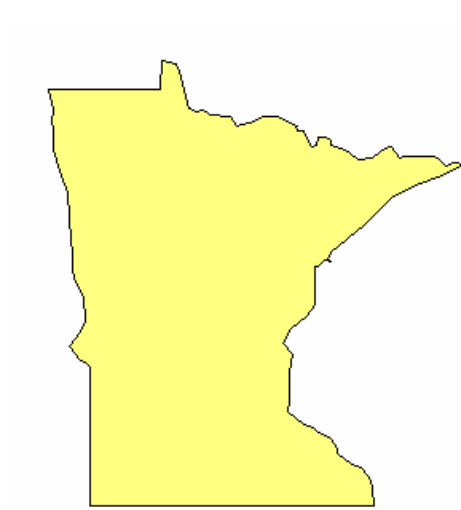


State Handbook of Economic, Demographic, and Fiscal Indicators 2006

Minnesota



by David Baer

**PUBLIC POLICY INSTITUTE
AARP**

Introduction

The *State Handbook of Economic, Demographic, and Fiscal Indicators 2006* represents the sixth edition of the state handbook series. We produce a new updated handbook biennially. It is an easy-to-use reference book for anyone in search of up-to-date information about state economic, demographic, and fiscal conditions. Policymakers, public officials, and policy analysts will find useful data on such topics as population, poverty rates, per capita state personal income, state and local revenues, expenditures, tax rates, and property tax relief programs. Gender and age comparisons are provided for some of the data. Throughout the book we use the most current data available.

This handbook facilitates state-by-state and state-national comparisons, which can serve a variety of purposes. For example, a state's tax burden can be compared with the national average or with that of other states in the region. Per capita state personal income, unemployment, and median household income can be used to assess how residents in one state fare vis-à-vis those in another.

State Economic, Demographic, and Fiscal Summaries

This part of the book features economic, demographic, and fiscal summaries of the entire United States, each state, and the District of Columbia, along with summaries for the Virgin Islands and Puerto Rico. Most of the book's information is presented in this section. Users will find statistics on several major economic indicators, such as state personal income, median household income, and employment, as well as on population and poverty, distribution of household income, revenues, expenditures, tax rates, and debt ratio measures.

A section on state-specific property tax relief summarizes homestead exemptions and credits, circuit breakers, and tax deferral programs, all of which are defined in the source notes and explanations section at the end of the book. We did not include all of the property tax rates, because they can vary within states, and because data on the varying rates are not easily available. In addition, nominal rates often do not equal effective rates.

Homestead exemptions are reductions in the amount of assessed property value subject to taxation. When reporting homestead exemptions, we note the assessed property value; however, the value of the tax reduction depends not only on the assessed property value but also on the fractional assessment level. For example, the fractional assessment percentage in Alabama is 10 percent for residential property, so the *reported* exemption value of \$4,000 translates into an exemption of \$40,000 in fair market value (\$4,000 divided by 0.1). For this reason, assessed values must first be converted into fair market values before comparing homestead exemptions among states.

The section on state and local general revenues and expenditures shows revenues and expenditures per capita and as a percentage of state personal income, as well as average annual changes from 1992 to 2002. The year 2002 was the most current year that we could obtain revenue and expenditure data from the U.S. Census Bureau. Comparisons can be made between each state and the national average of the amounts spent on expenditure programs. State and local debt information is provided on a per capita basis and per \$1,000 of personal income. The composition of short-term and long-term debt is also presented.

We have made some changes in the contents of the economic, demographic, and fiscal summaries since the 2003 *Handbook*. First, we now provide more current information on poverty rates by age and gender and the percent of households by age and income, thanks to the new American Community Survey (ACS) by the Census Bureau. The ACS features a much larger sample size (about 800,000 households that will increase to 3 million households in 2005) than the Current Population Survey (CPS) (about 100,000 households). State data are available on a more timely basis; instead of having to wait for the decennial census, users can obtain new data yearly.

Since we are now collecting poverty rate data from the ACS instead of the CPS, we no longer report the poverty rate in the economic indicators table (the first table in the state summaries). This is because we cannot make a 10-year comparison of state poverty rates until ACS has 10 years of poverty data.

