



12600 Whitewater Drive | Suite 150 | Hopkins, MN 55343

April 25, 2025

Mr. Chair and members of the Finance Committee:

My name is Martha Njolomole, and I am an Economist at Center of the American Experiment. I am providing this letter to support proposals in SF 3054 to tackle growing spending in Medical Assistance (MA) Disability waivers. Additionally, I wish to raise concerns regarding potential budget implications associated with certain proposals.

Minnesota's projected \$6 billion budget deficit is a structural issue that requires long-term reform, particularly in fast growing areas such as MA Home and Community Based Service (HCBS) waivers. Ongoing and anticipated spending cuts and policy changes at the federal level add a layer of uncertainty to the state's economic and fiscal outlook, further necessitating reform. Several proposals included in this omnibus bill take a step in the right direction in addressing Minnesota's long-term fiscal challenge. Other proposals, however, risk debilitating the state's concerning budget outlook, and need to be reconsidered.

### **The budget deficit: A structural issue**

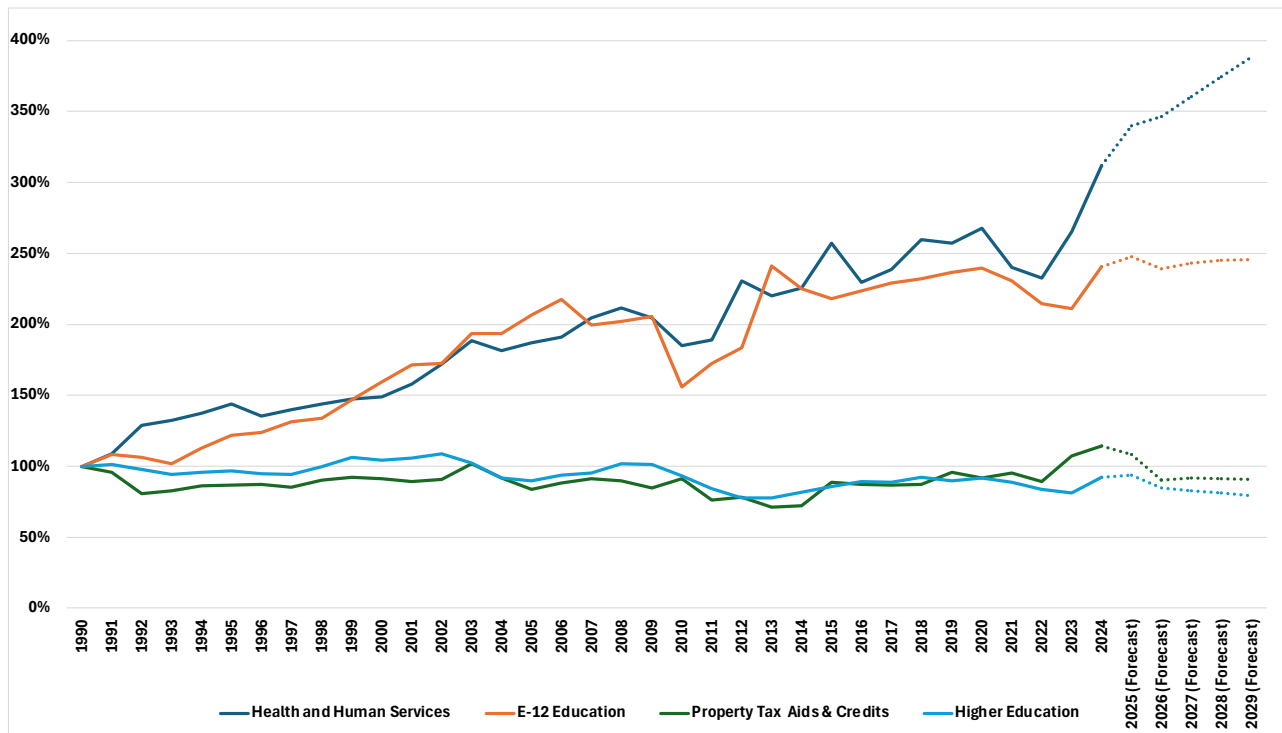
While Minnesota's \$6 billion deficit materializes in the 2028-29 biennium, more concerning shortfalls are already under way. Per the February 2025 forecast, spending is expected to exceed collected revenues every year between FY 2024 and FY 2029. Rising spending on Health and Human Services (HHS) is the primary driver of this trend. Under the current spending trajectory, HHS contributes over 90 percent of general fund spending growth between FY 2023 and FY 2029 and surpasses E-12 education in 2029 to become the state's largest general fund expenditure.

