
2008 Grant Legislative Report

Medical Education and Research Cost (MERC)

Minnesota Department of Health
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Background

The Medical Education and Research Costs (MERC) program, which distributes grants to clinical training sites around the state in order to offset the higher cost structures and lost patient care revenue for those facilities, was created by the Minnesota Legislature in 1997. The MERC statute defined the purpose of the program in Minnesota Statutes 62J.691 in the following way:

“The legislature finds that medical education and research are important to the health and economic well being of Minnesotans. The legislature further finds that, as a result of competition in the health care marketplace, these teaching and research institutions are facing increased difficulty funding medical education and research. The purpose of sections [62J.692](#) and [62J.693](#) is to help offset lost patient care revenue for those teaching institutions affected by increased competition in the health care marketplace and to help ensure the continued excellence of health care research in Minnesota.”

Since its inception, the MERC program has distributed over \$450 million in grant funds to hospitals, clinics, and other clinical training sites throughout Minnesota. The majority of the MERC distribution has been awarded to large teaching hospitals in the Twin Cities metro area or Rochester.

Funding for the MERC program has come from a variety of sources since its inception, including the General Fund, the one-time tobacco endowment, a dedicated cigarette tax, and the Medicaid program. The Medicaid program has provided the bulk of the funding for MERC since its inception, and Medicaid funds currently account for roughly 90 percent of the annual distribution.

The distribution formula that governs the MERC program has also changed over the years. The original MERC distribution formula focused solely on the costs borne by clinical training sites for providing training and the number of FTE students/residents at each training site. Each applicant facility submitted information about clinical training costs, and the available funds were distributed among eligible sites in such a way that each site was reimbursed for a set percentage of their costs, usually six to nine percent.

In 2000, Minnesota was given authority by the Centers for Medicare and Medicaid Services to “carve out” a portion of the Prepaid Medical Assistance Program (PMAP) capitation payments made by the Department of Human Services to each health plan. This “medical education increment” was directed to the MERC program starting in October, 2000 and distributed under a separate formula.

Debate around the MERC distribution formula has generally centered on whether the program is designed to support clinical training wherever it occurs, and thus should be driven by a cost-based formula that allows grant funds to “follow” trainees to their sites of training, or whether the high proportion of Medicaid funding that comprises the MERC fund means that the funds should be directed primarily to those sites that do a larger share of Medicaid business. When the PMAP waiver was authorized in 2000, the Minnesota Legislature directed the Minnesota Department of Health to convene a committee to evaluate the distribution formula.

In recognition of the importance of both of those factors, that group recommended a dual weighting system that considered each facility’s share of the Medicaid pool as well as their clinical training costs. Both the relative Medicaid revenue at each facility and the relative training costs at each facility were given equal weight in the PMAP distribution formula.

The MERC statute was revised in 2003 to combine the MERC and PMAP distributions into a single annual distribution beginning with the 2004 distribution. The combined distribution formula was designed to hold all MERC/PMAP recipients harmless. Mirroring their weight prior to the combination of the two distributions, clinical training costs and relative Medicaid costs were given 67 percent and 33 percent of the weight of the distribution, respectively.

2007 Legislative Changes

During the 2007 legislative session, the MERC statute was modified in several ways. Most notably:

- The distribution formula was revised to take into account only relative Medicaid volume rather than a combination of Medicaid volume and clinical training costs.
- Eligible clinical training sites whose Medicaid revenue accounted for more than 0.98 percent of the total Medicaid revenue would receive a supplemental grant equal to 20 percent of their original grant, with those funds coming from those sites whose Medicaid revenue accounted for less than 0.98 percent of the total pool.
- Nursing homes were eliminated from eligibility for MERC grants.
- Several direct payments to large providers were added to the distribution formula, with these direct payments to be taken out of the overall pool of available MERC funding prior to the application of the distribution formula for eligible sites. These direct payments included \$1.8 million to the University of Minnesota Academic Health Center, \$1.475 million to the University of Minnesota Medical Center, Fairview, and \$2.075 to the University of Minnesota School of Dentistry.
- The 10% of the MERC fund that was previously awarded to sponsoring institutions to distribute at their discretion to eligible sites was eliminated, and those dollars were returned to the overall MERC pool.
- A \$4.85 million transfer from the Academic Health Center was eliminated.
- Mayo Clinic was awarded \$6.25 million from the general fund. These funds did not impact the MERC pool.

