

The Tobacco Settlement Fund In Governor Corbett's Proposed 2011-12 Budget: A Fact Sheet

What is the Tobacco Settlement Fund?

Act 77 of 2001 created the Tobacco Settlement Fund to receive the revenues from the Master Settlement Agreement that was reached with the five major tobacco companies on December 17, 1999. The Master Settlement Agreement requires payments from these companies as compensation for the medical cost of caring for those with illnesses caused by smoking. However, under the Master Settlement Agreement the use of the funds is solely at the discretion of the states.

What have these revenues traditionally been used for?

The Tobacco Settlement Fund has provided funding for health care insurance for the uninsured, home and community-based services for older Pennsylvanians, tobacco use prevention and cessation programs, broad-based health research, medical care for workers with disabilities, uncompensated hospital care, and prescription drug coverage for older Pennsylvanians. The fund also has provided operating support for the Life Sciences Greenhouses – organizations that focus on the formation and growth of life science companies in Pennsylvania. In addition, an endowment component was created to preserve a portion of Pennsylvania's Tobacco Settlement payments for future use.

The 2005 Annual Community Health Reinvestment funding agreement between the commonwealth and Pennsylvania's Blue Cross/Blue Shield plans augmented the tobacco funds for health care insurance coverage for uninsured adults through the adultBasic program. With the expiration of that agreement and the increased funding needs of the Medical Assistance for Workers with Disabilities program, the adultBasic program expired on February 28, 2011.

When does the commonwealth receive the Master Settlement Agreement payments?

Under the terms of the agreement, the commonwealth receives payments in April. Traditionally, these payments have been used to fund health programs in the following fiscal year, which begins on July 1.

What changes have been made in the use of Tobacco Settlement Fund monies over the years since the Master Settlement Agreement was reached?

In recent years a portion of the tobacco revenue has been used to offset the escalating cost of long-term care services for older Pennsylvanians and people with disabilities.

In 2010-11, to offset the cost of long-term care and provide operating support for the Pennsylvania Life Sciences Greenhouses, Act 46 of 2010 continued to redirect 25 percent of the funds allocated to tobacco use prevention and cessation activities, 33 percent of the funds allocated to health care insurance for uninsured adults, 100 percent of the funds allocated for the Health Endowment Account, and the entire annual strategic contribution payment and tobacco revenue interest and earnings.

In addition, Act 46 of 2010 (the Fiscal Code), enacted as part of Governor Rendell's Fiscal Year 2010-11 budget:

- redirected 37.5 percent of the funds allocated to tobacco use prevention and cessation to the General Fund;
- transferred \$250 million from the Tobacco Settlement Fund to the General Fund;
- transferred \$121 million from the Health Endowment Account to augment the appropriation for payment of required contributions to the Public School Employees' Retirement System; and
- transferred all remaining assets, cash and investments as of June 1, 2011 from the Health Endowment Account to the Tobacco Settlement Fund.

What will happen to the annual Master Settlement Agreement payment that arrives in April 2011?

Historically, this payment would have been used to support health-related programs in the following fiscal year – in this case, 2011-12. However, Act 46 of 2010 required that funding from the April 2011 payment be used in 2010-11 to meet the transfer obligations from the Tobacco Settlement Fund to the General Fund. As a result, without any changes, sufficient revenues for the programs supported by these tobacco funds will not be available in Fiscal Year 2011-12. This will create a cash-flow shortfall for those programs that would affect their continuing operations.

What changes does Governor Corbett's 2011-12 budget proposal make to the Tobacco Settlement Fund?

To address the cash-flow shortfall resulting from the use of the April 2011 Master Settlement Agreement payment in the 2010-11 budget and to prevent interruptions to the programs that operate with tobacco funds, the 2011-12 budget proposes to move the tobacco revenue and the tobacco-funded programs to the General Fund. This shift will allow the General Fund to provide the necessary operating cash flow until the April 2012 Master Settlement Agreement payment arrives.

Again, this change is necessary because the requirement of Act 46 of 2010 – to use the April 2011 Master Settlement Agreement payment in the 2010-11 fiscal year – made it impossible for the commonwealth to continue to its previous practice of using the April Tobacco Settlement payment to fund programs in the following fiscal year.

If you move the tobacco revenue to the General Fund, won't funding be lost for the health-related programs this revenue would have supported?

