



Governor Walz and Lieutenant Governor Flanagan's 2025 Budget

House Human Services Committee
February 13, 2025

The new DHS identity is taking shape



MISSION

In collaboration with community and partners, DHS supports people to thrive in community and live their healthiest and fullest lives.

VISION

All people in Minnesota have what they need to thrive in community with no disparities.

DHS continues to be a top state in health and human services

Minnesota is the **fifth** state nationally for overall health (America's Health Rankings, 2023)



Keeping over 1.3M people in Minnesota covered by public health insurance, including 42% of children.

“11th nationally in health care access, quality and outcomes”

(The Commonwealth Fund, 2023)



Providing quality services and supports for older adults and people with disabilities.

“1st nationally in services for older adults and people with disabilities”

(AARP, The Commonwealth Fund and the SCAN Foundation, 2024)



Providing high quality supports for children mental health in the appropriate setting including schools.

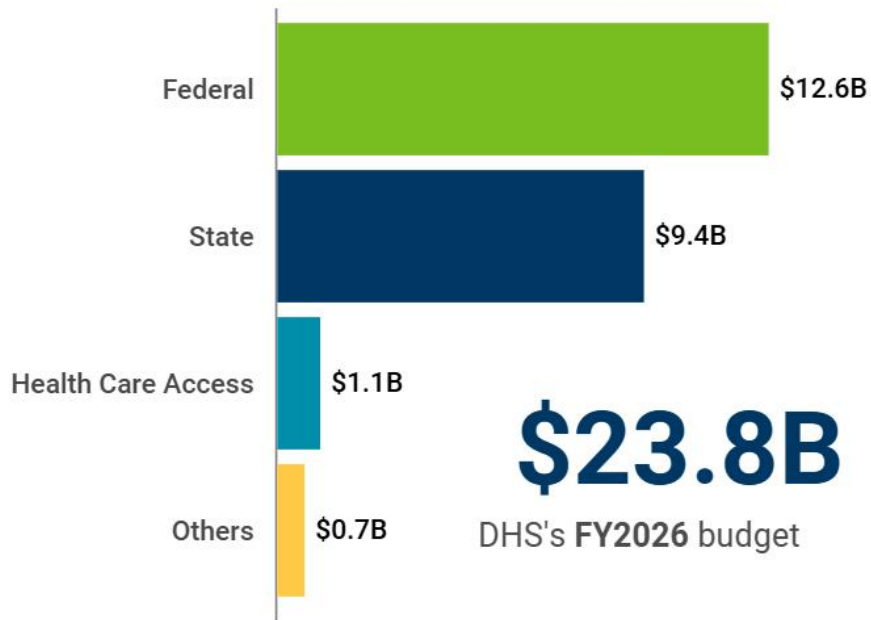
“5th nationally in child well-being”

(Annie E. Casey Foundation, 2024)

A hand is shown placing a wooden block with a plus sign on top of a pyramid of other wooden blocks. The pyramid consists of three rows: the top row has two blocks (heart with ECG and pill), the middle row has three blocks (ambulance, wheelchair, syringe), and the bottom row has four blocks (blood drop, bandage, stethoscope, pill bottle).

Human Services Budget

DHS directly impacts more than 25% of people living in Minnesota



-  585,000+ children
45% of **children** in MN
-  990,000+ adults and parents
29% of **adults** in MN
-  170,000+ older adults
17% of **older adults** in MN
-  180,000+ people with disabilities
28% of **people with disabilities** in MN

Who we serve: Average Monthly People (FY24)

1.3 Million



Medicaid Enrollees

102,000



MinnesotaCare Enrollees

12,000



People receiving LTC in
Nursing Facilities

89,000



People receiving LTC in their
homes & communities

34,000



People receiving behavioral
health services (BHF)*

837,000



Families with Children
enrollees in MA

23,000



People receiving General
Assistance (GA)

21,000

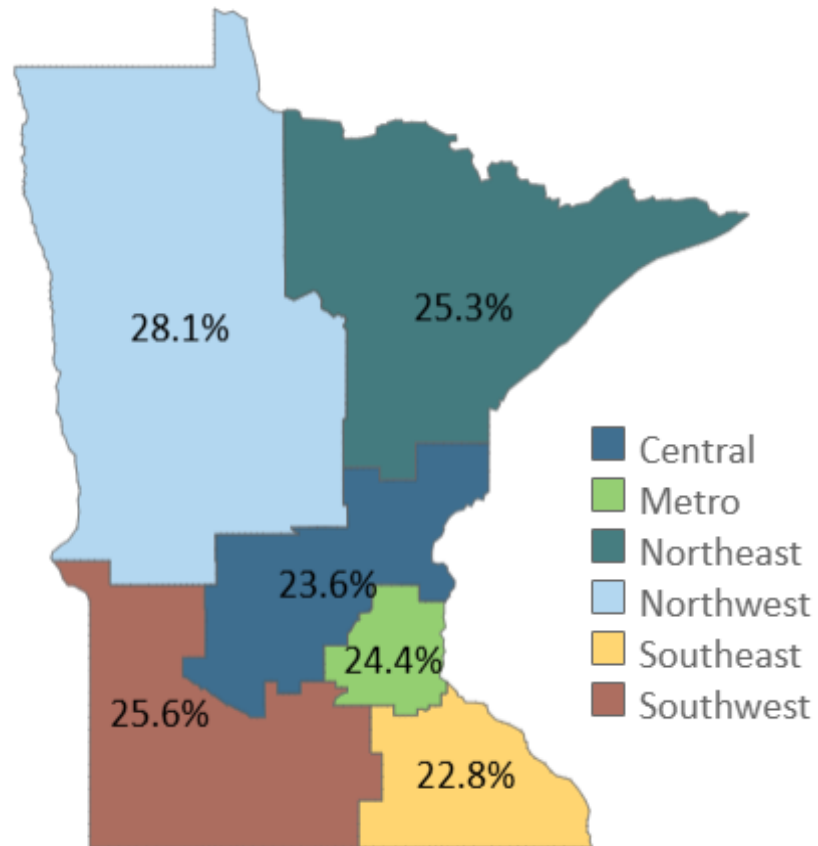


People receiving Housing
Support

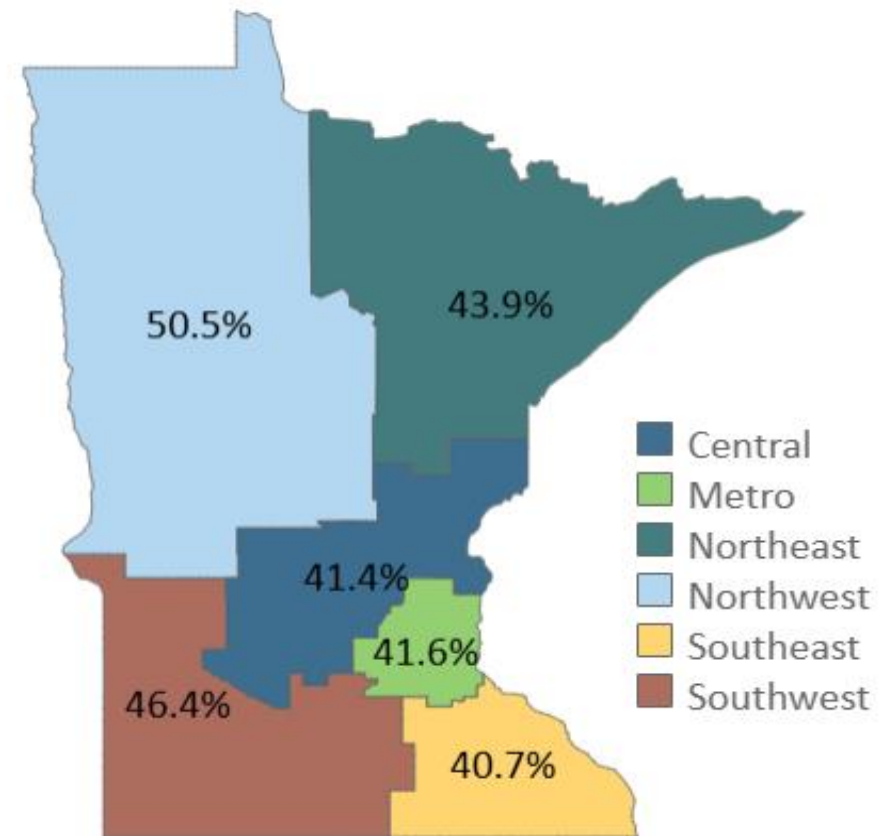
*Annual unduplicated recipients

MA enrollment regional distribution

Percent of the **total population** within the region enrolled in MA (all ages)

