



**REPORT ON KEY ISSUES FROM THE  
HOUSE APPROPRIATIONS COMMITTEE**

# BUDGET BRIEFING

**DWIGHT EVANS, DEMOCRATIC CHAIRMAN**

**March 2, 2007**

## The 2007/08 Proposed Budget - Tobacco Settlement Fund

The Tobacco Settlement Fund is a special revenue fund composed of money from the 1999 Master Settlement Agreement reached with major tobacco manufacturers. It provides for smoking prevention and smoking cessation programs and other health related programs, including home and community-based care, venture capital for medical equipment, support for the uninsured and catastrophic and uncompensated care.

The Tobacco Settlement Act of 2001 established programs to be funded by the tobacco settlement monies received by the Commonwealth and outlined the formulas applied to the annual allocation of those funds.

**Medical Assistance Long Term Care** (\$65.9 million) and the **Life Sciences Greenhouses** (\$3 million). The amended Fiscal Code diverted the following Tobacco Settlement funds for these purposes in 2006/07:

- All investment earnings on the Tobacco Settlement Fund and Health Endowment Account - \$46.2 million.
- One-eighth of the allocation for Health Investment Insurance - \$12.6 million.
- One-fourth of the allocation for Tobacco Use Prevention and Cessation - \$10.1 million.

<b>Tobacco Settlement Allocations (in thousands)</b>	<b>Enacted</b>	<b>2007/08</b>	<b>Gov's</b>
	<b>2006/07</b>	<b>Current Law</b>	<b>Proposed 2007/08</b>
Health Endowment Account (Executive Offices)	\$26,898	\$26,790	\$26,790
Home and Community-Based Services (Aging)	\$18,803	\$21,293	\$21,293
PACEnet Transfer (Aging)	\$26,898	\$26,791	\$13,395
Health Venture Investment Account (DCED)	\$0	\$0	\$6,698
Biotechnology Commercialization (DCED)	\$0	\$0	\$6,698
Life Sciences Greenhouses (DCED)	\$3,000	\$0	\$3,000
Health Research (Health)	\$63,883	\$63,628	\$63,628
Tobacco Use Prevention and Cessation (Health)	\$30,260	\$40,186	\$30,139
adultBasic/Cover All Pennsylvanians (Insurance)	\$61,597	\$72,379	\$59,820
Medical Care for Workers with Disabilities (DPW)	\$26,663	\$28,086	\$28,086
Uncompensated Care (DPW)	\$33,623	\$33,488	\$25,116
Medical Assistance: Long-Term Care (DPW)	\$65,909	\$0	\$79,227
Home and Community-Based Services (DPW)	\$31,373	\$22,242	\$22,242
	<b>\$388,907</b>	<b>\$334,882</b>	<b>\$386,132</b>

note: 2007/08 Gov's Proposal uses \$51.3 million in investment earnings for programs

### Fiscal Code Changes - 2006/07

In 2006/07, Act 66 of 2006, amending the Fiscal Code, allowed roughly \$68.9 million in Tobacco Settlement funds to be used for one year toward

### Proposed Changes - 2007/08

#### Funding for Long-Term Care

As was done in 2006/07, the Governor's 2007/08 budget proposes that the Commonwealth use

Tobacco Settlement funds in place of General Funds for Medical Assistance Long Term Care costs. The budget proposes to divert to long term care:

- All **investment earnings** on the Tobacco Settlement Fund and Health Endowment Account - \$51.3 million.
- One-eighth of the allocation for **Health Investment Insurance** - \$12.6 million. Please note that combining Tobacco Settlement Funds with Community Health Reinvestment Funds and the proposed Cover All Pennsylvanians initiative, will allow additional uninsured adults to receive health care coverage.
- One-fourth of the allocation for **Tobacco Use Prevention and Cessation** - \$10 million. Please note that programs receiving funding under Tobacco Use Prevention and Cessation were cut by approximately 28 percent in 2005/06. Under the 2006/07 budget, these programs remained close to 2005/06 levels, not the amount that would have been allocated under the Tobacco Settlement Act. Likewise, under the 2007/08 proposed budget, funding will remain close to 2006/07 enacted levels, but not the amount that would be received under the Tobacco Settlement Act.
- One-fourth of the allocation for **Uncompensated Care** - \$8.4 million. The Governor's proposal notes that hospitals will benefit from his Prescription for Pennsylvania initiative, no longer needing this level of uncompensated care dollars.

