Minnesota Department of **Human Services**

06 - 0162

February 10, 2006

Patrick E. Flahaven
Secretary of the Senate
231 Capitol
St. Paul, MN 55155

Dear Mr. Flahaven:

I enclose a report to the Minnesota Legislature titled Medicaid Funding for Medical Education and Research Costs (MERC). This report is mandated by Laws of Minnesota, 2005, First Special Session, chapter 4, article 9, section 2, subdivision 7. In accordance with the requirements of Minnesota Statutes, we are also sending six copies of the report to the Legislative Reference Library.

Yours sincerely,

Kevin Goodno
Commissioner

Enclosure

Minnesota Department of **Human Services**

February 10, 2006

Al Mathiowetz
Chief Clerk of the House
211 Capitol
St. Paul, MN 55155

Dear Mr. Mathiowetz:

I enclose a report to the Minnesota Legislature titled Medicaid Funding for Medical Education and Research Costs (MERC). This report is mandated by Laws of Minnesota, 2005, First Special Session, chapter 4, article 9, section 2, subdivision 7. In accordance with the requirements of Minnesota Statutes, we are also sending six copies of the report to the Legislative Reference Library.

Yours sincerely,

Kevin Goodno
Commissioner

Enclosure

Minnesota Department of
Human Services

Health Care

Our Mission

The Minnesota Department of Human Services, working with many others, helps people meet their basic needs so they can live in dignity and achieve their highest potential.

Our Values

- We focus on people, not programs.
- We provide ladders up and safety nets for the people we serve.
- We work in partnership with others; we cannot do it alone.
- We are accountable for results, first to the people we serve, and ultimately to all Minnesotans.

We practice these shared values in an ethical environment where integrity, trustworthiness, responsibility, respect, justice, fairness and caring are of paramount importance.

Medicaid Funding for Medical Education and Research Costs (MERC)

Laws of Minnesota 2005
First Special Session
Chapter 4, article 9, section 2, subdivision 7

Report to the Legislature
January 2006

DHS-4357-ENG (1/05)

Laws of Minnesota 2005, First Special Session, Chapter 4, Article 9, Sec. 2, Subd. 7, provides:

> [MEDICAL EDUCATION ASSIGNMENT.] The commissioner shall continue to seek approval from the Centers for Medicare and Medicaid services to transfer to physician clinics 40 percent of the current medical education and research costs currently assigned to hospitals under Minnesota Statutes, section 62J.692, subdivision 8. The commissioner shall report to the house and senate chairs with funding authority over the Department of Human Services by January 15, 2006, regarding the results of this effort.

In 2003, the Minnesota Legislature amended Minnesota Statutes, section 62J.692, subd. 8, governing medical education and research costs (MERC) to require the Department of Human Services to use Medical Assistance payment rates for physician clinics where possible to maximize federal Medicaid funding. Prior to that amendment, DHS obtained federal matching funds against a portion of the funds in the MERC trust fund by increasing the Medicaid state plan payment rates for the six hospitals with the most admissions and requiring those hospitals to assign that Medicaid payment to the MERC Fund. Because of the 2003 change in law, on December 30, 2003, the Department submitted an amendment to the Medicaid state plan to the Centers for Medicare & Medicaid Services (CMS), revising the methodology for payment rates for physician clinics and hospitals, for state fiscal year (SFY) 2004 and thereafter. That amendment would have required certain physician clinics to also assign a rate increase to the MERC Fund. During the review of the state plan amendment, CMS determined that the assignment mechanism was no longer acceptable or approvable under federal law and regulation but allowed the state to use the old methodology for the SFYs 2004 and 2005 payment, and agreed to continue to work with Minnesota to develop a payment methodology acceptable to CMS without the assignment mechanism for 2006 and thereafter. CMS did not approve the related increase in physician rates.

