

Analysis

Item 21: Oregon Health Authority

COVID-19 Testing Capacity

Analyst: Tom MacDonald

Request: Allocate \$29,400,000 General Fund from the Emergency Fund to the Oregon Health Authority to increase the laboratory capacity at the University of Oregon and Oregon State University for COVID-19 testing.

Description: The Oregon Health Authority (OHA) has submitted a request for \$29.4 million General Fund¹ to expand COVID-19 testing capacity through investments in the University of Oregon (UO) and Oregon State University (OSU). The overall goal of the proposal is to increase daily testing capacity from approximately 6,800, which is the current maximum potential testing capacity in the state, to at least 17,000 to address an expected fall and winter surge in COVID-19 cases, ensure capacity exists to regularly, quickly test at-risk and disadvantaged populations, and contain outbreaks as soon as they happen. The proposal aims to achieve this in two phases: 1) increasing testing at the universities by a combined 4,000 additional tests per day by November 15, 2020; and 2) further increasing capacity by an additional 10,000 (or more) tests per day by January 2021.

Of the requested \$29.4 million, \$7.4 million is for one-time capital construction, equipment, and software expenses. Most of this one-time investment - approximately \$6.5 million - is for capital construction and equipment costs at UO to establish the laboratory infrastructure necessary to process COVID-19 tests. OSU, on the other hand, does not need as much of an infrastructure investment because the university is already conducting COVID-19 tests by using its veterinary lab.

The remaining \$22.0 million represents costs related to the testing process, specifically \$10.0 million for specimen collection and \$12.0 million for laboratory expenses. These estimated costs were calculated according to Medicare reimbursement rates, meaning the \$22.0 million does not necessarily represent the actual cost of testing at UO and OSU, but rather an assumption of the average revenue the universities could expect to receive when billing for insurance reimbursement. OHA's request assumes 50%-80% of the universities' additional tests will be reimbursed through other sources of funding. The issue of insurance reimbursement is an important part of this request, as most forms of insurance currently cover COVID-19 testing costs without cost-sharing but with limitations that could impact OHA's testing approach. A key consideration for the Emergency Board is whether estimated insurance reimbursement is sufficiently represented in the funding proposal.

The information that follows addresses this and other key elements in more detail. The Legislative Fiscal Office's (LFO) recommendation is to support only the \$7.4 million in upfront infrastructure costs at the two universities with a combination of federal Coronavirus Relief Funds (CRF) and Federal Emergency Management Agency (FEMA) reimbursement. LFO currently does not recommend allocating General Fund or increasing expenditure limitations to support the universities' testing costs given additional work LFO believes should be done to increase the level of assumed reimbursement.

¹ Although OHA requests General Fund support, the agency's request letter indicates alternative funding sources, such as federal revenue, could potentially pay for some or all of the identified costs.

Daily Testing Capacity - Existing and Proposed: Throughout the pandemic, Oregon’s capacity to test for COVID-19 has been referenced in multiple distinct ways. The following provides context regarding the state’s daily testing capacity and targeted increase under this request:

- *Current maximum daily testing capacity (6,857).* The maximum daily testing capacity in Oregon was 6,857 as of September 1, 2020. This number reflects the total number of tests *capable* of being processed by the Oregon State Public Health Laboratory (OSPHL), commercial labs, hospitals, and other health care providers, clinics, and OHA partners. However, the actual number of daily tests performed has consistently been lower than the maximum testing capacity due to national supply chain delays for testing materials.
- *Projected testing need (17,070).* The projected testing need that forms the basis for this request totals 17,070 tests per day based on two elements. The first is the assumed number of new daily COVID-19 infections multiplied by a factor of 10 to capture the additional testing needs identified through contact tracing. This part of the proposed capacity increase totals approximately 15,000 daily tests. The second is additional daily surveillance-related testing of approximately 2,000 for long-term care facilities, migrant and seasonal farmworkers, community surveillance, and vulnerable populations.
- *OSU/UO planned capacity increase (4,000 to 10,000-plus).* With the proposed \$7.4 million in one-time investments, UO estimates the university’s daily testing capacity will total 2,000 tests per day by November 15, 2020. OSU has recently taken steps to increase its existing daily testing capacity by at least 2,000 without funding from the state, but the request includes funding for OSU to further increase capacity. By the beginning of 2021, OHA’s request assumes testing capacity at UO and OSU will ramp-up to 10,000 additional daily tests, or more.