### Jonas Salk Legacy Fund

As proposed in 2006/07, the 2007/08 proposed budget would amend the Tobacco Settlement Act to redirect 9.5 percent of Tobacco Settlement funds, equating to one-half of the allocation for **Commonwealth Universal Research Enhancement Program (CURE)**, in order to create the Jonas Salk Legacy Fund (JLSF). Pennsylvania would use these redirected Tobacco Fund revenues as security to issue \$500 million in bonds and pay the debt service in future years. The JSLF will support two major types of investments: (1) Starter Kit grants to renovate, furnish and equip research facilities in hopes of attracting research faculty; and (2) Brick and Mortar Grant Financing to expand, remodel, renovate, alter or construct biomedical research facilities. The remaining one-half of the Health Research allocation will remain in the Commonwealth Universal Research Enhancement (CURE) program.

### Increasing Competitiveness in Biotechnologies

The 2007/08 proposed budget also includes \$3 million in Tobacco Settlement funds to support the three Life Sciences Greenhouses which received one-time funding in 2001/02 and again in 2006/07 under the Tobacco Settlement Act.

The 2007/08 proposed budget also would use **half of the allocation for PACENET** (\$13.4 million) to fund **Biotechnology Commercialization** (\$6.7 million) and **Health Venture Investment** (\$6.7 million) through the Life Sciences Greenhouses. This reduction will not affect pharmaceutical assistance due to available funding from the Lottery Fund.

<b>Tobacco Settlement Act of 2001</b>	<b>Allocation Percentage</b>
Health Investment Insurance	30%
Health Research	19%
Home and Community-Based Services	13%
Tobacco Use Prevention and Cessation	12%
Hospital Uncompensated Care	10%
PACENET Transfer	8%
Tobacco Endowment Account	8%

### Tobacco Settlement Programs

#### Health Endowment Account

The **Health Endowment Account** was created as a revenue source for Tobacco Settlement programs in future years if Master Settlement Agreement (MSA) payments significantly decrease or cease.

The General Assembly must annually allocate to the Account eight percent of tobacco payments that the Commonwealth receives each year. In addition, revenue in the Account includes:

- The "jurisdictional payment" that the Commonwealth received (\$142 million) pursuant to the MSA. This was a one-time payment made at the time the state reached finality.
- The "strategic contribution payments" that the Commonwealth receives pursuant to the MSA. These payments from 2008 to 2017 will reflect the contribution made by states toward resolution of the state lawsuits against tobacco companies.
- Earnings earned on Tobacco Settlement Fund investments.
- Earnings earned on Endowment Account investments.

- Lapses from appropriations in the Tobacco Settlement Fund, except for funds provided to Home and Community Based Services or Health Investment Insurance.

**The Tobacco Settlement programs include:**

- ◆ Health Endowment Account
- ◆ Health Investment Insurance and Medicaid Benefits for Workers with Disabilities
- ◆ Commonwealth Universal Research
- ◆ Life Sciences Greenhouses
- ◆ Tobacco Use Prevention and Cessation
- ◆ Home and Community-Based Services
- ◆ Hospital Uncompensated Care
- ◆ PACENET
- ◆ New Jonas Salk Fund
- ◆ New Biotechnology Commercialization
- ◆ New Health Venture Investment

**Health Investment Insurance and Medicaid Benefits for Workers with Disabilities**

The Tobacco Settlement Act allocates 30 percent of annual tobacco settlement payments to be shared between Medicaid Benefits for Workers with Disabilities and Health Investment Insurance. The Department of Public Welfare administers the **Medical Assistance for Workers with Disabilities (MAWD)** program. Since MAWD is categorized as an entitlement program, receiving federal Medicaid funds, the program has priority over available funds in this allocation. Health Investment Insurance, known as the adultBasic program, is administered through the Insurance Department and provides low-cost health insurance for uninsured low-income adults. Beginning in 2005/06, the Tobacco Settlement Funds for adultBasic have been supplemented with Community Health Reinvestment Funds, allowing the program to expand.

