

# Research Brief

## Plugging the income drain

### *Southeastern Wisconsin income migration trends, 2001-2006*

From 2001 to 2006, households moving out of the seven-county southeastern Wisconsin region took with them \$1.3 billion more in personal income than those moving into the region brought with them. This five-year loss represents a fraction (3%) of the region's current \$43.7 billion total personal income, but is, nevertheless, a concern when viewed as \$1.3 billion that could have been circulating in our economy to support growth in our local housing and retail markets.

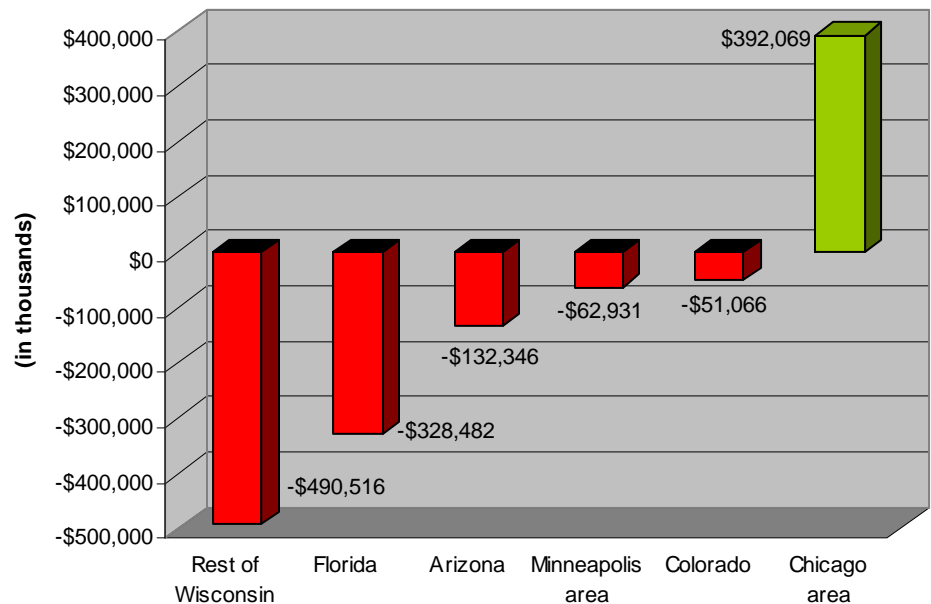
**Why is this important?** We estimate that our region's income exodus has resulted in \$105 million in lost tax revenue for our local governments. The continuing loss of personal income hampers the ability of counties and municipalities to raise money through property taxes, and increases the tax burden on those families that remain. Declining revenue undermines the ability of government to fund critical services like K-12 education, road maintenance, and public safety.

**Where is the money going?** The primary beneficiary of the Milwaukee region's lost income is the rest of Wisconsin. Nearly a half billion dollars moved from southeastern Wisconsin to the rest of the state between 2001 and 2006. Beneficiaries of Milwaukee's income were Jefferson, Dodge, Dane and Sheboygan counties, as well as northern Wisconsin.

**Is this "brain drain?"** Although much attention has been given to the out-migration of educated young workers from the Milwaukee region, this data suggests that a bigger drain may be retirees who leave for warmer climates. Three out of the top-five destinations for income from our region are retirement hot-spots - Florida, Arizona and Colorado.

**Is there any good news?** Chicago continues to be a life-line for southeastern Wisconsin. From 2001 to 2006, the six-county Chicago region sent \$392 million in income to southeastern Wisconsin. Chicagoans moving to our region also had higher average annual household incomes (\$47,880) than Wisconsinites who moved into the region (\$34,124).

