal fee for historical data.

AGI (nominal dollars). More disturbingly, as shown in Chart 3, AGI was negative in every year of this period—despite both the Census and IRS data showing net in-migration of people. This suggests that people with higher-than-average incomes have been leaving the state.

TABLE 1
Minnesota's Net Domestic Migration

JULY 1, 1991 TO JULY 1, 2008

Year as of July 1	Net Domestic Migration	Aggregate Change
1991	5,432	5,432
1992	8,007	13,439
1993	16,045	29,484
1994	12,989	42,473
1995	7,969	50,442
1996	11,999	62,441
1997	4,978	67,419
1998	5,044	72,463
1999	13,743	86,206
2000 (a)	10,611	96,817
2001	7,478	104,295
2002	(5,068)	99,227
2003	(9,439)	89,788
2004	(7,677)	82,111
2005	(12,579)	69,532
2006	(1,790)	67,742
2007	(3,341)	64,401
2008	(5,406)	58,995
2009	(8,813)	50,182

(a) Interpolated.

Source: U.S. Department of Commerce: Census Bureau

Where are the Out-Migrants Going?

The IRS data also provides state-by-state migrant data which is useful in determining where out-migrants are going and where in-migrants are coming from. Tables 3a, 3b and 3c ranks the net migration totals for the years 1995 to 2007 for taxpayers, exemptions and AGI, respectively.

As shown in Table 3a, the top taxpayer (household) out-migrant states are Arizona (12,092), Florida (11,790), Colorado

(6,215), California (5,413), and Texas (4,293). On the other hand, the top taxpayer in-migrant states are Iowa (9,634), North Dakota (7,620), Illinois (6,311), Wisconsin (5,219) and Michigan (4,490). Overall, Minnesota loses taxpayers to 33 states while gaining taxpayers from only 17 states.

As shown in Table 3b, the top exemption (people) out-migrant states are Florida (21,256), Arizona (19,605), Wisconsin (9,449), Colorado (6,894) and Texas (6,551). On the other hand, the top exemption in-migrant states are Illinois (18,020), North Dakota (16,565), Iowa (14,105), Michigan (7,893) and California (5,178). Overall, Minnesota loses exemptions to 27 states while gaining exemptions from 23 states.

As shown in Table 3c, the top AGI (income) out-migrant states are Florida (\$1,965,013,000), Arizona (\$927,374,000), Wisconsin (\$384,711,000), California (\$297,677,000) and Texas (\$275,469,000). On the other hand, the top AGI in-migrant states are Illinois (\$391,171,000), North Dakota (\$382,949,000), Iowa (\$351,998,000), Michigan (\$158,471,000) and Ohio (\$121,705,000). Overall, Minnesota loses AGI to 33 states while gaining AGI from only 17 states.

Why Should Policymakers Worry about Out-Migration?

These out-migrants also take their incomes and purchasing power with them. As shown in Table 4, between 1995 and 2007, the total amount of AGI leaving the state was at least \$3,698,692,000 (nominal dollars). The greatest out-flow of AGI was in 2007 at \$378,757,000. Not one year during this period saw a net in-flow of AGI into Minnesota.

Had this income stayed in Minnesota, state and local governments would have collected an estimated \$423,317,000 in higher taxes over this period. This not only includes higher income taxes, but also higher sales and property taxes.