Because the approved state plan included no authority for federal funding after June 30, 2005, the Department submitted a new state plan amendment on September 2, 2004. That proposal eliminated the assignment mechanism, and included the rate increase for physician clinics required by Minnesota Statutes, section 62J.692, subd. 8, for medical education payments in SFYs 06 and thereafter. Essentially, CMS had two concerns about the assignment mechanism: 1) that the state plan rate increase for the top six hospitals, and only certain physician clinics, which was to be assigned back to the state and redistributed to other providers, meant that the payment rate described in the state plan was not reflective of the actual Medicaid payment received by providers involved in medical education training; and 2) that the assignment by the hospitals and clinics could be considered an impermissible provider tax because providers were required to pay the state the value of the Medicaid rate increase. Because of those two concerns, the proposed amendment eliminated the assignment, and created a Medicaid rate increase to the provider types receiving MERC distribution payments (hospitals, nursing homes, rural health centers, federally qualified health centers, physician and chiropractic clinics, dentists, pharmacies, and community mental health centers. The proposed rate increase was equivalent to the value that each provider type was eligible to receive through the statutory distribution formula for MERC at Minnesota Statutes, section 62J.692. This revision also complied with the state law requiring the Department to seek federal approval to attribute a portion of the MERC funding to payment rates for physician clinics.

After almost 18 months of negotiation and delay, CMS approved the state plan amendment substantially as proposed, including the revision related to physician clinics, but limited its approval to an additional two years (SFYs 2006 and 2007). CMS withheld approval on the portion of the amendment related to the medical education rate increase for nursing homes due to concerns regarding the intergovernmental transfer and supplemental payments to county-owned nursing homes. CMS' reasoning for the time-limited approval is described in the attached memorandum from the Minnesota Department of Health to the MERC stakeholders. CMS' approval letter is also attached. We expect to resolve the remaining issue regarding payment rates for nursing homes within the next two months.

No change to state law is necessary for the 2006 and 2007 payment.

Date: 1/25/2006

To: MERC Advisory Committee and Interested Parties

From: Diane Rydrych
Office of Health Policy, Statistics and Informatics

RE: MERC State Plan Amendment for SFY06 and beyond

As you are aware, the MERC funds that the Department of Health distributes each year are comprised of funds from several sources, including dedicated revenues from a cigarette tax, funds from the University of Minnesota's Academic Health Center, and federal matching funds from Minnesota's Medical Assistance Program. In order to receive federal matching funds, the Department of Human Services submits a State Plan Amendment to the Center for Medicare and Medicaid Services (CMS) each year describing the mechanism through which the federal share is drawn down; this mechanism must be approved by CMS annually. In the past, the mechanism involved making one-time payments to six teaching hospitals, who then assigned their payments to the Department of Health for distribution through MERC: at the time of assignment, DHS was able to claim federal financial participation on the state funds.

As discussed at the last two advisory committee meetings, CMS began expressing concerns about this methodology several years ago, and in 2004, agreed to approve the existing approach through SFY05 on the condition that the State work to modify the mechanism to address CMS concerns in the following years. Since that time, DHS has been in discussions with CMS to uncover the nature of those concerns and to develop a revised mechanism to address them.

In September of 2004, DHS submitted a revised State Plan Amendment to CMS outlining a new process for drawing down federal match that would go into effect in SFY06. Rather than relying on one-time transfers to six large teaching hospitals, the SPA described a process in which each provider type covered by MERC (hospitals, physician clinics, etc) would receive a one-time payment equal to the amount that they would receive through the MERC fund, with the payment being made through MERC rather than by DHS. For sponsoring institutions and training sites, this change would not have any impact: the amount of funding going to each MERC grantee would not change, nor would there be any discernable difference in the timing or mechanics of the MERC distribution from the standpoint of the recipients of funds.

Last week, DHS received approval from CMS to use this mechanism to draw down federal Medicaid funds for SFY06 and SFY07. CMS has not yet approved the portion of the proposal involving medical education costs at nursing homes. This means that federal matching funds will be available, subject to the Upper Payment Limit, for both the upcoming MERC distribution and the distribution scheduled to take place in FY2007. Further, the formula used to determine the distribution of funds to training sites will not change from previous years.

While this is good news for SFY06 and SFY07, there are still issues that will need to be addressed with CMS for future distributions, and DHS will need to negotiate approval of a new State Plan Amendment to take effect in SFY08. CMS has recently expressed concerns that the current MERC formula does not adequately take into account Medicaid utilization, and that there is currently no safeguard against Medicaid paying, through MERC, more than its share of GME costs for any given provider. As a result, CMS will require changes in the MERC distribution formula to address that concern beginning in SFY08. At this point, we have not received guidance about the extent to which CMS would want MERC to use Medicaid utilization as a factor in calculating grant awards for each site, nor whether the state would be required to make other revisions to the GME cost data currently collected through the MERC application.

