

2009 Legislative Report

Medical Education and Research Cost (MERC)

Minnesota Department of Health
December 15, 2009



Division of Health Policy
PO Box 64882
St. Paul, MN 55164-0882
651/201-3550
www.health.state.mn.us

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 \$4,250,000 from the general fund. These funds did not impact the MERC pool. New legislation was past in 2009 which eliminates this funding beginning in 2010.

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>.

Distribution by Sponsoring Institution

Sponsoring Institutions (*organizations that are financially or organizationally responsible for teaching programs*) submit applications on behalf of their accredited programs which had students/residents at clinical training sites in Minnesota during the 2007 fiscal year. MERC grants are funneled through the sponsoring institutions which, in turn, are required to pass all funding on to each of their eligible training sites as specified by the Minnesota Department of Health. There were 22 sponsoring institutions listed on the 2009 MERC Application. These sponsoring institutions submitted applications on behalf of 205 teaching programs and 738 distinct clinical training sites. These sites were responsible for providing clinical training to over 3,091 FTEs in various programs. It is important to note that the amount going to the sponsoring institution is not tied to the sponsoring institution at all; this amount is passed-through to the clinical training sites.

2009 MERC/PMAP Grant by Sponsoring Institution

Sponsoring Institution	Number of Programs	Number of Sites	Non-Eligible FTEs	Eligible FTEs	MERC / PMAP Overall Grant*
ABBOTT NORTHWESTERN HOSPITAL	2	13	3.4390	30.0005	\$1,438,750
AUGSBURG COLLEGE	1	60	4.2500	30.8300	\$696,887
CHILDREN'S HOSPITALS AND CLINICS OF MINNESOTA	1	2	0.7100	2.4200	\$142,225
COLLEGE OF ST. SCHOLASTICA	2	80	17.9100	39.0600	\$1,675,773
DULUTH GRADUATE MEDICAL EDUCATION COUNCIL	1	3	1.0000	25.0000	\$1,451,639
HENNEPIN COUNTY MEDICAL CENTER	13	30	16.5386	197.1212	\$6,223,435
MAYO CLINIC	81	228	189.3100	1,016.3900	\$4,337,392
MERCY HOSPITAL	2	11	0.9127	3.5786	\$964,063
METROPOLITAN STATE UNIVERSITY	1	53	1.8400	30.2060	\$1,293,011
MINNESOTA SPORTS MEDICINE	1	3	0.4000	1.6000	\$274,083
MINNESOTA STATE UNIVERSITY, MANKATO	1	20	11.2940	6.9210	\$123,370
MINNESOTA STATE UNIVERSITY, MOORHEAD	1	7	5.3830	0.9640	\$311,913
NORTHWESTERN HEALTH SCIENCES UNIVERSITY	1	96	525.9500	105.3100	\$5,035
REGIONS HOSPITAL	3	25	6.2179	30.8357	\$1,406,502
SAINT MARYS MEDICAL CENTER	1	1	0.0000	2.0000	\$72,288
SAINT MARY'S UNIVERSITY OF MINNESOTA	1	19	41.0000	40.0000	\$1,316,809
ST. CATHERINE UNIVERSITY	1	57	45.0000	36.4600	\$427,604
TRIA ORTHOPAEDIC RESEARCH INSTITUTE	1	2	0.4000	3.5000	\$37,871
UNITED HOSPITAL	2	33	3.8502	16.6959	\$1,982,739
UNIVERSITY OF MINNESOTA MEDICAL CENTER, FAIRVIEW	1	1	0.0000	5.9500	\$54,275
UNIVERSITY OF MN ACADEMIC HEALTH CENTER	85	1,021	1,059.1790	1,448.2970	\$36,272,868
WINONA STATE UNIVERSITY	2	21	23.6800	17.9800	\$156,168
OVERALL	205	1,786	1,958.2644	3,091.1199	\$60,664,697

*Statutory payments are not included.

