



Federal Funds and the State Budget: February 2025 Update

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How many federal awards does Minnesota receive?

687

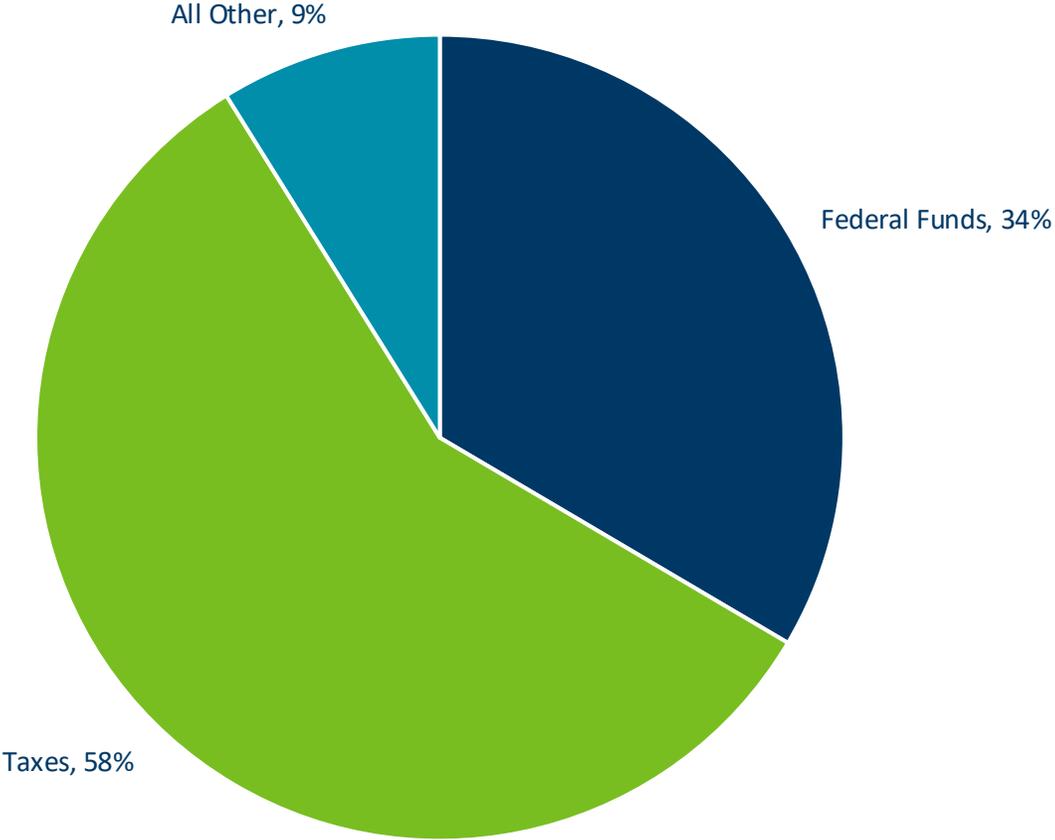
Federal Awards

\$22.9B

Federal Funds Budgeted in
FY25