**Chart 1: Net personal income migration into and out of the region, 2001-06**



## Key findings

Highlights from this year’s income migration study:

- While aggregate personal income in southeastern Wisconsin grew last year by a healthy 3.7%, record net out-migration of \$400.2 million in personal income reduced overall growth by one percentage point.
- Within southeastern Wisconsin, no county performed particularly well at attracting personal income from outside the region. In fact, five out of the region’s seven counties experienced net out-migration of personal income from 2005-2006 to communities outside southeastern Wisconsin.
- Chicago continues to provide the region with households and personal income. Southeastern Wisconsin added \$392 million in personal income from the six-county Chicago region in the last five years alone.
- Chicago emigrants to southeastern Wisconsin brought with them an average of \$47,880 in personal income per tax return. This is significantly greater than Wisconsin emigrants to our region who only registered an average income of \$34,124.
- Despite the steady stream of income from Chicago, southeastern Wisconsin is bleeding income to the rest of Wisconsin and the Sunbelt. Popular destinations for the region’s income are Florida, Arizona, northern Wisconsin and adjacent neighbors—Jefferson and Dodge counties.
- However, the Milwaukee region is not alone. Minneapolis and Chicago are also net losers. Chicago lost \$2 billion from 2005-2006, while the Twin Cities lost \$518 million over the same time period.

## Data and methodology

Income migration data are the result of a joint effort between the Internal Revenue Service and the U.S. Census Bureau that matches records of individual income tax returns filed in a base year with tax returns filed in the subsequent year. If a taxpayer’s county of residence in the base year does not match the county of residence in the subsequent year, then the taxpayer is considered an emigrant from the county in which the taxpayer resided in the base year and an immigrant to the county in which the taxpayer filed for the subsequent year.

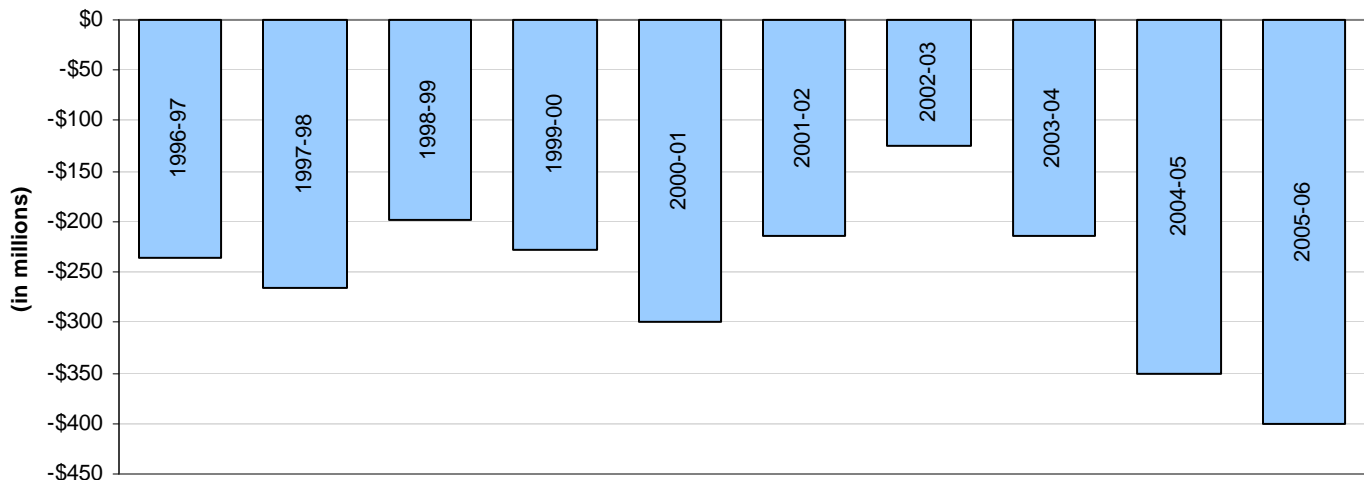
The Public Policy Forum calculated “net migration” by summing the inflow and outflow of income for each year. Included in southeastern Wisconsin are Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha counties.

