

News for Immediate Release

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Administration Receives Notification on Impacts from Tobacco Master Settlement Agreement Arbitration Panel Decision

State Will Maintain Direct Services and Mandatory Healthcare Programs

Harrisburg – The Pennsylvania Attorney General's Office recently notified the administration that the state's annual share of the tobacco master settlement agreement will be reduced by an estimated \$180 million, or 60 percent of the state's base tobacco payment, as a result of a decision by an arbitration panel to address claims from 2003.

The decision has immediate impacts to some of Pennsylvania's health and human services programs.

"We are deeply disappointed by the recent decision of the master settlement agreement (MSA) arbitration panel," said Budget Secretary Charles Zogby. "MSA payments fund important health-related programs across the state."

The reduction will occur in the state's April 2014 MSA payment, which supports spending in the current year's budget. This is forcing the state to freeze discretionary funding from the MSA, which will reduce funds for health research (Commonwealth Universal Research Enhancement [CURE] grants), Life Sciences Greenhouses, uncompensated care to hospitals, and discretionary funds related to tobacco prevention and cessation programs.

Funding for services will continue without interruption for individuals over 60 years of age who are receiving home and community-based services; individuals ages 16 to 65, with a disability, who are employed with limited earnings and resources and enrolled in the Medical Assistance for Workers with Disabilities program; and Medical Assistance recipients receiving long-term care nursing facility services.

The freeze will also not impact Department of Aging programs or mandated components of tobacco use prevention, cessation and enforcement programs.

"Our goal is to see that direct healthcare services are not impacted by this decision, ensuring thousands of the Pennsylvanians continue to receive the state's assistance," Zogby said.

The Attorney General's Office is appealing the decision.

While the legal process continues, state officials began outreach to contractors and affected organizations this week to notify them of the impacts.

In November 1998, the Attorneys General of 46 states, as well as the District of Columbia, Puerto Rico, and the Virgin Islands, entered into the MSA with the four of the largest manufacturers of cigarettes in the United States. Since 1998, approximately 41 additional tobacco companies, known as participating manufacturers, have joined the MSA.

The amount of money that the participating manufacturers are required to contribute to states each year varies, but payments are based primarily on the number of cigarettes sold.

Under the MSA, payments to states could be reduced if participating manufacturers lost market share to non-participating manufacturers and if the loss could be verified by a nationally recognized firm of economic consultants. States were exempt from this reduction if they enacted and enforced a statute that imposed obligations on non-participating manufacturers doing business within their borders.

However, participating manufacturers and several states, including Pennsylvania, were not able to reach agreement on whether or not these reductions should take place for payments that occurred from 2003 forward.

Participating cigarette manufacturers later offered to settle the dispute. Pennsylvania, along with several other states, elected to arbitrate the claims and was represented by the Pennsylvania Attorney General's Office in the dispute.

Because of the arbitration ruling, participating manufacturers are now permitted to reduce their payments to the state, which resulted in the \$180 million estimated reduction in MSA payments to Pennsylvania.

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Editor's note: The tobacco MSA issue is not impacted, nor was it caused, by the current federal government shutdown.

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