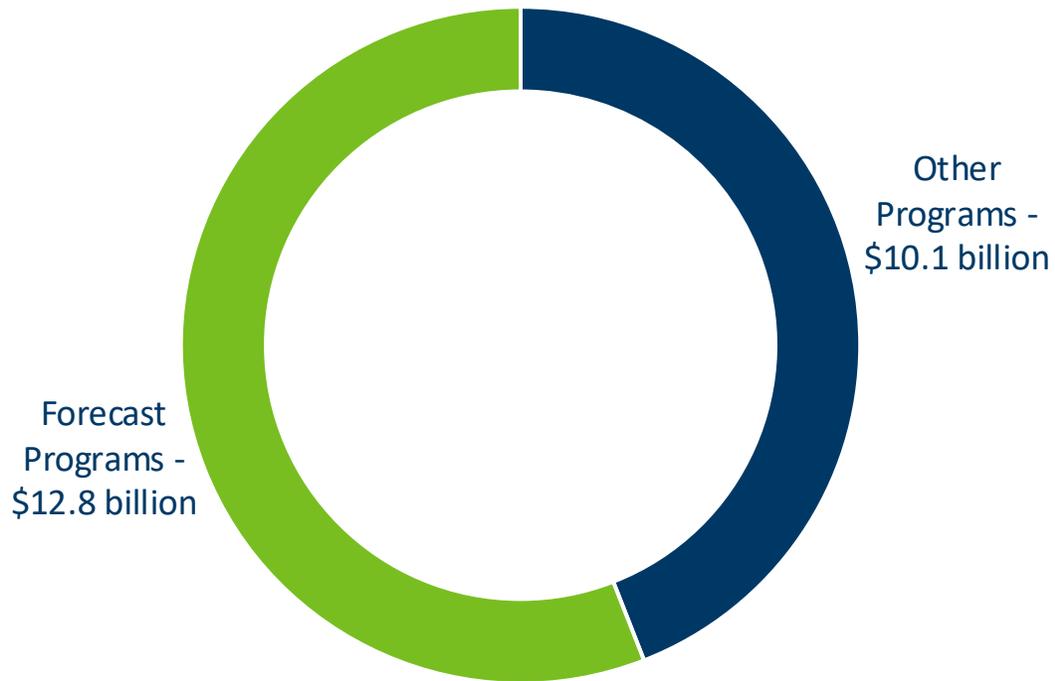
Federal Funds Comprise One-Third of State Resources

FY 2024-25 Total Revenues: \$119 Billion



Federal Spending Supporting Entitlement Programs

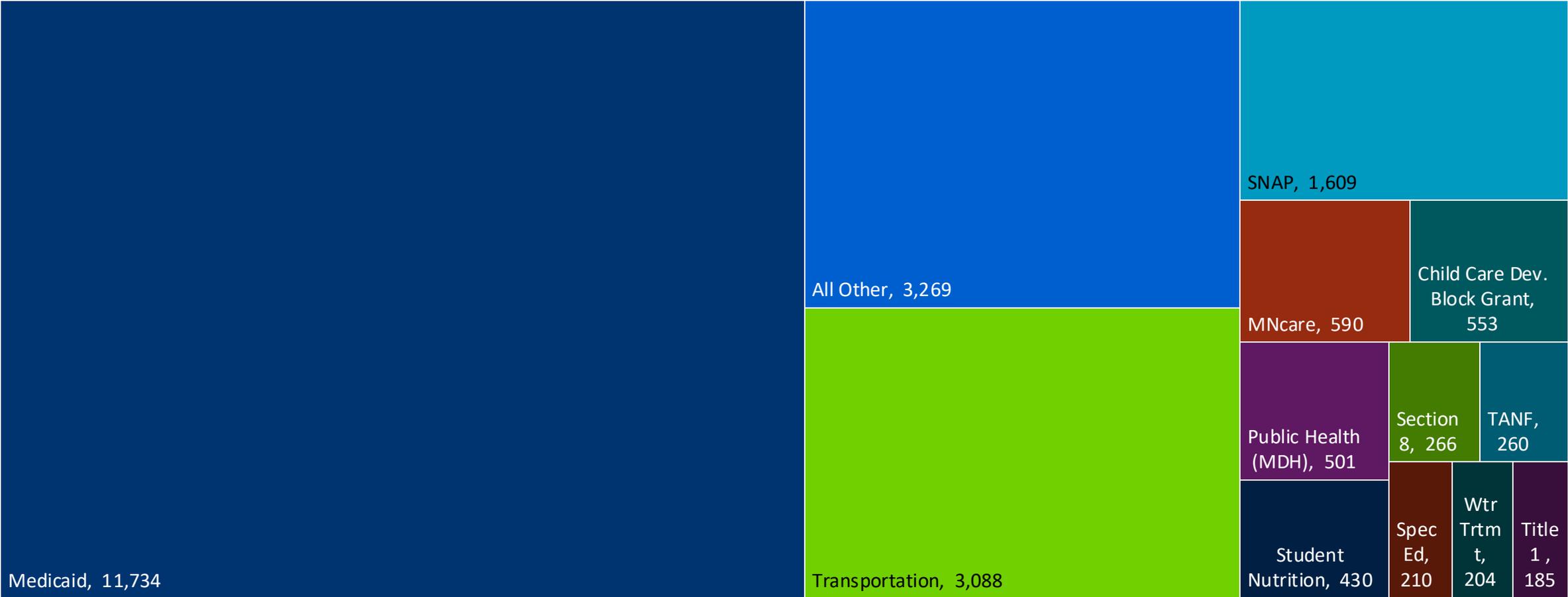
FY 2025 Federal Funding Supporting State Forecast Programs