### Southeastern Wisconsin lost \$400 million

Southeastern Wisconsin had a net loss of \$400.2 million in personal income between 2005 and 2006 (**Chart 2**). In other words, households that moved out of the seven-county region earned \$400.2 million more in personal income than those that moved into the region in 2006. This net loss represents the largest such out-migration of income from southeastern Wisconsin in the last 10 years.

Despite this loss, incomes continued to grow within the Milwaukee region. From 2005 to 2006, total personal income in the region grew 3.7%, down from 5.6% the year prior. However, the accelerating out-migration of income over the past several years does have the effect of reducing income growth rates. For example, eliminating southeastern Wisconsin’s \$400.2 million loss would have

**Chart 2:** Annual net personal income migration from southeastern Wisconsin



bumped up the region's most recent income growth rate a full percentage point from 3.7% to 4.7%.

Another way to measure migration is to divide Milwaukee's annual loss by the region's aggregate personal income. This measure takes into account the size of the region's total income base in any given year - the larger the percentage, the bigger the movement. Using this measure, southeastern Wisconsin in 2005-06 lost 0.9% of its total personal income of \$43.7 billion to out-migration. This was the largest percentage loss in the last decade for southeastern Wisconsin and continues a rising trend that began in 2002-2003. In that year, net losses only made up 0.3% of the region's total personal income.

### Only Kenosha and Walworth counties had net income gains from outside the region

Most of us live in the same county year after year. A smaller subset has recently moved from one county to another, but stayed within southeastern Wisconsin. A still smaller subset has recently moved into or out of southeastern Wisconsin from outside the region itself. It is this latter group that economic developers most desire. After all, if the name of the game is to "grow the economic pie," then one sure way to do that is to attract income-earners from outside the region to relocate to a neighborhood inside your region. Using this measure, how effective is each county in southeastern Wisconsin at attracting income-earners into their community from outside the region? Not very effective.

From 2005-2006, five of the seven counties in southeastern Wisconsin contributed to the region's overall loss of \$400.2 in personal income (**Table 1**). Milwaukee County lost the most - \$196.1 million, nearly half of the region's total loss. Waukesha County was the second largest loser - \$92.8 million. Even fast-growing Ozaukee and Washington counties contributed to the region's income drain

with losses of \$29 million and \$39 million, respectively.

Racine County lost the greatest percentage of total income - 1.9% leaving in just one year (**Table 1**). Kenosha County, on the other hand, was able to add a full 1% to their county's total personal income through the attraction of those from outside southeastern Wisconsin - primarily Chicagoans. Walworth County, also close to Chicago, was the only other county in southeastern Wisconsin to bring in more income than it lost last year.

### Residents flee to rest of Wisconsin, the Sunbelt

While the vast majority chooses to remain within southeastern Wisconsin year after year, those that do leave tend to gravitate to particular destinations. The most popular destination for those leaving southeastern Wisconsin is elsewhere in Wisconsin. This out-migration has added \$490.5 million in personal income to areas outside southeastern Wisconsin in just the last five years.

Households also are leaving southeastern Wisconsin for out-of-state destinations (**see map on next page**). By far, the most popular destination is Florida. In the past five years, Florida has netted \$328.5 million in personal income from southeastern Wisconsin. Lee County, home of Fort Myers, was the recipient of \$76.9 million of this total. Also popular with Milwaukeeans is Arizona. In particular, Maricopa County, which includes Phoenix, received \$107.3 million from southeastern Wisconsin over the last five years - the largest single-county destination of the region's income.

