



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0851.01: Create department of health services

Primary Sponsor: John Fitzpatrick Status: As Introduced

☐ Included in the Executive Budget ☒ Needs to be included in HB 2 ☐ Significant Local Gov Impact

☐ Significant Long-Term Impacts ☒ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
Expenditures				
General Fund (01)	\$1,561,215	\$2,534,722	\$2,308,456	\$2,334,311
State Special Revenue (02)	\$362,486	\$530,298	\$472,181	\$477,071
Other	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Other	\$199,950	\$0	\$0	\$0
Net Impact	<u>(\$1,561,215)</u>	<u>(\$2,534,722)</u>	<u>(\$2,308,456)</u>	<u>(\$2,334,311)</u>
General Fund Balance				

Description of fiscal impact

HB 851 reorganizes the Department of Public Health and Human Services and creates the Department of Health Services (DHS). The new DHS will incur staffing costs associated establishing new management, finance, information technology, and legal teams.

FISCAL ANALYSIS

Assumptions

Department of Public Health and Human Services (DPHHS)

1. HB 851 reorganizes the Department of Public Health and Human Services by transferring healthcare facilities, non-Medicaid developmental disability, non-Medicaid chemical dependency, and non-Medicaid mental health services to a newly created Department of Health Services (DHS).
2. The current structure of DPHHS was enacted through legislation on SB 345 requested by the Governor's task force to renew state government in 1995. SB 345 created a new Department of Public Health and Human Services, while eliminating social and rehabilitation services, family services, and portions of the Department of Health and Environmental Sciences. The fiscal impact at the time of creation was negative due to a reduction of 25.0 duplicated FTE's. The reorganization proposed in HB 851 would result in some reversal of the original reduction and requires adding duplicated positions to the newly created DHS.
3. DPHHS assumes that pursuant to the transition in Section 123 of HB 851, program functions will be transferred to the new DHS through collaboration between DPHHS and DHS and will be presented to the Governor before July 1, 2026. This would include some non-Medicaid chemical dependency, mental health,

treatment, and disability programs, as well as all healthcare facilities' practices. Therefore, this fiscal note is only calculating new anticipated costs associated with creating the new DHS.

4. To facilitate the transition and reorganization, DHS would hire a transition team of 3 project managers by October 01, 2025, as additional duties associated with restructuring cannot be absorbed.

Transition Team	2026	2027	2028	2029
Transition Team - 3.00 Project Manager	\$ 218,835	\$ 303,310	\$ -	\$ -
Onboarding Costs	\$ 8,400	\$ -	\$ -	\$ -
Estimated Annual Indirect Costs	\$ 6,565	\$ 9,099	\$ -	\$ -
Total	\$ 233,800	\$ 312,410	\$ -	\$ -

New Executive Management Structure:

5. All departments with FTE of more than 700 have the following executive-level positions:

Executive Management Structure	2026	2027	2028	2029
Director	\$ 148,928	\$ 198,570	\$ 201,549	\$ 204,572
Deputy Director	\$ 137,996	\$ 183,995	\$ 186,755	\$ 189,556
Executive Assistant	\$ 81,120	\$ 108,160	\$ 109,782	\$ 111,429
Public Information Officer	\$ 97,283	\$ 129,710	\$ 131,656	\$ 133,630
Chief Legal	\$ 129,750	\$ 173,000	\$ 175,595	\$ 178,229
HR Director	\$ 129,750	\$ 173,000	\$ 175,595	\$ 178,229
Chief Financial Officer	\$ 129,750	\$ 173,000	\$ 175,595	\$ 178,229
Chief Information Officer	\$ 129,750	\$ 173,000	\$ 175,595	\$ 178,229
Executive Structure unique to HHS functions				
CMO	\$ 202,855	\$ 270,473	\$ 274,530	\$ 278,648
Tribal Liasion	\$ 90,652	\$ 120,869	\$ 122,682	\$ 124,522
Positions Removed				
HFD Executive Director	\$ (109,943)	\$ (146,591)	\$ (148,790)	\$ (148,790)
HFD Deputy ED	\$ (104,189)	\$ (138,919)	\$ (141,003)	\$ (143,118)
Onboarding Costs	\$ 28,000			
Estimated Annual Indirect Costs	\$ 27,443	\$ 36,591	\$ 37,140	\$ 37,764
TOTAL	\$1,119,143	\$1,454,858	\$1,476,681	\$1,501,130