- \$12.8 billion (56%) of 2025 federal awards support state entitlement spending
- A loss of federal funding will result in increased costs for the state government to provide services required under state law
- Most of these entitlements are in Health and Human Services and Education
- Changes being considered to Medicaid at the federal level could reduce funding to the state by over a billion per year

Federal Funding by Major Program

Projected FY 2025 Federal Funds (\$ in millions)



Minnesota Health Care Programs

- Medical Assistance - \$11.2 billion in FY 25 in Medicaid and CHIP funds
 - Covers roughly 1.2 million Minnesotans per month in state fiscal year 2025
 - Federal government covers a percentage of a state's claims, percentage varies a bit by program; for most it's 51%, except for the ACA expansion population which is 90%
 - Percentage set by formula in federal law based upon state per capita incomes
 - Federal funding grows to \$14.5 billion by 2029, as MA costs grow
 - Approximately, \$600 million per year in *additional* Medicaid funding to support administrative functions
- MinnesotaCare - \$590 million in FY 25
 - State receives 95% of tax credits individuals receive if they got coverage through MNsure
 - Covers roughly 100,000 Minnesotans

Major Federal Funding Streams for Children and Families

- Supplemental Nutrition Assistance Program (SNAP) – \$1.6 billion in FY25
 - Provides food assistance for 456,000 low-income Minnesotan families with children, seniors, adults with disabilities, and other adults. Average benefit amount is \$6.16 per day.
- Child Care Development Block Grant (CCDBG) – \$553 million in FY25
 - Provides child care assistance to families with low incomes so that parents can work and children can learn in high quality settings. Serves 13,000 families per month. Eligible families must earn less than \$77,500 per year. Provides additional support for child care providers and workers.
- Temporary Assistance for Needy Families (TANF) – \$260 million in FY25
 - Minnesota Family Investment Program provides employment counseling and financial assistance to families in poverty. Serves 23,000 families per month and 70% of individuals served are children.

Major Federal Funding Streams for Education

- Special Education – \$230 million estimated for FY 2025
 - Primarily for reimbursing local education agencies for providing special education services and early intervention services for students with disabilities.
- Nutrition - \$430 million estimated for FY 2025
 - School lunch and breakfast make up majority of nutrition funds (\$323 million).
 - Other nutrition programs provide funding for food services in additional settings and for times outside of the typical school calendar.
- Title 1 - \$188 million estimated for FY 2025
 - Primarily provides funding for low-income schools to assist education students at-risk of not meeting academic standards (\$185 million)
 - Other Title 1 funds are used for assisting educating children of migratory agricultural workers and for neglected and delinquent students.

- State agencies have about \$3.1 billion in federal funds budgeted for FY25, including:
 - Over \$900 million for aeronautics
 - Over \$800 million for state roads and bridges
 - Over \$500 million for local roads and bridges
 - Over \$100 million for transit (does not include Met Council)

Current Monitoring Efforts

- MMB is working with agencies to identify any disruptions to federal funding
- Disruptions are analyzed for impact and alternative funding sources
- MMB is also collecting and analyzing incoming federal guidance and new executive orders to understand possible impacts on state funding
- In many cases, federal communications are vague and the impact is still unknown