**Medical Assistance for Workers with Disabilities (Department of Public Welfare)**

MAWD is a Medical Assistance (MA) purchase program for eligible workers who have a disability and who have earnings that exceed the income limits for Medicaid health care coverage. Specifically, low-income persons with disabilities who are employed and receiving compensation may purchase their MA benefits by paying the Department of Public Welfare a monthly premium equal to five percent of monthly income. An eligible worker must be 16 - 64 years of age, have a disability that meets the Social Security Administration's standards, have income under 250

percent of the federal poverty level and have resources no greater than \$10,000. The disability may include physical or developmental disabilities, mental health or mental retardation.

As mentioned above, the MAWD program is an entitlement program for individuals who meet the eligibility criteria. DPW uses tobacco funds as the requisite state match for earning federal Medicaid funds; therefore, MAWD has priority over the funding allocation split with the Adult Health Insurance Program (adultBasic).

**adultBasic Health Insurance (Insurance Department)**

The **Adult Basic Health Insurance (ABC)** program provides state-funded low-cost health insurance coverage for low-income working adults on a "first-come, first-served" basis.

Adults ages 19-64 with household income levels below 200 percent of the federal poverty level guideline (FPIG) may be eligible for coverage if they are not otherwise covered by health insurance and do not qualify for Medicaid. This basic benefit plan covers: 1) preventive care, 2) physician services, 3) diagnosis and treatment of illness or injury, 4) inpatient hospitalization (limited), 5) outpatient hospital services, and 6) emergency accident and emergency medical care. Enrollees are required to contribute toward the cost of health insurance, currently \$33.50 per month.

Beginning in 2005/06, the Commonwealth has been able to supplement Tobacco Settlement Funds for adultBasic with **Community Health Reinvestment (CHR)** funds. This funding stream is the result of the Community Health Reinvestment Agreement (CHR) with the four major Blue Cross and Blue Shield Plans serving Pennsylvania. Under the agreement, the Blue Plans pledged an ongoing commitment of funds over the next six years, through 2010/11.

**Commonwealth Universal Research Enhancement (Department of Health)**

The Tobacco Settlement Act allocates 19 percent of annual tobacco settlement payments for health related research projects. The health research allocation is split between Health Priorities research grants (18 percent) and National Cancer Institute research grants (one percent).

**Health Priorities: NIH Formula Grants and Competitive Grants**

The Tobacco Settlement Act authorizes the Department of Health to distribute 18 percent of annual tobacco settlement payments for broad-based health research. The Common Universal Research Enhancement (C.U.R.E.) program awards broad-

based health research grants to Pennsylvania-based researchers, universities, medical schools and other institutions. Research projects may include basic biomedical research, patient-oriented clinical investigations, health services research or other health-related research. All research grants must be completed within a four-year period.

The Department of Health awards research funds to projects that are consistent with research priorities established and reviewed annually. In developing the research priorities, consideration is given to the Healthy People 2010 national health objectives as applied to Pennsylvania. Priorities include the identification of critical research areas and disparities in health status that occur among various populations within the Commonwealth. The department determines priorities in conjunction with the Health Research Advisory Committee. This nine-member committee is chaired by the Secretary of Health and meets twice annually to provide advice and recommendations on research priorities as well as grant accountability and evaluation procedures.

Seventy percent of funds awarded under the **Health Priorities** category are calculated on a formula basis, using an institution's average award from the National Institutes of Health (NIH) for several previous years. The request for applications for formula grants is issued each year after the research priorities are finalized.

Formula fund research priorities must include:

- the identification of critical research areas;
- disparities in health status among various Commonwealth populations;
- expected research outcomes and benefits; and
- disease prevention and treatment methodologies.