No, the 2011-12 budget proposes to continue the funding for the Tobacco Settlement programs as they would have been funded by the Tobacco Settlement Fund. The proposed budget simply shifts the revenue from the Tobacco Settlement Fund to the General Fund. The programs will remain intact. This budget estimates that \$338.6 million will be received from the Tobacco Master Settlement Agreement in 2011-12 and deposited into the General Fund.

What is the status of the endowment component that was created to preserve some of the Tobacco Settlement Fund revenues for future use?

The legislation that created the Tobacco Settlement Fund required a portion of the funds to be set aside for investments. The Health Endowment Account was created as the long-term investment vehicle for the Tobacco Settlement Fund.

Under Governor Corbett's budget proposal, \$220 million in investment assets in the Health Endowment Account will move to a new Liberty Loan Fund. This move is to ensure that these assets can remain as investments and do not have to be liquidated. These investments are already in health care-related companies, and that will not change with the move to the Liberty Loan Fund. The \$220 million from the Health Endowment Account will be only one portion of the assets in the Liberty Loan Fund, which will combine existing commonwealth financing resources, including the Commonwealth Financing Authority and other loan funds.

What is the Liberty Loan Fund?

The Liberty Loan Fund will create a new economic development financing partnership by pooling the commonwealth's existing economic development financing resources (loan funds and Commonwealth Financing Authority assets) in a way that will enable the state to leverage additional private funds to invest in economic development opportunities.

Currently, there are a variety of economic development programs and revolving loan funds that address narrowly defined needs or uses. In addition, these tools are often constrained by enabling legislation that prohibits them from responding to the rapidly changing needs of businesses and reacting to new economic opportunities.

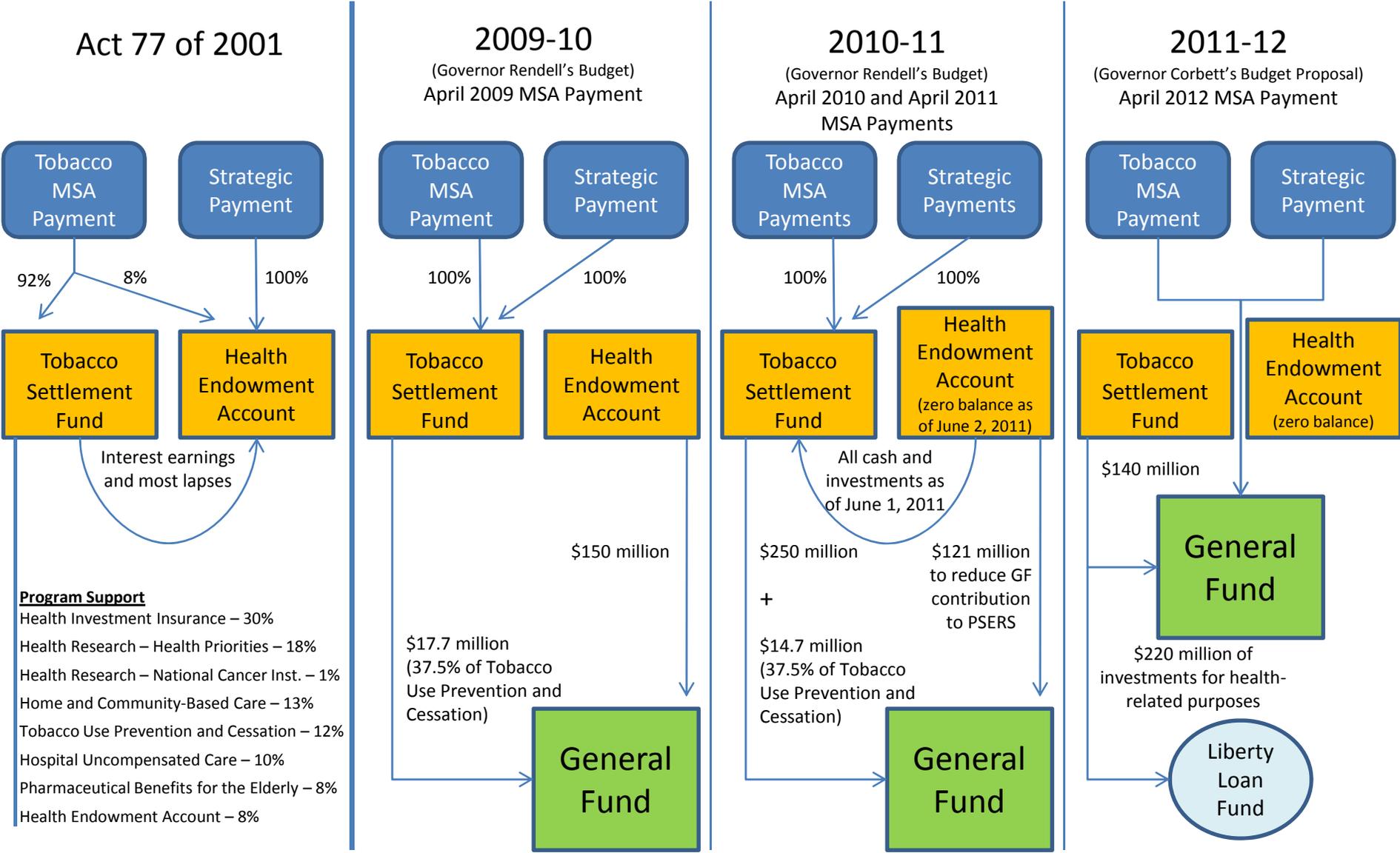
By pooling the resources from these funds and programs and unshackling the constraints, the commonwealth will be able to leverage new private dollars using the pooled assets of the existing programs and create flexible financing tools to quickly adjust to changing economic conditions.