Second, we added health and long-term care state income tax exemptions and credits. We describe only those state tax exemptions and credits that are more generous than what are available on the federal return. Therefore, we exclude tax exemptions, e.g., medical savings account deductions, which are found in federal adjusted gross income. Further, we exclude state itemized deductions, since we only want to describe tax exemptions and credits that benefit all taxpayers, not just those who itemize. Therefore, all the state health and long-term care tax provisions described here are available to all state filers, whether they itemize or not. Finally, since we are only interested in the general population, we exclude state health and long-term care tax breaks that are targeted specifically for self-employed persons.

Third, we described how the state tax income base is related to the federal income tax base, such as federal adjusted gross income. The state income tax base may be unrelated to the federal base; it may link to federal adjusted gross income (AGI), federal taxable income, or to federal gross income. If state taxable income is unrelated to federal income, we say that the state's income tax base is not directly related to federal income.

Fourth, we highlighted the minimum income levels at which taxpayers must file their state income taxes. Fifth, because some states have local expenditure limits which may affect the amount of property taxes collected, we describe how localities limit the growth of their expenditures.

Tables and U.S. Maps

The handbook provides tables and maps of selected state economic, demographic, and fiscal data (found primarily in the economic, demographic, and fiscal summaries part). This presentation of the data makes it easy to compare any or all states and the District of Columbia on such economic indicators as per capita income or gross state product. The tables provide state rankings for easy comparisons. We do not include Puerto Rico and the Virgin Islands because the data are either unavailable or not as current as state data, in the tables.

Data Sources and Explanations

Data sources and explanations of concepts or terms can be found in this part of the handbook. Most of the information in the handbook comes from the U.S. Bureau of the Census, including poverty rate by age group and household income by age group from the American Community Survey, median household income from the Current Population Survey, population estimates by age group based on decennial census data, and revenues and expenditures from the Census of Governments.

We collected economic data, such as per capita income and gross state product, from the U.S. Bureau of Economic Analysis and employment data from the U.S. Bureau of Labor Statistics. In addition, we obtained tax rate and property tax relief information from a survey of state and local government offices, such as state legislative offices and state and local assessors' offices.

For Puerto Rico and the Virgin Islands, we collected household income, poverty rate, and population data from U.S. decennial census data. Employment data came from the U.S. Bureau of Labor Statistics (Puerto Rico) and the Virgin Island's Bureau of Economic Research. Per capita income came from Puerto Rico's Department of the Treasury and the U.S. Census Bureau (Virgin Islands). Tax rates, general revenue, and general expenditure data came from Puerto Rico's Department of the Treasury, the Virgin Islands Office of Management and Budget (revenues), the U.S. Internal Revenue Service (income tax data), and the Virgin Islands Bureau of Internal Revenue (miscellaneous tax data).

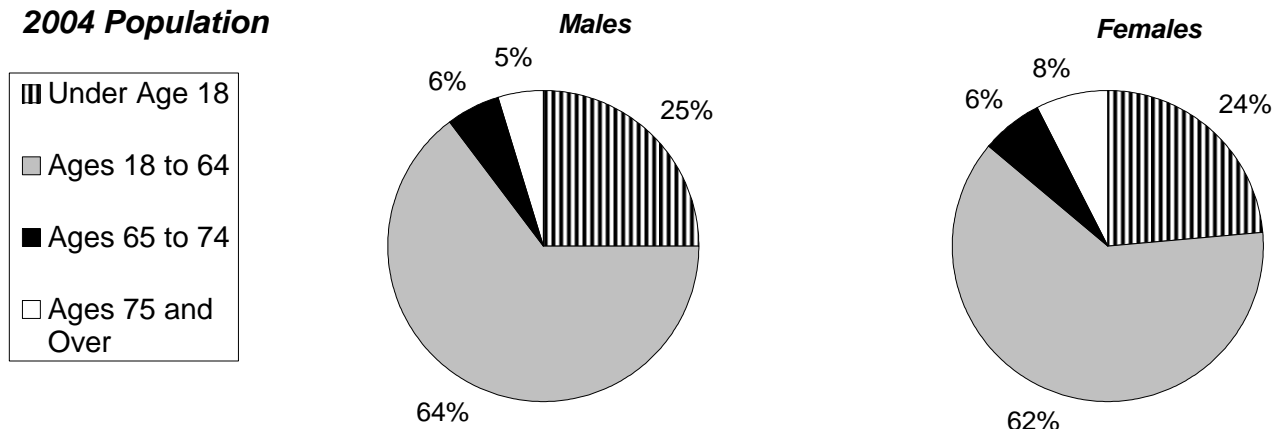
As state and local economic conditions and demographic patterns change, policymakers may consider adjusting their policies on taxes and spending programs. These adjustments become more difficult when economic and demographic changes depart from historical trends. It is our belief that this publication will contribute to more informed public policy decisions by identifying significant economic, demographic, and fiscal changes.