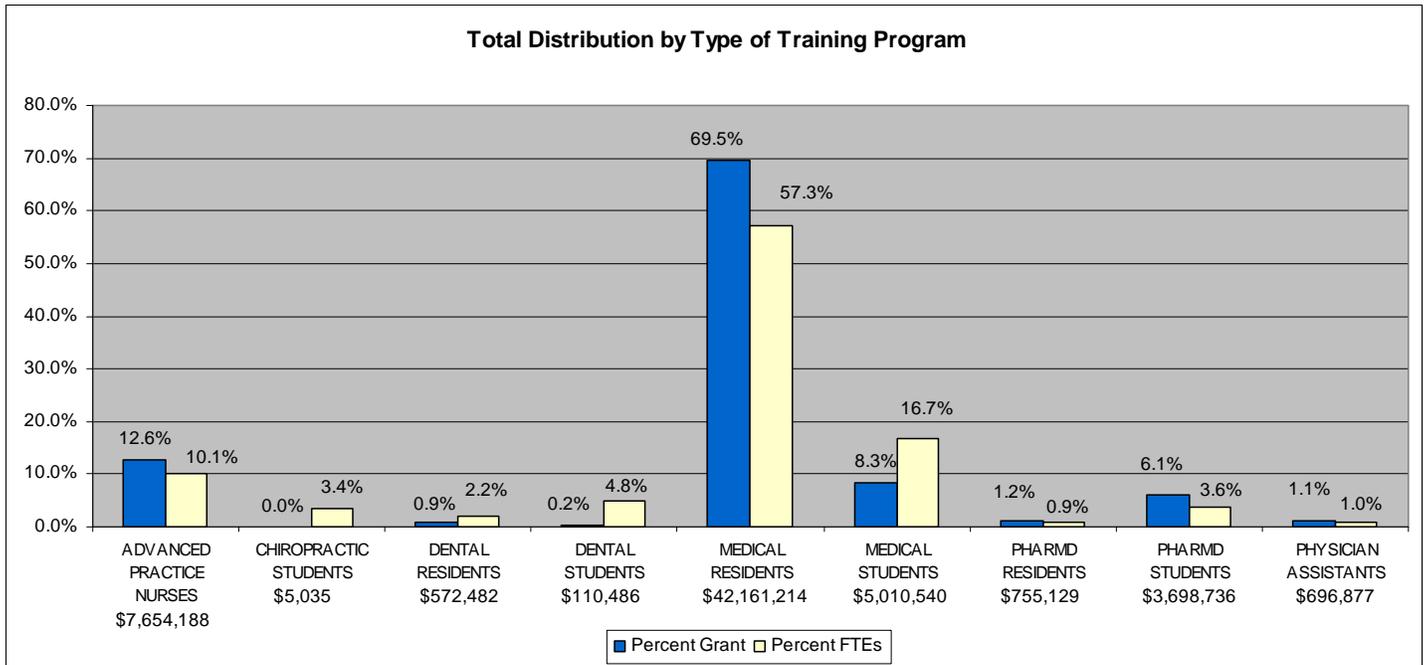
The grants above do not reflect statutory payments made directly to the University of Minnesota Academic Health Center, University of Minnesota Medical Center - Fairview, or University of Minnesota School of Dentistry under Minnesota Statutes 62J.692, subdivision 4(b).

Additional Statutory Payments:

University of MN, AHC: \$1,800,000
University of MN, School of Dentistry: \$2,075,000
University of MN Medical Center, Fairview: \$1,475,000

