

2012/2013
BUDGET BRIEFING
HOUSE APPROPRIATIONS COMMITTEE (D)
 Report on Key Issues
 HOUSE APPROPRIATIONS COMMITTEE (D)



JOE MARKOSEK, DEMOCRATIC CHAIRMAN September 18, 2012

Budget Shifts Tobacco Settlement Funds

The enacted 2012/13 budget spends \$337.4 million from the Tobacco Settlement Fund on health-related activities.

As in previous years, the General Assembly made adjustments to the funding provisions in the Tobacco Settlement Act to redirect \$124.7 million to other health-related programs in the state budget, with the bulk of the funds going to Medical Assistance Long Term Care (\$121.7 million) and the balance to Life Sciences Greenhouses (\$3 million).

While the General Assembly rejected Governor Corbett's proposal to eliminate the entire CURE (Commonwealth Universal Research Enhancement) health research program, it redirected a portion of tobacco funding used for CURE grants.

Revenues and Funding Modifications

The 2012/13 enacted budget spends a total of \$337.4 million in Tobacco Settlement Fund revenues for health related activities. This includes the following revenue sources:

- \$316.022 million from payments remitted by tobacco companies to Pennsylvania during 2011/12, a \$6.1 million increase from the prior year.
- \$21.341 million from the strategic contribution payment received by Pennsylvania in April 2012.

Through amendments to the Fiscal Code (Senate Bill 1263) passed as part of the 2012/13 budget package, the General Assembly **modified the Act 77 program allocations and diverted funds earmarked for the Endowment Account so that \$124.7 million of tobacco revenue could be used to help pay for other health-related programs in the state budget.** Most of the redirected revenues are used for Medical Assistance Long-Term Care (\$121.7 million), with the balance going to Life Sciences Greenhouses (\$3 million).

Specifically, Senate Bill 1263 redirected the following tobacco revenues:

- **33.3 percent** of the annual funding allocation for **Health Insurance for Adults** (\$31.6 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.

- **30 percent** of the annual funding allocation for

What is the 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 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. In any given budget year, the amount of tobacco funds allocated is based on annual payments that the commonwealth received in the prior year.

In addition to the annual allocation, Act 77 earmarks the following revenues for the endowment account: the jurisdictional payment received January 2000, the 10 strategic contribution payments due 2008 through 2017, and investment earnings from the account.

Funding Allocations Established in Tobacco Settlement Act	
Program Area	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%

health-related research under section 906(2) and (3) of the Tobacco Settlement Act. Authors of the language say the intent of this language is to redirect all of the “non-formula” funding for CURE (Commonwealth Universal Research Enhancement) health research (\$17.1 million); however, an alternative interpretation is that only 30 percent of these funds would be redirected, with the remaining available for research grants.

- **62.5 percent** of the funding allocation for **Tobacco Use Prevention and Cessation** (\$23.7 million).
- **18.2 percent** of the annual funding allocation for **Hospital Uncompensated Care** (\$5.8 million).
- All of the annual funding allocation for the **Health Endowment Account** (\$25.3 million).
- The strategic contribution payment that otherwise would be deposited in the Health Endowment Account (\$21.3 million).

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

The reduction in the allocation for CURE health research is a new modification, reflecting the first time since Act 91 of 2002 that tobacco monies were redirected away from health research.

Program Expenditures

The table below details 2012/13 tobacco fund expenditures for health-related programs. Descriptions for each program follow the table.

As the result of increased payments made by tobacco manufacturers in 2011/12, the Act 77 programs – other than Health Research - will receive more funding than in the prior year. Funds allocated to the Act 77 programs are executive authorizations and therefore do not require a legislative appropriation.

Tobacco revenues redirected to Medical Assistance Long Term Care are \$40.859 million less than the amount redirected in 2011/12. Revenues redirected to Life Sciences Greenhouses are the

same as in prior years. The funds redirected for Medical Assistance Long Term Care and the Life Sciences Greenhouses appear as appropriations under the Tobacco Settlement Fund in the General Appropriation Act (Senate Bill 1466).

Use of Tobacco Settlement Fund	2012/13 (\$ in millions)
Act 77 Programs:	
Health Insurance for Adults - MAWD	\$ 63.236
Health Research	\$ 42.978
<i>Broad-Based Health Research</i>	39.819
<i>Cancer Research</i>	3.159
Home- and Community-Based Services	\$ 41.083
Tobacco Use Prevention and Cessation	\$ 14.221
Hospital Uncompensated Care program	\$ 25.850
PACenet Transfer	\$ 25.282
Other Health-Related Programs:	
Medical Assistance - Long-Term Care	\$ 121.713
Life Sciences Greenhouses	\$ 3.000
Total	\$ 337.363

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 the MAWD program, 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. Act 77 stipulates that MAWD enrollees pay DPW a monthly premium, equal to five percent of their monthly premium, to purchase Medical Assistance coverage. However, the General Assembly amended the Fiscal Code to authorize DPW to adjust the premium percentage upon approval of the federal government. The premium increase was requested by Gov. Corbett and takes effect beginning in FY 2012/13. State funding for MAWD earns federal Medicaid matching funds.

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. Of the 18 percent for broad-based health research, Act 77 allocates 70 percent of funding based on the

National Institutes of Health funding formula, 15 percent to fund clinical and health services research projects and 15 percent for other research projects.

Home and Community-Based Services — These funds are used to expand home- and community-based services, as an alternative to nursing home care, for seniors. Historically, funding was shared between DPW and the Department of Aging; however, all funds are allocated to DPW in the enacted 2012/13 budget. As in previous years, this funding will continue to support the Aging Waiver Program, which provides services to individuals age 60 or older who are eligible for Medical Assistance, 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 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. 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. Payments receive federal 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. (Note that 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 (located in central, eastern and western Pennsylvania) 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.

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