The remaining 30 percent of funds, known as non-formula funds, are awarded competitively. The Commonwealth awards non-formula based research projects by competitive bid, subject to a peer review. A panel of at least three nationally recognized physicians, scientists or researchers from the same or similar discipline as the research proposal conducts this review. The panel reviews and rates the proposal on both scientific and technical merit.

### **NCI Formula Grants**

The Tobacco Settlement Act authorizes the Department of Health to distribute one percent of annual tobacco settlement payments to institutions that received **National Cancer Institute (NCI)** funding. All of the institutions receiving NCI formula grants also are eligible for Health Priorities formula grants based on National Institutes of Health (NIH) funding received. After applications for grants are

processed, the Commonwealth awards research projects funding for four years.

### **Life Sciences Greenhouses (Department of Community and Economic Development)**

The **Life Sciences Greenhouse** Initiative was created under the Tobacco Settlement Act of 2001 to further grow the biosciences industry in Pennsylvania. Under the Act, regional biotechnology research centers received a one-time allocation of \$100 million in 2001/02. The three regional greenhouses are: The Pittsburgh Life Sciences Greenhouse, Life Sciences Greenhouse of Central Pennsylvania, and Bioadvance: The Biotechnology Greenhouse of Southeastern Pennsylvania.

The 2006/07 budget again allocated Tobacco Settlement funds for the three life sciences greenhouses.

### **Tobacco Use Prevention and Cessation (Department of Health)**

The Tobacco Settlement Act allocates twelve percent of annual tobacco settlement payments for **Tobacco Use Prevention and Cessation** programs. This allocation invests in existing and new community-based prevention programs that are based on best practices for effective intervention from the National Centers for Disease Control. In addition, this enhances and expands existing cessation programs, including the use of smoking cessation pharmaceuticals to improve long-term 'quit rates.'

The Tobacco Settlement Act of 2001 specifies that a minimum of 70 percent of this funding must be used to develop local programs throughout the Commonwealth using no more than 67 service areas. The remaining funds (no more than 30 percent) shall be used for statewide efforts.

### **Home and Community-Based Services (Departments of Aging and Public Welfare)**

The Tobacco Settlement Act allocates 13 percent of annual tobacco settlement payments for home and community based care for seniors. These funds currently support the **Pennsylvania Department of Aging (PDA) 60+ Waiver** program in the Department of Public Welfare and the **Bridge Program** in the Department of Aging.

Individuals age 60 or older who are financially eligible for Medical Assistance (MA) receive free home and community-based services through the PDA 60+ Waiver. This waiver program permits the Commonwealth to provide home and community-based services as an alternative to nursing home

care. If a senior chooses the waiver program, a care manager at the local Area Agency on Aging (AAA) will develop a plan of care that addresses the individual's needs.

Seniors who are not financially eligible for MA (because their assets exceed the \$8,000 limit) receive subsidized services through the Bridge Program and pay a portion of the cost. Seniors move into the PDA 60+ Waiver once they have "spent down" their assets to the MA eligibility level. Due to declining enrollment, the Bridge Program is being phased out and will end in June 2007. For 2007/08, tobacco funds are redirected to the PDA 60+ Waiver and will also support the nursing home transition program which assists nursing home residents in returning to their homes and communities.

### **Hospital Uncompensated Care (Department of Public Welfare)**

Under this allocation, the Department of Public Welfare (DPW) makes payments to hospitals as partial reimbursement for their uncompensated care and extraordinary expenses incurred in treating uninsured patients. The Tobacco Settlement Act allocates ten percent of annual tobacco settlement payments for hospital uncompensated care.

- 85 percent of this annual allocation is designated for Uncompensated Care payments to hospitals. The reimbursement available to a hospital is based on its uncompensated care reported to the **Pennsylvania Health Care Cost Containment Council (PHC4)** as well as its Medical Assistance and Medicare SSI inpatient days.
- 15 percent of the annual allocation is designated for Extraordinary Expense payments to hospitals for individual claims that exceed twice the hospital's average cost per stay. To identify qualified claims, DPW utilizes the claims data that hospitals submit annually to **PHC4**.