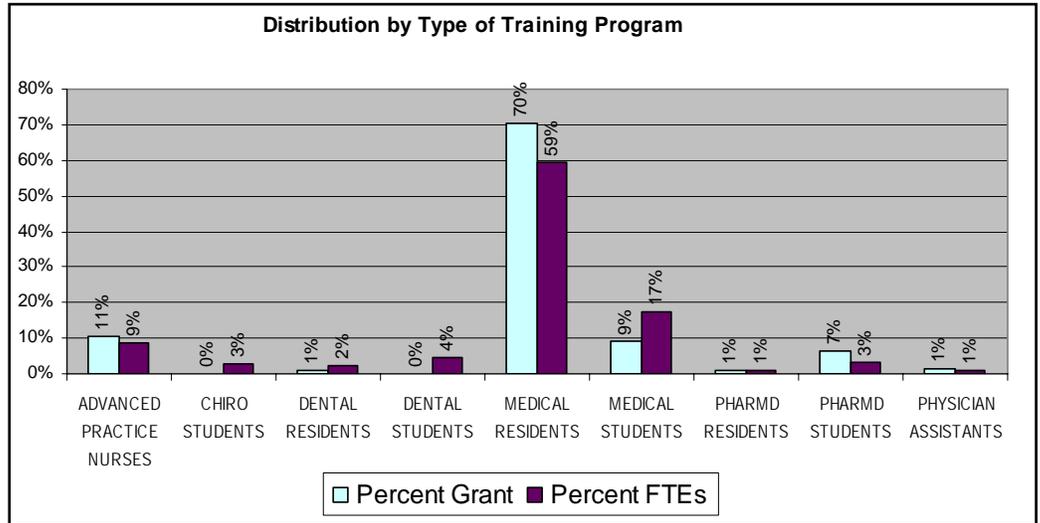
As noted above, \$5.35 million in direct payments to the University of Minnesota Academic Health Center, University of Minnesota Medical Center - Fairview, and the University of Minnesota School of Dentistry were added to the MERC statute. Two of these three payments are ineligible for federal Medicaid matching funds. As a result, these payments reduce the overall amount of funding available through MERC, as well as the amount of federal match that can be obtained for MERC. Previously, the Department of Human Services was also able to obtain federal matching funds on the \$4.85 million transfer from the Academic Health Center. With those two changes, the amount of funding available to distribute to the remaining MERC providers is roughly \$8.5 million less than would otherwise have been available, and the size of the MERC grant for every eligible training site is lower.

The changes enacted in 2007 and implemented for the first time during the 2008 MERC distribution impacted both the shape and the size of the MERC distribution. A report on the impact of those changes was submitted to the legislature in January 2009. The report can be accessed online at:

<http://www.health.state.mn.us/divs/hpsc/hep/publications/legislative/mercstatchange2009.pdf>.