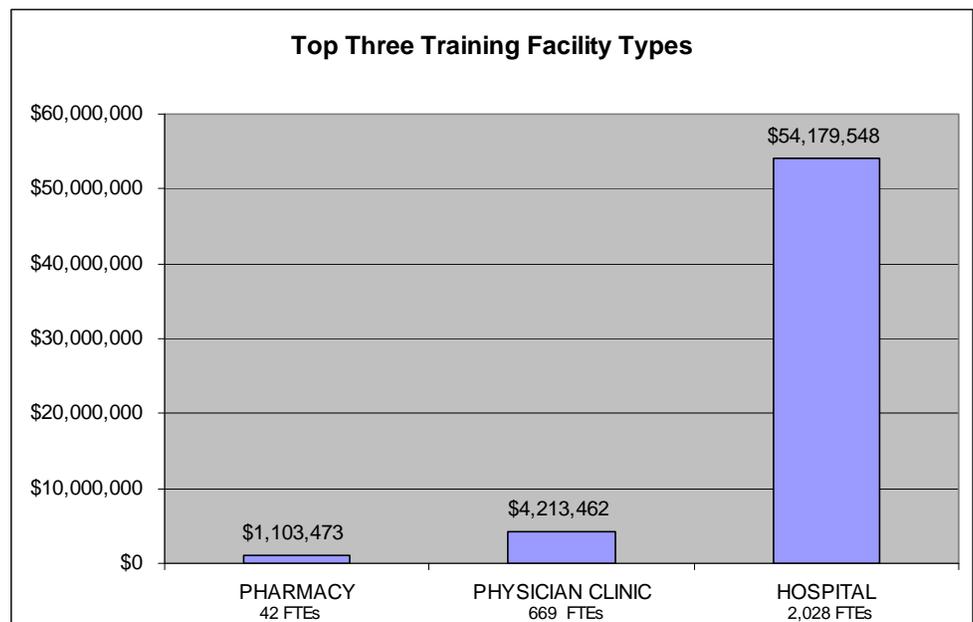
MERC Training Programs

There are nine provider types eligible for MERC funds. The teaching programs which train these provider types have various settings in which their students and residents complete their clinical training. Training sites often support trainees from multiple sponsoring institutions, programs, and provider types. While medical residents receive the highest amount of funding, grants are actually based on the Medicaid revenue at each training site rather than on cost of training, provider type, or number of trainees. In the case of medical residents, the majority of their training is completed in the hospital setting. Medicaid revenue at a hospital is generally higher than a clinic or other setting.



Grants by Provider Classification of the Training Site

Hospitals received the largest amount of funding. Having over three times the FTEs of other training sites, they account for over 65 % of the FTEs and slightly more than 89% of funding. Physician clinics follow hospitals in ranking with just over 21% of FTEs and 7% of funding. Pharmacies are third, with just over 1% of the FTEs and just short of 2% of funding. Although hospitals received the largest grants, the funding they received per FTE is less than many other clinical settings. For example, hospitals received just over \$26,700 per FTE in 2009, while rehab agencies received the largest share at just over \$1.4M per FTE. This is due to the large amount of relative public program revenue at sites with lower FTEs counts. Since the distribution formula gives no weight 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 relative public program revenue is high.

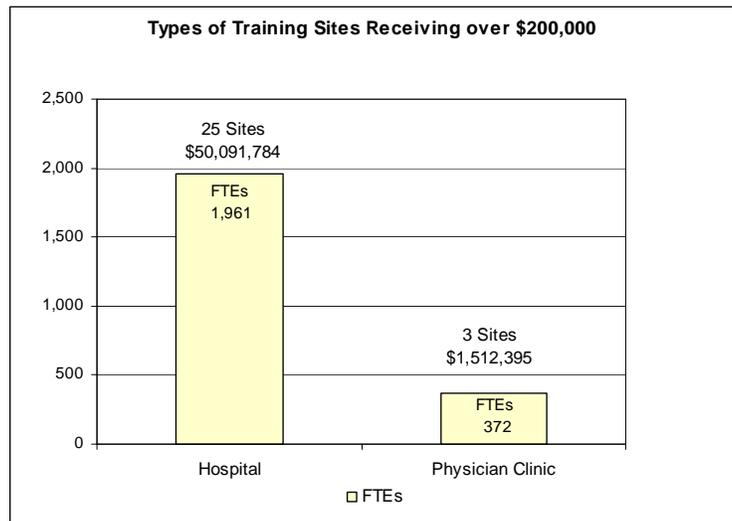


Twenty-eight individual training sites received grants in excess of \$200,000. Of these twenty-eight grantees, twenty-five were hospitals and three were physician clinics.

Grants to Clinical 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 1,786 site applicants which equaled 738 distinct training sites. The top twenty grantees received 75% of the total grant and hosted 70% of the FTEs. The grant per full-time student or resident varies by training site due to the site's

relative public program revenue. While two sites may have the same amount of trainees, from the same type of training program, it would not be uncommon to see completely different grant amounts since the current formula is based solely on each site's relative public program revenue.



