

2012/2013 BUDGET BRIEFING

HOUSE APPROPRIATIONS COMMITTEE (D)
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JOE MARKOSEK, DEMOCRATIC CHAIRMAN

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Tobacco Settlement Fund Would be Modified to Support State Budget

In his 2012/13 budget proposal, Gov. Corbett seeks to modify the 11-year-old Tobacco Settlement Act to redirect funds to other health-related programs in the state budget. The proposed modifications would redirect \$164.8 million of revenue to Medical Assistance Long-Term Care (\$161.8 million) and Life Sciences Greenhouses (\$3 million).

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 between the major tobacco companies and 46 states. Act 77 established several health-related programs which are supported by the Tobacco Settlement Fund. It also established an endowment account to preserve a portion of tobacco revenues for future health care needs.

The table on this page shows the percentages set forth in Act 77 for allocating annual tobacco payments to specific programs and the endowment account. In any given budget year, the amount of tobacco funds allocated to programs is based on payments received in the previous year. Payments received in FY 2011/12 are allocated to programs in FY 2012/13.

Other revenues earmarked for the endowment account include the jurisdictional payment received in January 2000, the 10 strategic contribution payments due 2008 through 2017, and investment earnings from the account.

Funding Allocations Established in Tobacco Settlement Act	
Act 77 Programs	Allocation
Health Insurance for Adults	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%

Revenues and Proposed Funding Modifications

Gov. Corbett's 2012/13 budget proposal would spend the \$331.7 million from the Tobacco Settlement Fund revenues, including:

- \$310.957 million from payments remitted by tobacco companies to Pennsylvania during 2011/12, a \$1.1 million increase from the prior year.
- \$20.761 million from the strategic contribution payment received by Pennsylvania in April 2011.

Gov. Corbett is proposing modifications to the Act 77 program allocations and the diversion of monies earmarked for the Endowment Account so that tobacco revenue can be redirected to other health-related programs in the state budget. The proposed modifications would redirect \$164.8 million of revenue to Medical Assistance Long-Term Care (\$161.8 million) and Life Sciences Greenhouses (\$3 million).

Specifically, the governor proposes to redirect the following revenues:

- 33.3 percent from the annual funding allocation for health insurance for adults (\$31.1 million); these funds would have been allocated to the adultBasic program which provided health insurance to approximately 40,000 low-income adults until Gov. Corbett terminated it in February 2011.
- All of the annual funding allocation for Health Research (\$59.1 million).
- 62.5 percent from the annual funding allocation for Tobacco Use Prevention and Cessation (\$23.3 million).

- 18.2 percent from the annual funding allocation for Hospital Uncompensated Care (\$5.7 million).
- All of the annual funding allocation for the Health Endowment Account (\$24.9 million).
- All of the strategic contribution payment that otherwise would be deposited in the Health Endowment Account (\$20.8 million).

The funding modifications to health insurance for adults, tobacco use prevention and cessation, hospital uncompensated care, and the Health Endowment Account receive the same percentage reductions that were enacted for the 2011/12 budget under Act 26 of 2011. Similarly, the redirection of the strategic contribution payment from the Health Endowment Account is also the same action that was taken in 2011/12 per Act 26.

The recommended elimination of **Health Research** funding is a new proposal in Gov. Corbett's 2012/13 budget. Under the Tobacco Settlement Act, the Department of Health oversees health research projects funded under the Tobacco Settlement Fund. Under the Act, 19 percent of annual tobacco settlement payments are allocated for health related research projects. The health research allocation is split between Commonwealth Universal Research Enhancement (CURE) research grants (18 percent) and the National Cancer Institute (NCI) research grants (one percent).

Under the CURE program, 70 percent of funds awarded are calculated on a formula basis, using an institution's average award from the National Institutes of Health (NIH) for several previous years. The remaining 30 percent of funds, known as non-formula funds, are awarded competitively for research projects subject to a peer review. The most recent grant awards (2010/11) are on the Department of Health's website and may be referenced by clicking [here](#).

Proposed Expenditures

The table on this page shows tobacco fund expenditures in the governor's proposed budget.

Health Insurance for Adults — These funds initially supported two programs: adultBasic in the Department of Insurance and **Medical Assistance for Workers with Disabilities (MAWD)** in the Department of Public Welfare (DPW). With the termination of adultBasic in February 2011, these funds now exclusively support MAWD, which is a Medical Assistance purchase program for working Pennsylvanians, ages 16 to 64, who have a disability and whose income is less than 250 percent of the federal poverty level. Under current law, enrollees purchase Medical Assistance coverage by paying DPW a monthly premium equal to five percent of their monthly income; however, the governor's budget proposes to increase this percentage, up to a maximum of 7.5 percent, beginning in 2012/13.

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 Centers for Disease Control.

Hospital Uncompensated Care — DPW uses these 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 provided to the elderly and individuals with disabilities 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.

Tobacco Settlement Fund (\$ in Millions)	2012/13 Proposed
Health Insurance for Adults - MAWD	\$ 62.222
Home and Community-Based Services	\$ 40.424
Dept of Aging - Care Management	32.183
Dept of Public Welfare - Services	8.241
Tobacco Use Prevention and Cessation	\$ 13.993
Hospital Uncompensated Care program	\$ 25.436
PACENet Transfer	\$ 24.877
Medical Assistance - Long Term Care	\$ 161.765
Life Sciences Greenhouses	\$ 3.000
Total	\$ 331.718