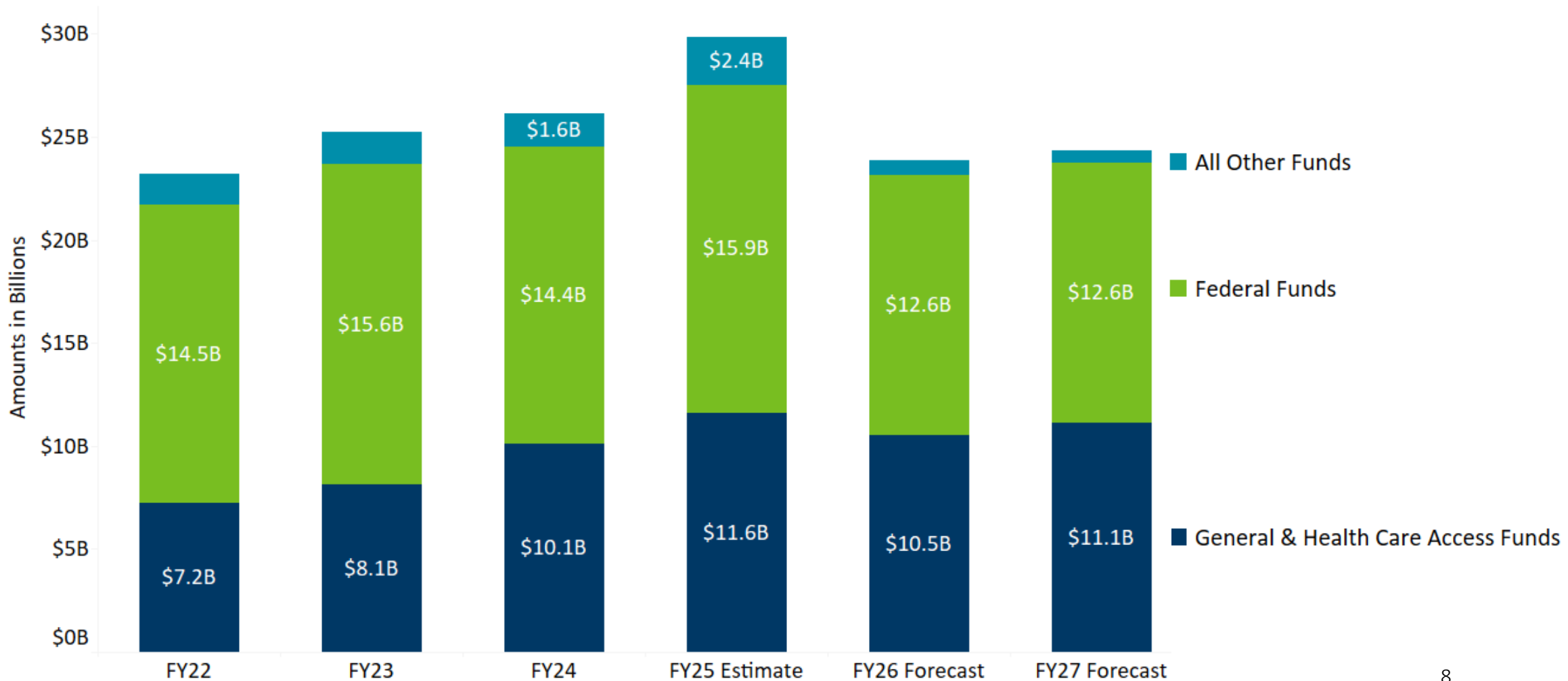


Percent of **children** within the region enrolled in MA



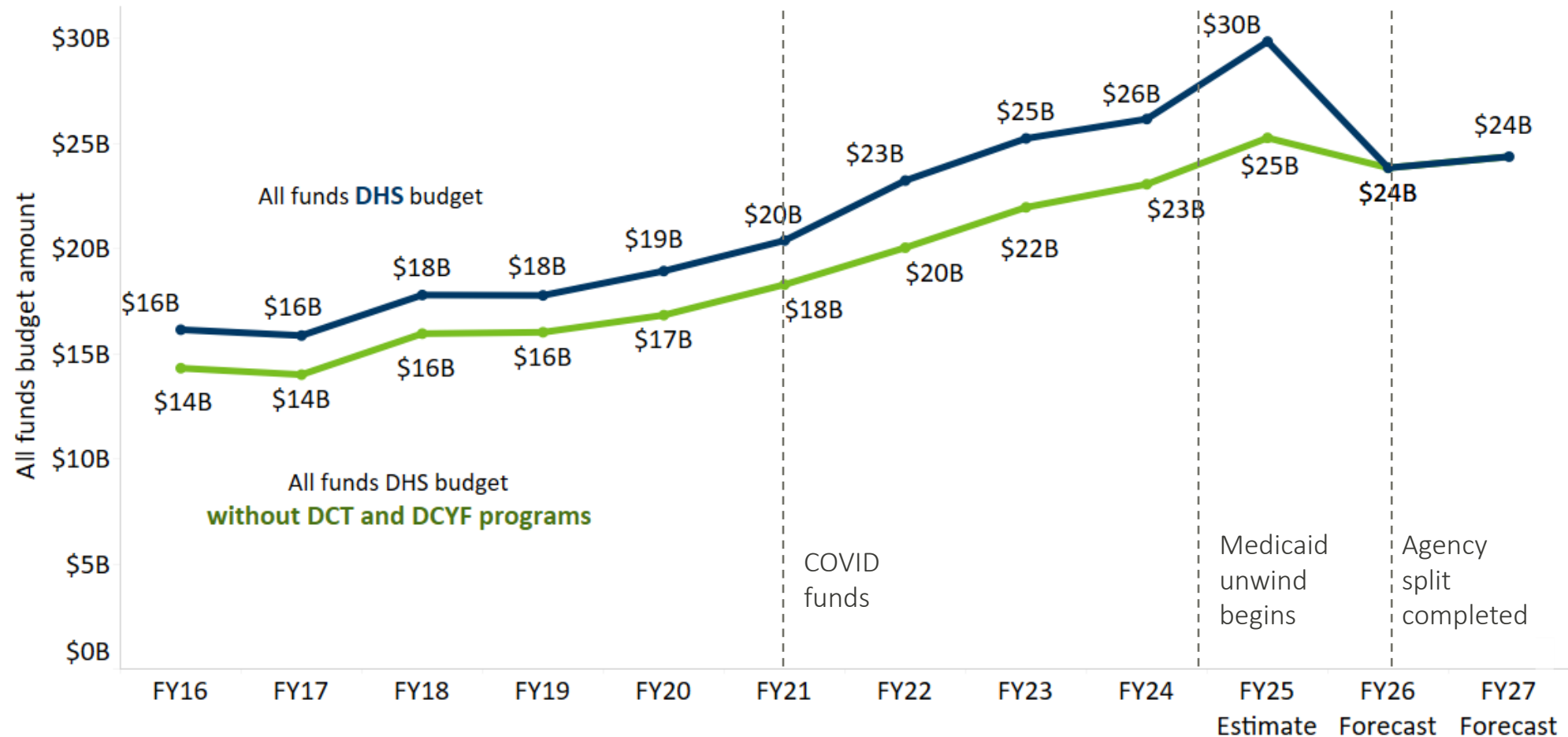
More than half of DHS' budget comes from federal sources

Budget by Source of Funding

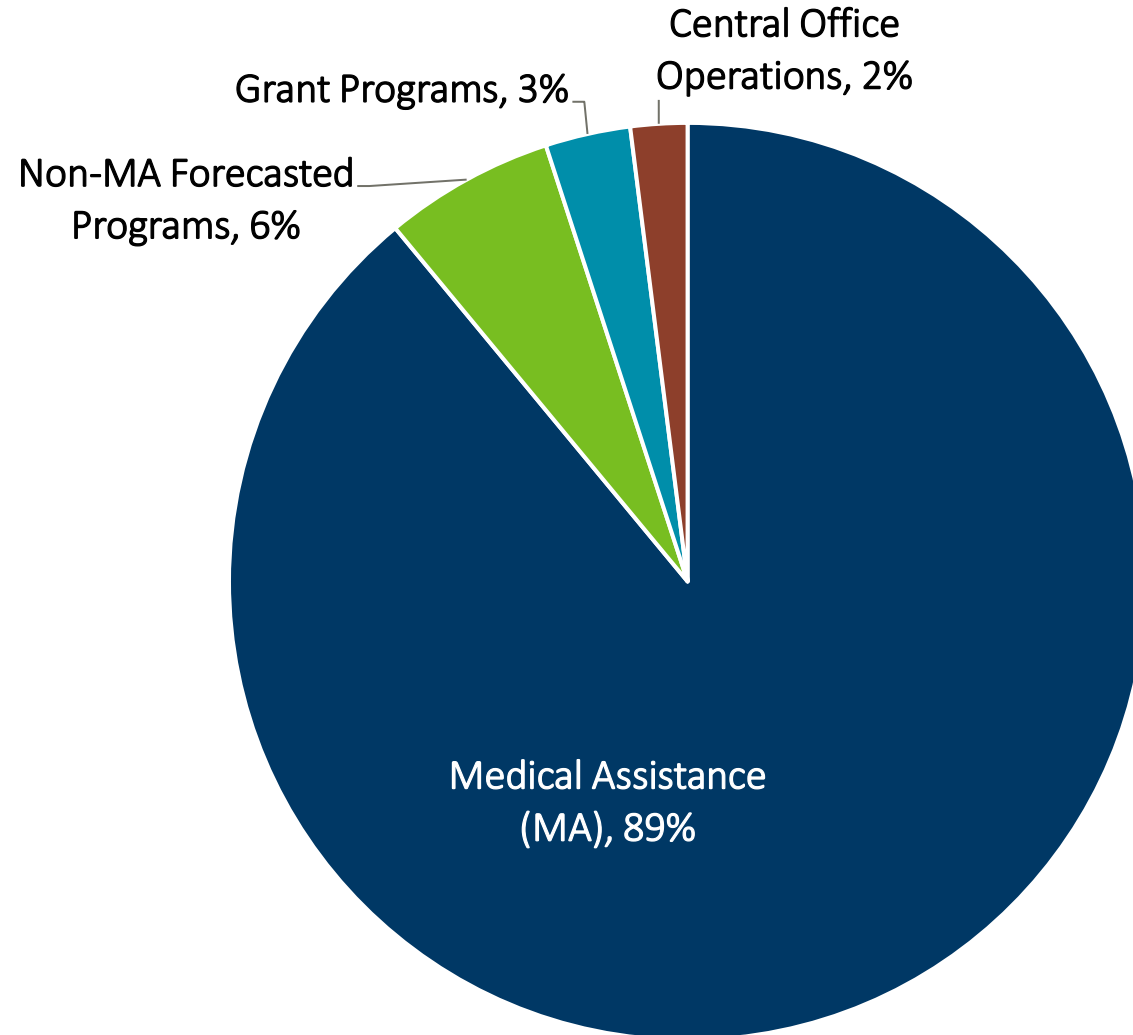


DHS Budget Over Time

DHS all funds budget (with and without DCYF and DCT programs)

