

Testimony in Opposition to HF 3423

House Human Services Finance and Policy Committee

Chair and Members of the Committee:

My name is Sandra Bond, President of the Minnesota Association of Residential Services Homes (MARSH). I am testifying on behalf of our membership, which represents adult foster care (AFC) and community-based residential service providers across Minnesota.

MARSH must respectfully oppose HF 3423 as currently drafted.

While we support strong program integrity standards and responsible stewardship of Medical Assistance funds, HF 3423 expands provider enrollment requirements at a time when residential providers are already facing significant financial strain due to Minnesota's transition to a flat-rate reimbursement system. The combined effect of expanded regulatory requirements and reduced reimbursement flexibility creates a structural mismatch that threatens the stability of small, community-based providers.

Flat-Rate Reimbursement Does Not Account for Expanded Compliance Costs

Under prior rate methodologies, administrative and compliance costs were recognized within rate calculations tied to service needs and operational realities. Under the current flat-rate structure, providers receive a fixed reimbursement regardless of resident acuity, administrative burden, or compliance expansion.

HF 3423 proposes enhanced enrollment standards, expanded screening obligations, possible compliance officer requirements, and increased documentation and revalidation expectations. These requirements carry real administrative and financial costs.

Flat rates do not adjust to accommodate those costs.

As a result, providers must divert already limited direct-care dollars to new compliance infrastructure. For small adult foster care homes operating on narrow margins, there is no ability to absorb these additional obligations without impacting staffing, wages, or care quality.

Disproportionate Impact on Small, Home-Based Providers

MARSH represents many small, family-run AFC homes serving four or five residents. These providers are not large health care systems with compliance departments. The owner is often the caregiver, administrator, scheduler, and payroll processor.

HF 3423 applies expanded enrollment and compliance expectations uniformly across provider types. Without differentiation for small 245A-licensed residential providers, the

bill risks imposing corporate-level compliance standards on home-based operations that lack administrative scale.

Under a flat-rate system, small providers cannot spread compliance costs across multiple sites or revenue streams. This creates an uneven burden that will disproportionately affect precisely the community-based settings Minnesota has historically sought to preserve.

Increased Risk of Provider Attrition and Service Disruption

Minnesota is already experiencing adult foster care closures, workforce shortages, and recruitment challenges. Adding new enrollment hurdles and compliance risks — without corresponding reimbursement adjustments — may accelerate provider exits.

When a residential provider loses enrollment or cannot economically comply, residents do not simply lose paperwork — they lose their homes. Displacement of vulnerable adults due to administrative strain undermines the very goals of Medical Assistance oversight.

HF 3423, when combined with flat-rate reimbursement, increases the likelihood of provider attrition, consolidation into larger corporate entities, reduced access to small community-based settings, and service disruptions for vulnerable adults.

Regulatory Expansion Without Fiscal Alignment

If the Legislature expands regulatory requirements, it must ensure that reimbursement systems reflect those obligations. Implementing enhanced compliance structures in a flat-rate environment effectively creates an unfunded mandate.

MARSH is not arguing against accountability. We are raising concern about timing and structural alignment. Expanding enrollment and oversight requirements during a period of rate compression risks destabilizing a fragile provider network.

Conclusion

MARSH urges the Committee to pause or amend HF 3423 until its fiscal and operational impact on flat-rate residential providers can be fully evaluated.

Strengthening program integrity is important. However, reforms must be aligned with reimbursement structures and operational realities. Without that alignment, HF 3423 risks unintended consequences — including provider closures, reduced access to community-based services, and disruption to vulnerable Minnesotans.

We respectfully request that the Committee reconsider this bill in its current form and engage residential providers in developing a balanced approach that protects both program integrity and service access.

Thank you for your consideration.