6. The hiring of additional executive-level positions would take place by October 01, 2025, to facilitate the transition of specific functions to the newly created DHS. Budgeted salaries are 75% of the same position type included in the 2027 biennial budget request for DPHHS. In the years 2028 and 2029, an inflation factor of 1.5% was applied.
7. The healthcare facilities executive director and deputy executive director are removed as they are unique to DPHHS structure.

Duplicate Centralized Services

8. It is assumed that the economies of scale associated with centralized functions for DPHHS's structure for accounting, budgeting, legal, and technology services will be maintained for DHS. During the transition, positions would be analyzed to determine the pro-rata share between the two divisions but this

reorganization would require additional FTE for DHS to duplicate the management and support functions. It is assumed that these positions would be filled 3 months before the effective start of the new DHS structure to facilitate a smooth transition to the new organization.

9. Finance - The table below shows the three new FTE required to manage DHS's finance structure. Each position assumes a hire date of April 1, 2026.

Finance Structure	2026	2027	2028	2029
Budget Manager	\$ 36,163	\$ 144,652	\$ 144,652	\$ 144,652
Accounting Manager	\$ 25,536	\$ 103,200	\$ 103,200	\$ 103,200
Procurement Manager	\$ 24,040	\$ 96,159	\$ 96,159	\$ 96,159
Onboarding Costs	\$ 8,400	\$ -	\$ -	\$ -
Estimated Annual Indirect Costs	\$ 2,572	\$ 10,320	\$ 10,320	\$ 10,320
Total	\$ 96,711	\$ 354,331	\$ 354,331	\$ 354,331

10. Technology - DPHHS does not anticipate incremental system development costs resulting from the creation of DHS, as current systems will remain in use. While licensing costs may transfer, at this time, it is not anticipated that DHS would incur programming, data migration, or downstream reporting structure-related expenditures. The table below shows the three new FTE required to manage DHS's IT structure. Each position assumes a hire date of April 1, 2026.

IT Structure	2026	2027	2028	2029
Chief Technology Officer (CTO)	\$ 33,531	\$ 135,373	\$ 135,373	\$ 135,373
Network Support Manager	\$ 29,795	\$ 119,181	\$ 119,181	\$ 119,181
Desktop and Communications Support Manager	\$ 25,770	\$ 103,080	\$ 103,080	\$ 103,080
Onboarding Costs	\$ 8,400	\$ -	\$ -	\$ -
Estimated Annual Indirect Costs	\$ 2,673	\$ 10,729	\$ 10,729	\$ 10,729
Total	\$ 100,169	\$ 368,363	\$ 368,363	\$ 368,363

11. State Information Technology Services Division (SITSD) would charge DHS \$199,950 to split the agency into two (DPHHS and DHS).
12. Office of Legal Affairs (OLA) - The table below shows two new FTE required as part of DHS's OLA structure. Each position assumes an April 01, 2026, hire date.

Office of Legal Affairs	2026	2027	2028	2029
ARM Specialist	\$ 20,112	\$ 80,743	\$ 80,743	\$ 80,743
Office Manager	\$ 19,021	\$ 76,083	\$ 76,083	\$ 76,083
Onboarding Costs	\$ 5,600	\$ -	\$ -	\$ -
Estimated Annual Indirect Costs	\$ 1,174	\$ 4,705	\$ 4,705	\$ 4,705
Total	\$ 45,907	\$ 161,531	\$ 161,531	\$ 161,531

13. It is assumed that the positions outlined in assumptions 4 through 12 will be cost-allocated at 80% from the general fund and 20% from state special revenue, based on FY 2025 projected expenditures.