The additional testing capacity proposed by OHA represents a significant increase over the agency’s most recently published report on COVID-19 trends. Specifically, the proposed capacity increase represents nearly four times OHA’s modeling of daily infection rates assuming transmission of the virus continues as-is. This modeling, however, only goes through September 24, 2020 and does not factor in a potential fall/winter surge.

Existing and Proposed Testing Capacity Budget: OHA’s existing budget to support the state’s COVID-19 testing strategy totals \$89.1 million, all of which is from federal funding. Of this amount, \$20.7 million represents Coronavirus Relief Funds approved by the Emergency Board at its meeting on August 5, 2020; most of this funding supports equipment, supplies, and other expenses at OSPHL. The remaining \$68.4 million represents a portion of supplemental federal Centers for Disease Control and Prevention’s Epidemiology and Laboratory Capacity (ELC) funding directly distributed to OHA through existing grant agreements. OHA’s plan for this funding is to support testing processing, supplies, and new positions at OSPHL; long-term care facility testing; mobile and regional testing; laboratory data management and reporting; and a portion of UO’s and OSU’s testing costs that are not reimbursed by insurance.

Of the requested \$29.4 million in additional funding, \$6.5 million is for construction, equipment, and supplies costs to increase testing capacity at UO, \$370,000 is for equipment purchases to expand capacity at OSU, \$500,000 is for software expenses; and \$22.0 million is for specimen collection and testing processing according to Medicare reimbursement rates.

OHA Testing Capacity Budget	2020	2021	2022	Total
Existing Budget				
Coronavirus Reflief Fund	\$20.7			\$20.7
Epidemiology and Laboratory Capacity Grant		\$34.2	\$34.2	\$68.4
Subtotal - Existing Budget	\$20.7	\$34.2	\$34.2	\$89.1
Proposed Budget Increase (9/2020 - 12/2020)				
UO - capital construction	\$3.0			\$3.0
UO - equipment and supplies	\$3.5			\$3.5
OSU - equipment	\$0.4			\$0.4
Software platform configuration / set-up	\$0.5			\$0.5
Testing - sample collection	\$10.0			\$10.0
Testing - lab processing	\$12.0			\$12.0
Subtotal - Proposed Increase	\$29.4	\$0.0	\$0.0	\$29.4
Total: Existing Budget + Proposed Increase	\$50.1	\$34.2	\$34.2	\$118.5

University of Oregon one-time costs (\$6.5 million): Because UO does not currently have the laboratory infrastructure to process the volume of tests targeted under this proposal, \$6.5 million is planned for UO capital construction, equipment, and supplies purchases, summarized as follows:

- \$3.0 million for construction of on-campus laboratory space;
- \$2.0 million for robotic testing equipment;
- \$1.0 million for other equipment and supplies to support testing processes; and
- \$525,000 for refrigeration storage and monitoring system.

The anticipated completion date for UO to develop its laboratory infrastructure, hire staff, receive regulatory approvals, and develop local partnerships for sample collection is November 15, 2020. Once this work is complete, the university expects to have the capacity to test 2,000 samples per day. After this initial phase, the university plans to optimize its collection and testing processes and ensure the right infrastructure and staffing are in place to potentially scale its testing capacity to 10,000 (or more) tests per day beginning January 2021, although this volume is not guaranteed.

Oregon State University one-time costs (\$370,000): OSU has already operationalized COVID-19 testing on its campus by leveraging its Oregon Veterinary Diagnostic Laboratory (ODVL) and entering into a partnership with Willamette Valley Toxicology Laboratory. Due to its existing accreditations, equipment, staffing expertise, and vendor relationships, ODVL has been able to quickly respond to COVID-19 testing demand. Since early April 2020, the university has processed tests for over 32,000 people for hospitals, long-term care facilities, and clinics. Recently, ODVL has been processing 700-1,000 tests per day, but expects to increase this volume - without funding from the state - to 2,000 per day in September 2020 as a result of equipment investments made by the university.

