

**OFFICE OF THE GOVERNOR**  
**BUDGET AND PROGRAM PLANNING**  
STATE OF MONTANA



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**TO:** Amy Carlson, Legislative Fiscal Analyst  
Legislative Fiscal Division

**FROM:** Ryan Osmundson, Budget Director  
Office of Budget and Program Planning

**DATE:** March 17, 2026

**SUBJECT:** LFC Review and Comment on a Fiscal Year Transfer Supplemental Appropriation  
for Department of Public Health and Human Services

In accordance with Title 17, Chapter 7, part 3, MCA, the Governor's Office of Budget and Program Planning is submitting for review and comment a proposed supplemental appropriation to transfer FY 2027 authority to FY 2026. The authority is requested as part of a strategy to fund Medicaid entitlement and 24/7 facility services, as well as mitigate costs where and when prudent.

The projected budgetary shortfall for FY 2026 is \$43.4 million in general fund, \$2.7 million in state special revenue authority, and \$146.3 million in federal revenue authority. The projected shortfall exists in Medicaid, as well as in the Health Care Facilities Division, and is the result of insufficient appropriations and budget reductions during the 2025 Legislative Session.

To minimize the need for general fund supplemental appropriations, the department will request additional state special authority to offset general fund expenditures. This fund switch, along with small general fund reversions, results in a supplemental request in the amount of up to \$7.0 million in general fund, \$34.2 million in state special revenue authority, and \$146.3 million in federal revenue authority. The agency has been taking steps to mitigate this shortfall where and when prudent and will continue taking steps to mitigate the shortfall in the months to come. Attached is an agency appropriation deficit overview and a proposed expenditure reduction plan, if necessary, for the 2027 biennium.

**CC:** Charles T. Brereton  
**Attachment:** Legislative Finance Committee Request Overview

## Agency Appropriation Deficit Overview

### FY 2026 Projected Shortfalls (before DPHHS Action)

	<b>Amount</b>
Federal	\$ (146,299,778)
State Special	\$ (2,685,820)
General Fund - Medicaid	\$ (28,437,416)
General Fund - State Hospital	\$ <u>(14,950,798)</u>
<b>Total</b>	<b>(\$192,373,812)</b>

<b>Department Actions to Minimize Impact</b>	<b>Amount</b>
Fund Switch: Healthy MT Kids (02597)	\$ 9,189,209
Fund Switch: HELP Act Funds (02067)	\$ 25,000,000
Projected General Fund Reversions	\$ <u>2,224,643</u>
<b>Total</b>	<b>\$ 36,413,852</b>

### FY 2026 Projected Shortfalls (After DPHHS Actions)

	<b>Amount</b>
Federal	\$ (146,299,778)
State Special	\$ (34,189,209)
General Fund	\$ <u>(6,974,362)</u>
<b>Total</b>	<b>(\$187,463,349)</b>

To mitigate expenditures in FY 2026 and FY 2027, the department is planning to shift \$34.2 million in expenditures from general fund to state special funds. The offsets to general fund will come from fund 02067 for Medicaid Expansion costs (\$25 million) and fund 02597 Healthy Montana Kids for eligible expenses (\$9.2 million).

In addition to the supplemental appropriation, the department will consider the reduction, suspension, or elimination of optional benefits, as well as the reduction or elimination of provider rate adjustments (except those statutorily required) for FY 2027.

GREG GIANFORTE  
GOVERNOR



DEPARTMENT OF  
**PUBLIC HEALTH &  
HUMAN SERVICES**

CHARLIE BRERETON  
DIRECTOR

March 16, 2026

Ryan Osmundson  
Budget Director  
1301 East 6<sup>th</sup> Ave  
Helena, MT 59601

Dear Director Osmundson,

The Department of Public Health and Human Services respectfully submits this letter to outline its mitigation plan in accordance with the requirements of **17-7-301, MCA**, which directs agencies seeking a first-year supplemental appropriation to provide a plan for reducing expenditures in the second year of the biennium.

**Anticipated Fiscal Transfer Need**

The Department is anticipating the following shortfalls for FY 2026:

<b>FY 2026 Projected Shortfalls (after cost reductions and other mitigations)</b>	
Federal	\$ 146,299,778
State Special	\$ 34,189,209
General Fund - Medicaid	\$ 3,437,416
General Fund - State Hospital	\$ 3,536,946

The Medicaid budget approved by the 2025 Legislature was insufficient at the time of passage and did not reflect the expenditure levels required to support actual Medicaid costs. Had the Department’s suggested projections been adopted, there would be no Medicaid shortfall in the general fund for FY 2026.

Additionally, a last-minute Senate floor amendment to HB 2 reduced the Healthcare Facilities Division's budget by \$15 million in FY 2026 and \$20 million in FY 2027, with no corresponding reduction in responsibilities or statutory obligations. This further contributes to the deficit, as the Department’s safe, around-the-clock operation of its facilities is mandatory.

## Mitigation Plan

To address these funding needs, the Department will implement the following strategy for FY 2026:

### ***Fund Transfers to State Special Revenue Funds***

The Department will request a fiscal transfer of state special revenue appropriation from FY 2027 to FY 2026. This will allow for the use of cash balances in state special revenue funds as follows:

- Transfer **\$25 million** in Medicaid Expansion administration costs from the general fund to the Montana HELP Act Fund (02067).
- Transfer **\$9.2 million** of expenditures from the general fund to the Healthy Montana Kids Fund (02597).

While these fund transfers help mitigate the general fund impact of the requested fiscal transfer, they will also almost entirely deplete cash reserves in these two funds.

Additionally, to comply with statute and further mitigate the anticipated supplemental need created by insufficient appropriations, the Department plans to implement the following cost mitigation strategy in FY 2027:

### ***Medicaid Provider Rate Adjustments***

The Department will not implement the Medicaid provider rate increases authorized for FY 2027. Foregoing these increases is expected to reduce general fund need by approximately \$10 million.

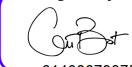
This action constitutes the Department's expenditure reduction strategy for the second year of the biennium, fulfilling the requirements of 177301, MCA.

## Conclusion

While it is regrettable that the budget approved by the Legislature did not provide sufficient funding to meet the Department's statutory obligations, the proactive strategies outlined above will help mitigate the impact of the resulting budgetary shortfalls.

Sincerely,

Signed by:



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Charles T. Brereton  
Director