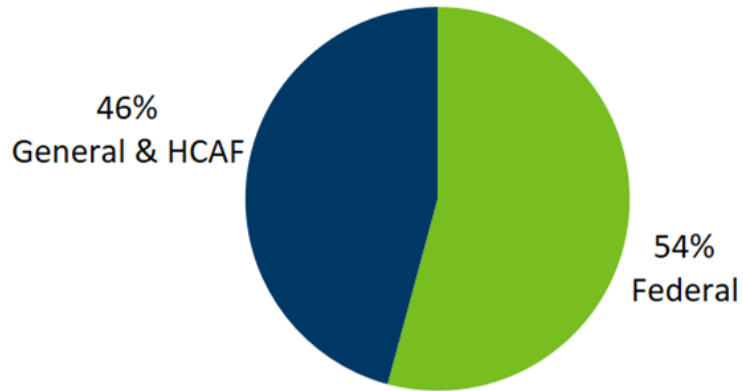


DHS FY 2026 expenditures all funds



Medical Assistance (MA) overview

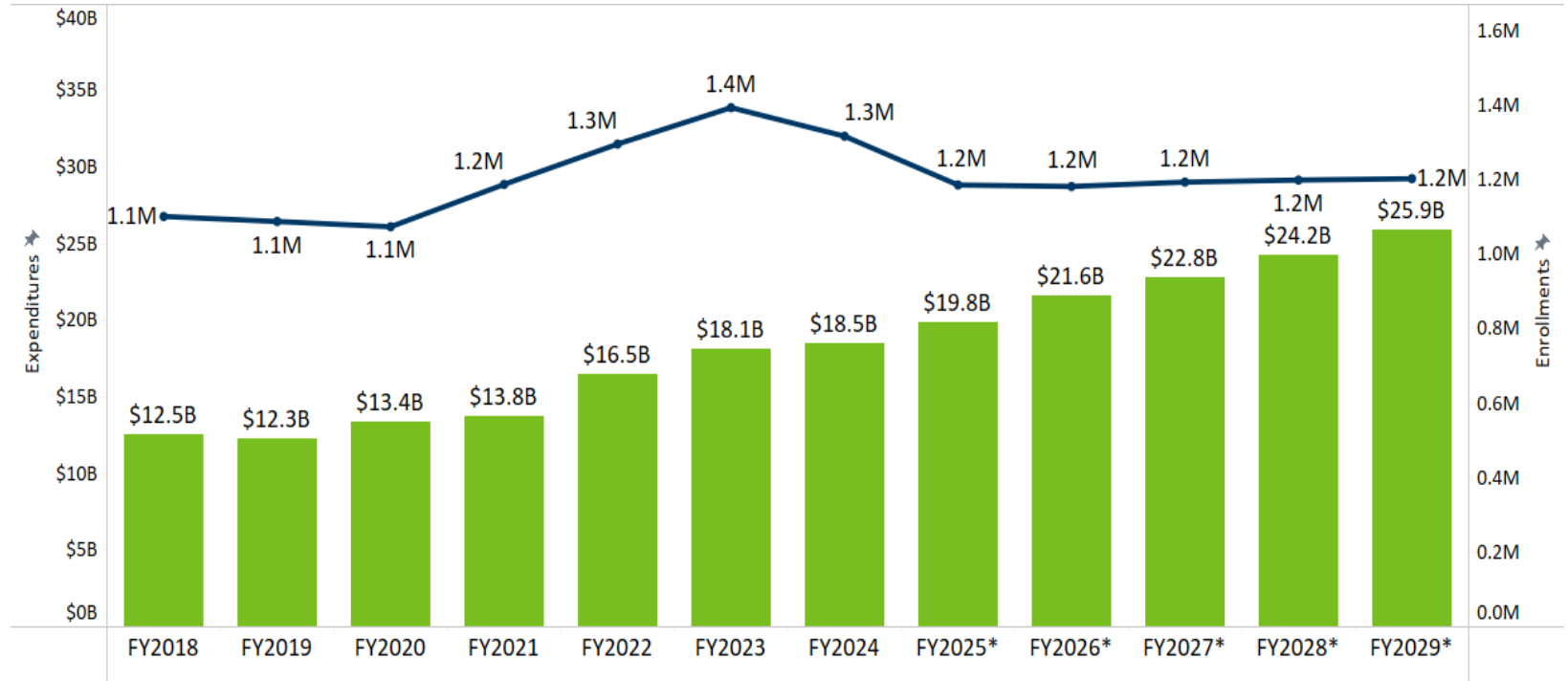
Medical Assistance Funds (FY2026)



42%

of children in the state have their health care covered by Medicaid

MA expenditures and enrollment Trend



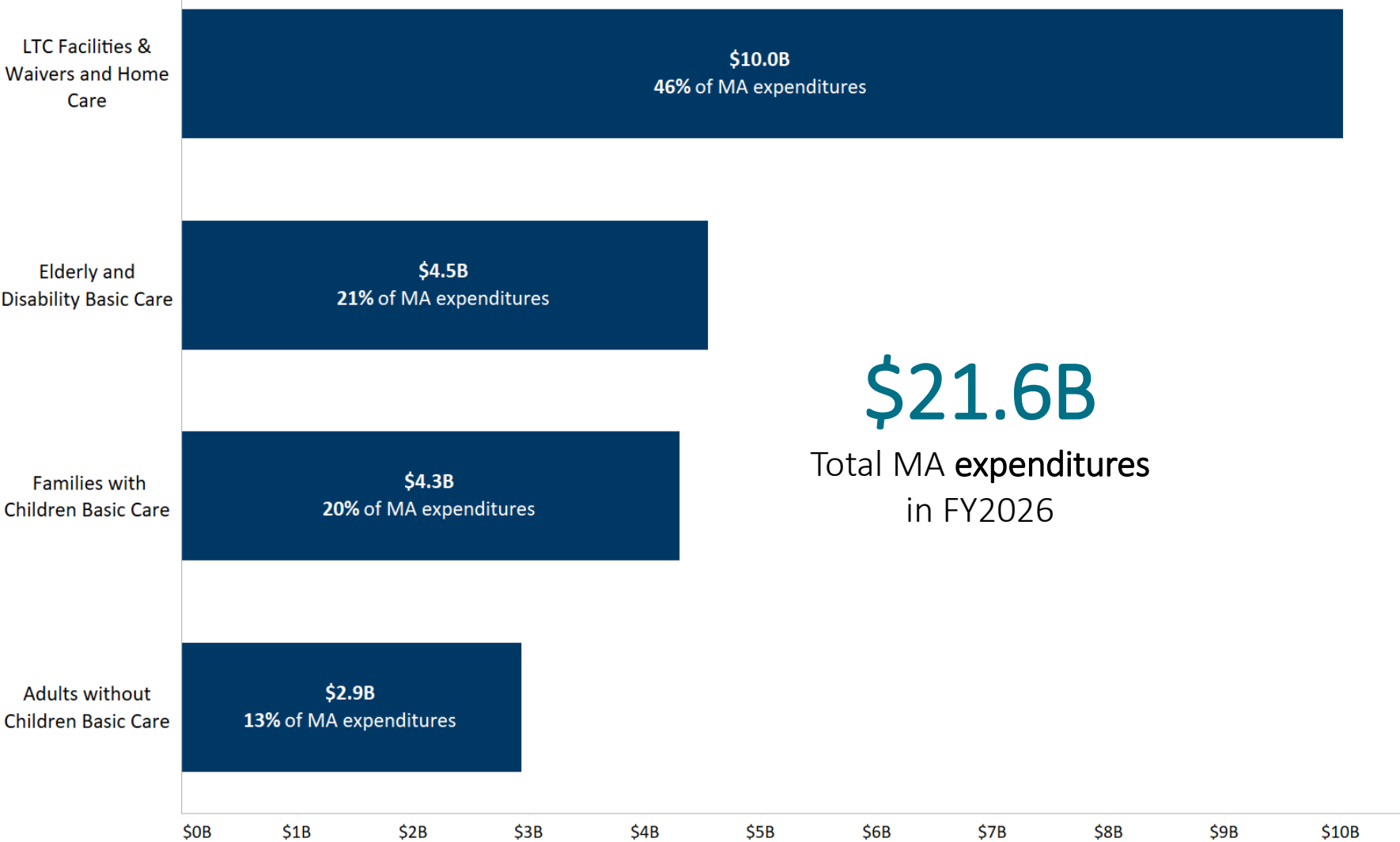
1.3 Million

Minnesotans have access to health care (2024)

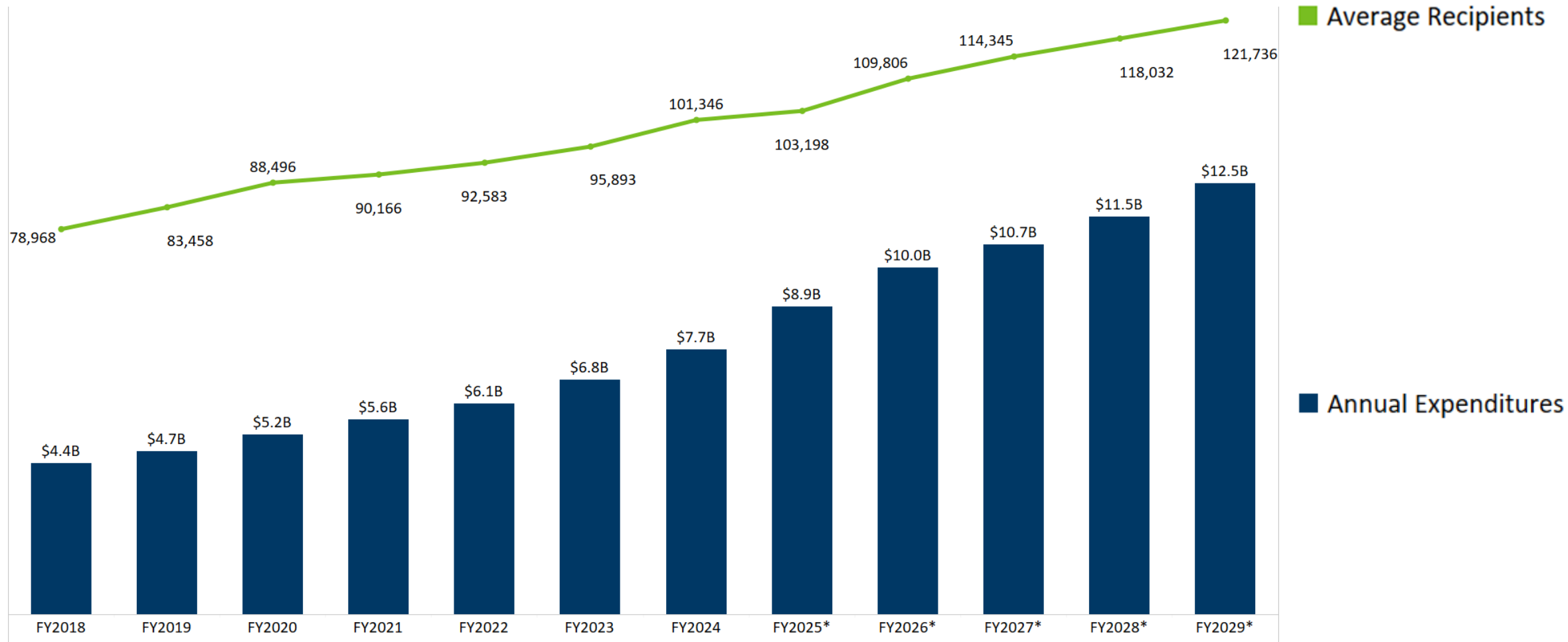
\$18.9B

total MA expenditures (2024)

