



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

MICHAEL J. MASCH
SECRETARY
OFFICE OF THE BUDGET

May 5, 2008

Honorable Dwight Evans
Chairman
House Appropriations Committee
Room 512-E, Main Capitol Building
Harrisburg, Pennsylvania 17120

Honorable Gibson E. Armstrong
Chairman
Senate Appropriations Committee
Room 281, Main Capitol Building
Harrisburg, Pennsylvania 17120

Honorable Mario J. Civera, Jr.
Minority Chairman
House Appropriations Committee
Room 245, Main Capitol Building
Harrisburg, Pennsylvania 17120

Honorable Gerald J. LaValle
Minority Chairman
Senate Appropriations Committee
Room 545, Main Capitol Building
Harrisburg, Pennsylvania 17120

Gentlemen:

On March 17, 2008, the House of Representatives passed Senate Bill 1137, Printer's Number 1838 by a vote of 118-81. This bill has now moved to the Senate for consideration and has been referred to the Committee on Rules and Executive Nominations.

At my direction, the Governor's Budget Office has estimated the likely costs of the various programs established in SB1137 PN1838 over the next 10 years. The GBO has also calculated the levels of funding provided in SB1137 PN1838 to support those programs over the same time period, and examined the levels of additional funding that might be available to support these programs from sources previously identified and endorsed by the Governor. From this analysis, we have been able to make a determination as to whether the programs set forth in SB 1137 PN 1838 are affordable and sustainable over time.

SB1137 PN1838, if enacted, would substantially reduce the number of uninsured Pennsylvanians by making basic health insurance more affordable for low- and moderate-income working Pennsylvanians through a program called *Pennsylvania Access to Basic Care (PA ABC)*.

SB1137 PN1838 specifies that PA ABC will be a comprehensive health plan that emphasizes preventive care and disease management by providing for wellness visits, pharmacy and behavioral health services, in addition to traditional inpatient and outpatient services. The international actuarial consulting firm Mercer worked with the Governor's Budget Office to estimate the likely costs of PA ABC. Although final ABC reimbursement rates would have to be negotiated between selected PA ABC vendors and health care providers, GBO's projections

assume, consistent with the provisions of SB1137, that the ABC program's outpatient rates will equal 105 percent of Medicare rates for inpatient hospital services and 85 percent of Medicare rates for outpatient physician services. These rates compare favorably with the rates paid in other current commonwealth-funded health care programs. Prescription drug coverage would be provided in PA ABC through a Pharmacy Benefit Manager.

SB1137 PN1838 also makes available \$42 million per year for grants to eligible small businesses that provide health insurance to their employees through the *Continuing Access with Relief to Employers (CARE)* program.

Further, SB1137 PN1838 would extend the Mcare abatement program for ten years and would increase the abatement for certain eligible physicians, podiatrists and nurse midwives starting in 2013. SB1137 PN1838 also begins a gradual phase-out of the state's role in providing the second layer of medical malpractice coverage for providers by returning that layer of coverage to the private insurance market, and provides a mechanism to fully fund the payment of Mcare's remaining unfunded liability (the "claims tail") once the Mcare program is completely phased out.

Using a set of conservative assumptions, the GBO's staff and consultants have projected the likely levels of annual funding produced by the funding sources identified in SB1137 PN1838. The bill provides for revenues to support the PA ABC program, CARE grants, Mcare abatements, and the funding of the Mcare "claims tail" from the following sources:

- Existing Tobacco Settlement Fund and Community Health Reinvestment Fund resources now utilized to support the adultBasic program (§1304 (4))
- Premium payments by participating small employers (§1306 (C))
- Premium payments by participating employees and other participating individuals (§1305 (B), §1305 (C), §1305 (D) and §1306 (D))
- Federal Medicaid matching funds released through a 1115 Waiver, to be obtained from the U.S. Department of Health and Human Services (§1304 (2) and §1317)
- Transfers from the Health Care Provider Retention Account (HCPRA), into which a \$0.25 per pack share of PA cigarette tax revenues is deposited (§1112 (C) (3); §1304 (3))
- Transfers of approximately \$42 million per year in moving violation surcharge revenues from the AutoCAT Fund (§712 (M))
- Any monies derived from whatever sources designed specifically to fund the program (§1304 (5))

SB1137 PN1838 provides that the balance of funding required to implement PA ABC must be designated by the General Assembly for deposit into a Supplemental Assistance and Funding Account. The bill requires that at least \$120 million must be designated for deposit into the Supplemental Assistance and Funding Account in FY2008-09 before the programs set forth in the bill can be implemented.

While the General Assembly may consider a variety of sources to provide the revenues needed to complete the funding of the PA ABC program and meet the minimum requirements of the Supplemental Account, the Governor's Budget Office examined whether three sources

identified by Governor Rendell in his *Cover All Pennsylvanians* proposal would be adequate to meet the remaining funding requirements of SB1137 PN1838, namely:

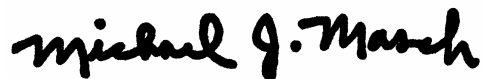
- A 10-cents-per-pack increase in the cigarette tax;
- A 36-cents-per-unit tax on other tobacco products, including cigars, cigarillos and chewing tobacco; and
- Redirection of a portion of the state's current Uncompensated Care payments for hospitals.

The Governor's Budget Office has determined the first two of these revenue sources – the additional cigarette tax and the new tax on other tobacco products – would be sufficient to raise close to \$120 million per year, which is the minimum required to fund the Supplemental Account. In addition, a share of current Uncompensated Care payments for hospitals could be redirected to provide additional resources for the PA ABC program. In the Governor's *Cover All Pennsylvanians* proposal, the Governor proposed that, starting in FY2009-10, uncompensated care payments could be reduced in proportion to the decline in the number of uninsured Pennsylvanians that providers need to treat, as more state residents participate in the PA ABC program.

The attached schedule summarizes the results of the Governor's Budget Office analysis. As you can see, assuming that sufficient revenues are allocated to the Supplemental Assistance and Funding Account, we have concluded that the revenues identified in SB1137 PN1838 are more than adequate to fully fund all of the programs established or continued in the bill, including PA ABC, CARE, the Mcare abatement, and the establishment of a "lockbox" to pay for Mcare claims when Mcare provider assessments terminate after January 2018. Our analysis finds that the identified revenues are sufficient to maintain all the programs identified in SB1137 PN1838 over the next 10 years, with a modest surplus at the end of each year. Therefore, all of the programs identified in SB1137 PN1838 can be operated and funded on a sustainable basis.

If you have any questions about the issues identified above, please do not hesitate to contact me. The Office of the Budget is available to review our analysis with you and your staff and address any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Masch". The signature is written in a cursive, slightly slanted style.

Michael J. Masch
Secretary of the Budget