
The Small Cities Assistance program periodically supplies formula-based road aid to smaller Minnesota cities that do not receive municipal state-aid street funding. [Minn. Stat. § 162.145](#). Aid totaled \$18.0 million in fiscal year 2022. No funds are appropriated for fiscal year 2023 or after.

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, under the constitution the funds are limited to cities having a population of at least 5,000. [Minn. Const. art. XIV, § 8](#). The vast majority of Minnesota's cities fall below this population threshold and do not receive MSAS funds.

From 2005 to 2013, supplemental aid for cities under 5,000 population had been provided as part of the local government aid (LGA) 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 LGA formula. [Laws 2013, ch. 143, art. 2, § 36](#).

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)

Administration

Assistance is jointly administered by two state agencies. Formula calculations are handled by Minnesota Department of Transportation (MnDOT), while aid is distributed by the Department of Revenue in conjunction with administration of LGA. Payments are generally made in two equal installments, by July 20 and December 26 in the fiscal year for which the funds are appropriated. For instance, fiscal year 2022 aid was distributed in July and December of 2021.

Allocation Formula

The aid is formula based, so cities do not apply or compete for funds. The distribution formula contains four components:

- 5 percent of the funds available 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 lane-miles of county state-aid highway (CSAH) located within each city, so that aid under this component drops (down to \$0) as a city's CSAH lane-miles increase

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. For fiscal year 2022, the cap amounted to about \$89,360 per city.

Funding

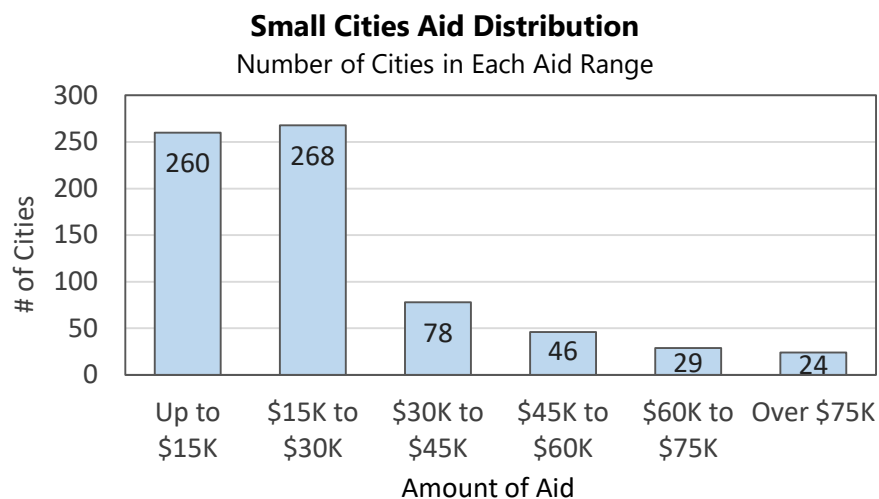
The program was first funded in fiscal year 2016 through a onetime general fund appropriation. However, funding has not been continuous, as outlined in the chart below. Most recently, the legislature appropriated \$18.0 million in fiscal year 2022. Currently there are no appropriations for fiscal year 2023 or after.

Small Cities Assistance Funding History (\$ in Millions)

Fiscal Year	2016	2017	2018	2019	2020-21	2022	2023+
Total Aid	\$12.5 M	\$0	\$8.0 M	\$8.0 M	\$0	\$18.0 M	\$0

Distribution of Aid

Funds are distributed among 705 cities throughout Minnesota. For fiscal year 2022, the average amount was just over \$25,500, or about \$26.75 per capita. Aid ranged from roughly \$8,800 to \$89,360. About 75 percent of cities received under \$30,000 in aid, and ten cities were at the distribution cap.



For more information: See the House Research publications [Municipal State-Aid Street System](#), December 2021, and [Highway Finance](#), January 2021.



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