MA total annual expenditures by category – FY 2026

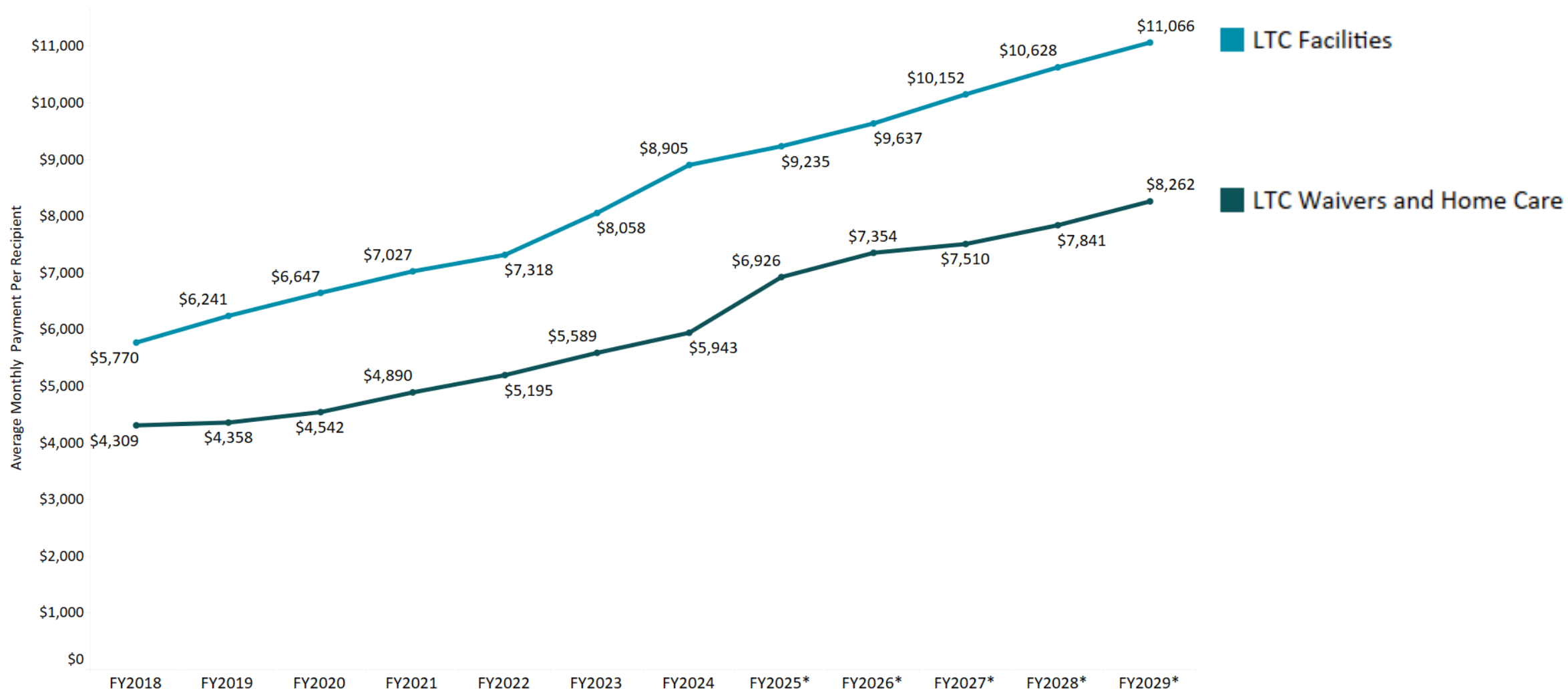


Long Term Care Recipients and Expenditures



*Forecasted

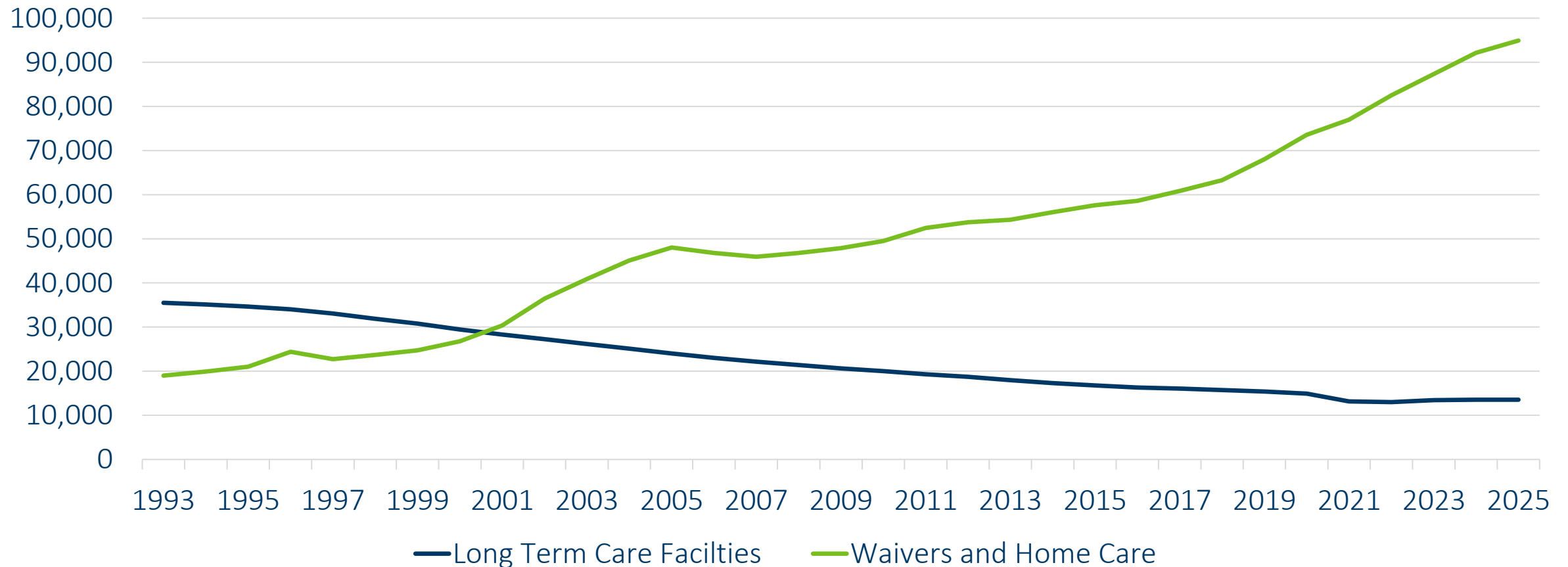
LTC average monthly payment per recipient



*Forecasted year

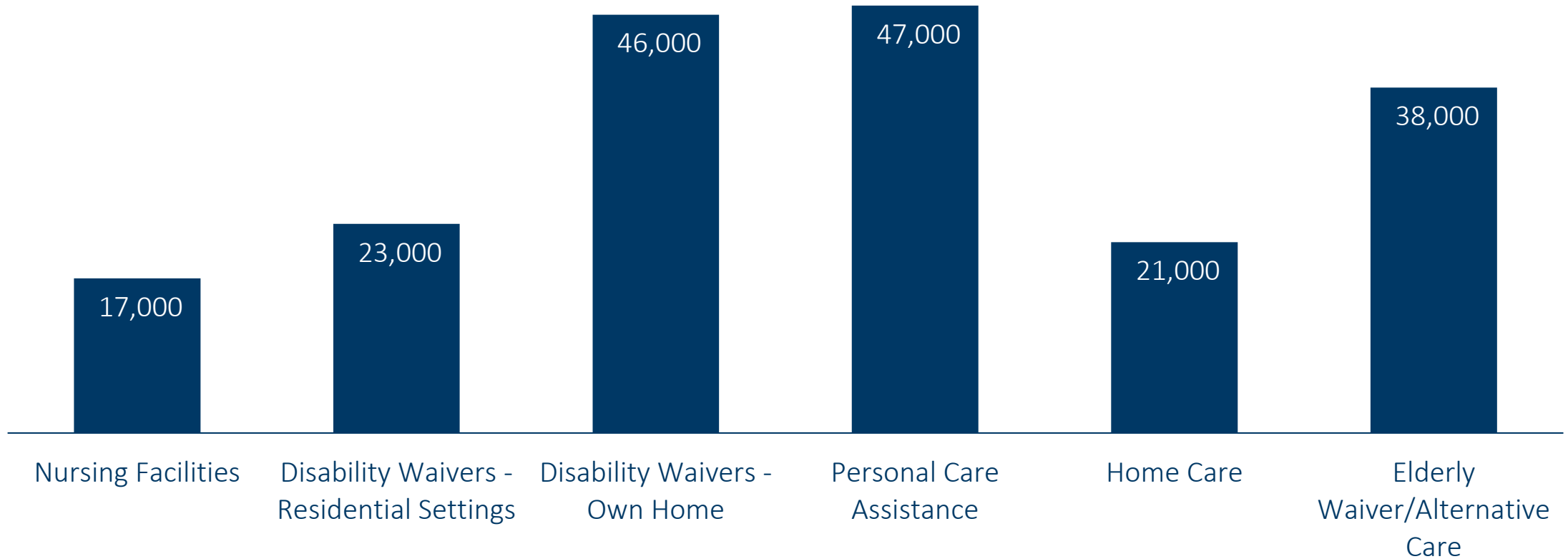
Changes in how long-term care services are delivered