TABLE 2
Minnesota's Net Taxpayer Migration

Tax Years 1995 to 2007

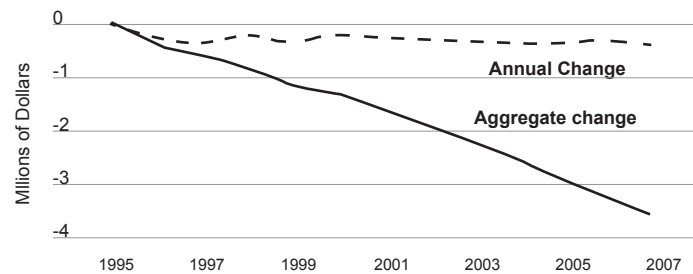
Tax Year	In-Migrants			Out-Migrants			Net		
	Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI
1995	42,122	81,679	1,457,620	40,109	73,260	1,498,930	2,013	8,419	(41,310)
1996	42,020	81,226	1,537,587	43,412	79,491	1,802,361	(1,392)	1,735	(264,774)
1997	43,269	82,583	1,638,311	45,009	82,195	1,967,730	(1,740)	388	(329,419)
1998	46,253	87,781	1,933,298	43,365	78,331	2,104,166	2,888	9,450	(170,868)
1999	46,886	87,558	1,980,992	43,770	78,714	2,328,368	3,116	8,844	(347,376)
2000	46,588	85,992	2,161,621	45,220	80,175	2,364,240	1,368	5,817	(202,619)
2001	43,487	79,135	1,937,380	46,586	83,624	2,193,198	(3,099)	(4,489)	(255,818)
2002	41,160	74,580	1,782,977	45,244	81,538	2,095,138	(4,084)	(6,958)	(312,161)
2003	40,578	73,413	1,788,153	45,201	81,083	2,120,968	(4,623)	(7,670)	(332,815)
2004	41,288	74,502	1,844,368	45,627	81,732	2,198,591	(4,339)	(7,230)	(354,223)
2005	44,021	79,387	2,085,224	46,497	82,940	2,453,795	(2,476)	(3,553)	(368,571)
2006	43,514	77,932	2,157,148	45,679	80,804	2,497,129	(2,165)	(2,872)	(339,981)
2007	44,158	77,921	2,281,952	48,586	84,154	2,660,709	(4,428)	(6,233)	(378,757)
Total	565,344	1,043,689	24,586,631	584,305	1,048,041	28,285,323	(18,961)	(4,352)	(3,698,692)

Source: Internal Revenue Service

Of course, when someone leaves, the lost revenue to state and local government isn't limited to the year the person left. It's lost for every year moving forward, too. Compounding the tax losses over the thirteen years considered above, the total tax losses come to roughly \$2,548,131,000 (not adjusted for inflation).

CHART 3
Minnesota's Net Income Gain/Loss to Other States

1995 to 2007



Source: U.S. Department of Commerce: Census Bureau

Reversing the Out-Migration of Minnesota Taxpayers

Reversing Minnesota's out-migration problem requires an understanding of why residents are leaving. As shown in Table

5, one way to do this is by comparing various characteristics of Minnesota versus the destination states.ⁱⁱⁱ In economic terms, out-migrants are expressing their "revealed preferences" by moving to another state more in line with their preferences and values. We compare Minnesota to these destination states via six common variables used in migration studies—state and local tax burdens, income tax burdens, union membership, population density, cost-of-housing and average temperature.^{iv}

State and Local Tax Burden: This variable measures total state and local taxes collected as a percent of personal income as averaged over the 1995 to 2007 period.^v Minnesota's average tax burden was 11.47 percent. Taxpayers left for states where

iii Including Washington, D.C.

iv For a comprehensive examination of the migration literature and determinants of migration, see: Hall, Arthur P., Moody, J. Scott and Warcholik, Wendy P., "The County-to-County Migration of Taxpayers and Their Incomes, 1995 to 2006," Center for Applied Economics, Technical Paper 09-0306, March 2009. http://www.business.ku.edu/_FileLibrary/PageFile/1195/TR%2009-0306--Taxpayer%20Migration.pdf

v The tax collection data is from the U.S. Department of Commerce's Census Bureau and the personal income data comes from the U.S. Department of Commerce's Bureau of Economic Analysis.

TABLE 3A
Net Minnesota Migration to Other States
Sorted by Taxpayers (Households)