Table 1: February 2025 Budget Forecast (Billion \$)

|  | 2024-25   | 2026-27   | 2028-29   |
|--|-----------|-----------|-----------|
| Balance Brought Forward  | \$ 16.52  | \$ 7.27   | \$ 3.98   |
| Total Current Revenues   | \$ 61.73  | \$ 64.49  | \$ 67.88  |
| Total Resources Available (Balance Brought Forward Plus Total Current Revenues)        | \$ 78.25  | \$ 71.76  | \$ 71.86  |
| General Fund Spending (Discretionary Inflation Included)                               | \$ 70.97  | \$ 67.78  | \$ 74.33  |
| Structural balance (Total Current Revenues Minus General Fund Spending)                | \$ (9.24) | \$ (3.29) | \$ (6.45) |
| Budget Reserve   | \$ 3.18   | \$ 3.18   | \$ 3.18   |
| Cash Flow Account  | \$ 0.35   | \$ 0.35   | \$ 0.35   |
| Budgetary Balance (Total Resources Available Minus General Fund Spending and Reserves) | \$ 3.74   | \$ 0.46   | \$ (5.99) |
| Budgetary Balance Without Inflation  | \$ 3.74   | \$ 1.60   | \$ (2.38) |

Source: Minnesota Management and Budget

Figure 2: Percentage Change in the Four Major General Fund Spending Categories, 1990=100



Source: Minnesota Management and Budget

### HCBS waivers are driving HHS spending growth

In the November 2022 forecast, Minnesota Management and Budget (MMB) estimated that general fund MA spending would grow by \$2.6 billion (or 23 percent) from FY 2022-23 to FY 2024-25. Nearly half, or \$1.2 billion, was credited to “enrollment growth in home and community-based services, as well as growth in enrollment and average elderly and disabled basic care capitation payments.” This trend has persisted and grown more pronounced in recent forecasts.

As of February, this year, Minnesota is projected to spend \$21 billion on HHS in the 2024-25 biennium, over \$3 billion higher than the February 2023 forecast estimate (Figure 3). HHS spending is slated to exceed \$24 billion in the 2026-27 biennium — \$4 billion higher than was estimated in February 2023. Over half of the change in HHS spending for the 2026-27 biennium between February 2023 and February 2025 will occur in the MA program, which grew from \$15.6 billion to \$17.9 billion. MA spending will be up \$3.4 billion in FY 2026-27 compared to FY 2024-25, as shown in Table 2, with over half of that growth occurring in HCBS waivers.

