

FASTFACTS

From the House Appropriations Committee

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August 2, 2011



Tobacco Settlement Fund: The First Decade

On June 26, 2001, Gov. Ridge signed the Tobacco Settlement Act, providing the framework for how Pennsylvania uses its share of the 1998 Master Settlement Agreement (MSA) with tobacco manufacturers. Act 77 of 2001 created a separate Tobacco Settlement Fund for the deposit of all MSA payments. It also created a venture capital account to fund venture capital investments in health-related businesses and an endowment account to preserve a portion of tobacco revenues for future health care needs. Act 77 established various health-related programs – some programs were designated to receive annual allocations, beginning in 2001/02, based on a formula that distributes each year’s tobacco payments; other programs received one-time appropriations in 2001/02 using the payments received prior to June 2000. The funding formula allocates 92 percent of yearly payments to the designated programs and eight percent to the endowment account. Other revenues earmarked for the endowment account include the jurisdictional payment (received January 2000), the 10 strategic contribution payments (2008 to 2017), and investment earnings from the account.

- Through June 2010, Pennsylvania received \$4.236 billion in MSA payments.
- **For the 10 budgets, 2001/02 through 2010/11, Pennsylvania has used all of its MSA payments for health-related purposes.**
 - 85 percent (\$3.604 billion) paid for programs as provided in Act 77.
 - 14 percent (\$597 million) was redirected for purposes consistent with the spending decisions in Act 77.
 - 1 percent (\$36 million) was unspent allocations that lapsed, or returned, to the Tobacco Settlement Fund.

How MSA Payments Were Spent

- 21 percent of payments (\$878 million) were used to fund **research and development**.
 - \$703 million for the **CURE health research** grant program.
 - \$115 million for regional biotechnology centers, known as **Life Sciences Greenhouses** -- \$100 million was appropriated in Act 77 for 2001/02 and \$15 million was redirected in later budgets.
 - \$60 million for **venture capital investments**, appropriated in Act 77 for 2001/02.

- 19 percent of payments (\$787 million) were used to fund **health insurance for adults**.
 - \$581 million for the **adultBasic** program for uninsured low-income adults.
 - \$205 million for the **Medical Assistance for Workers with Disabilities (MAWD)** program.
- 18 percent of payments (\$742 million) were used to support **programs dedicated to seniors**.
 - \$444 million to expand **home and community-based services** as an alternative to nursing facility care.
 - \$298 million for the **PACENET** pharmaceutical assistance program.
- 13 percent of payments (\$549 million) were redirected to **Medical Assistance Long-Term Care**, a General Fund program closely related to seniors and Act 77. Prior to the changes enacted in the 2011/12 budget, MA Long-Term Care paid a significant share of the home and community-based waiver program for seniors, with the balance covered by the Act 77 allocation for home and community-based services. It also paid for nursing home care and other community-based alternatives for seniors.
 - Gov. Schweiker first redirected \$198.5 million of payments to MA Long-Term Care in 2002/03.

- Gov. Rendell resumed the practice three years later, redirecting \$351 million of payments in six budgets, 2005/06 through 2010/11.
- In addition to the above MSA payments, \$261 million of interest and earnings were redirected, bringing the total tobacco funds for MA Long-Term Care to \$810 million.
- 10 percent (\$439 million) of payments were used to fund programs for **hospitals and other health care providers**.
 - \$386 million was used for **uncompensated care payments to hospitals** – this includes \$371 million in annual allocations plus an additional \$15 million appropriated in Act 77 for 2001/02 (to supplement the statutory allocation).
 - \$25 million was appropriated in Act 77 for **grants to community-based health care centers** that serve low-income Pennsylvanians.
 - \$20 million was appropriated in Act 77 for **HealthLink grants to rural hospitals** for the purchase of medical and surgical equipment.
 - \$8 million was appropriated in Act 77 for a **medical education loan assistance program**.
- Nearly 10 percent (\$408 million) of payments were deposited in the **Health Endowment Account**.
 - \$240 million was from annual allocations.
 - \$142 million was the “jurisdictional payment” received in January 2000.
 - \$26 million was appropriated in Act 77 for 2001/02.
- 7 percent of payments (\$296 million) were used to fund **tobacco use prevention and cessation programs**.
- 2 percent of MSA payments (\$101 million) were **transferred to the General Fund for health-related programs**. Transfers were made in three budgets, starting with the 2001/02 budget in Act 77.
 - \$68.5 million was transferred in 2001/02 as part of the one-time appropriations in Act 77.
 - \$17.7 million of redirected payments were transferred in 2009/10.
 - \$14.7 million of redirected payments were transferred in 2010/11.
- The remaining 1 percent of MSA payments were not spent and lapsed to the Tobacco Settlement Fund.

Redirected Tobacco Funds

- Through subsequent legislation enacted in the Fiscal Code, the Act 77 funding provisions were modified in seven budgets to redirect MSA payments as well as investment earnings from the Tobacco Settlement Fund, including the Endowment Account. The redirected money went to Long-Term Care (\$810 million), Life Sciences Greenhouses (\$15 million) and General Fund health-related programs (\$32 million).
 - **Unspent program allocations that lapsed in 2001/02 and 2002/03**, as the result of delays in implementing Act 77 programs, were redirected in 2002/03. (\$199 million)
 - **A portion of the annual allocations** -- for adultBasic, tobacco cessation programs, and the endowment account -- were redirected in six budgets, beginning with 2005/06. (\$323 million)
 - **Strategic contribution payments** were redirected from the endowment account in three budgets, beginning with 2008. (\$75 million)
 - **Interest and investment earnings** were redirected in seven budgets, including 2002/03 and 2005/06 through 2010/11. (\$261 million)
- As a result of these legislative changes, \$597 million of MSA payments were redirected from the following:
 - \$264 million from **adultBasic**.
 - \$133 million from the **endowment account**.
 - \$126 million from **tobacco use prevention and cessation programs**.
 - \$54 million from **MAWD**.
 - \$19 million from **home and community-based services**.

Health Endowment Account

- Act 77 provides for the use of monies in the account “to meet the extraordinary or emergency health care needs of the citizens of this Commonwealth.”
- Confronted with a budget crisis of historic proportions, the legislature turned to the endowment account to support essential health care services and related programs in the General Fund.
 - \$150 million was transferred to the General Fund in 2009/10.
 - \$371 million was transferred in 2010/11, with \$121 million earmarked for public school retirees.