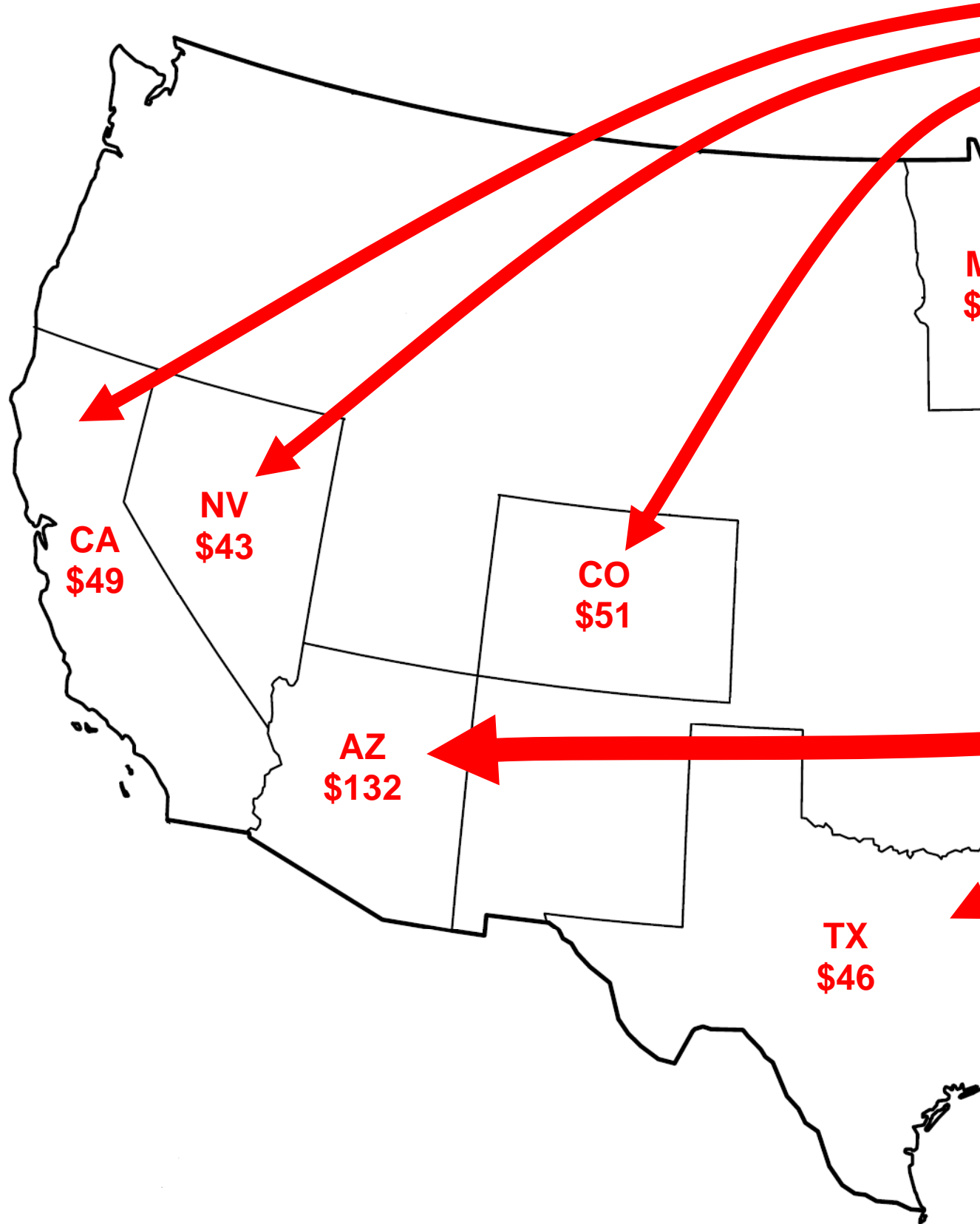
Other significant recipients southeastern Wisconsin's personal income are Minnesota (the Twin Cities, in particular), Colorado, California, Texas, and Nevada (mostly Las Vegas). With the exception of the rest of Wisconsin and the Twin Cities, southeastern Wisconsin dollars largely gravitated toward the Sunbelt. Although demographic