Administrative Rule Filings

14. It is assumed that legal review for 12 subchapters would be required, encompassing 355 rules, pertaining to the newly created DHS. It is further assumed that 51 rule packages, each comprising a proposal and adoption of rule notice, will be filed with the Secretary of State. DPHHS plans to pay an annual fee of \$16,750, as per ARM 1.4.107, for 36 or more notice submissions. Legal and programmatic review and rule review and submission will come at a liability through an increase in compensatory time for legal staff and overtime or compensatory time for programmatic staff.

Non-Medicaid Behavioral Health and Developmental Disabilities

15. New Section 2 relocates developmental disabilities services, mental health services, and chemical dependency services to the DHS. DPHHS assumes that the non-Medicaid services of these programs would be transferred to DHS, whereas the Medicaid portion of these programs would remain within DPHHS. All functions are managed currently within the Behavioral Health and Developmental Disabilities Division, with existing staff managing both Medicaid and non-Medicaid components. By moving non-Medicaid components to DHS, a new management structure would need to be created to oversee these programs. The current BHDD management structure would remain in place to continue overseeing Medicaid components.
16. The table below shows the three new DHS FTEs required to manage the developmental disabilities, mental health, and chemical dependency services.
17. Each position assumes a hire date of April 1, 2026, and the costs associated with these positions would be funded with 100% general fund.

Non-Medicaid BHDD	2026	2027	2028	2029
Division Administrator	\$ 38,069	\$ 153,665	\$ 155,970	\$ 158,310
Mental Health/Developmental Disabilities Bureau Chief	\$ 28,539	\$ 114,157	\$ 115,869	\$ 117,607
Fiscal Bureau Chief	\$ 33,267	\$ 133,662	\$ 135,667	\$ 137,702
Onboarding Costs	\$ 8,400	\$ -	\$ -	\$ -
Estimated Annual Indirect Costs	\$ 2,996	\$ 12,045	\$ 12,225	\$ 12,409
Total	\$ 111,271	\$ 413,528	\$ 419,731	\$ 426,027

Department of Administration

18. All set up and configuration work to establish a new state agency in SABHRS and IBARS will be absorbed using existing resources within State Financial Services Division.
19. State Information Technology Services Division (SITSD) would be needed to assist in splitting of an agency into two (DPHHS and DHS).
20. It is estimated that this would cost DHS roughly \$199,950. SITSD would charge for these services and recognize revenue on their end while DHS would incur the expense.

IT Related Costs for Dept. of Administration Services	Estimated Hours	Rate	Total
IT Asset Management	40	\$155	\$6,200
Identity Panel	40	\$155	\$6,200
Configuration changes to customer relationship management software	20	\$155	\$3,100
Updating billing scripts	40	\$155	\$6,200
Application Hosting	20	\$155	\$3,100
Website Assistance	900	\$155	\$139,500
Modifying Phone/Voice billing codes	40	\$155	\$6,200
New Access/authorization policies into multiple systems and buildout of supporting infrastructure	40	\$155	\$6,200
Retagging/reorganizing of networks and servers	40	\$155	\$6,200
Data transfers onto agency specific storage	60	\$155	\$9,300
Management hours	50	\$155	\$7,750
Total:			\$199,950

Fiscal Analysis Table

Department of Administration

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
Other	\$199,950	\$0	\$0	\$0
TOTAL Revenues	\$199,950	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
Other	\$199,950	\$0	\$0	\$0

