MEMO

To: Newspaper Editors, Reporters, Columnists & Editorial Board Members

From: Sharon Ward, Pennsylvania Budget and Policy Center

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Re: Editorial Suggestion: Save Tobacco Settlement Dollars for Health Care

Contact

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For more than a decade, Pennsylvania has maintained a special fund containing revenue from its share of the Master Settlement Agreement with states for smoking-related costs and used that revenue solely for health-related purposes, including adultBasic, the health insurance program that ended in February.

The budget under consideration by the General Assembly would **eliminate the dedicated bank account for tobacco funds (The Tobacco Settlement Fund), roll most of the money into the state's General Fund, and divert $220 million in tobacco funds away from health care to a new business loan program** .

This plan is deeply problematic for several reasons:

1. It will put funding for critical health care services in jeopardy now and in the future. Services supported by tobacco funds, such as **uncompensated care payments to hospitals and funds for adult health insurance,** are cut in the proposed state budget. We would expect the same fate to happen to other health-related programs.
2. The plan **spends two years' worth of tobacco settlement payments in one fiscal year**. That will create an even bigger funding crisis for health care services supported by tobacco settlement dollars in the 2012-13 fiscal year.
3. The Governor's "Liberty Loan Fund" proposal would **divert $220 million from the tobacco fund to support a business loan program**. The Commonwealth already has six business loan programs; it doesn't need a seventh that comes at the expense of health care services.
4. It will **siphon off funds that have been used for adultBasic in the past** and allocate them for other, non-health-related purposes.

Background

Pennsylvania was one of the first states to dedicate tobacco settlement funds to health care purposes. In 2001, then-Governor Tom Ridge signed Act 77, setting forth how the tobacco funds would be spent. The largest share, 30%, was set aside for adult health insurance for low-income adults and workers with disabilities. For more than 10 years, the adultBasic program provided an affordable health insurance option for tens of thousands of working Pennsylvanians who could not afford to purchase private insurance.

In March, however, adultBasic came to an end when Governor Corbett chose not to address the expiration of another source of funding, the Community Health Reinvestment Agreement. As a result, more than 41,000 Pennsylvanians lost their health coverage. The Governor claimed that the state could no longer afford the program.

In his March budget proposal, the Governor proposed eliminating the state's Tobacco Settlement Fund altogether and rolling tobacco funds into the General Fund. Many of the programs funded through the Tobacco Settlement Fund were shifted to the General Fund, but some were cut. For instance, a budget bill approved by the state House last month cuts uncompensated care funding for hospitals historically provided by tobacco funds.

Under Act 77, 30% of the Tobacco Settlement must be spent for adult health care purposes. Eliminating the Tobacco Settlement Fund allows the Governor and General Assembly to divert funds for adultBasic, which would have been available starting in July, to other purposes. AdultBasic is unfunded in the Governor's budget plan and the budget bill approved by the House.

Equally troubling, the Governor's plan diverts $220 million in tobacco funds to a new business loan program dubbed the Liberty Loan Fund. The Commonwealth already has six business loan programs; the Liberty Loan Fund would consolidate all these programs under the Governor's control and use the additional dollars for a seventh business loan program.

The Governor is also proposing to use two years' worth of tobacco settlement payments in one fiscal year. Pennsylvania receives payments through the multi-state tobacco settlement in April of each year and those funds are appropriated in the fiscal year that begins in July. The Governor's plan would spend both the April 2011 and April 2012 payments in the 2011-12 fiscal year. By spending next year's money now, this plan will set the Commonwealth up for a $360 million health care funding shortfall in 2012-13.

Our Recommendation: Preserve the Tobacco Settlement Fund for Health Care

Over the past decade, tobacco settlement dollars have helped seniors age at home, reduced tobacco-related health care costs, and offset some of the costs for hospitals treating uninsured patients. They have supported life sciences research that brings jobs and wealth to the Commonwealth. They have provided health insurance for the uninsured through adultBasic and the Medical Assistance for Workers with Disabilities Program.

Now, Governor Corbett is proposing to undo the framework that made those investments possible. He is also proposing to shortchange those health programs and to set the Commonwealth up for a bigger health care funding crisis next year.

Recent media reports indicate that the Governor is making the Liberty Loan Fund plan one of his priorities in budget negotiations. These talks will come to a head in the coming week.

Many of your newspapers have editorialized against this concept, and we appreciate your efforts to educate readers on this shortsighted policy. If your newspaper's editorial page has not yet weighed in on this issue, we would strongly encourage you to do so and to support the following principles:

1. **The Tobacco Settlement Fund should be preserved and its money dedicated to health care services.** No tobacco funds should go toward the Liberty Loan Fund or any other non-health care purpose.
2. **At least 30% of tobacco funds should continue to support adultBasic or a similar program that provides affordable health coverage to working adults.**
3. **It would be fiscally irresponsible for Pennsylvania to tap into next year's tobacco payments now.**

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families. Learn more at www.pennbpc.org.