It is important to note that any revisions that may be required by CMS in order to continue to receive federal matching funds on state MERC dollars would only affect the FFS portion of the distribution at this time. The FFS portion of the distribution includes roughly $8.5 million per year in dedicated cigarette tax revenues as well as federal match on those revenues and on funds from the Academic Health Center. The federal match on cigarette tax revenues and on funds from the AHC totals roughly $13 million per year.

It is our expectation that we will be working closely with DHS and with CMS this spring and summer to clarify the expectations for MERC in SFY08 and beyond. We will be discussing these issues at the upcoming MERC Advisory Committee meeting on June 16, at which time we will hopefully have received additional guidance from CMS about their expectations in terms of incorporating Medicaid utilization into the MERC formula and/or revising cost data.

The Department remains committed to supporting graduate medical education in Minnesota. We thank you for your continued involvement on this issue and look forward to working with you into the future.

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850

CMS
CENTERS for MEDICARE & MEDICAID SERVICES

Center for Medicaid and State Operations

Ms. Christine Bronson
Acting Medicaid Director
Department of Human Services
444 Lafayette Road
St. Paul, MN 55155-3852

RE: Minnesota 04-015(a)

Dear Ms. Bronson:

We have reviewed the proposed amendment to Attachment 4.19-A and 4.19-B of your State Medicaid plan submitted under transmittal number (TN) 04-015(a). This amendment revises the payment methodology for medical education for State Fiscal Years 2006 and 2007 to Medical Assistance-enrolled teaching hospitals and ambulatory service providers. This plan's federal fiscal impact is budget neutral. We are pleased to inform you that Medicaid State plan amendment 04-015(a) is approved effective July 1, 2004 for medical education payments beginning July 1, 2005. We are enclosing the HCFA-179 and the amended plan pages.

Please be advised that CMS is monitoring the State's claimed expenditures to ensure that the claims made under the authority of this amendment (or otherwise) are fully supported and that all non-federal share funding is consistent with the Federal Medicaid statute effective July 1, 2005.

If you have any questions, please call Rory Howe at (410) 786-4878.

Sincerely,

Dennis G. Smith
Director

Enclosures

bcc: Rory Howe, NIRT CO
ARA Medicaid, Region V

DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION

FORM APPROVED
OMB NO. 0938-0193

45-45f ~~Att. 4.19-D (Non State Government Owned or Operated NF)~~ ~~Att. 4.19-D (State-Owned NF), pp. 201-202~~	Att. 4.19-B, pp. 4-4e, 5-5e/f, 10-10e, 15, 17, 30, 31-31b, 37-37b 45-45f ~~Att. 4.19-D (NF), pp. 1-162~~ 4.19A pp 49-52 ~~Att. 4.19-D (State-Owned NF), pp. 201-202~~ pp 101-105

10. SUBJECT OF AMENDMENT:
Additional Payments for Medical Education Beginning July 1, 2005

11. GOVERNOR'S REVIEW *(Check One)*:
x GOVERNOR'S OFFICE REPORTED NO COMMENT
☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL
☐ OTHER, AS SPECIFIED:

12. SIGNATURE OF STATE AGENCY OFFICIAL: Mary B Kennedy	16. RETURN TO: Stephanie Schwartz Minnesota Department of Human Services Federal Relations Unit 444 Lafayette Road No. St. Paul, MN 55155-3852
13. TYPED NAME: date submitted: 9/2/04 Mary B. Kennedy	
14. TITLE: Medicaid Director	

FORM HCFA-179 (07-92)

DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION

FORM APPROVED
OMB NO. 0938-0193

15. DATE SUBMITTED: ~~August~~, 2004 Sept. 2, 2004	

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:	18. DATE APPROVED: 1-20-06
PLAN APPROVED – ONE COPY ATTACHED	
19. EFFECTIVE DATE OF APPROVED MATERIAL:	20. SIGNATURE OF REGIONAL OFFICIAL: Bill Brand [illegible]
21. TYPED NAME:	22. TITLE:

DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION

FORM APPROVED
OMB NO. 0938-0193

23. REMARKS:
Changes made to box 9 per State request [illegible]
4.19A plan pages included in the amendment.
– Change to box 7 of 179 to update impact [illegible]
under 04-015. [illegible] remains constant in FY06 and FFY 05