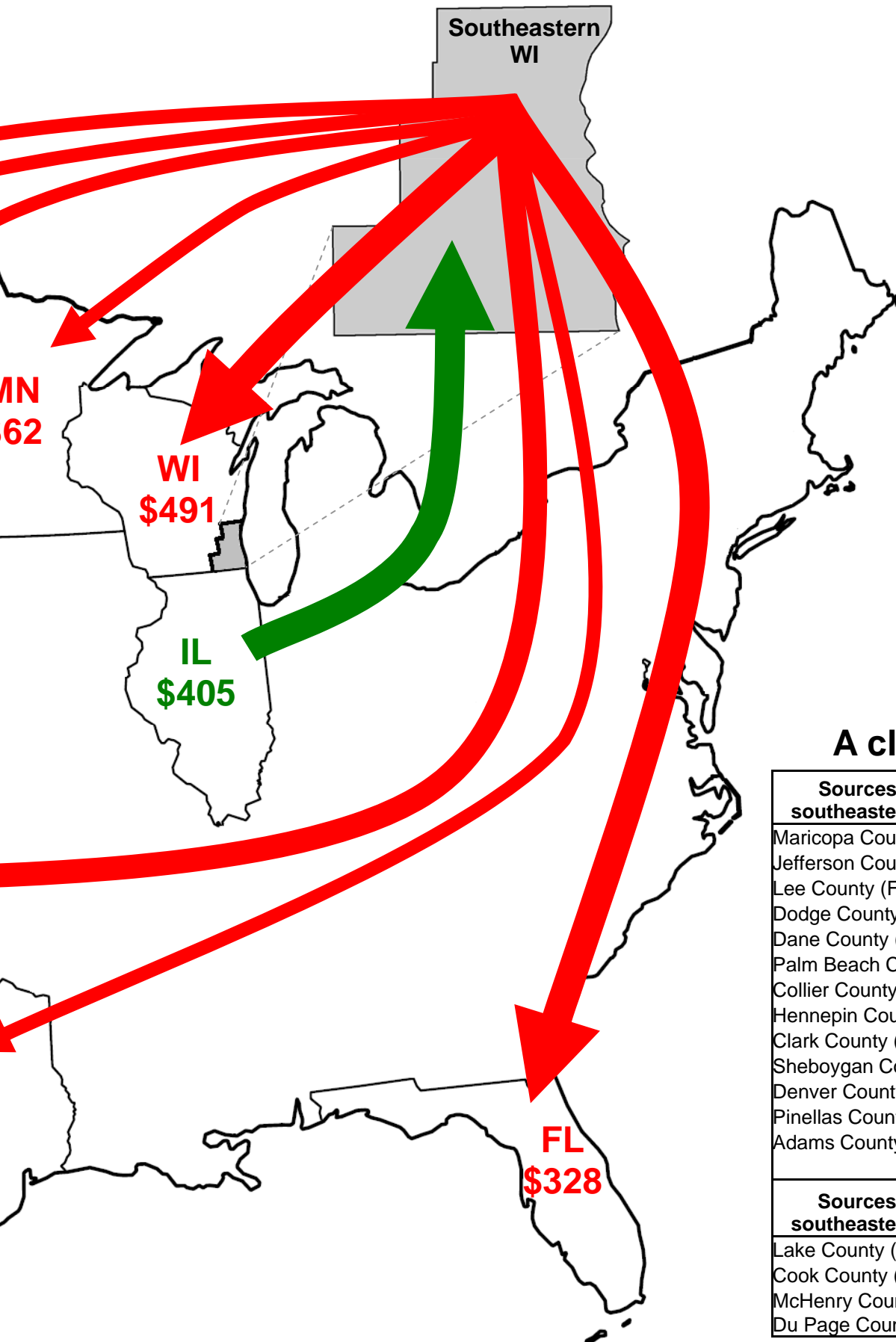
**Table 1:** Net personal income gained from or lost to areas outside region, by county, 2005-06

