

## 2026 Governor’s Budget Package

March 17, 2026

### Summary of Governor’s Budget Package

The Governor’s budget package:

- Proposes transformational ideas to make the human services system work better for Minnesotans
- Provides critical investments and conforming state law changes to respond to federal funding cuts and federal mandates to our health care system
- Includes a comprehensive package of strategies to increase program integrity in our system
- Provides other targeted investments, particularly in mental health and substance use disorder services
- Addresses the state deficit by reducing areas in the budget with rising expenditures

Proposal Category	Proposals	FY26/27	FY28/29
Human Services Transformation	2	14,528	54,256
Federal Response	3	11,458	(34,794)
Program Integrity	10	(172,731)	(300,282)
Other Investments	4	1,959	13,921
Budget Neutral	10	(3,431)	(4,556)
Savings Proposals	6	(91,744)	(217,157)
<b>Grand Total</b>	<b>35</b>	<b>(239,961)</b>	<b>(488,612)</b>

### Transforming the Human Services System

#### Transforming the Human Services System (OP-50)

**\$16.528M in FY26/27 and \$54.568M in FY28/29**

Transforms administration of the human services system to improve the system for people accessing support. This proposal provides the following strategies that would streamline program administration, ease local workforce challenges, provide single oversight over program policies and procedures, and ensure consistency and access to care across the state:

- Eliminates the use of Managed Care Organizations (MCOs) in the Medicaid program
- Shifts administration of some financial eligibility functions from the counties to the State
- Dedicates funding for a study to provide future recommendations on the remaining financial eligibility functions at counties and Tribal Nations
- Addresses MnCHOICES long-term care assessment backlogs, increases oversight, and supports long-term solutions
- Reforms Waiver Case Management delivered by counties and Tribal Nations by phasing out the use of contracted case management and identifying roles, responsibilities, and service rates

- Dedicating funding for a study to provide future recommendations on county, Tribal, and state roles and responsibilities in administering human services programs

### **Addressing Legacy Systems: Phased Roadmap to Modernized Eligibility (DCYF Proposal)**

#### **\$246k in FY26/27 and \$984k in FY28/29 (DHS impact only)**

Addresses legacy IT systems used by county workers across social service programs with three investments:

- \$25 million in FY 2027 and \$5 million in FY 2028-29 to address MAXIS inefficiencies.
- \$2.650 million in FY 2027 for a comprehensive study to establish a phased roadmap to develop modernized program eligibility policies, processes, and technology with the ultimate goal of achieving a cross-agency modernized, universal eligibility determination capability.
- Ongoing funding to increase staff capacity at the DCYF, MNIT, and DHS for systems modernization work.

## **Response to Federal Actions**

### **Federal Compliance: Medical Assistance Eligibility Changes Due to HR-1 (HC-40)**

#### **\$124k in FY26/27 and -\$36.463M in FY28/29**

Provides statutory changes and funding to comply with the following new Medicaid eligibility requirements from the 2025 federal budget reconciliation bill (H.R. 1):

- Limiting retroactive Medicaid coverage
- Obtaining enrollee address information
- Six-month eligibility renewals for certain Medicaid enrollees
- Work requirements for certain Medicaid applicants and enrollees
- Legal noncitizen full Medicaid coverage restrictions

### **Federal Compliance: HR-1 Financing Related Response (HC-47)**

#### **\$1.334M in FY26/27 and \$1.669M in FY28/29**

Statutory changes and funding to conform with the following financial provisions of federal legislation HR-1:

- Implementing MA cost-sharing for enrollees who are adults without children with incomes between 100 and 133% of the federal poverty level (FPL).
- Strengthening Medicaid program oversight and support for county and tribal nation partners to increase eligibility determination accuracy and audit preparedness.
- Establishing a ceiling of \$1,000,000 for permissible home equity values for individuals when determining eligibility for Medical Assistance for payment of long-term care services (MA-LTC).
- A technical change related to the MinnesotaCare Provider Tax.

