

## **TOBACCO SETTLEMENT FUND**

---

**HAP supports the Governor’s budget proposal to keep the Tobacco Settlement Fund whole**

**Governor Wolf’s budget proposes to transfer \$115 million from the Sales and Use Tax to ensure payments to programs under the Tobacco Settlement Fund remain**

### **Background**

During the 2017–2018 state budget process, the General Assembly allowed for the monetization of future funds received through the 1998 Master Settlement Agreement or the Tobacco Settlement Fund (TSF) to balance the 2017–2018 state budget. The commonwealth was able to leverage future tobacco payments and raise \$1.5 billion.

Debt payments on the bonds secured during the 2017–2018 budget process are now due in the amount of \$115 million and must be paid from the TSF.<sup>1</sup>

This places payments to programs established under the Tobacco Settlement Act (Act 77 of 2001) in jeopardy. For the hospital community this means uncompensated care payments or extraordinary expense payments.

- **Uncompensated care**—The cost of care provided to patients financially unable or unwilling to pay for services provided by a hospital. This cost shall be determined by the Health Care Cost Containment Council utilizing reported data and the hospital’s cost-to-charge ratio and shall include charity care expense and bad debt expense
- **Extraordinary expense**—The cost of hospital inpatient services provided to an uninsured patient which exceeds twice the hospital’s average cost per stay for all patients

While the Affordable Care Act (ACA) was said to allow for a decrease in uncompensated care, during fiscal year 2017, uncompensated care was valued at \$761 million.<sup>2</sup> Hospitals receive \$30.9 million through the TSF.<sup>3</sup> This, along with the federal match, results in approximately \$64 million in hospital uncompensated care payments.

Significant shifts towards high-deductible plans has countered some gains achieved with Medicaid expansion related to uncompensated care, particularly bad debt.

Finally, HAP commissioned the health care economics and consulting firm Dobson DaVanzo & Associates LLC to complete a report about the adequacy of Medicaid program payments to Pennsylvania hospitals. Based upon fiscal year 2016 data, Medicaid paid only 81.1 cents on the dollar of cost, which resulted in a \$1.2 billion Medicaid payment shortfall.

---

## Key Points

- Identified as the worst public health crisis in Pennsylvania, the hospital community is at the forefront of attempting to manage the opioid epidemic. Disproportionately affected by the crisis are the Medicaid and uninsured patient population. TSF monies are critical to allow hospitals to continue to combat this issue.
- Health-related programs funded by the tobacco settlement funds are critical to public health initiatives, provide investment for health research, and serve as safety net for very high need individuals
- The hospital community has been a significant source of revenue for the state. Through the Quality Care Assessment (QCA), the hospital community has contributed \$1.3 billion to the state since its inception and will contribute more than \$1.5 billion during the next five years<sup>4</sup>
- Rural hospitals receive and depend upon tobacco settlement funds to supplement operating costs
- Medicaid reimbursement in Pennsylvania is inadequate and does not cover costs
- Pennsylvania hospitals are already working diligently to decrease the overall cost of health care by partnering with private and public insurers on pay-for-value initiatives. Investing in these efforts creates significant opportunity to decrease a main budget line item
- The clinical shift in caring for patients to a population health focus requires significant investment in unfunded activities such as care management

## References

<sup>1</sup> [Executive Budget](#), 2019-2020. Governor Tom Wolf. See page C1-6 (or PDF p. 104): Proposed Tax and Revenue Modifications. Last accessed: 3/4/2019

<sup>2</sup> [Financial Analysis 2017 General Acute Care Hospitals: An Annual Report on the Financial Health of Pennsylvania Hospitals](#). Volume One. Pennsylvania Health Care Cost Containment Council, May 2018. Last accessed: 3/4/2019

<sup>3</sup> [Executive Budget](#), 2019-2020. Governor Tom Wolf. See page H84 (or PDF p. 866): Tobacco Settlement Fund. Last accessed: 3/4/2019

<sup>4</sup> HAP February 2019 analysis of Quality Care Assessment data, Pennsylvania Department of Human Services, Fiscal year 2011–fiscal year 2018