Rank	County	Income attracted from outside our region	Income lost to areas outside our region	Net gain/loss	Net gain/loss as a percentage of total income
1	Kenosha	\$140,904,000	\$110,566,000	\$30,338,000	1.0%
2	Walworth	\$78,468,000	\$75,200,000	\$3,268,000	0.2%
3	Waukesha	\$254,347,000	\$347,144,000	-\$92,797,000	-0.8%
4	Ozaukee	\$70,558,000	\$99,525,000	-\$28,967,000	-0.9%
5	Milwaukee	\$349,004,000	\$545,144,000	-\$196,140,000	-1.2%
6	Washington	\$61,551,000	\$101,260,000	-\$39,709,000	-1.2%
7	Racine	\$68,015,000	\$144,232,000	-\$76,217,000	-1.9%
	<b>Southeastern WI</b>	<b>\$1,022,847,000</b>	<b>\$1,423,071,000</b>	<b>-\$400,224,000</b>	<b>-0.9%</b>

# Where is our money going?

Map 1: Largest net income flows (in millions) into and out of southeastern Wisconsin, 2001-2006





### A closer look...

Sources of net income loss in southeastern Wisconsin, 2001-2006	
Maricopa County (AZ)	\$107,271,000
Jefferson County (WI)	\$81,650,000
Lee County (FL)	\$76,867,000
Dodge County (WI)	\$73,275,000
Dane County (WI)	\$63,430,000
Palm Beach County (FL)	\$60,402,000
Collier County (FL)	\$45,912,000
Hennepin County (MN)	\$43,484,000
Clark County (NV)	\$40,542,000
Sheboygan County (WI)	\$34,456,000
Denver County (CO)	\$25,471,000
Pinellas County (FL)	\$23,533,000
Adams County (WI)	\$20,025,000
Sources of net income gain in southeastern Wisconsin, 2001-2006	
Lake County (IL)	\$213,348,000
Cook County (IL)	\$109,645,000
McHenry County (IL)	\$42,405,000
Du Page County (IL)	\$21,563,000

data is not attached to this dataset, an educated guess is that much of this income belongs to retirees because the most popular destinations are Florida and Arizona, retirement hot spots.

### Chicago money pours into region

The Chicago region is the only significant source of new income for southeastern Wisconsin from outside the region (see map on previous page). Luckily for Milwaukee, it's a major source. In fact, with a net gain of \$392.1 million and 7,325 net new tax filers, no other region comes close to sending southeastern Wisconsin as much money or people as Chicago.

**Table 2:** Average income per return for emigrants into and out of southeastern Wisconsin, 2001-2006

<b>Chicagoans bring their higher-incomes our region</b>	
Moving to M7 from Chicago	Average income per return \$47,880
Moving to Chicago from M7	\$44,801
<b>Our region takes in lower-income Wisconsinites</b>	
Moving to M7 from Wisconsin	Average income per return \$34,124
Moving to Wisconsin from M7	\$40,034

Not only does Chicago send southeastern Wisconsin “quantity,” it also sends us “quality” in terms of relatively high average-income household - \$47,880 per return for those arrivals from Chicago (Table 2). This is contrary to the belief in the early 1990s that Chicago was “sending us its poor.” Instead, this data highlight the rest of Wisconsin as a source of lower income households - \$34,124 per return for new arrivals. This data point to Chicago as a source for the region’s wealth, not its woes.

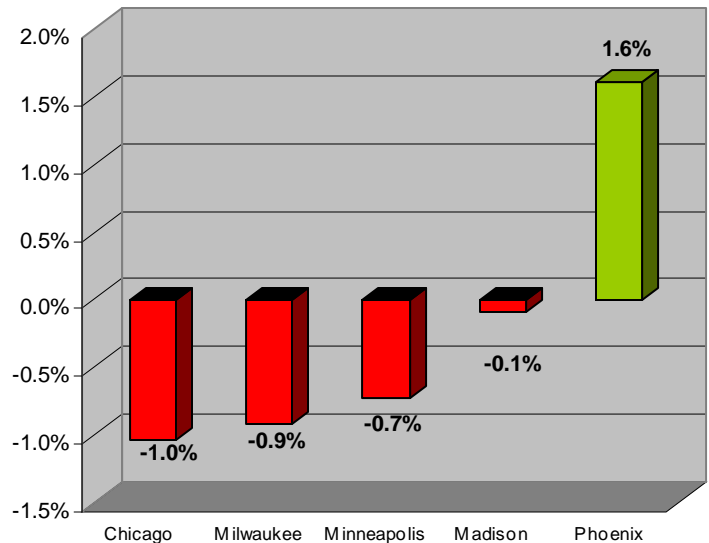
### Neighbors also show personal income losses