### **Human Services Contingency Account (OP-02)**

#### **\$10M in FY26/27**

Invests \$10 million for the Human Services Response Contingency Account to respond to immediate needs related to supporting the health, welfare, or safety of the people of Minnesota and for which no other funding source is available. This is particularly needed due to federal action and federal funding uncertainty.

## Enhancing Program Integrity

### Modernizing Program and Payment Integrity Safeguards (OP-44)

-\$167.873M in FY26/27 and -\$3.985M in FY28/29

Implements a comprehensive systems approach to reduce fraudulent, wasteful or abusive billing practices in Minnesota's public health care programs. By incorporating comprehensive technology and data-driven enhancements to the systems supporting Medical Assistance, critical program integrity processes will be improved. Investments include:

- Establishing comprehensive prepayment review of claims
- Establishing comprehensive post-payment review of claims
- Deploying predictive analytics and machine learning to continually inform prepayment review, post-payment review, program integrity investigations, and future Medicaid benefit design related to administration of program policies and regulations.

### Enhancing Program Integrity in Medical Assistance (IG-61)

\$24.33M in FY26/27 and \$46.632M in FY28/29

Provides the following strategies to strengthen program integrity in Minnesota's public health care programs:

- Strengthens the provider enrollment process by establishing data-driven risk assessment pre-enrollment process for validating and approving eligible providers
- Enhances provider revalidation processes to more effectively meet federal program integrity requirements
- Strengthens the background studies requirements for high-risk providers
- Strengthens accountability requirements for Managed Care Organizations by:
  - Requiring MCOs to conduct prepayment review
  - Providing funding for post-payment review conducted at DHS
  - Requiring MCO program integrity actions to be publicly published
  - Requiring MCOs to implement all claims edits and policies required for FFS claims; and
  - Additional staffing at DHS to enhance oversight over MCOs
- Provides funding for phase two of a thorough evaluation of DHS to provide recommendations for restructuring the department's organizational structure and processes
- Clarifies allowable communication methods for withholding and recovering funds from enrolled providers

### Billing and Payment Oversight for Disability, Older Adult, and Behavioral Health Services (AD-68)

-\$10.568M in FY26/27 in -\$282.135M in FY28/29

Improvements to the billing and oversight functions of disability, older adult, and behavioral health services:

- Provides role-based provider access to the MnCHOICES system to sign support plans electronically
- Provides DHS authority to collect service delivery documentation directly from providers
- Requires HCBS residential providers to maintain staffing documentation on an ongoing basis to reflect actual staffing and services provided.
- Establishes billing rules that require staffing to be within 90% of the planned staffing level that the DWRS rates are based on
- Expands Electronic Visit Verification (EVV) to the following services: ARMHS, Peer Support Services, CRS, ACT, EIDBI, Customized Living, FRS, Adult Foster Care, Adult Companion Services, Adult Day, Homemaker, Waiver Transportation, NEMT, and CTSS
- Aligns DWRS customized living rates with a person's acuity by establishing aggregate limits in the rates
- Aligns Community Residential Services (CRS) rates with a person's acuity by placing an hourly staffing limit based on case mix

- Adds or modifies billing limits for the following services: Adult Companion, Assistive Technology, Chore Services, Day Support Services, EIDBI, Family Training, Homemaker, IHS, ILS, Night Supervision, PERS, Respite (In-Home), Waiver Transportation, ARMHS, IRTS, CTSS, Psychoeducation/skills, Treatment Coordination, and Peer Services
- Eliminates remote service provision for the following provider-controlled settings: Adult Day Services, Community Residential Services, Day Support Services, Family Residential Services, and Integrated Community Supports
- Expedites the sunset of the Disproportionate Share Program by reversing last year's extension for the sunset so that CL rates reflect a person's needs and the services provided to them

### **Enhancing Program Integrity in Integrated Community Supports (ICS) Services (AD-59)**

**\$2.387M in FY26/27 and -\$3.944M in FY28/29**

Package of reforms to strengthen oversight of Integrated Community Supports (ICS):