TAX YEARS 1995 TO 2007

State	Taxpayers	Rank	Exemptions	AGI
Arizona	(12,092)	1	(19,605)	(927,374)
Florida	(11,790)	2	(21,256)	(1,965,013)
Colorado	(6,215)	3	(6,894)	(265,773)
California	(5,413)	4	5,178	(297,677)
Texas	(4,293)	5	(6,551)	(275,469)
Washington	(3,175)	6	(2,716)	(133,921)
Nevada	(3,141)	7	(4,428)	(233,913)
Oregon	(2,459)	8	(2,655)	(102,934)
North Carolina	(1,927)	9	(3,258)	(163,717)
Georgia	(1,844)	10	(2,997)	(107,872)
Arkansas	(1,036)	11	(2,694)	(69,456)
Massachusetts	(979)	12	(132)	(57,745)
New Mexico	(961)	13	(1,166)	(40,456)
Virginia	(862)	14	142	(31,769)
South Carolina	(842)	15	(1,495)	(113,864)
Tennessee	(625)	16	(953)	(39,069)
District of Columbia	(609)	17	(394)	(6,346)
Alaska	(556)	18	(291)	(4,598)
Maryland	(491)	19	(36)	10,598
Montana	(471)	20	(592)	(52,483)
Hawaii	(388)	21	(56)	(23,078)
Missouri	(322)	22	(1,048)	(5,939)
Kentucky	(305)	23	(620)	(11,913)
Idaho	(298)	24	(138)	(1,788)
Maine	(142)	25	(270)	(9,515)
Wyoming	(128)	26	(6)	(33,810)
Oklahoma	(123)	27	(186)	17,950
Alabama	(84)	28	(182)	88
New York	(76)	29	4,641	57,332
Vermont	(54)	30	6	(4,639)
Connecticut	(43)	31	209	(1,494)
Delaware	(16)	32	72	(2,850)
New Hampshire	(14)	33	56	3,263
Mississippi	19	34	85	(7,991)
West Virginia	79	35	142	6,541
Rhode Island	121	36	414	(10,095)
Utah	127	37	1,097	(8,567)
Louisiana	476	38	1,269	17,571
Pennsylvania	592	39	1,390	40,479
Kansas	608	40	1,238	35,749
New Jersey	1,140	41	2,600	64,468
South Dakota	1,322	42	1,352	(144,328)
Indiana	1,576	43	3,190	97,513
Ohio	1,646	44	2,831	121,705
Nebraska	1,833	45	3,221	83,634
Michigan	4,490	46	7,893	158,471
Wisconsin	5,219	47	(9,449)	(384,711)
Illinois	6,311	48	18,020	391,171
North Dakota	7,620	49	16,565	382,949
Iowa	9,634	50	14,105	351,998

TABLE 3B
Net Minnesota Migration to Other States
Sorted by Exemptions (People)

TAX YEARS 1995 TO 2007

State	Taxpayers	Exemptions	Rank	AGI
Florida	(11,790)	(21,256)	1	(1,965,013)
Arizona	(12,092)	(19,605)	2	(927,374)
Wisconsin	5,219	(9,449)	3	(384,711)
Colorado	(6,215)	(6,894)	4	(265,773)
Texas	(4,293)	(6,551)	5	(275,469)
Nevada	(3,141)	(4,428)	6	(233,913)
North Carolina	(1,927)	(3,258)	7	(163,717)
Georgia	(1,844)	(2,997)	8	(107,872)
Washington	(3,175)	(2,716)	9	(133,921)
Arkansas	(1,036)	(2,694)	10	(69,456)
Oregon	(2,459)	(2,655)	11	(102,934)
South Carolina	(842)	(1,495)	12	(113,864)
New Mexico	(961)	(1,166)	13	(40,456)
Missouri	(322)	(1,048)	14	(5,939)
Tennessee	(625)	(953)	15	(39,069)
Kentucky	(305)	(620)	16	(11,913)
Montana	(471)	(592)	17	(52,483)
District of Columbia	(609)	(394)	18	(6,346)
Alaska	(556)	(291)	19	(4,598)
Maine	(142)	(270)	20	(9,515)
Oklahoma	(123)	(186)	21	17,950
Alabama	(84)	(182)	22	88
Idaho	(298)	(138)	23	(1,788)
Massachusetts	(979)	(132)	24	(57,745)
Hawaii	(388)	(56)	25	(23,078)
Maryland	(491)	(36)	26	10,598
Wyoming	(128)	(6)	27	(33,810)
Vermont	(54)	6	28	(4,639)
New Hampshire	(14)	56	29	3,263
Delaware	(16)	72	30	(2,850)
Mississippi	19	85	31	(7,991)
Virginia	(862)	142	32	(31,769)
West Virginia	79	142	33	6,541
Connecticut	(43)	209	34	(1,494)
Rhode Island	121	414	35	(10,095)
Utah	127	1,097	36	(8,567)
Kansas	608	1,238	37	35,749
Louisiana	476	1,269	38	17,571
South Dakota	1,322	1,352	39	(144,328)
Pennsylvania	592	1,390	40	40,479
New Jersey	1,140	2,600	41	64,468
Ohio	1,646	2,831	42	121,705
Indiana	1,576	3,190	43	97,513
Nebraska	1,833	3,221	44	83,634
New York	(76)	4,641	45	57,332
California	(5,413)	5,178	46	(297,677)
Michigan	4,490	7,893	47	158,471
Iowa	9,634	14,105	48	351,998
North Dakota	7,620	16,565	49	382,949
Illinois	6,311	18,020	50	391,171