Department of Public Health and Human Services

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<u>Fiscal Impact</u>				
FTE	22.00	22.00	19.00	19.00
TOTAL Fiscal Impact	22.00	22.00	19.00	19.00
<u>Expenditures</u>				
Personal Services	\$1,596,378	\$2,981,532	\$2,705,518	\$2,735,456
Operating Expenses	\$327,323	\$83,488	\$75,119	\$75,926
TOTAL Expenditures	\$1,923,701	\$3,065,020	\$2,780,637	\$2,811,382
<u>Funding of Expenditures</u>				
General Fund (01)	\$1,561,215	\$2,534,722	\$2,308,456	\$2,334,311
State Special Revenue (02)	\$362,486	\$530,298	\$472,181	\$477,071
TOTAL Funding of Expenditures	\$1,923,701	\$3,065,020	\$2,780,637	\$2,811,382
<u>Revenues</u>				
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$1,561,215)	(\$2,534,722)	(\$2,308,456)	(\$2,334,311)
State Special Revenue (02)	(\$362,486)	(\$530,298)	(\$472,181)	(\$477,071)

STATEWIDE SUMMARY

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
FTE	22.00	22.00	19.00	19.00
TOTAL Fiscal Impact	22.00	22.00	19.00	19.00
<u>Expenditures</u>				
Personal Services	\$1,596,378	\$2,981,532	\$2,705,518	\$2,735,456
Operating Expenses	\$327,323	\$83,488	\$75,119	\$75,926
TOTAL Expenditures	\$1,923,701	\$3,065,020	\$2,780,637	\$2,811,382
<u>Funding of Expenditures</u>				
General Fund (01)	\$1,561,215	\$2,534,722	\$2,308,456	\$2,334,311
State Special Revenue (02)	\$362,486	\$530,298	\$472,181	\$477,071
TOTAL Funding of Expenditures	\$1,923,701	\$3,065,020	\$2,780,637	\$2,811,382
<u>Revenues</u>				
Other	\$199,950	\$0	\$0	\$0
TOTAL Revenues	\$199,950	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$1,561,215)	(\$2,534,722)	(\$2,308,456)	(\$2,334,311)
State Special Revenue (02)	(\$362,486)	(\$530,298)	(\$472,181)	(\$477,071)
Other	\$199,950	\$0	\$0	\$0

Technical Concerns**Department of Public Health and Human Services**

- Section 2 states that DPHHS's "human services functions" are to be transferred to the new DHS, and identifies such functions as including developmental disabilities services, mental health services, chemical dependency services, and veterans' long-term care services. This seems to constitute a misunderstanding: The identified functions are not "human services functions." DPHHS interprets the intent of HB 851 to transfer the health services functions (identified in subsections (1)-(4)) and related functions, to DHS, consistent with the amendments made by the rest of the bill – but not to transfer human services functions, such as TANF, SNAP, child support, etc., to DHS.
- As written, HB 851 provides conflicting information on the administration of programs related to developmental disabilities, chemical Dependency, and mental illness. New Section 2 moves developmental disabilities services pursuant to Title 53, Chapter 20, mental health services pursuant to Title 53, Chapter 21, and chemical dependency services pursuant to Title 53, Chapter 24 to the Department of Health Services. Additionally, Sections 59, 60, and 61 amend Title 53, Chapter 1, Part 6 from referencing the Department of Public Health and Human Services to referencing the Department of Health, without further defining the purpose, powers, and duties of the remaining Department of Public Health and Human Services. Currently, programs administered for the developmental disabilities, chemical dependency, and mental illness systems are funded through various funding streams, including general fund, state special revenue (alcohol tax, HEART, etc.), federal grants (block grants and discretionary grants), and Medicaid. The fiscal note assumes that Medicaid-funded programs will remain with the Department of Public Health and Human Services, while any non-Medicaid-funded programs will be transferred to the Department of Health, which will result in siloed programming, inefficiencies, and duplication within department infrastructure.
- Section 26 retains in DPHHS the requirement to conduct the decennial veterans' long-term care study, in consultation with DHS and the Montana Veterans Affairs Division. This seems inconsistent with the transfer of veterans' long-term care services to DHS.