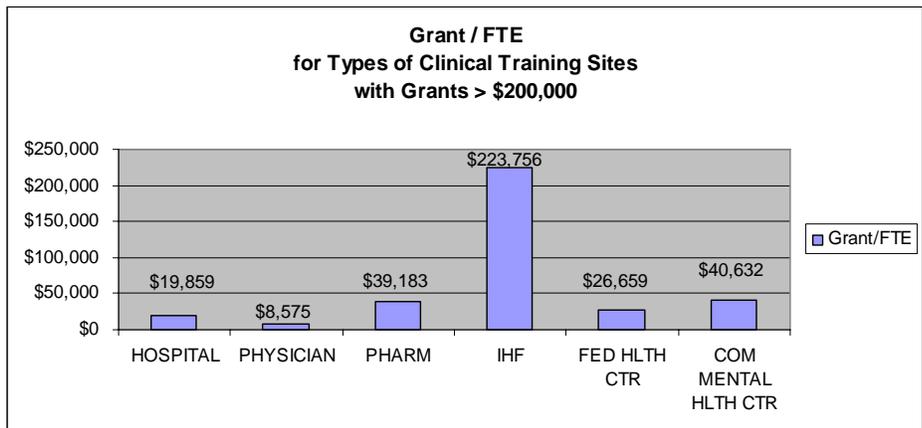
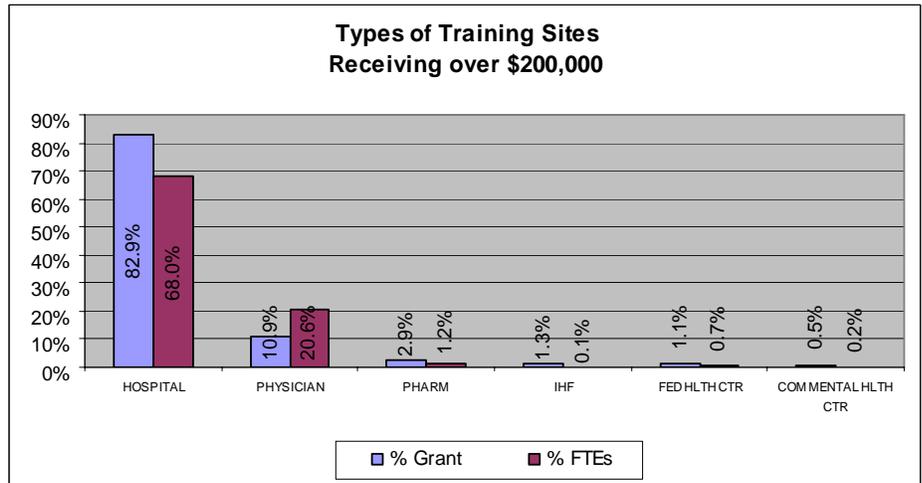
MERC Training Programs

Applications for grants are submitted by sponsoring institutions (organizations that are financially or organizationally responsible for teaching programs) on behalf of the programs they sponsor. Each teaching program uses clinical training sites to provide training to the provider types listed below. Since the grant is designed to offset costs at clinical training sites, not at sponsoring institutions, the sponsoring institutions are obligated to forward the grants on to the clinics or hospitals at which their students' or residents' training was provided. A facility may be both a sponsoring institution and a training site. Training sites often support trainees from multiple sponsoring institutions and programs.



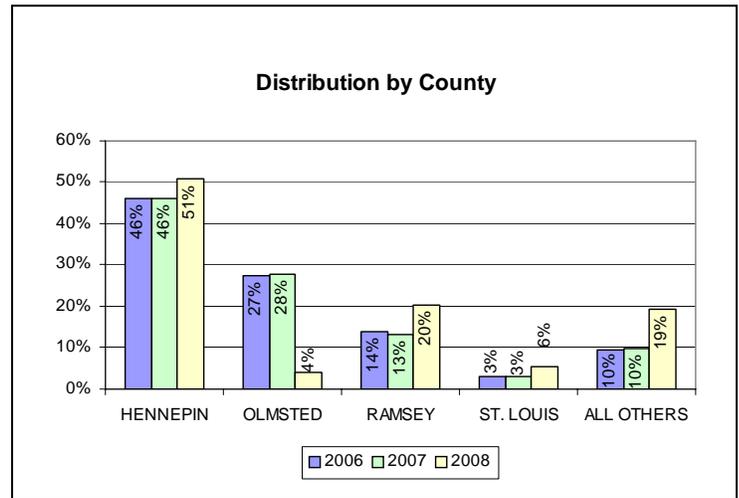
Grant by Type of Training Site

Hospitals receive the largest amount of funding. They account for almost 68% of the FTEs and receive slightly less than 83% of funding. They also have over three times the FTEs of other training sites. Physician clinics follow Hospitals in ranking by training just under 21% of FTEs and 11% of funding. Although Hospitals receive the largest grants, the funding they receive per FTE is less than many other clinical settings. For example, Hospitals receive just under \$20,000/FTE while Indian Health Providers receive the largest share per FTE receiving just under \$224,000/FTE. This is due to the large amount of relative public program revenue at sites with lower FTEs counts. Since no weighing is given to the number of trainees or the cost to train the provider types, the grant per FTE will be higher when the FTEs are low and the revenue is high.



