

2011/2012

BUDGET BRIEFING

Report on Key Issues from the
HOUSE APPROPRIATIONS COMMITTEE (D)

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Tobacco Settlement Fund

The Tobacco Settlement Fund was established by Act 77 of 2001 to help support health-related programs in Pennsylvania. The vast majority of tobacco monies are spent on the specific programs established in Act 77. Subsequent legislation, via amendments to the Fiscal Code, modified the funding allocations in Act 77 and/or diverted money otherwise earmarked for the Endowment Account so that a portion of the tobacco money could be redirected to other health-related programs in the state budget. The impact of these statutory changes, approved by the General Assembly and signed by the Governor, are well documented each year by the Appropriations Committee, including identification of the tobacco money that was redirected and an itemization of the program expenditures that were funded. In his 2011/12 Executive Budget request, Governor Corbett proposed to amend Act 77 as part of a controversial initiative that included moving tobacco funds and programs to the General Fund and creating a new Liberty Loan Fund. The General Assembly rejected the Corbett proposal and retained the funding for health-related programs per Act 77 with certain modifications. This briefing outlines how \$391 million from the Tobacco Settlement Fund is used in the 2011/12 budget. A separate document outlining the first 10 years of the Tobacco Settlement Fund is available on the House Appropriations Committee (D) website at: www.hacd.net.

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 below shows the percentages set forth in Act 77 for allocating annual tobacco payments to specific programs and 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%

The funding formula allocates 92 percent of yearly payments to 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 due 2008 through 2017, and investment earnings from the account.

Fiscal Code Changes

As part of the 2011/12 budget, the General Assembly amended the Fiscal Code (Act 26 of 2011) to redirect a portion of tobacco revenues to other health-related programs: Medical Assistance Long-Term Care and Life Sciences Greenhouses.

Specifically, Act 26 redirected \$105.6 million of the following tobacco revenues:

- 33.3 percent from the annual funding allocation for Health Investment Insurance (\$30.96 million). These dollars otherwise would have been allocated to the adultBasic health insurance program. This program providing health insurance to low-income adults was terminated in February 2011 under the Corbett Administration.

- 62.5 percent from the annual funding allocation for Tobacco Use Prevention and Cessation (\$23.24 million).
- 18.2 percent from the annual funding allocation for Hospital Uncompensated Care (\$5.64 million).
- All of the annual funding allocation for the Health Endowment Account (\$24.79 million).
- The strategic contribution payment that otherwise would be deposited in the Health Endowment Account (\$20.95 million).

2011/12 Revenues and Expenditures

The 2011/12 budget spends a total of \$390.8 million in Tobacco Settlement Fund revenues, including:

- \$309.88 million from payments remitted by tobacco companies to Pennsylvania during 2010/11, a \$17 million decrease from the prior year.
- \$20.95 million from the strategic contribution payment received by Pennsylvania in April 2011.
- \$60 million from available balances in the Tobacco Settlement Fund.

The table below shows tobacco fund expenditures authorized for 2011/12. Descriptions for each program follow the table.

Use of Tobacco Settlement Fund	2011/12
Act 77 Programs	<i>(\$ in thousands)</i>
Health Investment Insurance for Adults	\$ 62,007
<i>Medical Care for Workers with Disabilities</i>	62,007
<i>adult Basic Health Insurance Program¹</i>	0
Health Research	\$ 58,877
<i>Broad-Based Health Research</i>	55,779
<i>Cancer Research</i>	3,099
Home and Community-Based Services	\$ 40,285
<i>Dept of Aging - Care Management</i>	32,183
<i>Dept of Public Welfare - Services</i>	8,102
Tobacco Use Prevention and Cessation	\$ 13,945
Hospital Uncompensated Care program	\$ 25,348
PACENET Transfer	\$ 24,790
Health Endowment Account	\$ 0
Other Health-Related Programs	
Medical Assistance - Long-Term Care	\$ 162,583
Life Sciences Greenhouse	\$ 3,000
Total	\$ 390,836

¹ This program was terminated by the Corbett Administration in February 2011.

Health Investment Insurance — These funds initially supported 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, ages 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** provided basic health insurance to uninsured adults, ages 19 to 64, whose income was less than 200 percent of the federal poverty level. For calendar years 2005-2010, state funding was supplemented by the four major Blue Cross and Blue Shield Plans serving Pennsylvania under the Community Health Reinvestment Agreement. When this agreement expired in December 2010, the program faced a funding shortage to continue the current program levels. In February 2011, the Corbett Administration terminated the adultBasic program in the Department of Insurance. However, the program is still referenced in statute (Act 77 of 2001). Any redirection of funds will need to be done annually in amendments to the Fiscal Code or with a permanent change to the Tobacco Settlement Act.

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 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 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.