



MEMO

To: Interested Parties
From: Jonathan Weinhagen, President and CEO, Minneapolis Regional Chamber
Date: February 25, 2021
Re: Minneapolis Balance of Payments Report

Background

The purpose of this report is to illustrate the significant economic and financial contributions the businesses and residents of the City of Minneapolis contribute to the vitality of the entire state. The data in this report is from Minnesota House Research and the City of Minneapolis Finance & Property Services Department.

Minnesota has an interdependent economy, where all regions contribute to and support the success of one another. However, the data in this report makes it clear that, from a revenue perspective, those contributions are not equivalent. Minneapolis pays more than 3.5 times in taxes to the State than it receives in aid payments. The notion that the rest of the state is “bailing out” Minneapolis is inaccurate.

This report also makes it clear why it is critical that we provide aid to businesses who in the last year saw hundreds of millions of dollars' worth of property damage through no fault of their own, on top of dealing with the economic ramifications of the COVID-19 pandemic. A healthy Minnesota clearly depends on a healthy Minneapolis, and we hope this information will be helpful as policymakers make decisions over the next few months about making investments that will position our state and region for growth and prosperity.

Analysis

The businesses and residents of the City of Minneapolis pay a range of taxes to the State of Minnesota and receive funds from the State in various forms of aids. The difference between the two is known as the balance of payments.

A negative balance of payments indicates greater payment to the State in taxes than is received back in state funded aids. In 2017, Minneapolis had a balance of payments of -\$1.43 billion, having paid out \$1.97 billion in taxes while receiving \$536 million in aids from the State – a ratio of 3.6 to 1.

This negative balance of payments for Minneapolis is closely mirrored by negative balances of payments in 2016 for the seven county Metro region (-\$3.46 billion) and for Hennepin County (-\$2.45 billion). This report finds that these lopsided contributions have been consistent every year since at least 2004.

In contrast, Greater Minnesota consistently shows a positive balance of payments over the same period. During that time, Greater Minnesota has benefitted from more aid than it has contributed to the State. For example, in 2016 the 80 counties outside of the metro area paid out \$6.38 billion in taxes while receiving \$7.41 billion in state aid, a balance of payment of \$1.03 billion.

Minnesota's economy has been ravaged by the COVID-19 pandemic, and Minneapolis is certainly no exception. Investments in the city's recovery – especially in support of small businesses – are critical because as this data suggests, without a strong Minneapolis our state will not be well-positioned to recover from this economic crisis.



MacCallum Ross

*Minneapolis Regional Chamber:
City of Minneapolis Balance of Payments
February 18, 2021*

Executive summary

- The balance of payments for a city, county or region is the total in state funded aids it receives less the total in taxes it pays out to the state. Hence, a negative balance of payments indicates greater payment to the state in taxes than is received back in state funded aids.
- This balance of payments concerns only what individuals and businesses pay in state taxes and what they receive in state funded aids, therefore federal funds that pass through the state or counties (e.g., SNAP and the federal portion of Medicaid) are not included
- Just as state taxes are paid by the individuals and business, state aids are received by individuals and businesses either directly from the state or via services or distribution from local governments
- In 2017, the residents and businesses of the City of Minneapolis had a balance of payments of -\$1.43 billion, having paid out \$1.97 billion in taxes while receiving \$.54 billion in aids
- 91% of the \$1.97 billion in taxes were from Income (51%), Sales and Use (31%) and Corporate (9%)
- 91% of the \$.54 billion in aids were for Education (76%) and LGA (15%)
- This negative balance of payments for Minneapolis is mirrored by negative balances of payments in 2016 for the Seven-County Metro (-\$3.46 billion) and Hennepin County (-\$2.45 billion)
- These negative balances of payments for the Seven-County Metro and Hennepin County have occurred consistently every year since at least 2004, while Greater MN consistently shows a positive balance of payments over the same period

Minneapolis current balance of payments

In 2017 the balance of payments for Minneapolis was $-\$1,435\text{M}$

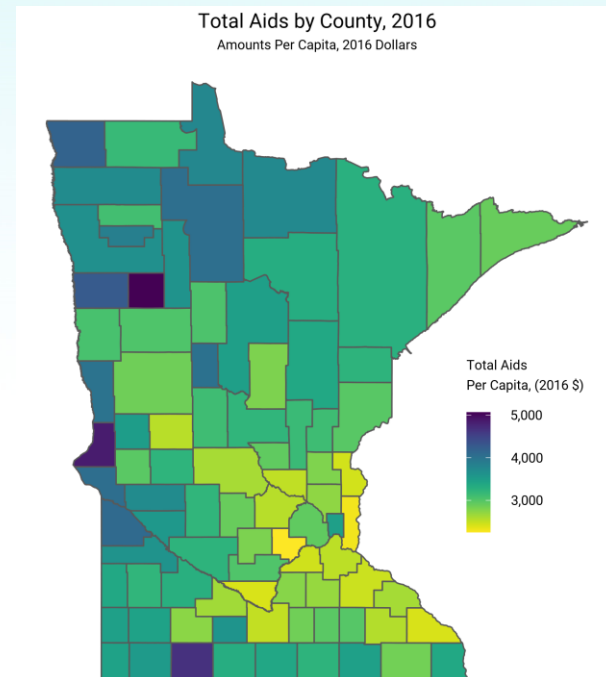
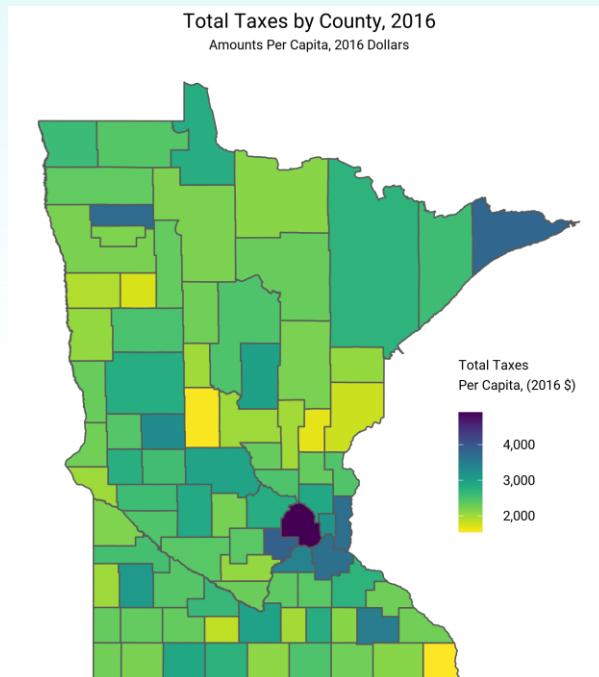
- 91% of the $\$1,972\text{M}$ in taxes were from Income, Sales and Use and Corporate
- 91% of the $\$536\text{M}$ in aids were from Education and LGA



