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The Small Cities Assistance program supplies formula-based road aid to smaller Minnesota cities. [Minn. Stat. § 162.145](#). Fiscal year 2024 aid is estimated at \$2.5 million. Assistance is expected to increase substantially in future years as additional funding is implemented.

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## Background

The largest state program for transportation-related assistance to cities is municipal state-aid street (MSAS) funding, which is part of a constitutional framework. However, the constitution limits MSAS funds to cities that have a population of at least 5,000. [Minn. Const. art. XIV, § 8](#). The vast majority of Minnesota's cities fall below this population threshold. From 2005 to 2013, supplemental aid for cities under 5,000 population had been provided as part of the local government aid formula. Aid amounts were calculated on a per capita basis (and in later years, an offset was determined based on a city's taxing capacity). The aid component was eliminated in 2013 in conjunction with adoption of a new formula. [Laws 2013, ch. 143](#), art. 2, § 36. The legislature established the Small Cities Assistance program in 2015, which provides aid to cities that are not receiving MSAS funds.

## Requirements

Aid conditions and characteristics under the Small Cities Assistance program include the following:

- Eligibility is limited to cities that are not receiving MSAS funds, which generally means that the city must have a population of under 5,000
- Aid is restricted to construction and maintenance of roads and bridges on projects located at least partially within the city
- Funds can be used for various aspects of a road project, such as land acquisition as well as design and engineering work, and can be put towards a city's share on other road projects
- There is no specified timeline for when funds must be used
- Except for work on state-aid system streets or highways, the state-aid design and engineering standards do not apply
- Funds are distributed as block grants rather than on a reimbursement basis
- The city must comply with required financial reporting to the State Auditor and maintain records on aid spending (otherwise, funds can be withheld)

## Allocation Formula

Aid is distributed by formula, so cities do not apply for funds. Formula components are as follows:

- 5 percent of the funds in each year is divided equally among all eligible cities
- 35 percent is allocated proportionally based on each city's population
- 35 percent is allocated proportionally based on each city's municipal street lane-miles
- 25 percent is split proportionally in an amount that declines based on county state-aid highway (CSAH) lane-miles located within each city, so that aid under this component drops (down to \$0) as a city's CSAH lane-miles increases

Another aspect of the formula is an apportionment cap, so that a city cannot receive more than 3.5 times the average aid being provided.

## Administration

The program is jointly administered by two state agencies. Distribution calculations are handled by the Minnesota Department of Transportation (MnDOT) and aid is then provided by the Department of Revenue in conjunction with local government aid.

Following a shift in 2023 to ongoing funding (discussed further below), assistance is distributed after the total revenue is determined from collections for a 12-month period of May to the following April. Payments to cities are made after that, generally in two equal installments by July 20 and December 26. As a result, aid identified for a given fiscal year reflects the main year of revenue collections, but the money is distributed in the subsequent fiscal year. For instance, fiscal year 2024 aid is to be distributed in July and December of 2024 (i.e., fiscal year 2025).

## Funding

The Small Cities Assistance program was first funded in fiscal year 2016 with a onetime General Fund appropriation. Appropriations in subsequent years were periodic, until the 2023 Legislature established a fiscal mechanism with ongoing funding. [Laws 2023, ch. 68](#). With the 2023 changes, the program receives a formula-based share of revenue from (1) the state general sales tax attributed to automotive parts (via a portion that increases annually under a ten-year phase-in); and (2) a retail delivery fee (which will be implemented beginning July 1, 2024). [Minn. Stat. §§ 168E.09; 297A.94](#) (g).

Fiscal year 2024 aid under the program is estimated at \$2.5 million. This is appreciably below the annual aid anticipated in subsequent years, due to the phase-in and implementation delay in the funding sources. The chart below outlines recent and estimated funding.

**Small Cities Assistance Funding (\$ in Millions)**

| Year  | 2019  | 2020-21 | 2022   | 2023 | 2024 est. | 2025 est. | 2026 est. | 2027 est. |
|---|-------|---------|--------|------|-----------|-----------|-----------|-----------|
| Total Aid   | \$8.0 | \$0     | \$18.0 | \$0  | \$2.5     | \$17.1    | \$22.1    | \$24.4    |
| <b>Notes</b>  |       |         |        |      |           |           |           |           |
| 2019-22 amounts are for the respective fiscal year. 2024-27 amounts reflect the primary fiscal year of revenue collections. |       |         |        |      |           |           |           |           |

## Distribution of Aid

Funds are distributed among 703 cities throughout Minnesota. Based on preliminary data that is subject to change, the average fiscal year 2024 aid is estimated at about \$3,600, or \$3.8 per capita, and the aid ranges from roughly \$1,200 to \$12,600. Nearly 79 percent of cities are anticipated to receive under \$5,000, and nine cities are expected to reach the distribution cap of about \$12,600.



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