



REPORT ON KEY ISSUES FROM THE HOUSE APPROPRIATIONS COMMITTEE

BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

July 8, 2010

2010/11 Budget: Tobacco Settlement Fund

The Tobacco Settlement Act of 2001 (Act 77) created the Tobacco Settlement Fund for the deposit of payments received by Pennsylvania under the 1998 Master Settlement Agreement (MSA). The MSA is the agreement reached between the major tobacco companies and 46 states. The agreement settled claims filed against the tobacco industry to recover Medicaid costs associated with treating smoking-related illnesses. In exchange for the states dropping their lawsuits, the tobacco companies agreed to make annual payments to the states in perpetuity.

Act 77 established several health-related programs which are supported by the Tobacco Settlement Fund. It also established an endowment account that can be used to maintain funding for Pennsylvania's health programs should tobacco payments cease or decrease in the future. The table below shows the percentages set forth in Act 77 for purposes of allocating annual tobacco payments to specific programs as well as the endowment account.

Act 77 Programs	Allocation
Health Investment Insurance	30%
Health Research	19%
Home & Community-Based Services	13%
Tobacco Use Prevention & Cessation	12%
Hospital Uncompensated Care	10%
PACEnet Transfer	8%
Health Endowment Account	8%

In addition to the eight percent allocation of annual tobacco payments to the Health Endowment Account, Act 77 designates other revenue for deposit in the account. This includes annual investment earnings derived from the Health Endowment Account and from the Tobacco Settlement Fund. It also includes the ten strategic contribution payments that Pennsylvania will receive from 2008 to 2017. The strategic contribution payments are additional payments made by the tobacco companies into a separate Strategic Contribution Fund. Money from the fund is allocated to states based on an allocation formula developed by Attorneys General in

1999 that reflects the contribution made by states toward resolution of the lawsuits against tobacco companies.

Fiscal Code Changes

The General Assembly amended the Fiscal Code to redirect tobacco revenues for purposes other than those specified in Act 77 and to transfer certain tobacco monies to other funds and accounts. The various redirects and transfers are explained below.

The 2010/11 budget redirects \$121.3 million of tobacco revenues. This reflects changes made this year to the Fiscal Code (House Bill 1042) as well as changes enacted last year under Act 50 of 2009, the Fiscal Code bill that accompanied the 2009/10 budget. Senate Bill 1042 redirects \$106.6 million of the following tobacco revenues to Medical Assistance Long-Term Care and Life Sciences Greenhouses:

- Interest and earnings from the Tobacco Settlement Fund (\$15 million).
- The strategic contribution payment that otherwise would be deposited in the Health Endowment Account (\$23 million).
- All of the annual funding allocation for the Health Endowment Account (\$26.1 million)
- One-third of the annual funding allocation for Health Investment Insurance (\$32.7 million). This one-third redirection is the same as the funding shift enacted for the 2007/08 budget.
- One-fourth of the funding allocation for Tobacco Use Prevention and Cessation (\$9.8 million). This one-fourth redirection is the same as the funding shift enacted for previous budgets, including the 2007/08 budget.

In accordance with a provision in Act 50 of 2009, another 37.5 percent (\$14.7 million) of the annual funding

allocation for Tobacco Use Prevention and Cessation is transferred to the General Fund in 2010/11. Monies transferred under this provision are not earmarked for any specific purpose.

In addition, House Bill 1042 includes the following transfer provisions for 2010/11:

- Repeals the \$250 million transfer from the Health Endowment Account to the General Fund. This transfer was among the provisions included in Act 50 of 2009.
- Transfers \$250 million from the Tobacco Settlement Fund to the General Fund.
- Transfers \$121 million from the Tobacco Endowment Account to a new General Fund restricted receipts account, created to augment the appropriation of the required contribution for public school employees' retirement.
- Transfers any remaining assets, cash, and investments in the Tobacco Endowment Account to the Tobacco Settlement Fund. This transfer shall take place by June 1, 2011.

- \$326.85 million in annual payments remitted by tobacco companies to Pennsylvania during 2009/10, a \$65.9 million decrease from the prior year.
- \$23 million in strategic contribution payments received by Pennsylvania in 2010.
- \$15 million of interest and earnings from the Tobacco Settlement Fund.
- \$121 million transferred from the Health Endowment Account to the restricted receipt account in the General fund for school employees' retirement.
- \$250 million transferred from the Tobacco Settlement Fund to the General Fund.