TABLE 3C
Net Minnesota Migration to Other States
Sorted by AGI (Income)

TAX YEARS 1995 TO 2007

State	Taxpayers	Exemptions	AGI	Rank
Florida	(11,790)	(21,256)	(1,965,013)	1
Arizona	(12,092)	(19,605)	(927,374)	2
Wisconsin	5,219	(9,449)	(384,711)	3
California	(5,413)	5,178	(297,677)	4
Texas	(4,293)	(6,551)	(275,469)	5
Colorado	(6,215)	(6,894)	(265,773)	6
Nevada	(3,141)	(4,428)	(233,913)	7
North Carolina	(1,927)	(3,258)	(163,717)	8
South Dakota	1,322	1,352	(144,328)	9
Washington	(3,175)	(2,716)	(133,921)	10
South Carolina	(842)	(1,495)	(113,864)	11
Georgia	(1,844)	(2,997)	(107,872)	12
Oregon	(2,459)	(2,655)	(102,934)	13
Arkansas	(1,036)	(2,694)	(69,456)	14
Massachusetts	(979)	(132)	(57,745)	15
Montana	(471)	(592)	(52,483)	16
New Mexico	(961)	(1,166)	(40,456)	17
Tennessee	(625)	(953)	(39,069)	18
Wyoming	(128)	(6)	(33,810)	19
Virginia	(862)	142	(31,769)	20
Hawaii	(388)	(56)	(23,078)	21
Kentucky	(305)	(620)	(11,913)	22
Rhode Island	121	414	(10,095)	23
Maine	(142)	(270)	(9,515)	24
Utah	127	1,097	(8,567)	25
Mississippi	19	85	(7,991)	26
District of Columbia	(609)	(394)	(6,346)	27
Missouri	(322)	(1,048)	(5,939)	28
Vermont	(54)	6	(4,639)	29
Alaska	(556)	(291)	(4,598)	30
Delaware	(16)	72	(2,850)	31
Idaho	(298)	(138)	(1,788)	32
Connecticut	(43)	209	(1,494)	33
Alabama	(84)	(182)	88	34
New Hampshire	(14)	56	3,263	35
West Virginia	79	142	6,541	36
Maryland	(491)	(36)	10,598	37
Louisiana	476	1,269	17,571	38
Oklahoma	(123)	(186)	17,950	39
Kansas	608	1,238	35,749	40
Pennsylvania	592	1,390	40,479	41
New York	(76)	4,641	57,332	42
New Jersey	1,140	2,600	64,468	43
Nebraska	1,833	3,221	83,634	44
Indiana	1,576	3,190	97,513	45
Ohio	1,646	2,831	121,705	46
Michigan	4,490	7,893	158,471	47
Iowa	9,634	14,105	351,998	48
North Dakota	7,620	16,565	382,949	49
Illinois	6,311	18,020	391,171	50

tax burdens were 12.45 percent lower (10.04 percent), while exemptions were 12.01 percent lower (10.09 percent) and AGI was 12.62 percent lower (10.02 percent).^{vi} Overall, AGI was most sensitive to state and local tax burdens.

Income Tax Burden: This variable measures total state and local income taxes collected as a percent of personal income as averaged over the years 1995 to 2007.^{vii} Minnesota's average income tax burden was 3.42 percent. Taxpayers left for states where income tax burdens were a whopping 55.09 percent lower (1.53 percent), while exemptions were 57.58 percent lower (1.45 percent) and AGI was 64.46 percent lower (1.21 percent). Overall, AGI was the most sensitive to state and local income tax burdens.

