



Tobacco Settlement Fund

The Tobacco Settlement Act (Act 77 of 2001) governs the deposit, investment and spending of payments received by Pennsylvania under the 1998 Master Settlement Agreement (MSA). Act 77 established the Tobacco Settlement Fund for the deposit of MSA payments received by the commonwealth and established health-related programs to be financed with tobacco monies. It also created two accounts within the Tobacco Settlement Fund: the Health Venture Investment 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.

For more information, see the Tobacco Settlement Fund Primer dated March 15, 2013. The primer is available online at www.hacd.net.

2013/14 Budget Changes to Act 77 of 2001

Program expenditures for 2013/14 reflect changes that the General Assembly made to provisions in Act 77 regarding the deposit and spending of tobacco funds. As in previous fiscal years, the General Assembly used the Fiscal Code (Act 71 of 2013/SB 591) to alter the Act 77 provisions so that tobacco money could be redirected to help pay for other health-related programs in the General Fund budget; however, this year's legislation made the new provisions permanent.

Specifically, Act 71 of 2013 amended the Fiscal Code to add a new sub article B to Article XVII-A.1 (Special Funds) containing provisions that replace, and in some cases expand upon, provisions initially enacted in the 2001 Tobacco Settlement Act. To effectuate the addition of this sub article, the act repealed the following three sections in Act 77:

- Section 303, which established the Tobacco Settlement Fund, the Health Venture Investment Account and the Health Endowment Account for Long-Term Hope.
- Section 306, which provided for the use of the Tobacco Settlement Fund. This section established percentages for appropriating annual tobacco payment to the endowment account and to the programs established in Act 77. It also provided for the use of lapsed (unspent) funds.

- Section 307, which stipulated how the endowment account was to be used, including the procedures required for appropriating monies from the account.

Sub article B re-establishes the Tobacco Settlement Fund as well as the Health Venture Investment Account and the Health Endowment Account for Long-Term Hope. Among the provisions enacted in Act 71 are new percentages for appropriating the annual MSA payments made by tobacco manufacturers. For purposes of comparison, the table on Page 2 identifies the annual appropriation percentages initially established in Act 77 and the replacement percentages in Act 71 of 2013. Of particular note, the act made the following changes to Act 77:

- Eliminated the annual allocation to the endowment account and adultBasic program.
- Reduced the annual allocations for tobacco use prevention and cessation programs, broad-based health research and the hospital uncompensated care program. The percentages are the same as those used in fiscal year 2012/13, pursuant to provisions in Act 87 of 2012 (Fiscal Code).
- Added a new allocation to be separately appropriated for health-related purposes – this represents the funding that has been redirected in prior budgets to help pay for Medical Assistance Long-Term Care and Life Sciences Greenhouses.

Program Receiving Annual Appropriations	Act 77 of 2001	Act 71 of 2013
Home and community-based services	13%	13%
Tobacco use prevention and cessation programs	12%	4.5%
CURE - Broad-based health research	18%	12.6%
CURE - Cancer research	1%	1%
Hospital uncompensated care payment program	10%	8.18%
Medical Assistance for Workers with Disabilities *	30%	30%
PACENET program for seniors	8%	8%
Health Endowment Account	8%	n/a
Health-related purposes	n/a	22.72%

*Act 77 stipulated that these funds be used for MAWD (established in Chapter 15 of Act 77) and the adultBasic program (established in Chapter 13 of Act 77).

- \$21.360 million from the strategic contribution payment received by Pennsylvania in April 2013. This is \$361,000 more than what was anticipated in the governor’s budget request and is only slightly more (\$19,000) than the prior year.

- \$5 million from lapsed funds – these are unspent allocations previously made to programs. The governor’s budget request did not include any of these revenues.

Additionally, Act 71 requires that all other payments and revenues received in the Tobacco Settlement Fund shall be appropriated for health-related purposes. Examples of “other payments” include strategic contribution payments and investment earnings (Section 303 of Act 77 had previously required these monies be deposited into the endowment account). The strategic contribution payments refer to specific MSA payments made by the tobacco companies for the 10-year period, 2008 through 2017. The new provision appropriating the strategic contribution payments for health-related purposes is consistent with how these payments have been used in previous budgets, beginning with 2007/08 through 2012/13. Although investment earnings were not spent in the 2012/13 budget, these monies have been used in previous fiscal years to help pay for health-related purposes in the General Fund budget.