Southeastern Wisconsin is not alone in losing more income than it gained over the last year. The six-county Twin Cities region lost 0.7% of its total income to out-migration, while the six-county Chicago region actually had a larger percentage loss than the Milwaukee region, with 1.0% of its total income lost to out-migration (Chart 3). Both lost income for similar reasons to southeastern Wisconsin - out-migration to exurban communities and the Sunbelt.

Even boomtown Madison in Dane County was not able to attract more income than it lost over the last year. While the presence of the University of Wisconsin may have played a role in skewing these figures, it still is a good

example of how difficult it is to retain and attract income. One area that has had no problem in the income game is Phoenix. As a magnet for retirees and sunshine, Phoenix finds itself on the receiving end of income flows. Southeastern Wisconsin may never be a Phoenix in the game of income attraction and retention, but is there any reason it cannot do better and at least show the relative breakeven success of the Madison area?

**Chart 3:** Personal income gain/loss among metro areas as a percentage of total personal income, 2005-06



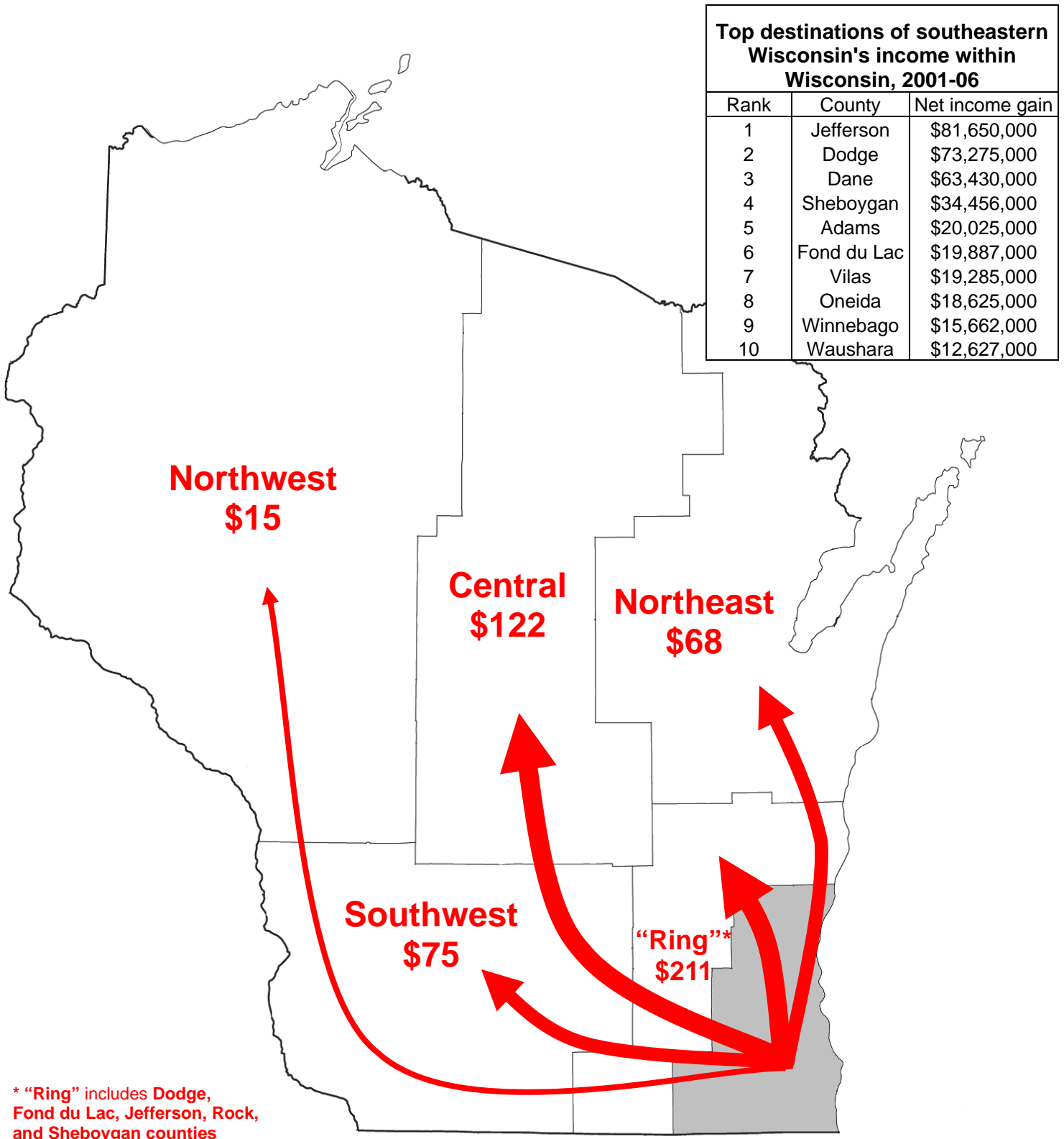
### Southeastern Wisconsin’s exurban “ring” counties, Dane County, and northern Wisconsin benefit from region’s money