Distribution by County

The geographic distribution of MERC funds has changed as a result of the revision to the MERC formula. In previous years, the bulk of MERC funding has been awarded to training sites in Hennepin, Ramsey and Olmsted counties; these counties are home to most of the larger teaching hospitals in the state. The formula change concentrated the distribution in Hennepin and Ramsey counties. The combined share of the distribution in those two counties rose from an average of 60 percent in 2006 and 2007 to 71 percent in 2008. Most of that increase came from Olmsted County, which saw a reduction in its share of the MERC distribution from 28 percent to 4 percent.



This change is largely due to the relatively smaller share of Medicaid volume at the large Olmsted County training sites (Rochester Methodist Hospital, St. Marys Hospital, and the Mayo Clinic). While two of these sites were above the 0.98 percent line for relative public program volume, and thus received a supplemental grant of 20 percent, their share of public program revenue relative to other sites was still low. In the past, these sites had benefitted primarily from the “educational cost” portion of the distribution formula, as their high number of students and residents allowed them to receive a higher percentage of the distribution.

Distribution by Sponsoring Institution

MERC grants are sent to sponsoring institutions which, in turn, are required to pass them through to each of their eligible training sites. In cases where a training site is used by multiple programs at multiple sponsoring institutions (as in the case of a hospital that hosts medical students, medical residents, pharmacy students, and advanced practice nursing students from multiple institutions), each sponsoring institution sends the training site a portion of its total grant. There were 22 sponsoring institutions listed on the 2008 MERC Application. These sponsoring institutions submitted applications on behalf of 193 programs and a total of 1,636 training sites. These sites were responsible for providing clinical training to over 3,087 FTEs in various programs.

Sponsoring Institution	Number of		Didactic	Non-Eligible FTEs			Eligible FTEs	MERC/PMAP Grant
	Programs	Sites		Non-MN	Other	Total		
ABBOTT NORTHWESTERN HOSPITAL	2	14	2.8930	-	1.2290	4.1220	27.4480	\$1,007,353
AUGSBURG COLLEGE	1	64	-	2.1700	1.5000	3.6700	28.3400	\$608,781
CHILDREN'S HOSPITALS AND CLINICS OF MINNESOTA	1	4	0.1900	-	-	0.1900	2.8100	\$169,175
COLLEGE OF ST. CATHERINE	1	60	23.5000	-	0.8500	24.3500	15.9400	\$218,637
COLLEGE OF ST. SCHOLASTICA	2	75	5.5200	3.9100	3.4200	12.8500	32.6900	\$1,326,252
DULUTH GRADUATE MEDICAL EDUCATION COUNCIL	1	4	1.0000	-	-	1.0000	31.0000	\$1,660,734
HENNEPIN COUNTY MEDICAL CENTER	13	36	-	0.6640	-	0.6640	198.2664	\$6,246,423
MAYO CLINIC	79	259	138.6400	18.5900	29.1700	186.4000	1,015.4100	\$3,877,198
MERCY HOSPITAL	2	11	0.3956	-	0.0271	0.4227	3.5787	\$820,995
METROPOLITAN STATE UNIVERSITY	1	48	-	1.0000	3.3200	4.3200	20.2175	\$394,903
MINNESOTA SPORTS MEDICINE	1	5	0.4000	-	-	0.4000	1.6000	\$97,519
MINNESOTA STATE UNIVERSITY, MANKATO	1	21	23.8800	-	-	23.8800	8.7360	\$132,722
MINNESOTA STATE UNIVERSITY, MOORHEAD	1	11	4.0000	1.2000	0.0550	5.2550	3.0600	\$466,975
NORTHWESTERN HEALTH SCIENCES UNIVERSITY	1	102	455.0000	21.3300	26.6600	502.9900	90.9300	\$25,607
REGIONS HOSPITAL	3	22	0.9379	0.0822	1.6173	2.6374	33.7812	\$1,100,728
SAINT MARYS MEDICAL CENTER	1	1	0.0800	-	-	0.0800	0.9200	\$29,246
SAINT MARY'S UNIVERSITY OF MINNESOTA	1	18	33.0000	8.0000	-	41.0000	40.0000	\$1,120,911
TRIA ORTHOPAEDIC RESEARCH INSTITUTE	1	2	0.1800	-	-	0.1800	1.5700	\$18,364
UNITED HOSPITAL	2	34	2.1180	0.5050	0.6570	3.2800	16.4138	\$1,172,620
UNIVERSITY OF MINNESOTA MEDICAL CENTER, FAIRVIEW	1	1	-	-	-	-	6.0000	\$36,236
UNIVERSITY OF MN ACADEMIC HEALTH CENTER	75	831	865.5710	14.6500	42.8400	923.0610	1,495.4800	\$29,682,895
WINONA STATE UNIVERSITY	2	13	13.4600	4.2000	0.1200	17.7800	13.5700	\$63,517
OVERALL	193	1,636	1,570.7655	76.3012	111.4654	1,758.5321	3,087.7616	\$50,277,792