Number of People Served

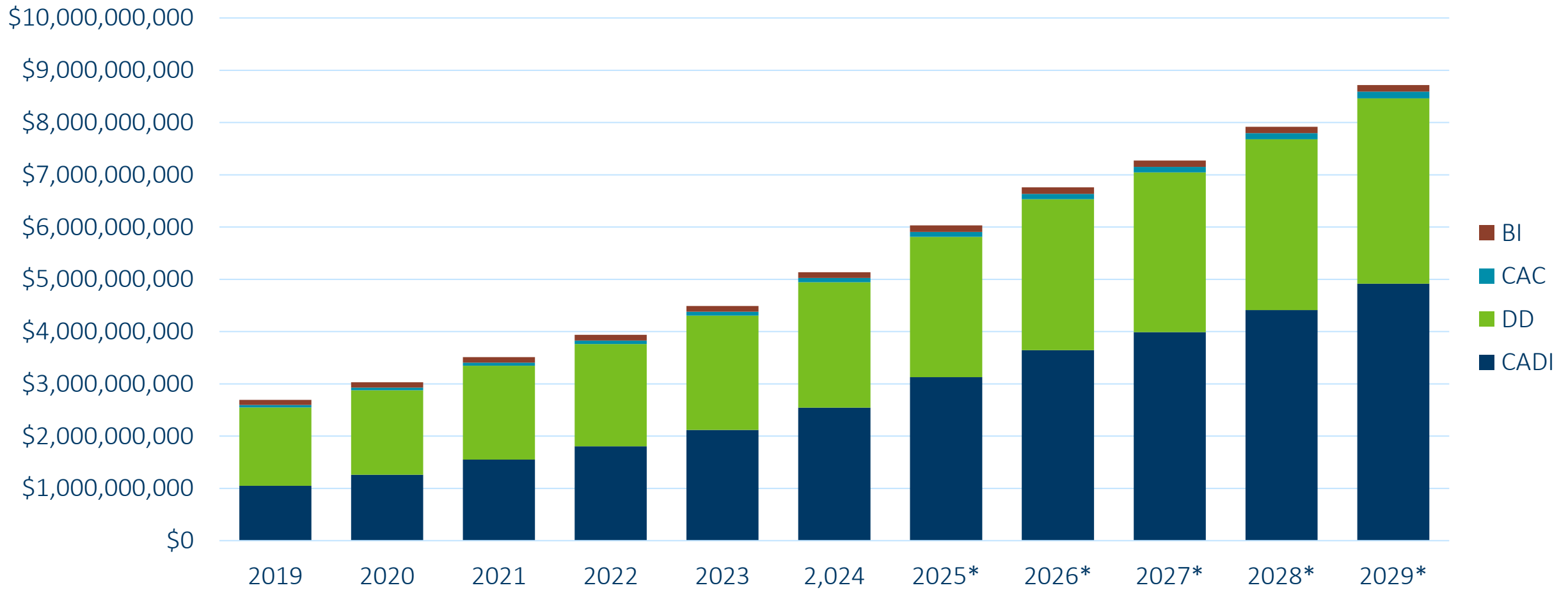


How people choose to receive long term care support

Number of People, by program and setting (FY2023)



Disability Waiver Spending Over Time



*forecasted

Drivers in Increased Long Term Care Spending



People

- More people are accessing long term care (generational shifts; prevalence of disability increasing)
- More people are accessing the disability waivers
 - Increases in younger people and older people accessing waiver services
 - Increases in racial diversity in waiver services



Services

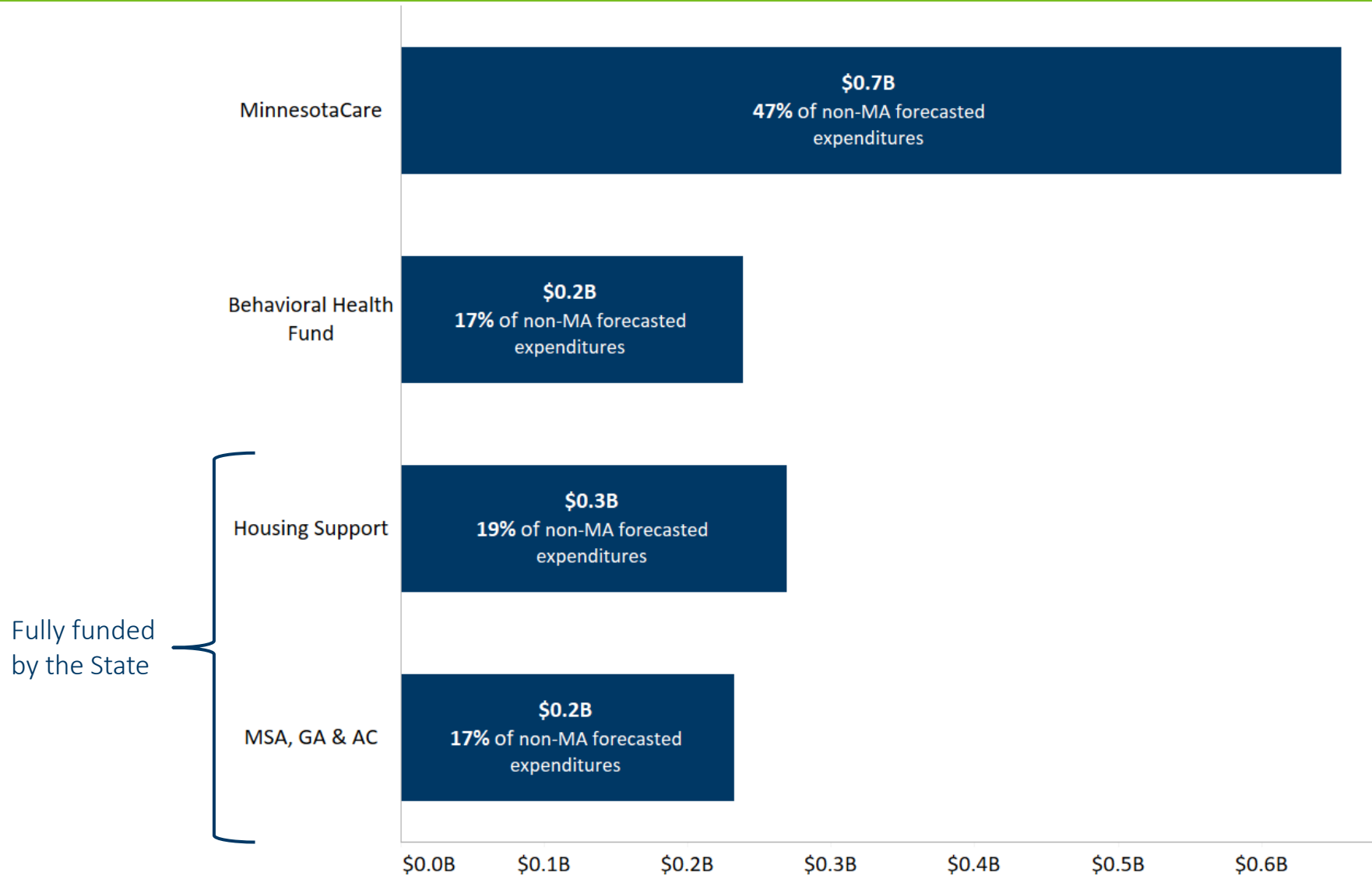
- More people are accessing long term care in their communities and fewer in facilities
- Increases in the number/type of services authorized and billed in the disability waiver programs
- Residential services continue to be a large cost driver in the waiver programs
- Increases in non-residential services in disability waiver programs (individualized home supports, night supervision, crisis respite, transportation)
- Decreasing use of lower-cost state plan services



Payments

- Increases in payment rates (Value Based Reimbursement in nursing homes, Disability Waiver Rate System) as the cost of care is going up and employers compete for staffing
- For disability waiver services, increases in use of rate exceptions especially in residential services