Minnesota

Economic Indicators	1994		2004		Average Annual Change 1994-2004	
	MN	US	MN	US	MN	US
	Per Capita Income.....	\$22,985	\$22,172	\$36,173	\$33,041	4.6%
Median Household Income.....	\$33,644	\$32,264	\$56,125	\$44,389	5.3%	3.2%
Gross State Product (in millions).....	\$124,733	\$6,865,513	\$223,822	\$11,665,595	6.0%	5.4%
Full- and Part-Time Positions (in thousands).....	2,923	145,224	3,424	170,104	1.6%	1.6%
Employed Persons (in thousands)	2,472	123,060	2,814	139,251	1.3%	1.2%
Unemployment Rate.....	4.1%	6.1%	4.7%	5.5%	n/a	n/a

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, and the U.S. Bureau of Labor Statistics

2004 Population



Population and Poverty	Population				Poverty Rate	
	1994	2004	Percentage Change 1994-2004		2004	
	MN	MN	MN	US	MN	US
	Total Population.....	4,566,028	5,100,958	11.7%	12.8%	8.3%
Males.....	2,244,739	2,531,918	12.8%	13.8%	7.2%	11.6%
Under Age 18.....	632,137	636,209	0.6%	7.8%	10.7%	18.3%
Ages 18 to 64.....	1,378,860	1,635,869	18.6%	16.7%	6.4%	9.6%
Ages 65 to 74.....	135,848	140,215	3.2%	1.6%	3.1%	6.5%
Ages 75 and Over.....	97,894	119,625	22.2%	28.8%	4.8%	6.8%
Females.....	2,321,289	2,569,040	10.7%	11.9%	9.4%	14.5%
Under Age 18.....	601,346	604,071	0.5%	8.1%	10.6%	18.6%
Ages 18 to 64.....	1,382,559	1,609,630	16.4%	14.6%	8.7%	13.6%
Ages 65 to 74.....	162,504	159,900	-1.6%	-3.6%	6.0%	9.7%
Ages 75 and Over.....	174,880	195,439	11.8%	19.6%	15.2%	13.3%