An example of the grant per trainee is shown below. This shows the top twenty grant recipients in descending order, what type of provider they are classified as by the Department of Human Services Provider Enrollments Unit, how many FTEs they had in FY2007, their 2009 grant, and the reimbursement that would apply per FTE. The actual grant amount to the site is listed under '2009 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, the site has less than one full-time trainee.

Top 20 Grant Recipients (Descending Order)

Clinical Training Site	Location	Provider Type	2009 Eligible FTEs	2009 Grant	Grant Per FTE
HENNEPIN COUNTY MEDICAL CENTER	MINNEAPOLIS	HOSPITAL	376.4928	\$8,610,068	\$22,869
UNIVERSITY OF MINNESOTA MEDICAL CTR	MINNEAPOLIS	HOSPITAL	438.5108	\$6,133,173	\$13,986
REGIONS HOSPITAL	ST PAUL	HOSPITAL	147.1503	\$4,274,220	\$29,047
CHILDRENS HEALTH CARE MINNEAPOLIS	MINNEAPOLIS	HOSPITAL	43.3820	\$4,056,677	\$93,511
ST MARYS HOSPITAL	ROCHESTER	HOSPITAL	453.2200	\$3,003,265	\$6,627
NORTH MEMORIAL HEALTH CARE	ROBBINSDALE	HOSPITAL	38.4007	\$2,731,179	\$71,123
ABBOTT NORTHWESTERN HOSPITAL	MINNEAPOLIS	HOSPITAL	72.2934	\$2,357,761	\$32,614
UNITED HOSPITAL INC	ST PAUL	HOSPITAL	14.5778	\$2,137,475	\$146,625
ST CLOUD HOSPITAL	ST CLOUD	HOSPITAL	10.6578	\$2,061,360	\$193,413
CHILDRENS HOSPITALS AND CLINICS OF MERCY HOSPITAL	ST PAUL	HOSPITAL	42.6612	\$1,695,051	\$39,733
MERCY HOSPITAL	COON RAPIDS	HOSPITAL	5.4527	\$1,214,674	\$222,766
HEALTHEAST ST JOHNS HOSPITAL	MAPLEWOOD	HOSPITAL	12.8794	\$1,203,831	\$93,469
ST MARYS MEDICAL CENTER	DULUTH	HOSPITAL	27.5500	\$1,200,476	\$43,574
PARK NICOLLET METHODIST HOSPITAL	ST LOUIS PARK	HOSPITAL	24.4036	\$1,139,067	\$46,676
HEALTHEAST ST JOSEPHS HOSPITAL	ST PAUL	HOSPITAL	14.8848	\$1,024,785	\$68,848
HFA SPECIAL SERVICES CLINIC	MINNEAPOLIS	PHYSICIAN	1.0932	\$1,006,335	\$920,541
GILLETTE CHILDRENS HOSPITAL	ST PAUL	HOSPITAL	12.0659	\$994,125	\$82,391
NORTH COUNTRY REGIONAL HOSPITAL	BEMIDJI	HOSPITAL	0.3900	\$935,945	\$2,399,860
UNITY HOSPITAL	FRIDLEY	HOSPITAL	7.1735	\$900,939	\$125,593
IMMANUEL-ST JOSEPHS HOSPITAL OF	MANKATO	HOSPITAL	9.1600	\$881,190	\$96,200