Doesn't that mean that the assets that supported the Tobacco Settlement Fund will now be used to support economic development activities rather than health programs?

No, Governor Corbett's proposal is to maintain these investments for future use in health-related activities. The assets have been invested in the biotechnology and biopharmaceutical industries and, under the terms of the original legislation, they were invested to be available for future generations.

Editor's Note: Please see the graphics on the following two pages for more information on the Tobacco Settlement Fund.

The Tobacco Settlement Fund History



Graphic does not include the following redirections to offset Long-Term Care and Life Science Greenhouse costs in 2009-10 and 2010-11: 25% of Tobacco Use Prevention and Cessation and 33% of Health Investment Insurance. Strategic payments, interest earnings and the 8% endowment allocation were also redirected to offset Long-Term Care and Life Science Greenhouse costs.

Master Settlement Agreement Program Support

(Amounts in Thousands)

| Programs | | 2010-11 (April 2010 MSA Payment + Strategic Payment + Interest) | 2011-12 (April 2012 MSA Payment + Strategic Payment) |
|---|---|--|---|
| Health Investment Insurance | Adult Health Insurance ¹ | \$21,780 | \$0 |
| | Medical Assistance for Workers with Disabilities ¹ | 43,623 | 63,042 |
| Health Research (Health Priorities & NCI) | | 62,102 | 59,861 |
| Home and Community-Based Care | | 42,490 | 32,183 ² |
| Tobacco Use Prevention and Cessation | | 14,708 | 14,177 |
| Hospital Uncompensated Care | | 32,685 | 31,505 |
| Pharmaceutical Benefits for the Elderly | | 26,148 | 25,000 ² |
| Life Sciences Greenhouses | | 3,000 | 3,000 |
| Long-Term Care | | 103,599 | 95,473 ² |
| Total | | \$350,135 ³ | \$324,241 ³ |

MSA Payments 2009 thru 2012

April 2009
\$392.8 million

April 2010
\$326.8 million

April 2011
\$321.0 million

April 2012
\$315.0 million

Strategic Payments 2009 thru 2012

April 2009
\$26.5 million

April 2010
\$23.0 million

April 2011
\$23.9 million

April 2012
\$23.6 million

¹ Adult Health Insurance and Medical Assistance for Workers with Disabilities comprise the Health Investment Insurance allocation. Funding for the Medical Assistance for Workers with Disabilities program – a federal entitlement – increases by \$20 million in 2011-12.

² 2011-12 funding for Home and Community-Based Services and Pharmaceutical Benefits for the Elderly is proposed to come from the Lottery Fund. There is no net increase in cost to the Lottery Fund because Lottery Fund support for the Long-Term Care program is reduced by \$57.183 million. Support for the Long-Term Care program in the General Fund was increased by \$57.183 million [to \$152.656 million] to offset reduced Lottery Fund support.

³ The 2011-12 total is lower because of a projected decline in the MSA payment (\$11 million) and the elimination of interest earnings (\$15 million).