Source: U.S. Bureau of the Census

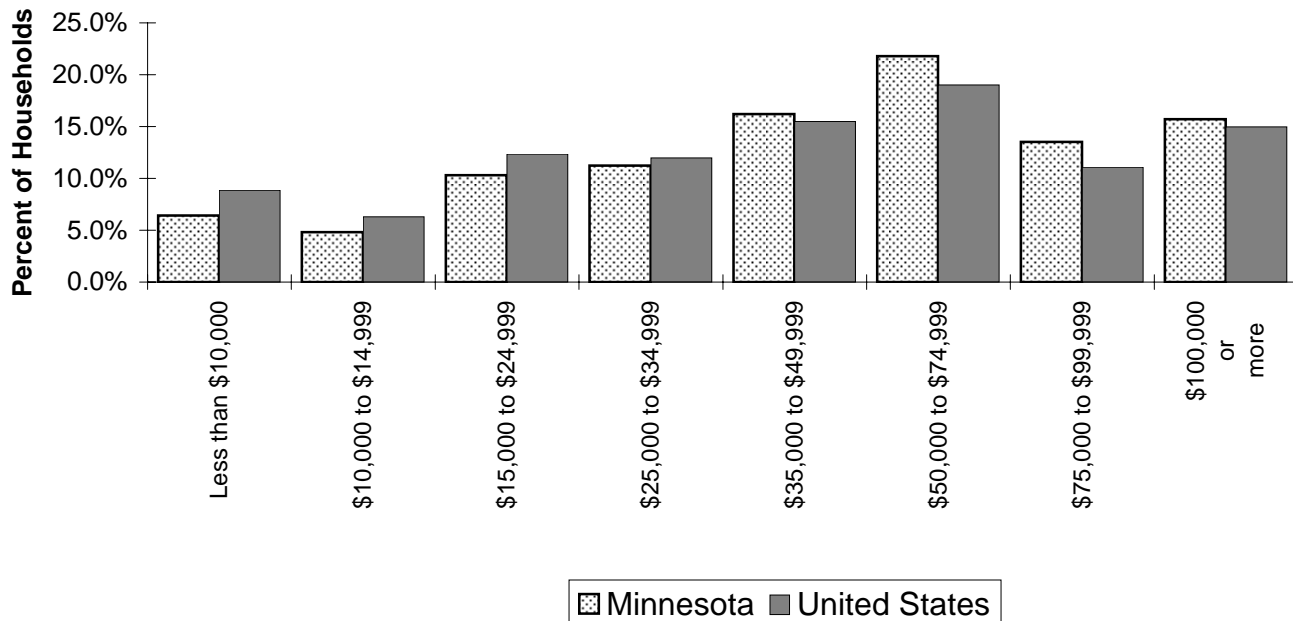
Minnesota

Percent Distribution of Households by Age of Householder and Income, 2004

Age of Householder	Less than \$10,000	\$10,000 to \$14,999	\$15,000 to \$24,999	\$25,000 to \$34,999	\$35,000 to \$49,999	\$50,000 to \$74,999	\$75,000 to \$99,999	\$100,000 or more	All Households
Under 25 years.....	12.0%	6.0%	23.7%	20.4%	18.2%	12.6%	6.2%	0.9%	100.0%
25 to 44 years.....	4.9%	2.2%	6.8%	10.2%	16.2%	25.9%	16.9%	16.9%	100.0%
45 to 64 years.....	4.9%	3.5%	7.2%	8.2%	15.0%	23.5%	15.2%	22.5%	100.0%
65 years and over.....	10.7%	12.3%	19.3%	16.3%	18.0%	13.0%	5.7%	4.7%	100.0%
Minnesota (all ages).....	6.4%	4.8%	10.3%	11.2%	16.2%	21.8%	13.5%	15.7%	100.0%
United States (all ages).	8.9%	6.3%	12.3%	12.0%	15.5%	19.0%	11.1%	15.0%	100.0%

Source: U.S. Bureau of the Census

Percent of Households by Household Income Bracket, 2004



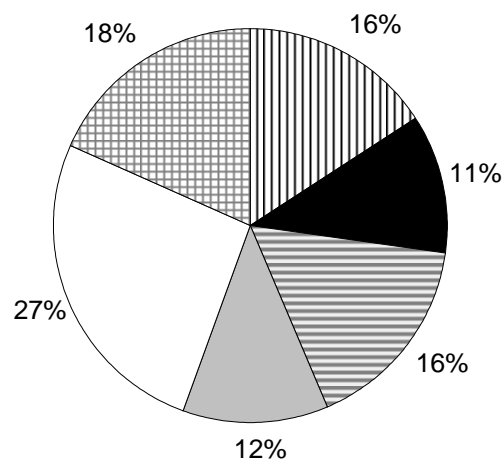
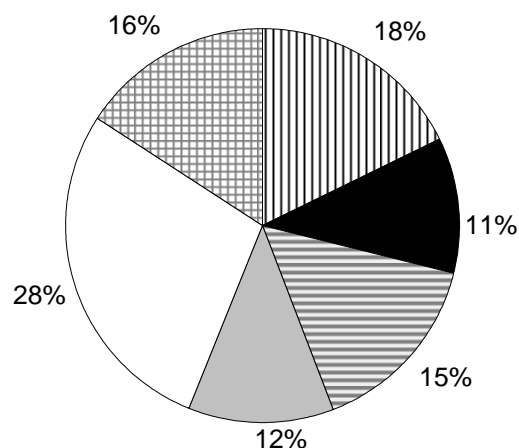
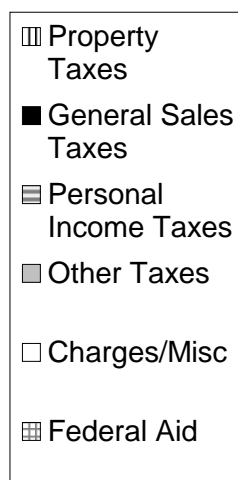
Minnesota