Primary Wisconsin beneficiaries of the region’s out-migration of personal income are the “ring” counties that surround southeastern Wisconsin (Map 2). Otherwise known as exurban counties because of their location beyond traditional suburbs, the region’s exurban counties of Jefferson, Dodge, Sheboygan, Fond du Lac and Rock combined to net \$211 million in personal income from southeastern Wisconsin over the last half-decade.

The city of Madison’s relatively hot economy also proved to be a popular destination for the region. Dane County has netted \$63.4 million from southeastern Wisconsin since 2001. Also benefiting from the outward migration of the region’s wealth is northern Wisconsin which includes such “second-home” destinations as Lake Tomahawk and Lake Minocqua.

## Where is our money going in Wisconsin?

**Map 2:** Net income flows (*in millions*) out of our region to the rest of Wisconsin, 2001-2006



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## Plugging the income drain - southeastern Wisconsin income migration trends, 2001-2006

Incomes are growing in southeastern Wisconsin, but they could grow faster if we found a way to plug the relentless leakage of personal income to areas outside the region. From 2001 to 2006, households moving out of the seven-county southeastern Wisconsin region took with them \$1.3 billion more in personal income than those moving into the region brought in. This is a challenge for the entire region. With five of seven counties having net income losses, every county could do more to plug the income drain.

Stopping southeastern Wisconsin's income drain would have meant expanding the region's economic pie by \$400 million in the last year alone. A larger income base would circulate more money to fund government services like schools and police; more money to support the arts and bolster retail trade; and more investment to assist the housing market.

While it may be impossible to keep our region's retirees from moving to warmer climates - indeed, most large northern cities are facing a drain to the Sunbelt - it may be possible for southeastern Wisconsin to pursue strategies that aim to offset these income losses through the attraction of households from the Chicago region. Examples of such strategies include joint marketing of the Chicago-Milwaukee corridor to business prospects, more efficient and dependable transport options between the two regions, and enhanced downtown redevelopment in Milwaukee, Racine, and Kenosha to attract Chicago workers and their families. A good relationship with the rest of the state is important to the success of southeastern Wisconsin, but this data suggest that our region's chief goal should be developing closer ties to Chicago.

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