Other DHS Programs: Non-MA Forecasted Programs

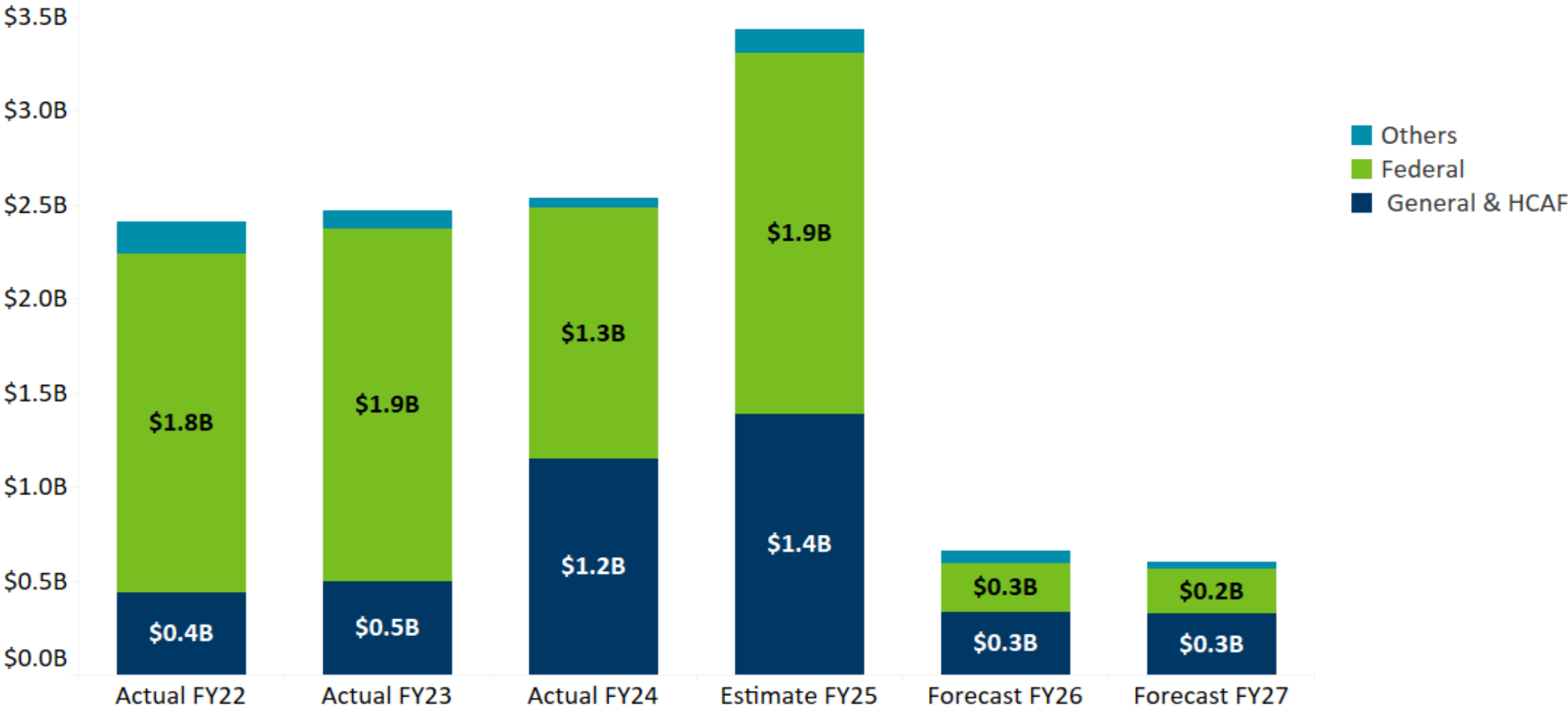


\$1.4B

Total Non-MA forecasted programs expenditures in FY2026

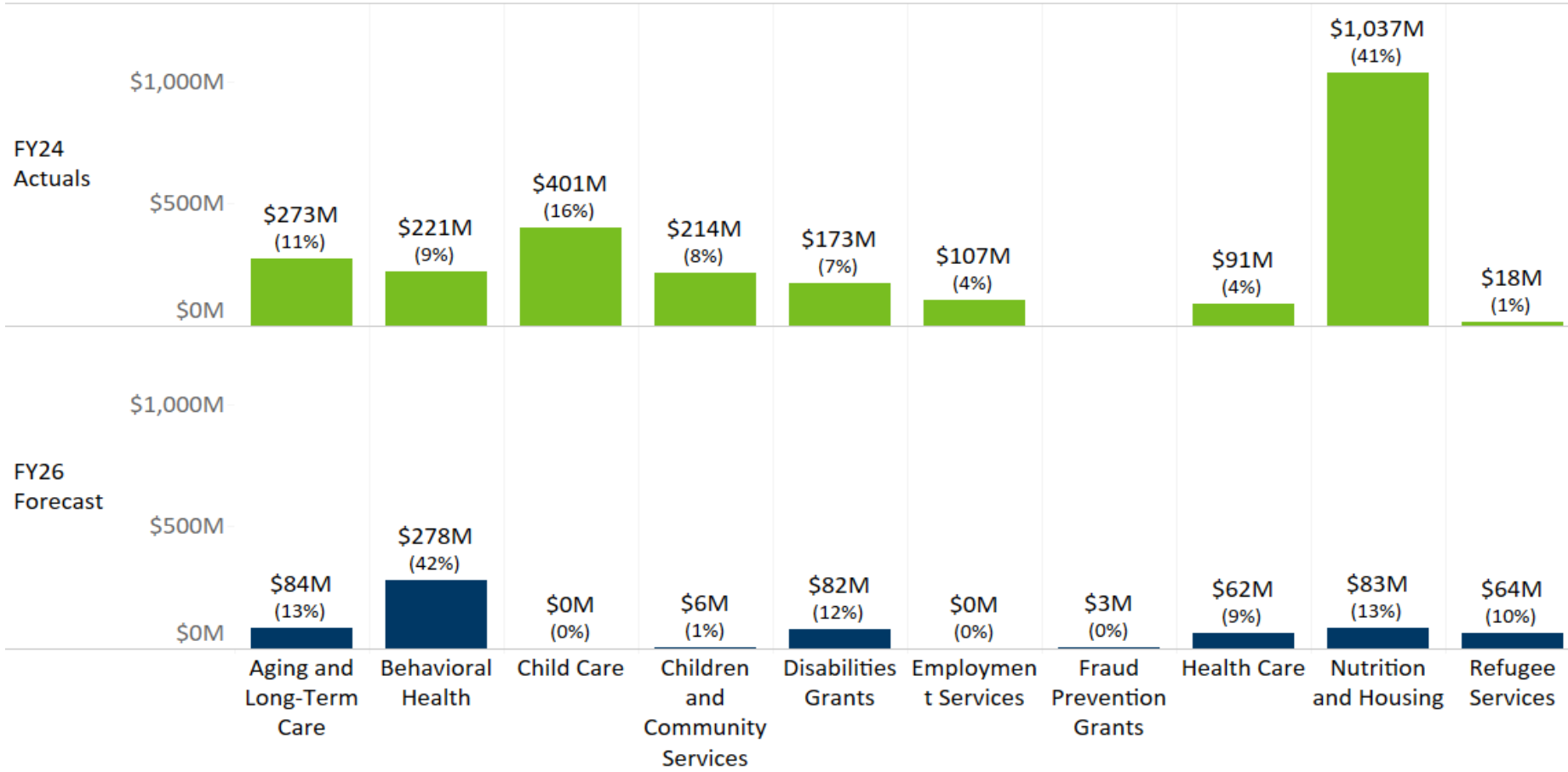
Other DHS Programs: Grants

Grant Expenditures by Fund Over Time



Grant expenditures all funds FY2024 vs FY2026

Grant Expenditures by Category



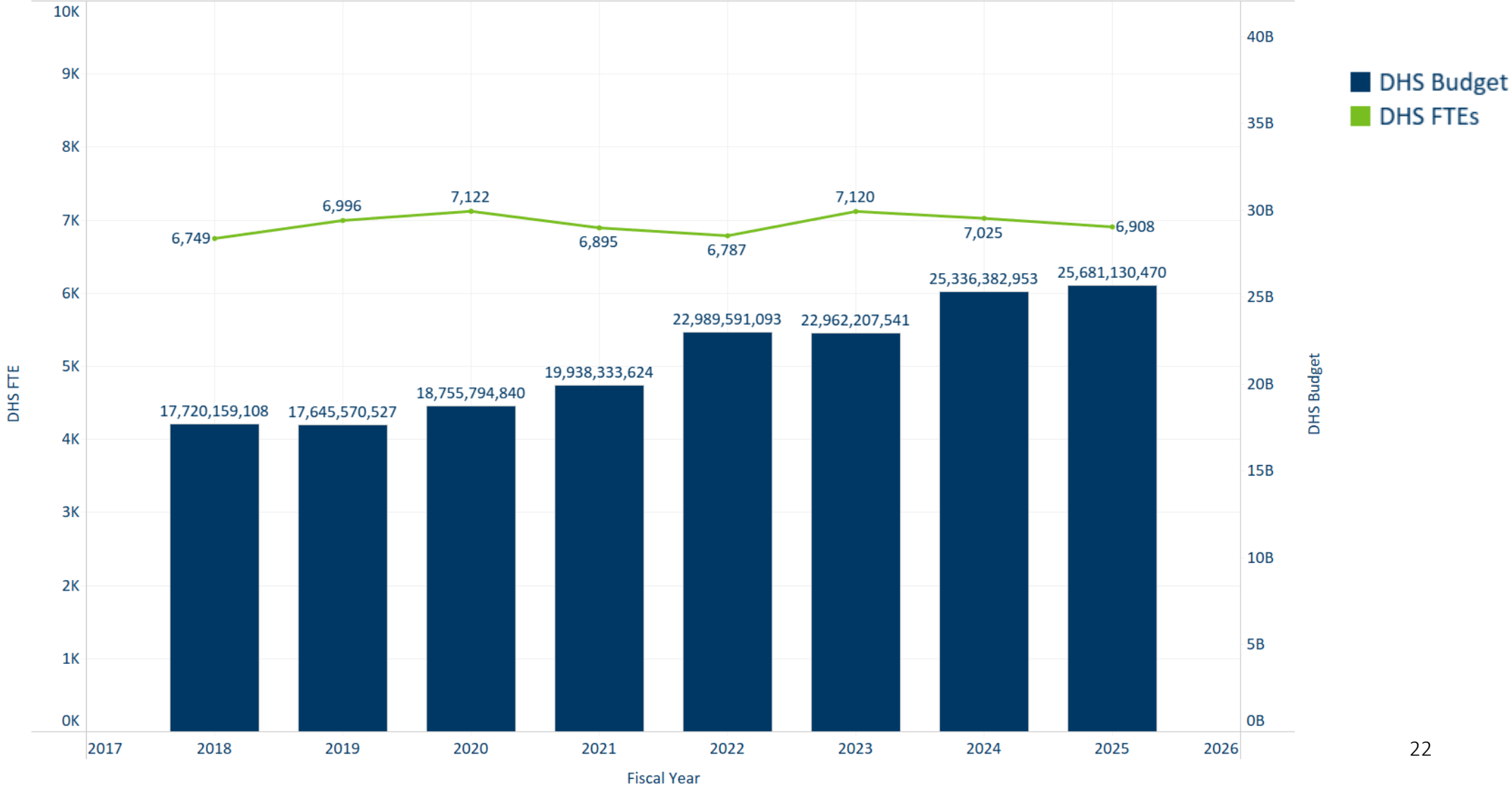
Before DCYF separation

\$2.5B
Grant expenditures in FY2024

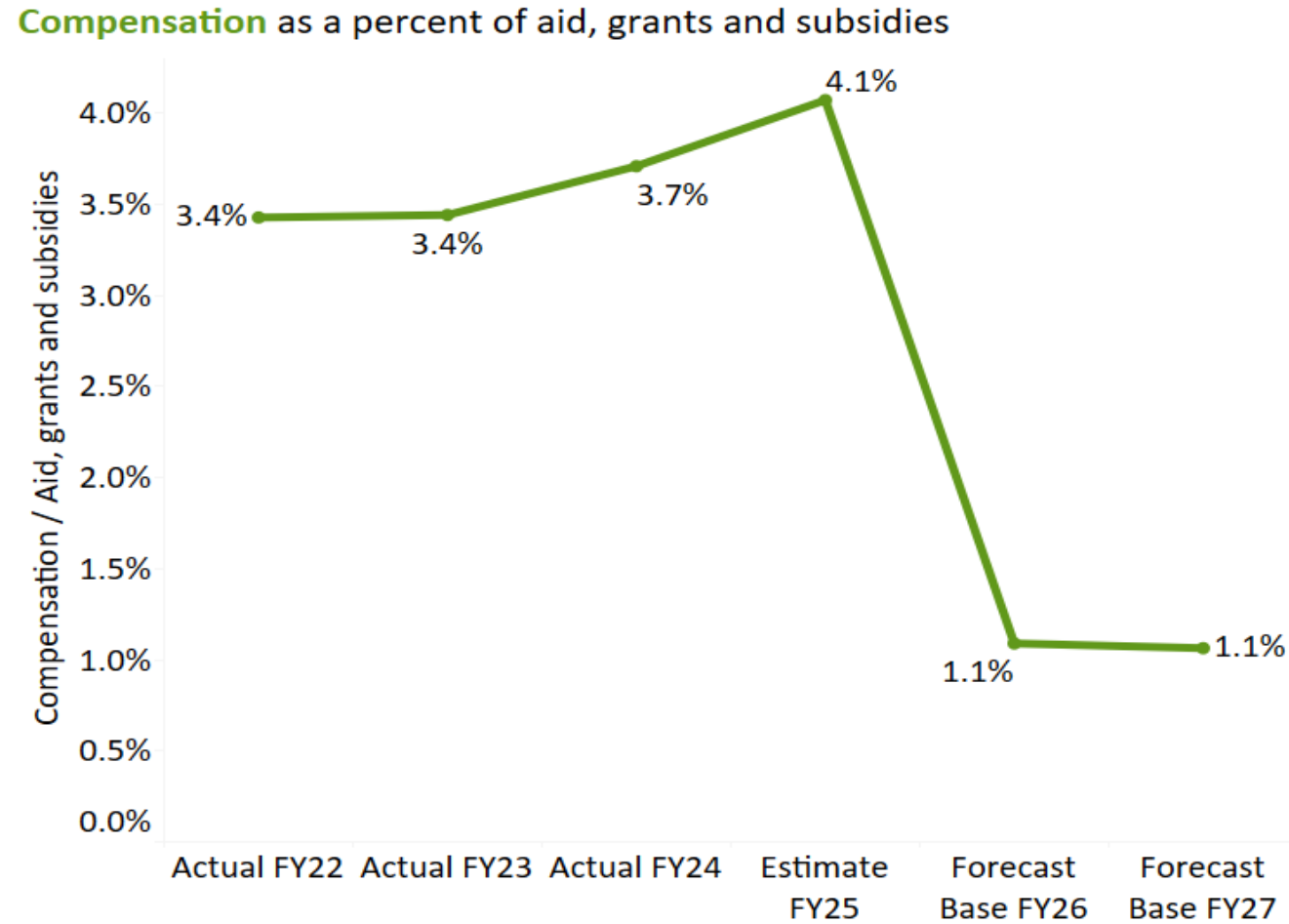
After DCYF separation

\$0.6B
Grant Forecasted expenditures in FY2026

Administrative Budget: FY Increase in DHS FTEs and DHS Budget



Administrative Budget: FTE Costs as a Percent of Program Costs



2025 HHS Governor's Budget



Strengthen
program integrity
of human services
programs



Ensure access to
needed services by
mitigating fiscal
cliffs



Curb increased
growth in spending



Increase our
operational
effectiveness

Summary of DHS Human Services Budget Package

	FY27/27	FY28/29	Total
Disability Services	(280,116)	(931,797)	(1,211,913)
Nursing Facilities	(68,634)	(135,119)	(203,753)
Program Integrity	30,252	29,847	60,099
Behavioral Health	(11,542)	(37,766)	(49,308)
Other Proposals	27,493	29,757	57,250
	(302,547)	(1,045,078)	(1,347,625)

A young child in a red and white striped shirt is seen from behind, drawing a line graph on a chalkboard. The graph shows a line that starts at the origin, rises to a peak, dips slightly, and then continues to rise towards the top right corner. The child's right hand is raised, pointing towards the end of the line. The background is a dark grey chalkboard.

Disability Services

\$(1.2B) in FY 2026-29

Investments in Community First Services and Supports



Budget Book: Page 112

Fiscal Impact:

\$68.3M in FY26/27

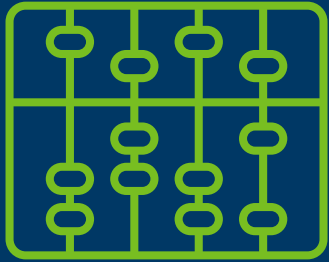
\$50.5M in FY28/29

Investments in the Community First Services and Supports (CFSS) and Consumer Directed Community Supports (CDCS) programs, funding the agreement between the State of MN and SEIU.

Investments include:

- Effective 1/1/26, increasing rates for experienced workers
- Effective 1/1/26, increasing the enhanced rate from 7.5% to 12.5%
- Effective 1/1/27, increasing rates for workers who have taken training/orientation
- Stipends to reimburse workers for healthcare costs and study future solutions for healthcare coverage
- Funding for an IT matching system that would connect workers to people looking for direct care workers

Reduce Disability Waiver Growth: DWRS Rate Exceptions & Input Monitoring



Budget Book: Page 124

Fiscal Impact:
(\$50M) in FY26/27
(\$79.8M) in FY28/29

Reduces disability waiver growth with strategies to mitigate rising expenditures. Components of this proposal include:

- **Reducing the cost of rate exceptions in the Disability Waiver Rate System (DWRS)** – This includes limitations on what qualifies for an exception and documentation requirements on incurred costs at renewal.
- **Rate input monitoring and oversight** – This includes validating DWRS inputs (ie. staff time) with costs incurred to ensure service plans and rates paid reflect what is provided to a person.

Reduce Disability Waiver Growth: Residential Services



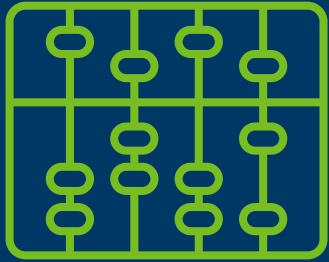
Budget Book: Page 128

Fiscal Impact:
(\$94.7M) in FY26/27
(\$309.2M) in FY28/29

Reduces disability waiver growth with strategies to mitigate rising expenditures. Components of this proposal include:

- **Align residential billing with rates:** Residential service rates have a factor that increases the rate to account for absence days. This proposal will limit billing to 351 days to align with the absence and utilization factor of 3.9%.
- **Customized living services:** Limit access to all Customized Living Services for people under 55 (for new recipients)
- **Overnight Staffing:** Rates vary depending on whether overnight staffing is delivered via awake or asleep staff. This proposal will conduct a residential overnight staffing reform study to assess future reform.
- **County Share:** Adds a 5% county share for residential services in all provider-controlled settings.

Reduce Disability Waiver Growth: Day and Unit-based Services



Budget Book: Page 133

Fiscal Impact:
(\$44.6M) in FY26/27
(\$111M) in FY28/29

Reduces disability waiver growth with strategies to mitigate rising expenditures. Components of this proposal include:

- **Individualized Home Supports with Training:** IHS with Training services provide support and/or training to people on a disability waiver who live in their own home. Services include skill-building and instructional services to acquire, retain and improve the person's experience living in the community. This proposal will limit this service to 8 hours per day.
- **Absence and Utilization Factor in Day Services:** This proposal will update this factor from 9.4% to 3.9% to align with data and the factor utilized in other DWRS rates.
- **Night Supervision:** Creates a new rate for night supervision when the service is provided by asleep overnight staffing, consistent with other DWRS services.

Reduce Disability Waiver Growth: Cap Inflationary Adjustments



Budget Book: Page 136

Fiscal Impact:
(\$160.1M) in FY26/27
(\$482.3M) in FY28/29

Reduces disability waiver growth with strategies to mitigate rising expenditures. Components of this proposal include:

- **Cap inflationary adjustments:** Currently, rates determined through DWRS are updated every two years utilizing updated Bureau of Labor Statistics (BLS) data and the Consumer Price Index (CPI). This proposal limits this increase to 2% per adjustment.