Union Membership: This variable measures the percent of the state's employed labor forces who are members of a union as averaged over the years 1995 to 2007.^{viii} Minnesota's average union membership was 18 percent. Taxpayers left for states where union membership was 46.21 percent lower (9.7 percent), while exemptions were 49.99 percent lower (9 percent) and AGI was 50.71 percent lower (8.8 percent). Overall, AGI was most sensitive to union membership.

Population Density: This variable measures total population divided by land area and is as averaged over the years 1995 to 2007.^{ix} Minnesota's population density was 62.2 people per square mile. Taxpayers left for states where the population density was 275.34 percent higher (233.3 people per square mile), while exemptions were 169.15 percent higher (167.3

vi The values for the destination states are based on the weighted average of these states in proportion to their representation of total out-migration from Minnesota.

vii The tax collection data is from the Department of Commerce's Census Bureau and the personal income data comes from the Department of Commerce's Bureau of Economic Analysis.

viii The union membership data is from www.unionstats.com.

ix The tax collection data is from the Department of Commerce's Census Bureau and the personal income data comes from the Department of Commerce's Bureau of Economic Analysis.

people per square mile) and AGI was 190.51 percent higher (180.6 people per square mile). Overall, exemptions had the smallest increase in population density.

TABLE 4
Estimated State and Local Taxes Lost Due to Migration
TAX YEARS 1995 TO 2007

Tax Year	Net AGI (1000s)	State and Local Tax Burden	Estimated Annual Tax Loss (1000s)	Aggregate Tax Loss, 1995 to 2007 (1000s)
1995	(41,310)	12.64%	(5,221)	(62,214)
1996	(264,774)	12.43%	(32,908)	(365,295)
1997	(329,419)	12.54%	(41,293)	(413,539)
1998	(170,868)	12.22%	(20,873)	(193,082)
1999	(347,376)	11.86%	(41,199)	(350,103)
2000	(202,619)	11.73%	(23,773)	(180,179)
2001	(255,818)	11.36%	(29,054)	(197,472)
2002	(312,161)	10.95%	(34,183)	(205,511)
2003	(332,815)	10.85%	(36,105)	(182,664)
2004	(354,223)	10.60%	(37,558)	(155,986)
2005	(368,571)	10.97%	(40,416)	(123,225)
2006	(339,981)	11.25%	(38,257)	(76,385)
2007	(378,757)	11.21%	(42,477)	(42,477)
Total	(3,698,692)	--	(423,317)	(2,548,131)

Note: Not adjusted for inflation.

Source: Internal Revenue Service, U.S. Department of Commerce: Bureau of Economic Analysis and Census Bureau.

Cost of Housing: This variable measures the median cost of housing as reported from the 2000 Census.^x Minnesota's median cost of housing was \$122,400. Taxpayers left for states where the cost of housing was 8.16 percent higher (\$132,393). However, for exemptions the cost of housing was 4.53 percent lower (\$116,852) and AGI was 1.56 percent lower (\$120,496). Overall, exemptions were most sensitive to cost of housing.

Average Temperature: This variable measures the annual average of the daily mean temperature.^{xi} Minnesota's temperature by this measure was 42.3 degrees Fahrenheit. Taxpayers left for states

where temperatures were 48.61 percent higher (62.8 degrees), while exemptions were 49.27 percent higher (63.1 degrees) and AGI was 52.06 percent higher (64.2 degrees). Overall, AGI was most sensitive to temperature.

Conclusion

People are most inclined to move where taxes are lower (especially income taxes), union membership is lower, population density is higher, the cost of housing is lower, and the weather is warmer. Additionally, AGI is the most sensitive variable when it comes to state and local tax (and income tax) burdens, union membership and average temperature.

The data shows that people with higher than average incomes are leaving Minnesota for states that fit these characteristics—especially Florida and Arizona. More specifically, Minnesota should work toward reducing the state and local tax burden via reductions in the income tax which would encourage both people and income to stay in Minnesota or move into the state.