State and Local General Revenues, FY 2002	General Revenues (millions)	Per Capita		Percent of Personal Income		Average Annual Revenue Change 1992-2002	
		MN	US	MN	US	MN	US
Total General Revenues.....	\$33,193	\$6,606	\$5,851	20.4%	19.3%	5.3%	5.6%
Own Sources.....	\$27,105	\$5,394	\$4,599	16.7%	15.2%	5.0%	5.2%
Taxes.....	\$18,456	\$3,673	\$3,143	11.4%	10.4%	5.2%	4.9%
Property Taxes.....	\$5,215	\$1,038	\$969	3.2%	3.2%	4.0%	4.5%
General Sales Taxes.....	\$3,782	\$753	\$774	2.3%	2.6%	5.5%	5.4%
Personal Income Taxes.....	\$5,443	\$1,083	\$705	3.3%	2.3%	6.1%	5.8%
Other Taxes.....	\$4,016	\$799	\$695	2.5%	2.3%	5.2%	4.3%
Charges/Miscellaneous.....	\$8,649	\$1,721	\$1,456	5.3%	4.8%	4.6%	5.7%
Federal Aid.....	\$6,088	\$1,212	\$1,252	3.7%	4.1%	6.9%	7.2%

Source: U.S. Bureau of the Census (2002 data are the most current available.)

1992 General Revenue

2002 General Revenue



Minnesota

I. Personal Income Tax (2004)

State Income Tax Base

Minnesota's income tax base is linked to federal taxable income.

Filing Requirements

Taxpayers must file if they are required to file a federal return.

Rate Structure

Single		Married, Filing Jointly	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$19,440	5.35%	First \$28,420	5.35%
\$19,440 - \$63,860	7.05%	\$28,420 - \$112,910	7.05%
Over \$63,860	7.85%	Over \$112,910	7.85%

Retirement Income Exemption

Exemption amounts from any income source equal \$9,600 (single) or \$12,000 (married, filing jointly) less nontaxable Social Security, Railroad Retirement benefits, and one-half of federal adjusted gross income over \$14,500 (single) or \$18,000 (married, filing jointly). Taxpayers age 65 or older or disabled must meet the following eligibility requirements to qualify: adjusted gross income must be less than \$33,700 (single) or \$42,000 (married, filing jointly), and Railroad Retirement benefits and nontaxable Social Security benefits must be less than \$9,600 (single) or \$12,000 (married, filing jointly). The exemption amounts assume that both spouses are age 65 or older if filing jointly.

Social Security Benefits

Only taxpayers whose provisional income* is \$25,000 or higher (single) or \$32,000 or higher (married, filing jointly) are subject to taxation of their Social Security benefits.

*Provisional income consists of federal adjusted gross income, tax-exempt interest, certain foreign-source income, and one-half of the taxpayer's Social Security or Railroad Retirement Tier 1 benefit (U.S. House Committee on the Budget, Omnibus Budget Reconciliation Act of 1993, 103rd Congress, 1st sess., 1993, Conference Report 103-213, p. 594).

Sources: AARP 2005 telephone survey of state legislative staff, state departments of revenue, state controllers' offices, state assessors' offices, and state treasury offices.

