

Medical Education and Research Costs: Funding Mechanisms

March 2024

The Medical Education and Research Costs (MERC) program was established in 1999. Its current purpose is to reimburse teaching institutions for a portion of the cost of the clinical training of health care providers by providing grants that are distributed to clinical training sites.

MERC Funding

Funding mechanisms for MERC have changed several times since it was established, with the most recent changes effective in July 2016 and July 2023. The 2023 changes were to bring the state into compliance with rules and guidance from the Centers for Medicare and Medicaid Services (CMS) that prohibit the use of managed care capitation payments to make MERC payments.

There are three sources of state revenue for MERC: (1) a portion of cigarette tax revenues; (2) appropriations for rate factors added to the Medical Assistance (MA) fee-for-service rates of hospitals that qualify for a MERC distribution; and (3) appropriations from the state general fund and health care access fund. Minnesota receives a federal match for the cigarette tax revenue and the rate factors added to Minnesota's fee-for-service hospital rates but not for the appropriations from the general fund and health care access fund.

(1) **Cigarette Tax Revenue:** \$3,788,000 of state cigarette tax revenue is transferred annually to the medical education and research costs account in the special revenue fund. ([Minn. Stat. § 297F.10](#), subd. 1, cl. (2)) This amount is used to draw the standard 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 \$7,575,500, is deposited into the MERC account and appropriated to the commissioner of health.

(2) **Appropriations for Rate Factors:** Money is appropriated from the general fund to the commissioner of human services, to be used to add a rate factor to the MA fee-for-service rates paid to hospitals that qualify for a MERC distribution. The rate factor must be individualized for each hospital. \$15,158,000 in fiscal year 2024 and \$18,382,000 in fiscal year 2025 were appropriated from the general fund for this purpose.

(3) **Appropriations:** \$1,000,000 from the general fund and \$1,000,000 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)

Prior to the 2023 changes, MERC funding included:

- a Prepaid Medical Assistance Program (PMAP) carveout, in which a percentage of state general fund money used to make capitation payments to health plans under PMAP, along with the standard MA federal match for the state money, was “carved out” and transferred to the MERC account; and
- transfers from the University of Minnesota, in which the University of Minnesota transferred portions of the appropriations it received to the Department of Human Services.

These funds were added to the PMAP carveout and received the standard MA federal match, and a portion of this money was then deposited in the MERC account.

The PMAP carveout and the University of Minnesota transfers were eliminated in 2023.

State Agencies that Administer MERC

The Minnesota Department of Health (MDH) and the Department of Human Services (DHS) both participate in the administration of MERC.

MDH administers the application process; determines the grant amount for each clinical training site based on the distribution formula in [Minnesota Statutes, section 62J.692](#); and distributes money to sponsoring institutions, to be forwarded to clinical training sites. MDH also administers the Health Care Workforce & Education Committee (formerly the MERC Committee), which evaluates and provides recommendations on medical education and health care workforce issues.

DHS provides MDH with MA/PMAP claims revenue for clinical training sites that apply for MERC funds. DHS also distributes MERC funds to hospitals on behalf of their affiliated clinical training sites that qualify for a MERC distribution via a rate factor to the hospital's MA fee-for-service rates.

Distribution of MERC Funds

A sponsoring institution—a Minnesota hospital, school, or consortium that sponsors and maintains organizational and financial responsibility for a clinical medical education program—applies, on behalf of its clinical medical education program, to the commissioner of health for MERC funds. MERC funds are distributed annually to sponsoring institutions, for the institutions to forward to eligible clinical training sites of their clinical medical education programs. In fiscal year 2023, \$59,127,000 was distributed through MERC.

The amount a clinical training site receives is determined using a distribution formula based on relative public program (MA/PMAP) volume. ([Minn. Stat. § 62J.692](#), subd. 4) The public program volume factor is determined by the total volume of MA and PMAP revenue received by each clinical training site as a percentage of all MA and PMAP revenue received by all clinical training sites in the fund pool. A clinical training site is not eligible for MERC funds if the clinical training site:

- receives no MA or PMAP revenue;
- would receive a grant of less than \$5,000 based on the formula; or
- trains fewer than 0.1 FTE eligible trainees.

A grant to a clinical training site cannot be greater than the site's reported clinical training expenditures. A clinical training site's grant also cannot exceed the 95th percentile grant per trainee FTE limit. In addition, because most MERC funds receive a federal match, any change to the distribution formula requires approval by CMS or risks loss of federal dollars for the program.

More information on the MERC program is available from the Minnesota Department of Health at <https://www.health.state.mn.us/facilities/ruralhealth/merc/index.html>.



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