Notes:
- Due to rounding, individual institution totals may not add up to the total overall grant.
- Any returned funds will be rolled into the next distribution.

Grants to Training Sites

Sites host trainees from multiple programs and sponsoring institutions; therefore, they have the potential of being submitted as a training site on the application more than once. There were 1,636 site applicants which equaled 706 actual training sites. The top twenty grantees receive 75% of the total grant and host 70% of the FTEs. The grant per each full-time student or resident varies by training site due to the relative public program revenue. Two sites may have the same amount of trainees, from the same type of training program, however, their grant amount will not be the same.

An example of the effect the site grant has per trainee is shown to the right. This shows the top twenty grant recipients, their grant, and the reimbursement that would apply per FTE. The actual grant amount to the site is listed under '2008 Grant.' The column on the far right provides insight on how much can be attributed to each full-time trainee. If the amount in the column 'Grant/FTE' is higher than the actual grant, that means that the site has less than one full-time trainee.

**Top 20 Grant Recipients
(Descending Order)**

Clinical Training Site	Location	2008 Eligible FTEs	2008 Grant	2007 Eligible FTEs	2007 Grant
HENNEPIN COUNTY MEDICAL CENTER	MINNEAPOLIS	394.0576	\$9,521,512	392.0992	\$7,989,039
UNIVERSITY OF MINNESOTA MEDICAL CTR	MINNEAPOLIS	475.7485	\$4,571,305	460.6043	\$7,428,279
REGIONS HOSPITAL	ST PAUL	173.5392	\$3,949,557	178.6800	\$3,321,170
CHILDRENS HEALTH CARE MINNEAPOLIS	MINNEAPOLIS	39.7437	\$3,279,300	38.7440	\$1,373,983
NORTH MEMORIAL HEALTH CARE	ROBBINSDALE	36.9130	\$1,738,327	39.9349	\$953,564
CHILDRENS HEALTH CARE ST PAUL	ST PAUL	43.0511	\$1,676,100	43.3981	\$1,086,601
ABBOTT NORTHWESTERN HOSPITAL	MINNEAPOLIS	66.2804	\$1,670,295	70.8316	\$1,302,489
ST CLOUD HOSPITAL	ST CLOUD	8.1200	\$1,439,432	10.1500	\$489,506
UNITED HOSPITAL INC	ST PAUL	13.3840	\$1,177,598	10.6134	\$513,260
ST MARY'S MEDICAL CENTER	DULUTH	22.9500	\$1,048,106	12.6700	\$456,190
ST MARY'S HOSPITAL	ROCHESTER	449.2200	\$1,018,583	438.5300	\$6,867,076
MERCY HOSPITAL	COON RAPIDS	4.4905	\$962,507	2.9008	\$339,493
HEALTHEAST ST JOSEPHS HOSPITAL	ST PAUL	10.3140	\$885,428	10.0714	\$384,801
METHODIST HOSPITAL	SAINT LOUIS PARK	26.1196	\$873,397	26.3215	\$612,691
GILLETTE CHILDRENS HOSPITAL	ST PAUL	11.9300	\$868,304	10.3800	\$379,482
HFA SPECIAL SERVICES CLINIC	MINNEAPOLIS	0.7100	\$742,263	0.4500	\$346,602
MAYO CLINIC	ROCHESTER	342.5100	\$661,619	335.2930	\$5,361,862
ST LUKES HOSPITAL	DULUTH	16.7300	\$631,956	13.2500	\$340,270
HEALTHEAST ST JOHNS HOSPITAL	MAPLEWOOD	13.5865	\$624,474	13.1815	\$331,180
HFA RIVERSIDE SURGERY CLINIC	MINNEAPOLIS	0.3400	\$409,853	N/A	N/A

The grants above do not reflect direct payments made to the University of Minnesota Academic Health Center, University of Minnesota Medical Center - Fairview, or University of Minnesota School of Dentistry.