- **Interactive Impacts:** The Governor's budget includes multiple strategies that impact the cost of services. When done in conjunction with one another, the fiscal impact of the changes is different than if they were to be implemented in isolation. This proposal includes the aggregate cost of interactive effects across all disability waiver proposals in the Governor's budget package.



Nursing Facilities

\$(203.8M) in FY 2026-29

Nursing Home Facility Payment System Changes

This proposal makes changes to the rates paid to nursing facilities to align with federal requirements and to mitigate rising expenditures. Components in this proposal include:

- Transition to the Patient Driven Payment Model (PDPM) case mix classification system: Due to federal requirements, utilizes the new PDPM system, rather than the current RUG-IV system, to align rates with acuity.
- Repeal automatic annual Alternative Payment System property rate inflation
- Phase out Planned Closure Rate Agreements and Single Bed Incentives and layaways
- Limit health insurance costs in rate setting
- Limit inflationary growth by setting a maximum of a 2% per year growth in operating rates.



Budget Book: Page 106

Fiscal Impact:
(\$68.6M) in FY26/27
(\$150.1M) in FY28/29

Nursing Home Workforce Standards Board



Budget Book: Page 120

Fiscal Impact:
\$6k in FY26/27
\$15M in FY28/29

Supports implementation of the proposed standards by the Nursing Home Workforce Standards Board.

- This proposal provides funding to effectuate the following wage floor standards for nursing home staff:
 - Effective 1/1/2026: Wage floors range from \$19 to \$27 per hour, depending on the type of staff.
 - Effective 1/1/2027: Wage floors range from \$20.50 to \$28.50 per hour, depending on the type of staff.
- This proposal also includes interactive impacts between this proposal and the proposal limiting inflationary growth in nursing home rates, via a rate add-on, ensuring standards are funded outside of the inflationary growth cap.



Program Integrity & Compliance

\$38.6M in FY 2026-2029

Our Current Program Integrity Work

The OIG detects fraud, waste, abuse, and error and takes action when they find it. The OIG has a variety of tools to address fraud, waste, abuse, and error:

- Cases result from tips and referrals plus data analysis
- OIG investigates and issues warnings, stipulated provider agreements, monetary recoveries, fines, payment withholds, suspensions, and terminations
- Work with partners at the Bureau of Criminal Affairs in the Dept. of Public Safety, the Medicaid Fraud Control Unit (MFCU) in the Attorney General's Office for Medicaid Fraud, and the Federal OIG in Health and Human Services

Recent Updates:

- 4,000 investigations in the past 5 ½ years and stopped payment to 750 entities, or .5% of the entities we oversee.
- Found no fraud in DHS from Feeding our Future indicted parties but still stopped payments and disqualified individuals.
- Site visits to 164 autism providers and found primarily compliance issues but still referred 24 to fraud investigations.
- In the last 10 years, growth in MA spending outpaced the growth in DHS staff, including program integrity and compliance staff. This budget provides additional tools and statute changes to strengthen our approach and capacity.



Budget Book: Page 44

Fiscal Impact:
\$7.2M in FY26/27
\$9.5M in FY28/29

Detecting, Preventing, and Addressing Fraud, Waste, and Abuse in Human Services

Comprehensive approach with multiple strategies to strengthen the state's ability to detect, prevent and address fraud, waste, and abuse.

Includes:

- Increased staffing in the agency's Program Integrity Oversight operations to increase capacity to investigate alleged fraud, waste, and abuse
- Increased staffing in the agency's Program Integrity and Provider Eligibility and Compliance Unit to strengthen the agency's ability to conduct provider enrollment and prevent potential fraud from occurring on the front end
- Increased staffing for internal controls audit investigations
- Funding to contract with a medical review agent in pre-payment review of claims

Detecting, Preventing, and Addressing Fraud, Waste, and Abuse in Human Services *(continued)*

- Expanded authority in licensing, payment withholds, and data sharing:
 - Authorize the sharing of investigative data across agencies
 - Expand authority for to immediately suspend a program's license if a controlling individual, not just the license holder, is criminally charge with offenses such as fraud or theft
 - Allow for a payment withhold when there is a criminal conviction related to fraud involving another state or federal agency
 - Allow for a payment withhold when a license is revoked or suspended, by DHS or other state/federal agency
 - Allow for a payment withhold when someone has a background study disqualification
 - Clarify statute of limitations when pursuing recoveries from surety bond companies
 - Clarify the substance use disorder (SUD) mid-point rule to ensure accurate billing of claims
- Expand oversight of Managed Care Organization (MCO) compliance with program integrity requirements



Budget Book: Page 56

Fiscal Impact:
\$11.3M in FY26/27
\$9.1M in FY28/29

Program Integrity Investigative Analytics Infrastructure

Authorizes and funds a proactive, scalable, data-driven approach to fraud detection and prevention using modern technologies:



Medicaid Data: Identify and implement strategies to analyze Medicaid claims and investigative case data using comprehensive fraud prevention capabilities to uncover systemic risks.