Revenues & Program Expenditures

The 2013/14 final budget spends a total of \$342 million from the Tobacco Settlement Fund. This is \$5.6 million more than Gov. Corbett’s Executive Budget request and includes the following revenues:

- \$315.825 million from the annual payments remitted by tobacco companies to Pennsylvania during 2012/13. While this is \$5.2 million greater than what was anticipated in the governor’s budget request, it represents a slight decrease of \$197,000 from the prior fiscal year.

The table below details 2013/14 tobacco fund expenditures by program. Descriptions for each program follow the table.

The tobacco revenues allocated for “health-related purposes” – namely, Medical Assistance Long-Term Care and Life Sciences Greenhouses – appear as appropriations under the Tobacco Settlement Fund in the General Appropriation Act (SB 1437). Tobacco revenues for Medical Assistance Long-Term Care are \$26.6 million less than the amount redirected in 2012/13 (which included \$31.6 million that historically would have gone to adultBasic). Revenues redirected to Life Sciences Greenhouses are the same as in prior years.

Tobacco Settlement Fund Expenditures for Health-Related Programs (\$ in Millions)	Final 2013/14
Home and Community-Based Services	\$41.1
Tobacco Use Prevention and Cessation	\$14.2
Health Research - Broad Based	\$39.8
Health Research - Cancer	\$3.2
Hospital Uncompensated Care	\$25.8
Medical Assistance for Workers with Disabilities	\$94.7
PACenet Transfer	\$25.3
Other Health-Related Programs:	
<i>Medical Assistance - Long Term Care</i>	\$95.1
<i>Life Sciences Greenhouses</i>	\$3.0
TOTAL	\$342.2

Home and Community-Based Services

The Department of Public Welfare uses these funds to provide home and community-based services for seniors, as an alternative to nursing home care. The funds pay for services provided through the Aging

Waiver to seniors, age 60 or older, who are eligible for Medical Assistance. DPW also uses this allocation to pay for the administrative costs associated with the Aging Waiver and the Nursing Home Transition program which assists individuals who want to move from a nursing facility back into the community. The funds allocated for home and community-based services qualify for federal Medicaid matching funds.

Tobacco Use Prevention & 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.

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. A total of 13.6 percent of annual tobacco payments are allocated for health research, with 12.6 percent designated for broad-based health research and one percent designated for cancer research.

Hospital Uncompensated Care

DPW uses these funds to provide partial reimbursement to hospitals for costs incurred in treating patients with inadequate or no insurance. Act 77 stipulates that 85 percent of the funding is designated for Uncompensated Care payments to hospitals for the cost of care provided to individuals who are uninsured or unable to pay for services and 15 percent is designated for Extraordinary Expense payments to hospitals for treating uninsured patients whose cost of care exceeds twice the hospital's average cost per stay. Eligible hospitals may choose to receive either the Uncompensated Care payment or the Extraordinary Expense payment, but cannot receive both. Federal matching funds are available for both payments.

Medical Assistance for Workers with Disabilities (MAWD)

Administered by the Department of Public Welfare (DPW), 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. Act 77 stipulates that MAWD enrollees pay DPW a monthly premium, equal to five percent of their monthly income, to purchase their Medical Assistance coverage; however, language in Act 71 of 2013 permits DPW to adjust this percentage, subject to federal approval, in 2013/14. The tobacco funds allocated for MAWD qualify for federal Medicaid matching funds.

PACENET Transfer

These funds are transferred to the PACE Fund to support provisions in the Tobacco Settlement Act which expanded PACENET, a pharmaceutical assistance program for seniors that is administered by the Department of Aging. The Act increased income eligibility for PACENET by \$1,000 in 2001, raising the annual income limit to \$17,000 for single individuals and \$20,200 for married couples. (Please note: due to subsequent legislation amending the State Lottery Law, the current PACENET income limit is \$23,500 for single individuals and \$31,500 for married couples.)

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. Tobacco Settlement funds appropriated for Medical Assistance Long-Term Care earn federal Medicaid matching funds.

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.

House Appropriations Committee (D)

Miriam A. Fox, Executive Director

Beth Balaban, Senior Budget Analyst

Stephanie Weyant, Communications Director