- Align ICS rates with service delivery by converting the daily rate methodology to a 15-minute unit rate and incorporating billing limits based on a person's acuity
- Authorizes Housing Support for eligible ICS settings
- Codifies federal HCBS requirements by prohibiting the use of Medicaid funds for room and board
- Codifies prepayment review of ICS claims
- Requires electronic visit verification (EVV) for ICS services
- Adds requirements for service authorizations, including documentation of need and a prior authorization process for high-cost service packages
- Codifies ICS service license and setting moratoria

### **Uniform Service Standards (USS) Implementation (IG-52)**

**General Fund: \$262k in FY26/27 and \$400k in FY28/29**

**SGSR: \$1.299M in FY26/27 and \$1.058M in FY28/29**

Fully implements the Mental Health Uniform Service Standards (USS), which transitions certifications to licenses for outpatient and rehabilitative mental health services (CTSS, ARMHS, Crisis Response Services, and CCBHC).

### **Enhancing Program Integrity and Quality in Nursing Home Rates (AD-46)**

**-\$14.937M in FY26/27 and -\$56.8M in FY28/29**

Makes the following changes to nursing facility payments to enhance program integrity in rates paid to nursing facilities and to enhance quality of care provided to Minnesotans:

- Ends the Planned Closure Rate Adjustment (PCRA) program
- Places maximum limits to reimbursement for employee health insurance costs
- Ends the Performance-based Incentive Program (PIPP); and
- Modifies the formula used to establish the quality-based care-related operating limits to align reimbursement of care-related costs with individual nursing facilities quality performance

### **Market and Receipt-Based Rate Reform for Disability and Older Adults Services (AD-64)**

**-\$504k in FY26/27 and -\$4.536M in FY28/29**

Caps administrative fees for market and receipt-based rates under the disability waivers, Alternative Care, Essential Community Supports, and Elderly Waiver, at 6%. Proposal also provides one-time funding to study and recommend rate methods for market-based services to ensure appropriate payment rates.

### **Earlier Effective Date for Improving Supportive Housing Options (BH-53)**

**-\$9.163M in FY26/27 and -\$1.784M in FY28/29**

Amends the Recovery Residence Certification initiative enacted during the 2025 legislative session to accelerate the implementation timeline. This proposal advances the certification requirement for recovery residences and the phase-out of Free-Standing Room and Board (FSRB) programs.

### **OIG Increased Fines and Licensor Safety (IG-27)**

**-\$19k in FY26/27 and -\$38k in FY28/29**

Enhances accountability measures by increasing fines for health and safety violations as well as implementing additional enforcement mechanisms for threatening or abusive behavior toward staff. Fines for license holders who violate health, safety, supervision, or background study requirements will increase from \$200 to \$500 and fines for other licensing violations will increase from \$100 to \$300.

### **State Office of Inspector General Established (MMB Proposal)**

**\$2.055M in FY26/27 and \$4.85M in FY28/29 (DHS fiscal impact)**

Creates a Central Office of Inspector General. A key component of this proposal is the establishment of a system for data sharing between the Central Office of the Inspector General and agencies so that the central OIG can lead improved detection of potentially fraudulent actors across the enterprise.

At DHS, expenditure and investigatory data are contained across multiple systems. This proposal requires systems investments that will combine and share investigative and expenditure data across the agency's multiple programs and systems. In addition to systems investments, staffing is required to coordinate data consolidation, transmission, and coordination with the central OIG. Additional DHS OIG investigators and legal staff are needed due to an anticipated increase in referrals for investigations as a result from the work of the central OIG.

## **Other Critical Investments**

### **Increasing Mental Health Supports: Coordinated Specialty Care Medicaid Benefit (BH-51)**

**\$332k in FY26/27 and \$8.63M in FY28/29**

Adds a new Medical Assistance benefit called Coordinated Specialty Care to ensure individuals experiencing early episodes of psychosis can access person-centered and evidence-based care to support their mental health needs.

