

Memo

From the House Appropriations Committee (D)



TO: House Democratic Members and Staff
FROM: Rep. Joseph Markosek, Chairman
SUBJECT: Selling Tobacco Payments to Balance the Budget – Talking Points
DATE: September 21, 2017

The Face of Tobacco Settlement

House Republicans are putting forward an especially risky and expensive alternative to the tobacco securitization proposal already on the table. The stakes are many in this new push.

House Republicans are showing they are using the antonym section of their thesauruses to hoodwink Pennsylvania taxpayers.

They want to call an impact fee a severance tax and now they want to call massive borrowing a “sale.”

Taxpayers first? Obviously if the Republican meaning of that is to feel financial pain early and often.

- The commonwealth uses its tobacco payments for programs that promote and protect Pennsylvanians’ health needs, including:
 - Health care for workers with disabilities.
 - Programs to prevent young people from smoking and help others to quit.
 - Nursing facility care for seniors and community-based services that enable seniors to remain in their homes.
 - Reimbursement to hospitals for care provided to uninsured patients. And,
 - The support of cancer research and biotechnology firms.
- “Selling off” our tobacco payments will reduce the money available to pay for these critical programs.
- The programs likely to have their funding severely cut, if not entirely eliminated, are the grant programs that rely exclusively on tobacco payments as their revenue source: CURE research, hospital uncompensated care payment, and smoking cessation programs.
- Depending upon how much of our tobacco payments the Republicans may sell off, if approved, there could also be deep cuts in the funding for our nursing homes, community-based services, and health care coverage for disabled workers.
- Selling Pennsylvania’s tobacco payments will jeopardize the health of our citizens.

- Selling tobacco payments compared to securitization (as it is contained in the Senate-sponsored funding package) is more expensive and especially risky.
 - How much money could Pennsylvania give away in this sale? Wisconsin sold off \$5.9 billion of its tobacco settlement payments for just \$1.3 billion.

The Financial Aspect of Tobacco Settlement

The **Senate** revenue package would securitize a portion of the tobacco settlement money due to be paid to Pennsylvania.

- This proposal would issue more than \$1 billion in bonds to be repaid with a portion of the annual payments from the Tobacco Settlement Agreement, providing the commonwealth with a lump sum payment to be repaid over a set term of 20 or more years.
- To the extent that tobacco settlement revenues were insufficient to make annual debt service payments, the repayment of the bonds would become a general obligation of the commonwealth.
- A subsequent proposal from **House Republicans** calls for the “sale” of tobacco settlement revenues, as opposed to a bond issuance using those revenues as collateral as called for by the Senate.
 - Under this arrangement, an investor would purchase all of the revenues due to the commonwealth from the Tobacco Settlement Agreement for a certain number of years in return for an up front, lump-sum payment.
 - If tobacco settlement revenues were lower than originally forecast at the time of the sale, the commonwealth would have no general obligation to make the investor whole.
 - Because the purchaser would assume greater risk under this scenario (because there is no commonwealth backstop to guarantee repayment) the discount rate applied to the tobacco settlement revenue stream would be higher than under a securitization.
 - The commonwealth would be giving up a greater percentage of its tobacco settlement revenues to compensate the purchaser for this risk.
- While a direct “sale” of tobacco settlement revenues would not technically count as debt, the structure of the transaction is so similar to securitization (debt) making the distinction pathetic and unimpressive.
- Due to the higher discount applied under a “sale” scenario, the commonwealth would forego a larger share of its tobacco settlement revenues compared to the size of the lump-sum payment.
- If the pension systems (SERS and/or PSERS) become the investors purchasing the commonwealth’s tobacco settlement revenues, as has been reported, this would make an irresponsible proposal even more inexcusable because of the recent progress made towards fully funding our pension systems.
- **The new House Republican proposal is irresponsible and would cost the state more.**
- **The new House Republican proposal would, essentially, force the commonwealth to pay more simply so the Republicans could claim their new package contains no borrowing.**
- **Call it anything you want but the Republican ploy is still just a different method of borrowing a lot of money.**