Protecting Hospital Tobacco Payments in Pennsylvania

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The Safety-Net Association of Pennsylvania supports the Wolf administration's FY 2020 budget proposal to fund debt service for the monetization of the state's future proceeds from the national master tobacco settlement agreement with state sales and use tax revenue.

Background

In 1998, a lawsuit brought by state governments against U.S. tobacco companies resulted in a settlement agreement in which states receive money from tobacco companies in perpetuity to compensate them for the harm caused by smoking cigarettes. Pennsylvania uses some of its share of the proceeds to help selected hospitals with the uncompensated costs they incur caring for their low-income patients.

When the state faced a budget shortfall entering into the current 2019 fiscal year, the General Assembly and Wolf administration monetized Pennsylvania's share of the settlement, borrowing $1.5 billion against those future proceeds and agreeing to repay that money in the future. The state owes $115 million in debt service payments in FY 2020, and in its proposed budget the Wolf administration calls for paying that with revenue from sales and use taxes.

Support Sales and Use Tax Revenue to Pay Tobacco Funds Debt Service

Pennsylvania's annual expenditure of tobacco settlement funds to underwrite uncompensated care is modest, but when matched by the federal government it plays a significant role in helping many hospitals care for the uninsured, underinsured, and low-income residents of their communities. When the state monetized its future tobacco settlement funds there was never any intention to pay the debt service on that borrowing by reducing tobacco-related payments. Now, the proposed Wolf administration budget projects sufficient revenue to pay that debt service without reducing tobacco-related payments.

Continue Traditional Tobacco Payments

When the state began receiving tobacco money, policy-makers decided to distribute some of it to hospitals that play the biggest role in caring for uninsured Pennsylvanians based on three criteria: how much uncompensated care hospitals provide, the proportion of their patients insured by Medicaid, and the proportion of low-income seniors they serve. This reflected their belief that the health of their constituents is vital for thriving communities.

Financial assistance with the cost of uncompensated care remains as important as ever for the hospitals that receive these payments – and especially for the state's safety-net hospitals and the communities they

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serve. While the Affordable Care Act was expected to reduce the amount of uncompensated care hospitals provide – and it has – the fact remains that in 2017, Pennsylvania hospitals provided *more than three quarters of a billion dollars worth of uncompensated care*. In addition, the state pays hospitals less than the costs they incur caring for Medicaid patients, so as a result of the addition of more than 700,000 patients to the Medicaid rolls since Pennsylvania expanded its Medicaid program, hospitals have seen their Medicaid shortfalls grow.

In FY 2017, Pennsylvania spent $30.9 million in tobacco settlement funds to help eligible hospitals with these challenges. The federal government matched this amount, raising the total to $64 million. This assistance found its way across the commonwealth, to hospitals large and small, east and west, urban and rural. The hospitals that depend most on Medicaid received more than 60 percent of the tobacco money designated for this purpose, and while much of this money goes to large hospitals in urban areas with high rates of poverty, *nearly two-thirds of all rural hospitals in Pennsylvania received tobacco settlement funds* that year. These hospitals count on this money every year to remain financially viable and its loss would harm them, the state's safety-net hospitals, and the people and communities these hospitals serve.

Our Request

Pennsylvania hospitals are doing their fair share to help the state financially. Since FY 2011, when the Quality Care Assessment was implemented, they have contributed $1.3 billion to the state and will contribute another $1.5 billion over the next five years. Now, the Safety-Net Association of Pennsylvania asks lawmakers not to demand still more from hospitals and to support the provision in the administration's proposed FY 2020 budget to use sales and use tax revenue to pay debt service on the monetization of proceeds from the tobacco master settlement agreement and to reject any attempt to reduce tobacco-related payments to pay that debt service. That money does too much good in too many places for too many people to be reduced, especially when the federal government gives Pennsylvania more than one dollar for every dollar the state spends to help hospitals with the uncompensated care they provide.