Coordinated specialty care (CSC) is the standard of care for treatment of First Episode Psychosis (FEP). It is an evidence-based, recovery-focused, team-based model that promotes access to care and shared decision-making among specialists, the person experiencing psychosis, and family members. Several of the services included in CSC are existing services in Minnesota and are billable to Medical Assistance as separate services. Existing state and federal grant funds support payment of services that are not covered by Medical Assistance. This proposal recommends defining a new service that includes specific requirements for a single bundled rate. By including Medical Assistance coverage for this set of services, state Medicaid funds would be matched by federal Medicaid funds, offsetting current state funding and providing high quality care to Minnesotans in need.

### **Federal Compliance: Access to Services for Incarcerated Individuals (BH-45)**

**\$178k in FY26/27 and \$3.023M in FY28/29**

Provides investments to support the successful reentry of incarcerated individuals into their communities. This initiative aims to enhance public safety and ensure equitable behavioral health outcomes by creating a carceral pre- and post-release case management benefit set. In addition, this proposal also aims to comply with federal law providing screening and targeted case management services to juveniles in carceral settings for 30 days prior to

release and at least 30 days post release. Both adult and juvenile services will provide coordinated supports during the highest-risk periods before and after release, helping to bridge the gap between incarceration and community stability.

#### **Federal Compliance: Medicaid Access Rule (AD-57)**

**\$1.4M in FY26/27 and \$2.268M in FY28/29**

Provides investments required to comply with the federal Medicaid Access Rule. The Medicaid Access Rule was published by the Centers for Medicaid and Medicare services (CMS) in May 2024 with the goal of improving access to care, quality and health outcomes, program integrity and better addressing health equity issues in the Medicaid program across fee-for-service (FFS), managed care delivery systems, and in Home and Community Based Services (HCBS) programs. These improvements will increase transparency and accountability, standardize data and monitoring, and create opportunities for states to promote active beneficiary engagement in their Medicaid programs, with the goal of improving access to care.

The Access Rule represents a wide-ranging project with a series of new requirements that state Medicaid agencies must complete, with deliverables due between 2026 and 2030. This proposal is focused on securing initial resources to begin work required to develop the reporting tools, systems, and oversight capabilities on the most immediate requirements due between 2026 and 2027.

#### **Federal Compliance: Household members background study FBI compliance (IG-53)**

**\$49k in FY26/27**

Removes the requirement or authority for FBI checks for household members connected to adult day services and adult foster care. This change is needed to comply with federal regulations.

### **Budget Neutral Proposals**

#### **Housing Stabilization Services Termination and Redesign (HS-54)**

Updates statute to align with the termination of the Housing Stabilization Services program and directs DHS to develop recommendations to redesign a new housing services benefit with robust program integrity and service quality requirements by September 15, 2027.

#### **MnCHOICES Efficiencies (AD-52)**

Outlines three targeted strategies to streamline the MnCHOICES assessment process and address the capacity constraints of lead agency assessors:

- Eliminates a requirement for a lead agency assessor to conduct an in-person assessment for certain people seeking nursing home admission
- Eliminates an unnecessary step in the MnCHOICES assessment process (OBRA I screening) for people who are seeking services in the community
- Removes an access barrier for people who are temporarily in an institution and seeking to return to the community on their previous HCBS waiver, by making their previous assessment valid for 365 days

#### **Rural Emergency Hospital Payment Methodology Technical Change (HC-52)**

Establishes a Medical Assistance (MA) rate methodology for critical access hospitals (CAHs) that convert to rural emergency hospitals (REHs).

### **Updates to Hospital Directed Payment Program (HC-53)**

Technical changes to the statewide hospital directed payment program that was established during the 2025 legislative session to conform statute with legislative intent and current department policy on the implementation of the directed payment program.

### **Federal Compliance with Certified Public Expenditures for Targeted Case Management (HC-54)**

Brings Minnesota's targeted case management (TCM) services, provided by counties on a fee-for-service (FFS) basis, into compliance with Medicaid payment requirements. This requires establishing a new cost-based rate methodology and reconciliation process.