Disrupted Federal Funding

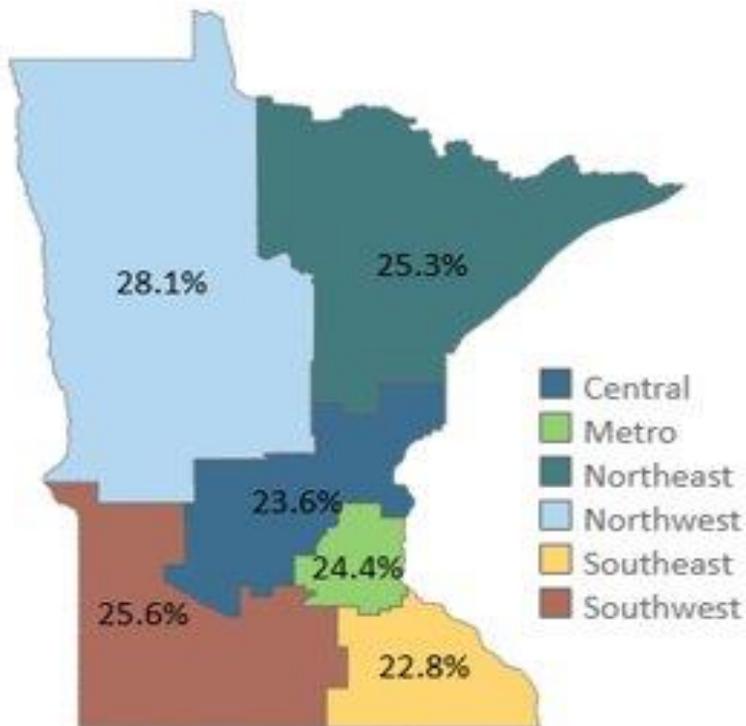
- Since January 28, dozens of state awards have been disrupted
- Disruption takes multiple forms:
 - Agencies unable to access funding portals
 - Requested reimbursements not paid
 - Notified by federal partners that funds are “under review” and should not be billed against federal awards
- As of the evening of February 25, 12 state awards were unable to access federal funding
 - Six at the Department of Commerce
 - Seven at the Department of Natural Resources
 - One at the Department of Agriculture
 - 10 of the 12 awards originated in the IJJA or IRA
- Availability is very fluid with statuses changing from day to day

Potential Changes in Federal Funding

- House budget resolution includes \$1.5 trillion in spending reductions
 - \$880 billion in Commerce and Energy, which includes Medicaid
 - \$230 billion in Agriculture, which includes SNAP
- Policies to achieve savings are unclear, but could have significant ramifications for state budget
- Uncertain additional impacts from federal administrative action

Medicaid in Minnesota

Percentage of the population within the region enrolled in Medicaid



- Medicaid covers about 1.2 million Minnesotans, almost one-quarter of the population
 - This represents 42 percent of children
 - Medicaid funds one half of long-term care services
- State and federal Medicaid spending provides about \$20 billion per year in payments to providers throughout the state, and administrative payments to counties and Tribes
 - Approximately 57% of it funded by the federal government.
 - Federal Medicaid spending is projected to account for about 17% of total projected state spending (all funds)

Status of Federal Actions

- The House Budget Resolution instructs the Committee overseeing Medicaid to propose \$880 billion in cuts.
 - Impact to Medicaid unclear but could range from \$600 billion to full amount, which would amount to an 8-12 percent reduction in federal Medicaid outlays.
 - If that reduction were distributed proportionately across all states, Minnesota could see a reduction of \$1.2-1.6 billion in FY 2027, and it would increase over time
- Senate Budget Resolution currently calls for smaller cuts
- Outcome of House and Senate negotiations, and impacts to MN, are uncertain
- More will become clear as the House and Senate start developing specific proposals

Assessing Possible Federal Actions

- Several approaches have been discussed to achieve federal Medicaid savings:
 - Per capita caps on spending and block grants
 - Eliminate enhanced FMAP for the ACA expansion group
 - Work requirements
- DHS is closely analyzing potential federal actions on Minnesota but will need actual language to fully assess the impact
- Impacts of some approaches can be projected now: Loss of enhanced FMAP for the ACA expansion group could result in a loss of \$1.2 – 1.3 billion annually.

Looking Forward

- Unclear federal guidance, inconsistent access to funds, and uncertainty about the federal budget creates challenges for agencies and policymakers
- Upcoming budget forecast will not incorporate changes to federal spending resulting from potential Congressional actions
- Loss of billions in federal Medicaid funding would significantly worsen state's financial position
- Policymakers would need to consider solutions to larger shortfall