

Municipal State-Aid Street System

The municipal state-aid street system is a collection of about 3,600 miles of key streets located in 147 Minnesota cities across the state. The system constitutes around 16 percent of all miles of city streets. Cities receive financial assistance from the state for construction and maintenance of those streets included in the system. Assistance comes from a portion of constitutionally dedicated, transportation-related taxes. Aid distribution is based on a statutory formula administered by the Minnesota Department of Transportation (MnDOT). [Minn. Stat. § 162.13](#). The aid can only be expended on streets that constitute part of the municipal state-aid street system. Total available funds for calendar year 2011 amounted to \$142.9 million.

Constitutional and statutory framework for state aid

The Minnesota Constitution establishes a basic framework for state highway finance. It (1) dedicates funding to be “used solely for highway purposes” through taxes on motor fuels, motor vehicle registration, and motor vehicle sales; (2) establishes various accounting funds, including a municipal state-aid street (MSAS) fund for financial assistance to cities; (3) allocates tax revenues among state, county, and municipal roads, so that the MSAS fund receives 9 percent of 95 percent of those tax revenues constitutionally dedicated to streets and highways (after some special allocations and transfers); and (4) establishes certain requirements related to use of the funds and characteristics each highway system. [Minn. Const. art. XIV](#). State statutes further specify finance and policy provisions such as aid allocation formulas and requirements for cities to receive aid.

City eligibility

To be included in the system and receive aid, under the Minnesota Constitution a city must have a population over 5,000. [Minn. Const. art. XIV](#), § 8. Population is determined by the last federal decennial census, with provisions for some special circumstances. [Minn. Stat. § 162.09](#), subd. 4. Cities smaller than the population cutoff do not receive aid. (Chisholm’s population fell below the cutoff with the 2000 census but is permanently grandfathered in. [Laws 2001, 1st spec. sess., ch. 8](#), art. 2, § 6; [Laws 2002, ch. 364](#), § 29.)

Based on drops in population under the 2010 census, five cities are anticipated to lose eligibility for aid from the MSAS fund (starting with the 2012 aid distribution). Roads in those cities may convert to city streets or become part of the county state-aid highway system under an agreement with the county.

While smaller cities having a population under 5,000 are not eligible for aid from the MSAS fund, they are indirectly assisted through separate funding for certain county highways. A portion of state funds for the county state-aid highway system provided to each county must be allocated to a municipal account for county state-aid highways located in smaller cities. [Minn. Stat. § 162.08](#).

Street system limitations

Within each city, the municipal state-aid street system is restricted to up to 20 percent of the total miles of (1) the city’s streets, plus (2) county highways located within the jurisdiction of that city. City streets that were previously part of a state trunk highway or a county highway system and were “turned back” to a city are

also included in the municipal state-aid street system and do not count against the 20 percent limit. [Minn. Stat. § 162.09](#).

Distribution of funds

State-aid funding is distributed on a calendar-year basis. MnDOT determines the amount annually based on both tax receipts to date and estimates of receipts for the remainder of that fiscal year. Apportionment amounts are released each January. For calendar year 2011, total available MSAS funding is \$142.9 million.

Funds are distributed as follows based on formulas and caps set in state law:

- \$139.1 million apportioned by formula as direct aid to cities;
- \$2.9 million to an administrative account for MnDOT expenses in administering the state-aid program;
- \$253,000 to a disaster account for unforeseen events resulting in undue financial hardship; and
- \$633,000 to a research account. [Minn. Stat. §§ 162.12, 162.13](#).

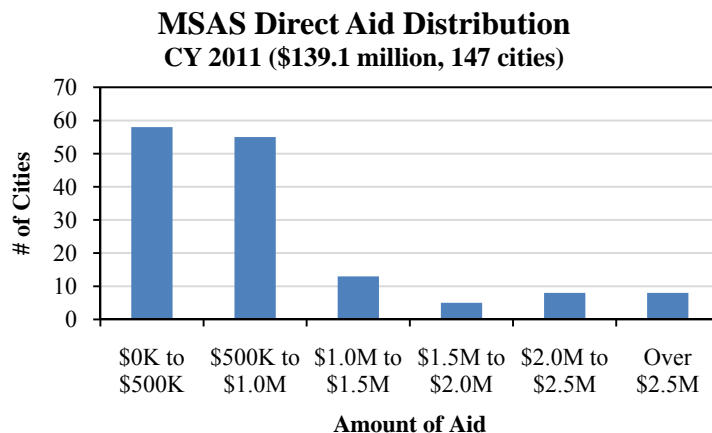
Direct aid allocation formula

Money in the MSAS fund apportioned to cities via direct aid follows a formula provided in statute, so that:

- **50 percent** is divided proportionally based on the population of each city (compared to the total for all cities); and
- **50 percent** is divided proportionally based on the construction needs of each city, which is the amount the city needs to bring all its municipal state-aid streets up to state standards. [Minn. Stat. § 162.13](#).

Analysis of aid apportionment

Owing to the variety of cities with streets in the state-aid system, MSAS fund distributions vary. Calendar year 2011 direct aid apportionments to cities ranged from about \$144,000 to over \$12 million. The average allocation was just over \$946,000, with 34 cities receiving over \$1 million a piece and 16 cities receiving over \$2 million. Because of the influence of population in the formula for allocating aid, larger cities tend to receive greater amounts of funding. The following chart groups cities based on amount of aid distributed.



For more information: Contact legislative analyst Matt Burress at 651-296-5045. Also see the House Research publication [Highway Finance Overview](#), January 2011.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.