
The Small Cities Assistance program supplies formula-based road aid to smaller Minnesota cities. [Minn. Stat. § 162.145](#). Fiscal year 2025 aid totaled \$8.9 million. Assistance is expected to increase in future years as additional funding is implemented.

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. The aid component was eliminated in 2013 in conjunction with adoption of a new formula. [Laws 2013, ch. 143](#), art. 2, § 36. The 2015 Legislature established the Small Cities Assistance program, 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 payments.

Following a shift in 2023 to ongoing funding (discussed further below), assistance is distributed based on the total revenue determined from collections for a 12-month period of May to the following April. Payments to cities are made after that period, typically in two equal installments by July 20 and December 26 of the calendar year in which collections concluded. As a result, aid identified for a given distribution year reflects the main fiscal year of revenue collections. For instance, 2025 aid distribution is to be provided in July and December of 2025 (fiscal year 2026).

Funding

The legislature initially funded the Small Cities Assistance program in fiscal year 2016 with a \$12.5 million onetime General Fund appropriation. Appropriations in the following years were periodic, with no amount provided in some years and a peak of \$18 million in fiscal year 2022. The 2023 Legislature established an ongoing funding mechanism, so that 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 first went into effect July 1, 2024). [Minn. Stat. §§ 168E.09; 297A.94](#) (g). The 2024 Legislature also supplemented the program with a onetime \$11.35 million General Fund transfer, which is included in the 2024 total.

In 2025, aid under the program amounted to a little over \$8.9 million. This is appreciably below the annual aid anticipated in upcoming years, due to the state sales tax allocation phase-in. The table below outlines recent and estimated funding.

Small Cities Assistance (\$ in Millions)

Year	2022	2023	2024	2025	2026 est.	2027 est.	2028 est.	2029 est.
Total Aid	\$18.0	\$0	\$13.9	\$8.9	\$13.3	\$20.1	\$27.5	\$35.5

Notes

Amounts are in millions for the aid distribution year. Estimates are based on the February 2025 forecast.

Allocation of Aid

Funds are allocated among 700 cities throughout Minnesota. The average 2025 aid to a city was nearly \$12,800, with amounts ranging from roughly \$4,300 to the apportionment cap of slightly over \$44,700. About 56.7 percent of cities received under \$10,000, and eight cities reached the apportionment cap.



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