**Top 20 Grant Recipients
(Descending Order by Grant/FTE)**

Clinical Training Site	Location	2008 Eligible FTEs	2008 Grant	Grant / FTE
HFA RIVERSIDE SURGERY CLINIC	MINNEAPOLIS	0.3400	\$409,853	\$1,205,451
HFA SPECIAL SERVICES CLINIC	MINNEAPOLIS	0.7100	\$742,263	\$1,045,441
MERCY HOSPITAL	COON RAPIDS	4.4905	\$962,507	\$214,343
ST CLOUD HOSPITAL	ST CLOUD	8.1200	\$1,439,432	\$177,270
UNITED HOSPITAL INC	ST PAUL	13.3840	\$1,177,598	\$87,985
HEALTHEAST ST JOSEPHS HOSPITAL	ST PAUL	10.3140	\$885,428	\$85,847
CHILDRENS HEALTH CARE MINNEAPOLIS	MINNEAPOLIS	39.7437	\$3,279,300	\$82,511
GILLETTE CHILDRENS HOSPITAL	ST PAUL	11.9300	\$868,304	\$72,783
NORTH MEMORIAL HEALTH CARE	ROBBINSDALE	36.9130	\$1,738,327	\$47,093
HEALTHEAST ST JOHNS HOSPITAL	MAPLEWOOD	13.5865	\$624,474	\$45,963
ST MARY'S MEDICAL CENTER	DULUTH	22.9500	\$1,048,106	\$45,669
CHILDRENS HEALTH CARE ST PAUL	ST PAUL	43.0511	\$1,676,100	\$38,933
ST LUKES HOSPITAL	DULUTH	16.7300	\$631,956	\$37,774
METHODIST HOSPITAL	SAINT LOUIS PARK	26.1196	\$873,397	\$33,438
ABBOTT NORTHWESTERN HOSPITAL	MINNEAPOLIS	66.2804	\$1,670,295	\$25,200
HENNEPIN COUNTY MEDICAL CENTER	MINNEAPOLIS	394.0576	\$9,521,512	\$24,163
REGIONS HOSPITAL	ST PAUL	173.5392	\$3,949,557	\$22,759
UNIVERSITY OF MINNESOTA MEDICAL CTR	MINNEAPOLIS	475.7485	\$4,571,305	\$9,609
ST MARY'S HOSPITAL	ROCHESTER	449.2200	\$1,018,583	\$2,267
MAYO CLINIC	ROCHESTER	342.5100	\$661,619	\$1,932

The grants above do not reflect direct payments made to the University of Minnesota Academic Health Center, University of Minnesota Medical Center - Fairview, or University of Minnesota School of Dentistry.

Sites Receiving Grants Between \$0 - \$10 M

\$5,000,000 – \$10,000,000	1
\$1,000,000 – \$5,000,000	10
\$500,000 – \$1,000,000	8
\$100,000 - \$500,000	35
\$50,000 - \$100,000	40
\$20,000 - \$50,000	56
\$10,000 - \$20,000	74
\$5,000 - \$10,000	77
\$1,000 - \$5,000	198
\$500 - \$1,000	44
\$100 - \$500	48
\$50 - \$100	23
\$0 - \$50	92

Based on the new distribution formula, over 78% of the clinical training sites received grants less than \$20,000, with 68% receiving less than \$10,000. Just over 7% of the sites received the bulk of the distribution, each receiving over \$100,000.

A report showing the grant payment to each training site is available at: <http://www.health.state.mn.us/divs/hpsc/hep/merc/granttrngsum.pdf>.