



REPORT ON KEY ISSUES FROM THE HOUSE APPROPRIATIONS COMMITTEE

BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

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2009/10 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 within the Tobacco Settlement Fund an endowment account (referred to as the Health 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 Settlement Fund revenue for purposes other than those set forth in Act 77. The redirection of funds is explained in greater detail below. In addition, the Fiscal Code was amended to provide for transfers from the Health Endowment Account to the General Fund in 2009/10 (\$150 million) and in 2010/11 (\$250 million).

The Fiscal Code redirects a total of \$151.6 million of Tobacco Settlement Fund monies in 2009/10. Of this amount, \$133.9 million is appropriated for the following health-related purposes: Medical Assistance Long-Term Care (\$130.9 million) and Life Sciences Greenhouses (\$3 million). The remaining \$17.7 million is transferred to the General Fund for no specific purpose.

Specifically, the following tobacco revenues are redirected in 2009/10 for health-related purposes:

- \$15 million of interest and earnings from the Tobacco Settlement Fund.

- \$10 million of interest and earnings from the Health Endowment Account.
- The strategic contribution payment that otherwise would be deposited in the Health Endowment Account (\$26.5 million).
- All of the annual funding allocation for the Health Endowment Account (\$31.4 million).
- One-third of the annual funding allocation for Health Investment Insurance (\$39.2 million). This one-third redirection is same as the funding shift enacted for previous budgets.
- One-fourth of the annual funding allocation for Tobacco Use Prevention and Cessation (\$11.8 million). This redirection is the same as the funding shift enacted for previous budgets and will also apply going forward to 2010/11.

In addition to the funds redirected above for health-related purposes, another 37.5 percent (\$17.7 million) of the annual funding allocation for Tobacco Use Prevention and Cessation is transferred to the General Fund for 2009/10. The monies transferred to the General Fund are not earmarked for any specific purpose. This 37.5 percent transfer will also apply to 2010/11.

2009/10 Revenue and Expenditures

The 2009/10 budget spends a total of \$594.2 million from the Tobacco Settlement Fund and the Health Endowment Account. This includes:

- \$392.8 million in payments remitted by tobacco companies to Pennsylvania during 2008/09, a \$36.6 million increase over the prior year.
- \$25 million of interest and earnings from the Tobacco Settlement Fund and the Health Endowment Account.
- \$26.5 million in strategic contribution payments received by Pennsylvania in 2009.
- \$150 million transferred from the Health Endowment Account.

The nearby table details 2009/10 Tobacco Settlement Fund expenditures by program as well as the amounts transferred to the General Fund. The following five programs receive increased funding compared to 2008/09: Health Investment Insurance for Adults; Health Research; Home and Community-Based Services; Hospital Uncompensated Care; and PaceNet Transfer.

2009/10 funding allocations for Tobacco Use Prevention and Cessation programs as well as for the Health Endowment Account are less than 2008/09. The decreased funding for Tobacco Use Prevention and Cessation programs is due to the new 37.5 percent transfer to the General Fund. The cut to the Health Endowment Account reflects the decision to redirect the entire 2009/10 allocation for health-related purposes (i.e., Medical Assistance Long Term Care and Life Sciences Greenhouses).

The total amount of funds redirected to Medical Assistance Long Term Care is less than 2008/09. However, funding redirected to the Life Sciences Greenhouses remains unchanged from 2008/09.

Tobacco Settlement Fund (\$ in Thousands)	2009/10
Funding for Programs	
Health Investment Insurance for Adults	\$ 78,590
<i>adult Basic Health Insurance Program</i>	39,778
<i>Medical Care for Workers with Disabilities</i>	38,812
Health Research	\$ 74,624
Home and Community-Based Services	\$ 51,058
Tobacco Use Prevention and Cessation	\$ 17,674
Hospital Uncompensated Care program	\$ 39,275
PACEnet Transfer	\$ 31,420
Health Endowment Account	\$ -
Medical Assistance - Long Term Care	\$ 130,923
Life Sciences Greenhouse	\$ 3,000
Transfers to General Fund *	
Tobacco Use Prevention and Cessation	\$ 17,674
Health Endowment Account	\$ 150,000
Total	\$ 594,238

* The transferred funds are not earmarked for any specific purpose.

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, age 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 \$35 per month). Beginning in 2005/06, the Community Health Reinvestment Agreement (CHR) provides additional funding for the adultBasic insurance program. Under the agreement, the Blue Plans pledged an ongoing commitment of funds over the next six years. For 2009/10, Tobacco Settlement Funds will be supplemented by \$120 million in CHR funds, for total adultBasic funding of nearly \$160 million.

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.



QUESTIONS AND COMMENTS
717-783-1540

Miriam A. Fox, Executive Director
mfox@hacd.net

Beth Balaban, Senior Analyst

Barbara Fellencer, Communications Director
<http://www.hacd.net>