Source: MN House Research, Major State Aids and Taxes: A Comparative Analysis 2016 Update, City of Minneapolis – Finance & Property Services

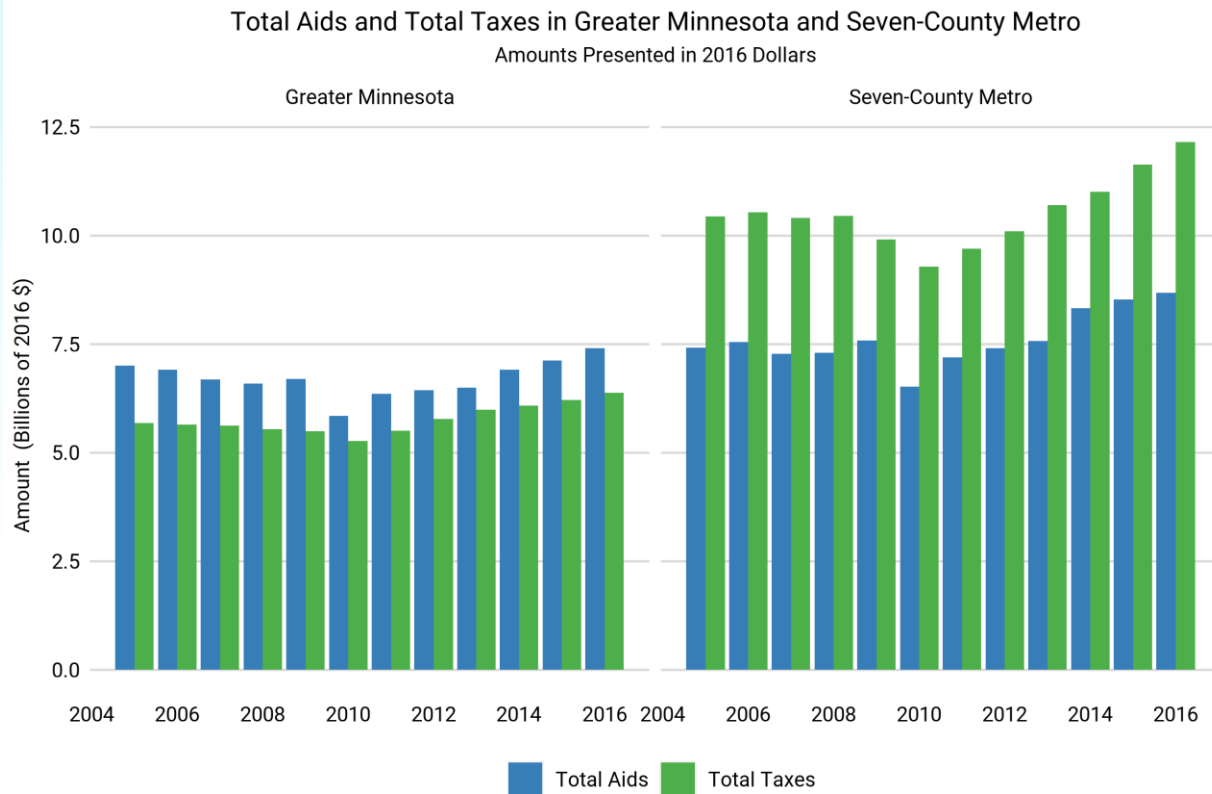
Metro and Greater MN: Comparison of aids and taxes, per capita 2016

The negative balance of payments for Minneapolis is part of a larger pattern for Metro vs Greater MN



Source: MN House Research, Major State Aids and Taxes: A Comparative Analysis 2016 Update, City of Minneapolis – Finance & Property Services

Metro and Greater MN: Comparison of aids and taxes, totals 2004-2016



Source: Minnesota House of Representatives Research Department.
Major State Aids, Credits and Taxes Data.
<http://www.house.leg.state.mn.us/hrd/>

While the total aids in the Seven-County Metro area are somewhat larger than in Greater MN, they are overshadowed by the significantly greater taxes paid by the Metro

Source: MN House Research, Major State Aids and Taxes: A Comparative Analysis 2016 Update