Advanced Analytics for Medicaid Oversight: Use Artificial Intelligence (AI) and Machine Learning (ML) techniques and advanced analytics to detect patterns, assign risk scores, understand networks, and flag high-risk cases for investigations.



Data Driven Audits and Investigations: Cases will be assigned for audits and investigations based on risk scores. A new case management system will automate alerts, streamline investigations, and improve collaboration between auditors and investigators.



Budget Book: Page 82

Fiscal Impact:
\$512k in FY26/27
\$508k in FY28/29

New background studies disqualification to address fraud, waste, and abuse

A new background studies disqualification would prohibit an individual who is under active investigation for fraud from holding any position involving ownership, management or control, or billing activities in the program for which the background study is conducted.

New authority will enable DHS to disqualify people under active investigation for fraud from working in programs serving children and vulnerable adults with billing access and receiving public funds.



Budget Book: Page 145

Fiscal Impact:
\$123k in FY26/27
\$96k in FY28/29

Background Study Federal Compliance

Implements the following to comply with federal law and regulations:

- **Align family child foster care and adoption background studies with the federal Adam Walsh Act criminal history record check authority:** FBI based-fingerprint studies for respite care providers, household members 18 years of age or older, and certain household members under the age of 18 when required by reasonable cause.
- **Align with federal child care Final Rule:** Notification to a child care provider and prospective child care staff member when the prospective child care staff member can work under supervision and when they may not be allowed to work.



Budget Book: Page 63

Fiscal Impact:
\$11M in FY26/27
\$10.6M in FY28/29

EIDBI Provisional Licensure and Program Integrity

Addresses current concerns related to Early Intensive Developmental and Behavioral Intervention (EIDBI) agencies for enhanced accountability and service quality. This proposal increases protections for EIDBI program recipients through rigorous oversight and compliance. This proposal includes:

- Instituting a provisional license for EIDBI programs
- Implementing maltreatment investigation authority
- Shortening the re-validation cycle for service providers
- Updating systems to ensure providers clear a background study prior to enrollment
- Clarifying employer-employee requirements



Behavioral health

\$(49.3M) in FY 2026-29



Budget Book: Page 71

Fiscal Impact:
(\$3.8M) in FY26/27
(\$20.3M) in FY28/29

Substance Use Disorder Treatment Service Changes

Addresses ongoing program integrity and workforce challenges in substance use disorder treatment by requiring more transparent billing standards and creating workforce opportunities for SUD treatment professionals. This proposal:

- Establishes six new billing codes for counseling, psychoeducation, and recovery support services
- Replaces the previous one-hour unit with a 15-minute unit
- Addresses workforce shortages by adjusting qualifications for treatment coordination and creating a new behavioral health practitioner role



Budget Book: Page 76

Fiscal Impact:
\$2.8M in FY26/27
(\$1.1M) in FY28/29

Improving Supportive Recovery Housing Options

Bolsters oversight of recovery residences (formerly known as sober homes) and increases the protections for individuals living in recovery residences by:

- Creating a certification process for recovery residences
- Phasing out free standing room and board payment
- Allowing certified recovery residences to enter into Housing Support agreements with DHS

This proposal also establishes a workgroup to study long-term solutions for funding housing options for individuals living in a recovery residences.



Budget Book: Page 141

Fiscal Impact:
(\$10.5M) in FY26/27
(\$16.3M) in FY28/29

Behavioral Health Fund Reforms

The Behavioral Health Fund (BHF) is used to pay for SUD treatment while an individual is waiting for MA or may not be eligible for MA due to incarceration. This proposal makes the following changes:

Limit BHF Eligibility to 60 Days: With the expansion of other health care options, this proposal shortens BHF coverage of SUD services from one year to 60 days. This will incentivize access to comprehensive healthcare benefits quicker, benefiting the whole person.

Increase County Share: Increases the current county share from 22.9% to 50%, except for services provided in carceral settings.

Remove local agency allocation: Removes administrative allocation originally intended to reimburse counties to conduct Rule 25 assessments, which are no longer conducted since Direct Access.

A hand is shown placing a wooden block with a plus sign on top of a pyramid of other wooden blocks. The pyramid consists of three rows: the top row has two blocks (heart with ECG and pill), the middle row has three blocks (first aid kit, wheelchair, syringe), and the bottom row has four blocks (blood drop, bandage, stethoscope, pill bottle).

Other Human Services Proposals



Budget Book: Page 27

Fiscal Impact:
\$6M in FY26/27

Maintain Funding to End HIV in MN

Provides a one-time investment to soften a current federal funding shortfall of \$9M per year starting in FY2026.

Funding will allow people with HIV to continue to receive needed supportive services, including core medical services, which are critical to end the HIV epidemic in Minnesota and to improve health outcomes for people living with HIV.

Strengthening Housing Stabilization Services



Budget Book: Page 37

Fiscal Impact:
\$561k in FY26/27
\$600k in FY28/29

- Medical Assistance Housing Stabilization Services assists older adults and people with disabilities, including those with mental health and substance use disorder needs, to find and keep housing.
- Since implementing this benefit, the demand for services is higher than the agency's ability to process eligibility timely. This proposal strengthens the Housing Stabilization Services (HSS) benefit by increasing DHS capacity to:
 - Improve timely access to benefits for individuals
 - Provide training and technical assistance for providers.



Budget Book: Page 139

Fiscal Impact:
(\$698k) in FY26/27
(\$698k) in FY28/29

Grant and Administrative Reductions

Reduces grant funding and administrative expenses by eliminating two appropriations:

- Local Planning Grants: Local planning grants were created by the Minnesota Legislature in 2011. DHS received very few applications for local planning grants in recent years.
- Drug Effectiveness Review Project (DERP) contract: A multi-state collaborative that produces evidence-based research and best practices to assist states with development of drug coverage decisions. DHS contracts with DERP to develop cost-effective drug coverage policy.

Fiscal Impact:
\$13.3M in FY26/27
\$17.8M in FY28/29

Budget Book: Page 21

Fiscal Impact:
\$8.3M in FY26/27
\$12M in FY28/29

Budget Book: Page 35

Operating Adjustment

The cost of operations rises each year due to increases in employer-paid health care contributions, FICA and Medicare, along with other salary and compensation-related costs. Other operating costs, like rent and lease, fuel and utilities, and IT and legal services also grow. This cost growth puts pressure on agency operating budgets that remain flat year to year.

Sustainable Funding for Accessing Federal Data Sources

Funds new expenses the state will incur to verify income eligibility for Minnesota Health Care Programs applicants and enrollees.

CMS has transitioned the Commercial Source of Income (CSI) service from 100% federally funded to a 75/25 match rate. This proposal funds the new state costs associated with this service.



Budget Book: Pages 88 & 117

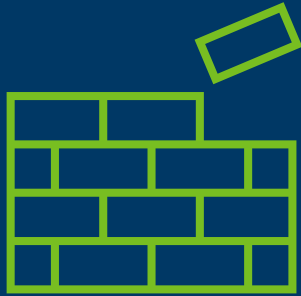
Fiscal Impact:
Budget Neutral

Medicaid Disability Determination Enhancements

Authorizes the State Medical Review Team (SMRT) to access Electronic Health Records (EHR) from Minnesota medical providers and providers to accept electronically signed authorizations to release medical records. These streamlined processes will significantly reduce manual processing and paperwork, resulting in faster and more accurate medical reviews.

Tribal VA/DD Targeted Case Management

Updates statutes to include Tribes as an allowable provider for targeted case management- vulnerable adult/developmental disabilities (TCM-VA/DD or VA/DD) and acknowledges their unique federal payment structure as different from county derived payment.



Budget Book: Pages 120 & 149

Fiscal Impact:
Budget Neutral

Technical Changes

Updates the accounting structure at the Department of Human Services to align with organizational changes in the department.

Also includes conforming changes related to updated MnChoices assessment timelines and technical changes to enable federal reimbursement for state-funded grants authorized for 1115 reentry waiver implementation.

Transition to Direct Payments for Tribal Nations and Counties

Shifts funding for the Adult Mental Health Initiative and Traditional Healing programs from grant payments to direct payments for Tribal Nations and counties.



Direct Care & Treatment

\$47.7M in FY 2026-29

Summary of Direct Care & Treatment Package

Proposal	FY26/27	FY28/29
Operating Adjustment	69,977	90,482
Inpatient Competency Examination Liability and Data Sharing	(16,760)	(16,760)
Increase County Cost of Care for Minnesota Sex Offender Program (MSOP)	(39,600)	(39,600)
Grand Total	13,617	34,122



DCT Budget Book: Page 10

Fiscal Impact:
\$70M in FY26/27
\$90.7M in FY28/29

Operating Adjustment

Direct Care & Treatment (DCT) is a large, highly specialized behavioral health care system that cares for more than 12,000 patients and clients each year. DCT fills a unique and vital role in Minnesota's behavioral health continuum of care by serving people that other behavioral health care systems cannot or will not serve.

The cost of operations rises each year due to increases in employer-paid health care contributions, FICA and Medicare, salary and compensation-related costs, rent and lease, fuel and utilities, and IT and legal services. This cost growth puts pressure on agency operating budgets that remain flat year to year.

This proposal ensures the State's ability to maintain the current level of services.

Inpatient Competency Attainment Examination Liability and Data Sharing

Restores cost of care collections for clients admitted to DCT facilities under Chapter 611 orders and enables DCT to share data with county prosecutors, defense attorneys, and the court in its role as a competency attainment program.

Increase County Cost of Care for Minnesota Sex Offender Program

Under current law, counties are responsible to pay the cost of care as following: 10% for people admitted prior to August 1, 2011 and 25% for people admitted on or after August 1, 2011 as well as for people while on provisional discharge.

The proposal changes the county liability to 40% of the cost of care for all MSOP clients admitted to the MSOP facility and on provisional discharge.

Fiscal Impact:
(\$16.8M) in FY26/27
(\$16.8M) in FY28/29

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Fiscal Impact:
(\$39.6M) in FY26/27
(\$39.6M) in FY28/29

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Thank You!

For more information:

[FY 2026-2027 DHS Governor's Budget](#)

[FY 2026-2027 DCT Governor's Budget](#)

[DHS Legislative Information](#)