



Governor Walz and Lieutenant Governor Flanagan's 2025 Budget

Senate Health & Human Services Committee
January 28, 2025

Our mission



In collaboration with community and partners, the Minnesota Department of Human Services supports people to thrive in community and live their healthiest and fullest lives.

Serving the people of 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



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 Total DHS HHS Budget Package

	FY26/27	FY28/29	Total
Program Integrity	19,292	19,293	38,585
Healthcare Investments	19,341	1,845	21,186
Healthcare Savings	(190,376)	(280,660)	(471,036)
Housing Investments	561	600	1,161
HIV Services	6,000	0	6,000
Operations	21,630	29,855	51,485
Grand Total	(123,552)	(229,067)	(352,619)

	FY26/27	FY28/29	Total
General Fund	(182,455)	(279,947)	(462,402)
Health Care Access Fund	58,903	50,880	109,783
Grand Total	(123,552)	(229,067)	(352,619)

Costs in Thousands



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.

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

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Investments

FY 2026-27 - \$7.2M

FY 2028-29 - \$ 9.5M

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

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

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- Expanded authority in licensing, payment withholds, and data sharing, including statutory changes to:
 - 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 the statute of limitations when pursuing monetary 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
- Funding for the ability to contract with a medical review agent in pre-payment review of claims

Program Integrity Investigative Analytics Infrastructure

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Investments

FY 2026-27 - \$11.3M

FY 2028-29 - \$ 9.1M

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

- **Medicaid Data:** Identify and implement strategies and opportunities 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 efficient investigations.
- **Data Driven Audits and Investigations:** Cases will be assigned for audits and investigations based on data driven risk scores. A new case management system will automate alerts, streamline investigations, and improve collaboration between auditors and investigators.

New background studies disqualification to address fraud, waste, and abuse in human services

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Investments

FY 2026-27 - \$512K

FY 2028-29 - \$508K

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.

Background Study Federal Compliance

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Investments

FY 2026-27 - \$123K

FY 2028-29 - \$96K

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.

A photograph of a male doctor in a white coat using a stethoscope to examine a young child. A woman, presumably the mother, is smiling and watching the doctor. The scene is set in a bright, modern medical office with a bookshelf in the background.

Health Care Investments

\$21.2M in FY 2026-2029

Extend Access to Audio-only Telehealth

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Investments

FY 2026-27 - \$19.3M

FY 2028-29 - \$1.8M

Extends the authority for the use of audio-only telehealth in Minnesota Health Care Programs through FY2027.

- Ensures continued access to critical health care services established during COVID-19, including: Mental health support, health care services in rural and underserved areas.
- Prevents service disruptions after the current access sunsets on July 1, 2025.
- Addresses access barriers for rural and underserved populations, particularly for mental health and follow-up care.

Technical Updates to FQHC Rate Methodology

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Budget neutral
FY 2026-27 - \$0
FY 2028-29 - \$0

Clarifies statute governing rates, when two Federally Qualified Health Centers (FQHC) merge or if one FQHC acquires another existing FQHC.

Upon merging of two entities, a new encounter rate would be calculated using the aggregate cost and visits experience from both entities and calculated using the methodology in statute today.



Health Care Savings

\$(471M) in FY 2026-2029

Eliminate the Sunset of the Drug Formulary Committee

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Savings

FY 2026-27 - \$0

FY 2028-29 – \$(38M)

Eliminates the sunset of the Drug Formulary Committee (DFC) to ensure future Preferred Drug List. Under current law, the DFC sunsets on June 30, 2027.

The DFC is a committee of licensed and actively practicing health care providers who volunteer to evaluate the safe and effective use of prescription drugs in Minnesota's public health care programs (Medicaid and MinnesotaCare). Management of the Preferred Drug List (PDL) is the primary responsibility of the DFC.

Expiration of the DFC will result in the loss of supplemental pharmacy rebates due to the inability of DHS to manage the PDL. It will also result in a loss of the public's ability to participate in the management of the pharmacy benefit.

Pharmacy Carve-Out

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Savings

FY 2026-27 – \$(9.6M)

FY 2028-29 - \$(53.4M)

Carves out the outpatient pharmacy benefit from capitation rates paid to managed care plans in Minnesota Health Care Programs.

Centralizes management of the outpatient pharmacy benefit for the Medical Assistance (MA) program within DHS, regardless of whether the enrollee is served by a managed care plan or via fee-for-service.

Savings occurs as a result of:

- Administrative costs reduced by shifting outpatient pharmacy benefits from managed care payments to DHS administrative costs.
- Once the pharmacy benefit is carved-out of managed care, additional savings would be realized through pharmacy rebates on current 340B Drug Pricing Program claims.

Increase HMO Surcharge

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Increases the Health Maintenance Organization (HMO) surcharge from 0.6% of total premium revenue to 1.25% of total premium revenue.

These funds help fund healthcare initiatives and programs for low-income Minnesotans covered under Medical Assistance and MinnesotaCare.

Savings

FY 2026-27 - \$(173.3M)

FY 2028-29 - \$(177.3M)

MHCP Benefit Reductions - Eliminate Chiropractic Care

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Savings

FY 2026-27 - \$(7.5M)

FY 2028-29 - \$(11.9M)

Eliminates the chiropractic benefit in Minnesota Health Care Programs for enrollees age 21 years or older.

- Enrollees under the age of 21 years would not be impacted, as medically necessary chiropractic services will still be covered, on a case-by-case basis, under federal Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) requirements.
- This change assumes an effective date of January 2026 for both fee-for-service (FFS) and managed care enrollees.

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

Other Critical Investments

\$58.6M in FY 2026-2029

Maintain Funding to End HIV in MN

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Investments

FY 2026-27 - \$6M

FY 2028-29 - \$0

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

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Investments

FY 2026-27 - \$561k

FY 2028-29 - \$600k

- 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.

Operating Adjustment

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Investments

FY 2026-27 – \$13.3M

FY 2028-29 – \$17.8M

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.

This proposal will help cover expected growth in employee compensation and insurance, rents, IT services and other operating costs.

Sustainable Funding for Accessing Federal Data Sources

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Investments

FY 2026-27 - \$8.3M

FY 2028-29 - \$12M

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

- The Commercial Source of Income (CSI) service is used to verify eligibility for MHCP applicants and enrollees.
- CMS has transitioned the CSI service to a Medicaid-claimable service, with a 75/25 systems match rate.
- This proposal funds the new state costs associated with this service.

Increasing the Health Care Access Fund Share of Medical Assistance

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Budget Neutral

FY 2026-27 – Net Neutral
(GF \$(50M) & HCAF \$50M)

FY 2028-29 - Net Neutral
(GF \$(50M) & HCAF \$50M)

- Medical Assistance is financed primarily through federal and state funds. While medical assistance spending is forecasted, the health care access fund's share is set by the legislature, leaving the remaining state share to be paid by the general fund.
- This proposal increases the Health Care Access Fund appropriation for Medical Assistance by \$25 million in fiscal year 2026 and each year thereafter.
- This results in a corresponding decrease in general fund appropriations for Medical Assistance.



Budget Neutral

FY 2026-27 - \$0

FY 2028-29 - \$0

Technical Changes to update the accounting structure at the Department of Human Services to align with organizational changes in the department. This includes adding new budget activities and transferring grant funds to current budget activities according to the new agency structure.

Thank You!

For more information:
[FY 2026-2027 DHS Governor's Budget](#)
[DHS Legislative Information](#)