Clearly, not all of these variables can be addressed by policymakers—weather cannot be changed through legislative action. Most variables, however, can be affected by policymakers on an annual basis—tax burdens can be reduced. Indeed, some variables can only be influenced by legislation and even then will take years to establish measurable change such as union membership, population density and cost of housing.

While identifying specific remedies for each of these issues is beyond the scope of this study, without action, out-migration will continue to reduce the ability of both the private and public sector to ensure Minnesota's economy remains strong and vibrant.

^x The median value of housing is based on data from the Department of Commerce's Census Bureau.

^{xi} The temperature data is from the U.S. National Oceanic and Atmospheric Administration. The data is usually for one selected city in each state. However, in cases where more than one city is provided, especially in large states, the data is averaged.

TABLE 5
Netted Values of Key Variables
 TAX YEARS 1995 TO 2007

Variable	Minnesota	Weighted Average of Other States			Percent Difference		
		Taxpayers	Exemptions	AGI	Taxpayers	Exemptions	AGI
State and Local Tax Burden	11.47%	10.04%	10.09%	10.02%	-12.45%	-12.01%	-12.62%
Income Tax Burden	3.42%	1.53%	1.45%	1.21%	-55.09%	-57.58%	-64.46%
Union Membership	18.0%	9.7%	9.0%	8.8%	-46.21%	-49.99%	-50.71%
Population Density	62.2	233.3	167.3	180.6	275.34%	169.15%	190.51%
Cost of Housing	\$122,400	\$132,393	\$116,852	\$120,496	8.16%	-4.53%	-1.56%
Average Temperature	42.3	62.8	63.1	64.2	48.61%	49.27%	52.06%

Note: Bold, italics indicate results of interest.

Sources: U.S. Department of Commerce: Bureau of Economic Analysis and Census Bureau, www.unionstats.com, U.S. National Oceanic and Atmospheric Administration.

Methodology

The IRS data used in this study is derived from the calendar year (CY) 1995 to 2005 State-to-State Migration Data-Set (SSMD) that is published annually by the Statistics of Income Division (SOI) of the Internal Revenue Service (IRS). To qualify for inclusion in the SSMD, the IRS compares address information supplied on the taxpayer’s tax form between two years. If the address is different in Year 2 from Year 1, then the taxpayer is classified as a “migrant;” otherwise, the taxpayer is classified as a “non-migrant.”

The IRS is required by law to ensure that its data products do not reveal the identity of any taxpayer. In the SSMD, the data suppression affects its “data fidelity”—to borrow a musical term. In music, the term “recording fidelity” describes a recording’s ability to capture as much of the total sound as possible, i.e., the lower the recording fidelity, then the lower the recorded sound quality.

Analogous to this is the data fidelity within the SSMD. For example, if only a single taxpayer moved from state A to state B, it would be relatively simple (for those with the know-how) to identify that taxpayer. Therefore, the IRS lumps all such taxpayers into a residual category in order to prevent identification. As a result, the exact movement of all taxpayers is unknown. The percentage that is shown represents the SSMD’s

data fidelity which is higher in the state-level migration data than the county-level migration data.

The major strength of the SSMD is that it is based on actual data—not a survey—that is enforced with criminal penalties.^{xii} This makes the CCMD especially reliable as a data source given people’s incentive to be truthful in their data reporting. In addition, the SSMD includes reported AGI which allows researchers to not only track population flows, but also income flows.

On the other hand, the major weakness of the SSMD is that it excludes certain segments of the population. First, it excludes low-income groups such as students, welfare-recipients and the elderly because the standard deduction and exemptions are greater than their income. Second, it under-represents the very wealthy because they are more likely to request a filing extension and miss the late September cut-off for inclusion into the data-set. Finally, it may miss taxpayers who have changed filing status—especially from “married filing joint” to “married filing separately.” ■

^{xii} Economic surveys can be plagued by a variety of problems ranging from purposeful lying to simple forgetfulness. The poster child for such problems is in the Consumer Expenditure Survey published by the U.S. Department of Labor: Bureau of Labor Statistics. The reported expenditures often, and quite significantly, deviate from the reported income.

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The Freedom Foundation of Minnesota is an independent, non-profit educational and research organization that actively advocates the principles of individual freedom, personal responsibility, economic freedom, and limited government.

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