4. Sections 27, 28, and 29 divert distribution of alcohol revenue funds from DPHHS to DHS; however, Section 111 indicates DPHHS would still utilize some revenues as matching funds for Montana Medicaid programs that remain with DPHHS
5. If this bill intends to keep the regulatory and licensing functions for substance use disorder facilities within DPHHS (Section 106(3)), but to transfer the authority to approve such facilities for purposes of participating in State-funded programs (Section 37), the department will require a revenue agreement with the proposed DHS to allocate a portion of these funds to DPHHS. These funds currently support DPHHS's ability to review, assist with, and process new and renewal applications, provide licenses, and conduct initial, provisional, renewal, and complaint inspections on the over 80 substance use disorder facilities throughout the state. There would also need to be significant coordination between DPHHS and DHS regarding any changes in licensure or approval statuses, as well as participation in the Medicaid Program.
6. Section 16(1)(III) and Section 64 move evaluation and acceptance of Medicaid block grants and associated reporting to DHS, and Section 104 moves the authority to contract for mental health managed care for Medicaid (and non-Medicaid) beneficiaries to DHS. However, all other Medicaid components remain within DPHHS. In addition, Sections 16 and 31 transfer components of the Healing and Ending Addictions through Treatment (HEART) initiative to DHS, while most components of HEART fall under the Medicaid program, which will remain at DPHHS.
7. By virtue of the amended definition of "department" in Section 68 (MCA 53-19-102), HB 851 appears to transfer authority for certain vocational and rehabilitation programs for persons with physical disabilities (in Title 53, Chapter 19, Part 1) to DHS, while retaining other vocational and rehabilitation authorities in DPHHS. (This transfer is not expressly identified in Section 2.) Significant coordination between DPHHS and DHS may be needed in order to ensure that programmatic activities are not duplicated, and clients are not double funded.
8. HB 851 retains in DPHHS the authority to license community homes for persons with developmental disabilities (MCA 53-20-305). However, it transfers to DHS the authority to permit such homes to exceed the statutory limit on the number of residents (Section 82).
9. Section 96 retains in DPHHS the responsibilities assigned to it with respect to transitioning patients whose primary diagnosis is Alzheimer's, dementia, or traumatic brain injury from MSH to community placements. However, MSH, itself, as well as the facilities-supportive programs, which are currently spread throughout DPHHS, would not, in their entirety be transitioned to DHS. And HB 851 does not appear to consider or resolve the disconnect in processes, staffing, and coordination that would be created if responsibility for transitioning these patients remains with DPHHS. This would not present an issue if all such patients could be transferred by the target date set for transition of this population by HB 29 adopted by the Legislature in 2023. However, due to the fact that patients' diagnoses of Alzheimer's, dementia, or traumatic brain injury can, and do, shift between "primary" and "secondary" with regularity, and that DPHHS/MSH must also regularly navigate placement obstacles and other circumstances beyond its control, changing patient populations with such diagnoses could, and likely will, continue to be at MSH, even after the establishment of DHS—at which point DPHHS would lack the ability to make such transitions.
10. Section 118 appears to transfer the regulation of half-way houses for rehabilitation of alcoholics and drug dependent persons to DHS, while retaining all other regulatory and licensure authority in DPHHS.
11. If DHS is unable to fill essential management positions through standard recruitment channels, engaging a 3rd party placement or recruiter may be necessary to access talent. While these professionals offer streamlined hiring and objective candidate selection, the associated costs are difficult to estimate without specific parameters. Therefore, the potential need to utilize external recruiters should be considered contingent on the success of internal recruitment efforts, and with an awareness of potential variable expenses.

Sponsor's Initials MA

Date 3/29/28

Budget Director's Initials RO

3/28/2025
Date