Both payments are made to qualified, acute psychiatric and rehabilitative hospitals. In order to be eligible for consideration, hospitals must have a plan in place to treat the uninsured and meet other criteria outlined in the Tobacco Settlement Act. Eligible hospitals may choose to receive either the Uncompensated Care payment or the Extraordinary Expense payment, but cannot receive both.

### **PACENET (Department of Aging)**

The Tobacco Settlement Act allocates eight percent of annual tobacco settlement payments to help support provisions in the Act which expanded PACENET, a pharmaceutical assistance program for seniors. The **PACE Needs Enhancement Tier (PACENET)** program was created to allow individuals

exceeding the **Pharmaceutical Assistance Contract for the Elderly (PACE)** income eligibility limits to enroll in an affordable prescription drug plan. The Tobacco Settlement Act increased income eligibility for PACENET by \$1000 in 2001, raising the annual income limit to \$17,000 for single individuals and \$20,200 for married couples. (Please note that due to subsequent legislation enacted in 2003, the current PACENET income eligibility limit is \$23,500 for single individuals and \$31,500 for married couples).

Tobacco Settlement funds are used to supplement Lottery Funds that support the PACENET program.

### **2007/08 Budget Proposal – New Jonas Salk Legacy Fund**

The proposed budget recommends amending the Tobacco Settlement Act to allocate 9.5 percent of annual tobacco settlement payments, equating to one-half of the allocation for Health Research programs, in order to create the **Jonas Salk Legacy Fund (JLSF)**. These redirected Tobacco Fund revenues will be used as security to issue \$500 million in bonds and pay the debt service in future years, known as securitization. The Jonas Salk Legacy Fund will provide dollar-for-dollar support to Pennsylvania universities and research institutions in the bioscience field.

Grants would be awarded by an independent body made up of university, medical research, bioscience, and public agency representatives. Funding will be focused primarily on "starter kits," allowing facilities to purchase necessary laboratory equipment, and infrastructure, permitting new laboratories and incubators to be constructed. Based on current law, no funds would be used for stem cell research in Pennsylvania.

Institutions currently receiving formula grants under C.U.R.E. will be able to voluntarily take advantage of one of two different options. Each institution will have a specified amount of time to choose between these options.

#### **Participation in JLSF**

C.U.R.E. formula grant recipients would be entitled to receive level formula funding for a period of five years. In addition, these institutions will have access to the securitized proceeds available through JLSF over the next two years. In year six and afterwards these institutions will be entitled to participate in C.U.R.E. funding.

#### **Status Quo (Non Participation in JSLF)**

C.U.R.E. formula grant recipients who choose not to compete for JSLF awards would continue to receive their relative share from the unsecuritized portion of

C.U.R.E. funding as it exists from year to year. Specifically, these institutions would continue to receive their formula entitlement tied to the overall tobacco receipts received under C.U.R.E., provided that funds are not diminished or eliminated by other actions (i.e. legislative action or court action). Those institutions choosing this option will not have the ability to apply for and receive any grant assistance from JSLF.

Please note that the opt-in provisions of the JSLF proposal may have a significant impact on competitive grant funding available under the C.U.R.E. program.

### **2007/08 Budget Proposal – New Biotechnology Commercialization (Department of Community and Economic Development)**

The 2007/08 proposed budget would use one-quarter of the allocation for PACENET to fund

**biotechnology commercialization.** These funds would provide additional capital for investment in private venture firms that extend financial resources to early stage startups and emerging life sciences companies.

### **2007/08 Budget Proposal – New Health Venture Investment (Department of Community and Economic Development)**

The 2007/08 proposed budget would use one-quarter of the allocation for PACENET to fund **Health Venture Investment.** These funds would expand capacity for the three Life Sciences Greenhouses to invest in companies focused on the research, development and commercialization of cutting-edge therapies and medical technologies.



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