

## Medical Education and Research Costs (MERC): Funding Mechanisms

*What is the purpose of MERC?*

The MERC fund was created by the legislature in 1999, and its current function is to reimburse teaching institutions for a portion of the cost of clinical training of health care providers.

*How is MERC funded?*

Funding mechanisms for MERC have changed several times over the years, as recently as July 2016. Most of the state money directed to the MERC fund receives a federal match; only the direct appropriations from the general fund and health care access fund do not receive a federal match.

Currently, there are four sources of state revenue for the MERC fund: (1) a portion of cigarette tax revenues; (2) the PMAP carve-out; (3) University of Minnesota transfers; and (4) appropriations from the state general fund and health care access fund.

- (1) **Cigarette Tax Revenue:** \$3,937,000 of state cigarette tax revenue is transferred annually to an account in the special revenue fund and appropriated to the Commissioner of Health for the MERC program ([Minn. Stat. § 297F.10](#), subd. 1, cl. (2)). This amount (minus MERC administrative costs) is used to draw the standard Medical Assistance (MA) federal match for Minnesota (generally a one-to-one federal-state dollar match). The cigarette tax revenue plus the federal match, a total of \$7,575,000, is deposited into MERC.
- (2) **PMAP carve-out:** A percentage of state general fund dollars used to make capitation payments to health plans under the Prepaid Medical Assistance Program (PMAP) is “carved out” according to [Minnesota Statutes, section 256B.69](#), subdivision 5c. These “carve-out” funds receive the standard MA federal match for Minnesota.

In 2009, the federal government limited the amount of the carve-out that can be transferred to MERC to the fiscal year 2009 transfer amount, which was approximately \$71,500,000 of federal-state dollars. The legislature further limited the amount of the carve-out that can be transferred to MERC to \$49,552,000 in fiscal year 2014 and thereafter. This is the amount MERC received today and includes federal and state dollars.

- (3) **Transfers:** Each year the University of Minnesota transfers to the Department of Human Services (DHS) \$17,400,000 from the university’s general fund appropriation; the transfers are made in monthly installments ([Laws 2002, ch. 220](#), art. 17, § 2). Half of this amount, \$8,700,000, is deposited into the general fund as a net gain to the state. The other half is added to the PMAP

carve-out and receives the standard MA federal match for Minnesota. The matched half plus the match is transferred to the MERC fund to be distributed back to the university in accordance with statute; the entire \$17,400,000 is retransferred back to the university ([Minn. Stat. § 256B.69](#), subd. 5c, para. (a), cls. (3) and (4)).

Additionally, the university provides an annual transfer of \$2,157,000 to DHS from the university's health care access fund appropriation. ([Laws 2003, 1st Spec. Sess., ch. 14](#), art. 13C, § 2, subd. 1). This amount is used to increase capitation payments under the carve-out and receives the standard MA federal match for Minnesota. The transfer amount is returned to the university, and the match is sent to the MERC fund for distribution in accordance with statute.

- (4) **Appropriations:** \$1 million from the general fund and \$1 million from the health care access fund are appropriated each fiscal year for the MERC program. ([Laws 2015, ch. 71](#), art. 14, § 3, subd. 2; [Laws 2016, ch. 189](#), art. 23, § 3, subd. 2)

***How are MERC funds distributed?***

Most MERC funds (\$59,127,000 in fiscal year 2017) are distributed to eligible training sites each year through a distribution formula, which is based solely on relative public program (MA) volume ([Minn. Stat. § 62J.692](#), subd. 4). The public program volume factor is determined by the total volume of MA revenue received by each training site as a percentage of all MA revenue received by all training sites in the fund pool. A supplemental public program volume factor, which gave a supplemental payment to training sites with a public program revenue of at least 0.98 percent of the total public program revenue received by all eligible training sites, was discontinued after fiscal year 2015.

Any training site whose grant would be less than \$5,000 under the formula or that trains fewer than 0.1 FTE eligible trainees is ineligible for MERC funds. A grant to a clinical training facility cannot be greater than the facility's reported clinical training expenditures. In addition, because most MERC funds receive a federal match, any change to the distribution formula requires approval by the federal Centers for Medicare and Medicaid Services (CMS) or risks loss of federal dollars for the program.

In addition to distributions under the formula, there are statutorily directed distributions, which refund in full the transfers from the university, as described above, and dedicate \$1,035,360 to Hennepin County Medical Center and \$1,121,640 to dental innovation grants, according to [Minnesota Statutes, section 62J.692](#), subdivision 7a. ([Minn. Stat. § 62J.692](#), subd. 7)

***Which agency administers MERC?***

The state health department (MDH) administers the MERC program and is authorized by statute to use a maximum of \$150,000 from the cigarette tax revenues dedicated to MERC for administrative expenses ([Minn. Stat. § 62J.692](#), subd. 4, para. (g)).

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