### **Sunset Supplemental Payment for Hennepin County Mental Health Clinic (HC-55)**

Provides a conforming update to place an end date on the authority to make a supplemental payment for the Medicaid services provided by the Hennepin County's mental health clinic. This payment method is no longer used or needed since Hennepin County's mental health clinic transitioned to a Certified Community Behavioral Health Clinic (CCBHC).

### **Modifying the Definition of Residency for Non-Title IV-E Foster Children (HC-56)**

Allows children in foster care who are placed in a Minnesota family foster home by another state but are not eligible for Title IV-E Foster Care, to be considered Minnesota residents for the purpose of Medical Assistance (MA) eligibility determinations.

### **State Medical Review Team Waiver for Medical Records Fees (HC-57)**

Technical change that specifically includes the Minnesota Department of Human Services' (DHS) State Medical Review Team (SMRT) in a statute that limits provider fees for medical records.

### **Budget Technical Changes (OP-46)**

**-\$2.25M in FY26/27 and -\$2.25M in FY28/29 (neutral across enterprise)**

Includes the following technical budget changes:

- Align previously appropriated funds with the correct accounting structure
- Transfer authority for appropriated funds to other agencies implementing the funds
- Technical language corrections
- Clarify grants issued to counties and Tribal governments as direct payments; and
- Specify carryforward authority for some previously appropriated funds.

### **Technical Funding Adjustments (DCYF Proposal)**

**General Fund: -\$1.664M in FY26/27 and -\$1.664M in FY28/29 (neutral across enterprise)**

**Opioid Epidemic Response Fund: -\$642k in FY26/27 and -\$642k in FY28/29 (neutral across enterprise)**

This proposal makes the following changes related to alignment of DHS and DCYF budgets:

- Food Shelf Funds: Moves Food Shelf funds from DHS to DCYF
- Fraud Protection Investigation Grants: Moves FPI grant funds from DHS to DCYF
- Opioid Epidemic Response Fund: Moves statutorily appropriated administrative funds from DHS to DCYF

## Savings Proposals

### **Reduce Disability Grants (AD-72)**

**-\$73.746M in FY26/27 and -\$5.762M in FY28/29**

Eliminates the following disability grants: Disability services innovation grants, MnCHOICES modifications grant, pre-admission screening grant, day training and habilitation grants, and the long-term services and supports loan program.

### **Modify Nursing Facility Level of Care Eligibility for CAD/BI (AD-71)**

**-\$2.612M in FY26/27 and -\$42.649M in FY28/29**

Modifies the nursing facility level of care (NFLOC) criteria that determines eligibility for the Community Access for Disability Inclusion (CAD/BI) and Brain Injury (BI) waivers.

### **Sustaining Disability Services Access through Efficiency Measures (AD-58)**

**-\$2.268M in FY26/27 and -\$92.058M in FY28/29**

Includes the following growth reduction strategies to mitigate rising expenditures:

- Limit billing for residential services to 351 days
- Changes to absence and utilization factor for day services
- Reversal of rate tier increases for Family Residential and Life Sharing Services
- Restrict residential overnight factor in Community Residential Services

### **Behavioral Health Fund County Share to 50% (BH-70)**

**-\$7.022M in FY26/27 and -\$13.018M in FY28/29**

Increases the county share for the Behavioral Health Fund from 22.95% to 50%.

### **Reinstating Parental Fees for Incomes over 675% of Federal Poverty Guidelines (HC-66)**

**-\$5.173M in FY26/27 and -\$37.051M in FY28/29**

Reinstates parental fees for families with incomes of 675 percent of federal poverty guidelines or higher (\$222,750 for a family of four) when Medical Assistance eligibility for their child with a disability is determined without regard to parental income.

### **Limit Inflationary Adjustments in the Disability Waiver Rate System and Value-Based Reimbursement (AD-70)**

**-\$923k in FY26/27 and -\$26.619M in FY28/29**

Limits inflationary adjustments to two percent per year for disability waiver services in the disability waiver rate system and the value-based reimbursement system for nursing homes. Also includes interactive impacts with other proposals in the Governor's budget package.