Minnesota

Standard Deductions and Personal Exemptions Combined

Under age 65*	\$7,950 (single); \$15,900 (married, filing jointly; both spouses are under age 65)
Age 65 or older*	\$9,150 (single); \$17,800 (married, filing jointly; both spouses are age 65 or older)

*Personal exemptions equal \$3,100 per exemption (single have one exemption and married couples have two). Taxpayers with federal adjusted gross income greater than \$142,700 (single) or \$214,050 (married, filing jointly) receive lower personal exemption amounts.

Long-Term Care Insurance Credit

Taxpayers can claim a tax credit for long-term care insurance premiums if their policy qualifies as a federal itemized deduction and has a lifetime benefit limit of \$100,000 or more. The amount of the credit does not include what was claimed as a federal itemized deduction. The credit equals 25% of the total amount of the premiums paid up to \$100 per person.

Local Income Taxes None

II. General Sales Tax Rates (2004)

State	6.5%
Combined state/local tax rates	6.5% to 7.5%

III. Miscellaneous Tax Rates (2004)

Corporate income (highest marginal rate).....	9.8%	All taxable income
Gasoline (per gallon)	\$0.20	
Cigarette (per pack of 20).....	\$0.48	
Beer (per gallon)	\$0.08	(alcohol content of 3.2% or less);
	\$0.15	(alcohol content over 3.2%)

IV. Real Property Tax Relief Programs (2005)

Homestead Exemption or Credit

Requirements

All homeowners

Benefits

0.4% of the first \$76,000 of the taxable market value with a maximum tax credit of \$304 at a market value of \$76,000. The credit is reduced by 0.09% of the taxable market value in excess of \$76,000 until the credit equals zero at property valued at \$413,800 and greater.

Sources: AARP 2005 telephone survey of state legislative staff, state departments of revenue, state controllers' offices, state assessors' offices, and state treasury offices.

Minnesota

Circuit Breaker

Requirements

Homeowners and renters whose income is less than \$87,780 (homeowners) or less than \$47,350 (renters)

Benefits

Up to \$1,640 (homeowners) or \$1,350 (renters)

Deferral Program

Requirements

Homeowners age 65 or older who have lived in a residence for at least 15 years, whose income is \$60,000 or less. In addition, homeowners must have at least 25% equity in their homes.....

Benefits

Deferral of property taxes in excess of 3% of their income in the year preceding the deferral application

Deferral Program (local option program)

Requirements

Homeowners age 65 or older or fully disabled

Benefits

Deferral of special assessments

V. Real Property Tax Limits, Caps, or Freezes (2005)

For property assessed in 2004 and payable in 2005, assessed property values cannot increase annually by more than 15% or 25% of the difference between the current market value and the preceding year's assessed value (whichever is greater). This limitation does not apply to home improvements. This limitation will be phased out over a six-year period, until it is totally eliminated for properties assessed in 2007 and paid in 2008.

If property taxes to homeowners increase by more than 12% a year, homeowners can receive a property tax refund equal to 60% of property taxes exceeding the 12% increase. However, this tax refund is subject to certain conditions. First, homeowners must apply for the refund. Second, to qualify, homeowners must have owned and lived in the same property for at least two consecutive years. Third, property taxes have to increase at least \$100 more than the previous year. Fourth, the 12% limit does not pertain to home improvements or new construction. Fifth, homeowners cannot receive more than a \$1,000 refund in property taxes because of this tax limitation. Sixth, any tax refund issued the previous year is subtracted from the previous year's taxes in calculating the current year's refund.

Sources: AARP 2005 telephone survey of state legislative staff, state departments of revenue, state controllers' offices, state assessors' offices, and state treasury offices.