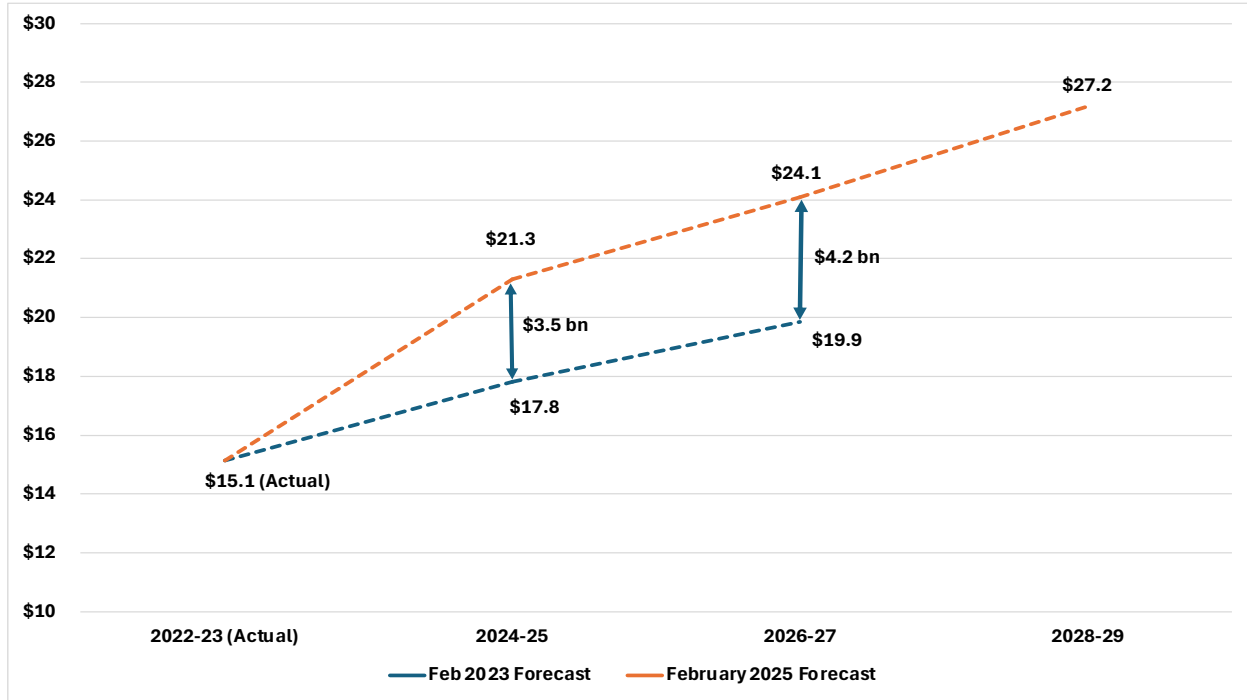
### SF 3054 takes a step in the right direction, but concerns remain

The Department of Human Services (DHS) noted in the 2024 November forecast that there has been a growing volume of rate exceptions in the Disability Waiver Rate System (DWRS) as well



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Figure 3: General Fund HHS spending, Feb. 2023 Forecast vs. Feb. 2025 forecast



Source: Minnesota Management and Budget

Table 2: Per Biennium Growth, February 2025 Forecast (Billion \$)

|                                    | 2026-27 |        | 2028-29 |      |
|------------------------------------|---------|--------|---------|------|
| Current Revenues                   | \$      | 2.77   | \$      | 3.39 |
| GF Spending ( Including Inflation) | \$      | (3.20) | \$      | 6.55 |
| HHS                                | \$      | 2.88   | \$      | 3.07 |
| Department of Human Services (DHS) | \$      | (0.37) | \$      | 2.91 |
| MA                                 | \$      | 3.44   | \$      | 2.87 |
| HCBS Waivers                       | \$      | 1.91   | \$      | 1.41 |
| E-12 Education                     | \$      | 1.01   | \$      | 1.73 |
| General Education                  | \$      | 0.74   | \$      | 0.87 |
| Special Education                  | \$      | 0.97   | \$      | 0.80 |

Source: Minnesota Management and Budget

as growth in the use of nonresidential services, contributing to spending growth. Proposals to limit the use and size of rate exceptions for residential services are, therefore, welcome and encouraging. Other proposals included in this bill that also address spending growth include: a 2 percent annual growth limit in customized living services, as well as other services such as programming support and transportation; a 351-day annual billing limit to Community First Services and Supports (CFSS); a reduction in the absence and utilization factor ratio for adult day



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services, day support services and prevocational services; and an 8-hour per day billing limit for unit-based services.

Other proposals, however, could raise costs, perpetuating HHS spending growth beyond the FY 2026-29 period. These include the authorization to create a Caregiver Defined Contribution Retirement Fund Trust; an increase in the enhanced rate for personal care assistance and CFSS; a rising worker retention factor in CFSS; and budget as well as budget exception percentage increase for Consumer Directed Community Supports (CDCS).

Furthermore, creating a 5 percent county share for residential services will shift the burden of rising MA costs onto counties, possibly leading to property tax hikes. Given the current budget conundrum and the heightened uncertainty regarding federal spending and policy, maintaining an elevated HHS budget and creating avenues for potential new spending commitments will likely only pose an ongoing risk to the state budget, and economy.

I appreciate your consideration, Mr. Chair and Members of the Committee

Martha Njolomole

Economist

Center of the American Experiment