The enacted budget includes \$350.1 million of tobacco funds for Act 77 programs as well as Medical Assistance Long Term Care and Life Science Greenhouses. The table below details 2010/11 tobacco fund expenditures by program. Program descriptions follow.

Due to the reduction in payments made by tobacco manufacturers in 2009/10, the Act 77 programs will receive less funding than in the prior year. Tobacco monies redirected to Medical Assistance Long Term Care are \$27 million less than 2009/10; monies redirected to Life Sciences Greenhouses did not change from prior years.

2010/11 Revenues and Expenditures

The 2010/11 budget includes a total of \$735.8 million in revenues from the Tobacco Settlement Fund and the Health Endowment Account. This includes:

Tobacco Fund -- FY 2010/11 Program Expenditures	
<i>(Dollars in Thousands)</i>	
Funding for Act 77 Programs:	
Health Investment Insurance for Adults	\$ 65,403
<i>adult Basic Health Insurance Program</i>	<i>10,780</i>
<i>Medical Care for Workers with Disabilities</i>	<i>54,623</i>
Health Research	\$ 62,102
Home and Community-Based Services	\$ 42,490
Tobacco Use Prevention and Cessation	\$ 14,708
Hospital Uncompensated Care program	\$ 32,685
PACenet Transfer	\$ 26,148
Health Endowment Account	\$ -
Funding Redirected to Other Programs:	
Medical Assistance - Long Term Care	\$ 103,599
Life Sciences Greenhouse	\$ 3,000
Total Program Expenditures	\$ 350,135

Health Investment Insurance: These funds support two programs: **Medical Assistance for Workers with Disabilities (MAWD)** in the Department of Public Welfare (DPW) and **adultBasic** in the Insurance Department.

MAWD is a Medical Assistance purchase program for working Pennsylvanians, age 16 to 64, who have a disability and whose income is less than 250 percent of the federal poverty level. Enrollees purchase Medical Assistance coverage by paying DPW a monthly premium equal to five percent of their monthly income.

adultBasic provides basic health insurance to uninsured adults, ages 19 to 64, whose income is less than 200 percent of the federal poverty level. The Insurance Department contracts with private insurers, and enrollees must contribute toward the cost of their health insurance (currently \$36 per month). Beginning in 2005/06, the Community Health Reinvestment Agreement (CHR) has provided additional funding for the adultBasic insurance program. Under the agreement, the Blue Plans pledged an ongoing commitment of funds over six years. The current agreement is set to expire in December 2010. The Blue Plans have agreed to extend the agreement throughout the end of the 2010/11 fiscal year under the provisions in the current agreement. In total, this will allow for approximately \$126 million in CHR funds (new contributions and prior year carryover) for the adultBasic program in the 2010/11 fiscal year. These funds, combined with the \$10.8 million in Tobacco Settlement funds, will in a result in \$140.8 million for the program.

Current enrollment in the adultBasic program is approximately 45,900. Accounting for attrition, to maintain the current program, an average of 40,500 enrollees may be assumed for the 2010/11 fiscal year. To cover that average enrollment, nearly \$160 million would be necessary. This is \$26 million short of the amount of funding available to the adultBasic program in the 2010/11 fiscal year. As a result, persons currently receiving benefits will be removed from the program, unless additional revenues are made available.

Health Research: The Department of Health administers the **Commonwealth Universal Research Enhancement (CURE)** program which awards grants to Pennsylvania-based researchers, universities, medical schools and other institutions. Of the 19 percent in Tobacco Settlement Funds allocated for health research, 18 percent is designated for broad-based health research and one percent is designated for cancer research.

Home and Community-Based Services: DPW and the Department of Aging use these funds to expand home- and community-based services, as an alternative to nursing home care, for seniors.

Tobacco Use Prevention and Cessation Programs: The Department of Health uses funds for community-based prevention and cessation programs based on best practices for effective intervention from the national Centers for Disease Control.

Hospital Uncompensated Care: DPW uses funds to provide partial reimbursement to hospitals for costs incurred in treating patients with inadequate or no insurance.

PACENET Transfer: These funds are transferred to the PACE Fund to support PACENET, a pharmaceutical assistance program for seniors, administered by the Department of Aging.

Medical Assistance – Long Term Care: DPW uses these funds to offset the state General Fund costs for nursing home care and community-based services provided to elderly and disabled individuals who are eligible for Medical Assistance.

Life Sciences Greenhouses: These funds support the three regional biotechnology research centers that were created under Act 77. The life sciences greenhouses invest in companies focused on the research, development and commercialization of cutting-edge therapies and medical technologies.

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