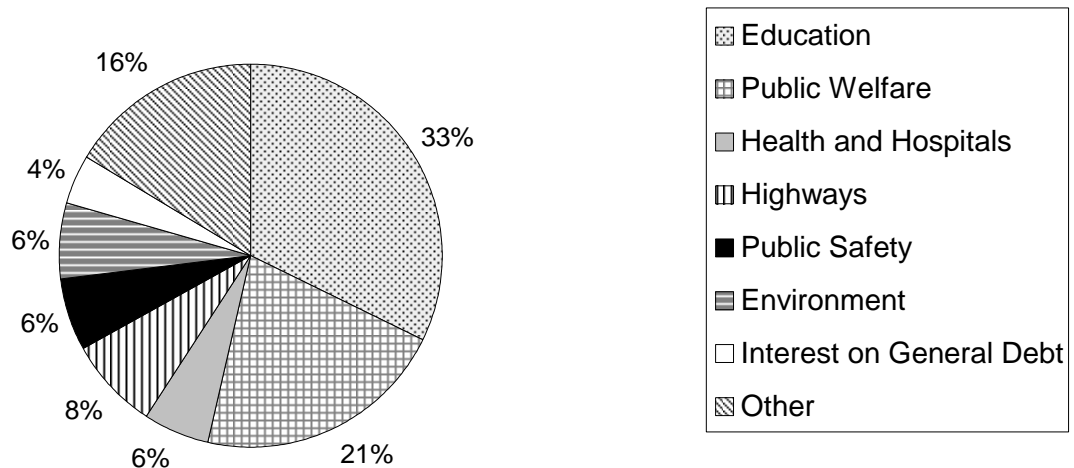
Minnesota

State and Local General Expenditures, FY 2002	General Expenditures (millions)	Per Capita		Percent of Personal Income		Average Annual Expenditure Change 1992-2002	
		MN	US	MN	US	MN	US
State/Local Direct General Expenditures	\$34,933	\$6,952	\$6,026	21.5%	19.9%	5.5%	5.9%
To State/Local Government	\$34,933	\$6,952	\$6,011	21.5%	19.9%	5.5%	5.9%
Education*	\$11,266	\$2,242	\$2,065	6.9%	6.8%	5.6%	6.2%
Public Welfare	\$7,473	\$1,487	\$971	4.6%	3.2%	7.5%	6.1%
Health and Hospitals	\$1,965	\$391	\$508	1.2%	1.7%	0.3%	5.2%
Highways	\$2,681	\$533	\$401	1.6%	1.3%	4.3%	5.5%
Public Safety*	\$2,182	\$434	\$545	1.3%	1.8%	6.0%	6.3%
Environment	\$2,204	\$439	\$356	1.4%	1.2%	4.6%	5.1%
Interest on General Debt	\$1,455	\$289	\$262	0.9%	0.9%	1.5%	3.1%
Other	\$5,706	\$1,136	\$904	3.5%	3.0%	7.4%	6.5%
To Federal Government	\$0	\$0	\$15	0.0%	0.1%	0.0%	1.9%

*Education includes higher and lower education; public safety includes police, fire, corrections, and protection and inspection.

Source: U.S. Bureau of the Census (2002 data are the most current available.)

State and Local General Expenditures, FY 2002
(excluding payments to federal government)



2002 Debt Ratio Measures	Total Debt Outstanding			Long-term Debt		Short-term Debt	
	Debt (billions)	Per Capita	Per \$1,000 of Personal Income	Debt (billions)	Percent of Total	Debt (billions)	Percent of Total
Minnesota (State and Local)	\$32.0	\$6,370	\$196.89	\$31.1	97.3%	\$0.87	2.7%
United States	\$1,681.4	\$5,839	\$192.88	\$1,638.1	97.4%	\$43.24	2.6%

Source: U.S. Bureau of the Census

A second edition of a book written to help non-economists to use the commonly reported economic indicators effectively and gain an informed picture of what is g...² Let us start by defining an economic decision: it is a decision that alters one's portfolio of assets and liabilities. It can be implemented by buying, selling, lending, or borrowing " or even by doing nothing. Economic decisions are taken by transactors, who may be individuals, households, small businesses, institutions, corporations, or governments; we may want to

² The 2008 edition of State Handbook of Economic, Demographic, and Fiscal Indicators (reporting data for 2006) is the most current edition at this writing. At least ve earlier editions of this handbook exist as well, one for 1996, 1998, 2000, 2003, and 2006. ³ For example, federal employees in retirement planning seminars are given a workbook that suggests moving to a lower cost location (both in terms of housing costs and taxes) as a strategy for stretching retirement income and includes a worksheet to calculate costs at multiple locations (National Endowment for Financial Education, 2003).