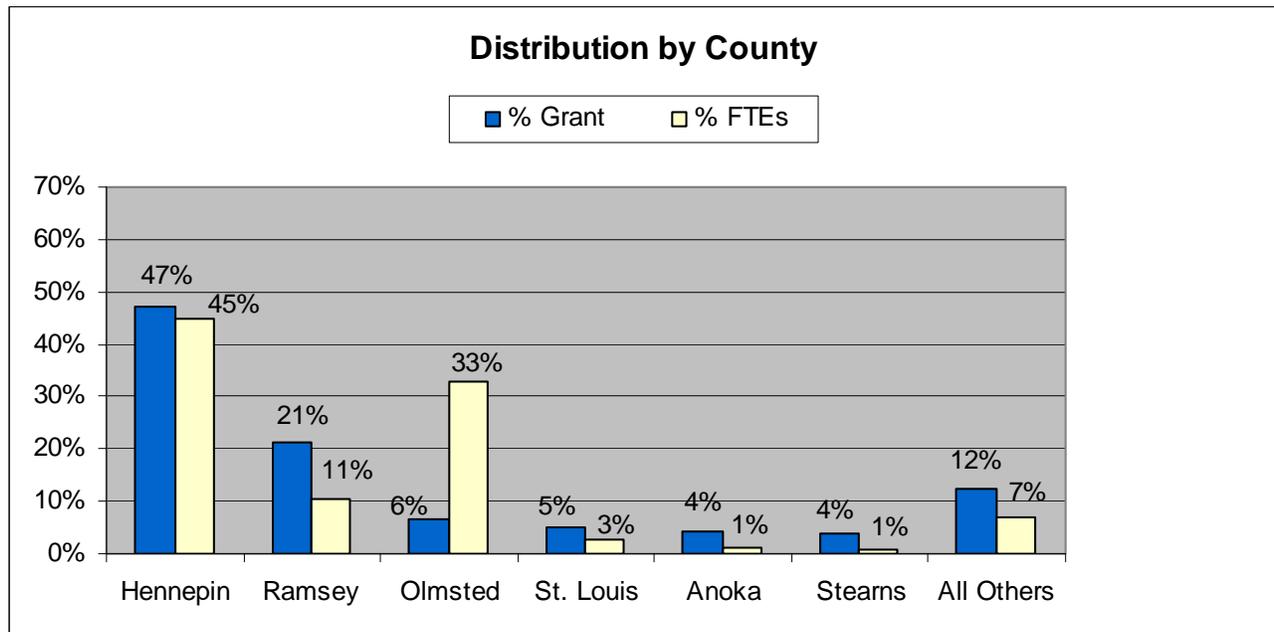
The grants above do not reflect statutory payments made directly to the University of Minnesota Academic Health Center, University of Minnesota Medical Center - Fairview, or University of Minnesota School of Dentistry under Minnesota Statutes 62J.692, subdivision 4(b).

Over 82% of the clinical training sites received grants less than \$20,000 with 73% receiving less than \$10,000. Slightly less than 7% of the sites received the bulk of the distribution, each receiving over \$100,000.

Grant	FTEs	Number of Sites
\$5,000,000 - \$10,000,000	815	2
\$1,000,000 - \$5,000,000	909	14
\$500,000 - \$1,000,000	48	8
\$100,000 - \$500,000	607	25
\$50,000 - \$100,000	23	29
\$20,000 - \$50,000	80	55
\$10,000 - \$20,000	239	64
\$5,000 - \$10,000	61	76
\$1,000 - \$5,000	118	205
\$500 - \$1,000	17	55
\$100 - \$500	42	72
\$50 - \$100	33	23
\$0 - \$50	99	110
Distinct Sites	3,091	738

Distribution by County

While the bulk of the distribution was in Hennepin and Ramsey County, the bulk of the training was done in Hennepin and Olmsted County. Since the inception of the new formula, Olmsted County has seen a reduction in its share of the MERC distribution, going from 28 percent in 2007 to 4 percent in 2008, and 6 percent in 2009. Grants to facilities in Hennepin County have not fluctuated more than one percent due to the new formula, while Ramsey County has seen around a seven percent increase. This result is largely due to the relatively smaller share of Medicaid volume at the Olmsted County training sites. In the past, these sites had benefitted primarily from the “educational” portion of the distribution formula, as their high number of students and residents allowed them to receive a higher percentage of the distribution.



If you have any questions related to the materials discussed in the report, please contact Diane Reger at diane.reger@state.mn.us or 651/201-3566 for further information. Detailed reports showing grant payments to individual training sites are also available on the MERC web pages or by using the following link: <http://www.health.state.mn.us/divs/hpsc/hep/merc/grantupdates.html>