ODVL is also implementing two new testing protocols: 1) saliva testing, which is less costly and is expected to increase capacity by an additional 1,000 tests per day, or potentially more; and 2) sample pooling, which combines testing samples into pools and is expected to increase capacity by four-fold. While OSU continues to ramp-up testing capacity on its own, the Emergency Board request, if

approved, would provide \$370,000 for OSU to invest in additional equipment and supplies to contribute to the university's effort to further expand testing capacity by 8,500 tests per day.

Software expenses (\$500,000): An investment of \$500,000 is requested to purchase and configure software to manage participant and sample collection data, communicate results to clients, and report to OHA and local public health authorities.

Sample collection and testing (\$22.0 million): In addition to the infrastructure investments discussed above, \$22.0 million reflects the assumed cost of collecting testing specimens (\$10.0 million) and processing tests (\$12.0 million) through December 2020. These costs are important considerations in terms of how they were calculated and how the universities are reimbursed for them. First, the requested \$22.0 million is based on Medicare reimbursement rates for sample collection and testing. As a result, this funding effectively represents the revenue the universities could expect to receive if billing Medicare for reimbursement as opposed to the universities' actual costs.

Second, the request for \$22.0 million assumes the universities do not seek, or are not eligible for, reimbursement for all tests. Overall, OHA assumes total estimated testing costs, or reimbursement if billed at Medicare rates, is \$44.0 million over three months. OHA's Emergency Board request, however, is for \$22.0 million because the agency assumes insurance reimbursement will initially not be sought for 50% of the tests, at least partly due to the likelihood that not all testing methods will be eligible for reimbursement. The agency assumes the remaining \$22.0 million to be either covered by insurance reimbursements or, in the case of uninsured people, by OHA's existing federal ELC funding.

Notably, OSU already has processes in place to bill for insurance reimbursement, but UO does not. OHA is providing technical assistance to the university to help establish billing processes. Additionally, if this funding proposal is approved, the contracts OHA establishes with the universities will include provisions requiring the universities to seek insurance reimbursement as a first resort before funding from the state is requested.

Because of federal policies in effect during the public health emergency, both insured and uninsured individuals generally have some form of coverage for COVID-19 testing without cost-sharing when deemed "medically necessary." Federal rules, however, do not require insurers to cover testing when it represents surveillance, such as screening employees before they return to work. The advent of pooled testing, which is now one part of OSU's testing approach, currently falls into this category.

Notwithstanding these and other factors potentially limiting insurance reimbursement, provisions established in ORS 743A.264 (HB 3276 (2017)) authorize the state Public Health Director to require insurers to cover certain medical costs in the event of a public health emergency. At the time of this writing, OHA has not invoked this statutory authority and is still exploring its potential use and impact.

Summary of Legislative Fiscal Office Recommendation: The following are key considerations that help form LFO's recommendation for this request:

- *Testing capacity target* - the reliance on one independent model largely informs the request to increase daily testing capacity from the current maximum of 6,857 to 17,070. This increase is exceptionally larger than OHA's current epidemiological modeling. The capacity target therefore assumes an exceptionally large, yet still unknown, surge in COVID-19 infections.

- *UO testing infrastructure* - the plan to build lab space, purchase equipment, gain regulatory approvals, establish insurance billing processes, and form vendor and community partnerships by November 15, 2020 appears aggressive. While the agency has provided information highlighting some progress, more discussion is necessary to understand the extent to which this work is on schedule and that the testing objectives outlined in the request will be met in time to address the presumed surge in cases, if such a surge materializes.
- *Insurance reimbursement* - the agency's estimate that only 50% of the universities' tests will initially be reimbursed by insurance appears low; more information is needed to demonstrate the steps OHA and the universities are taking to ensure insurance reimbursement is maximized before the state provides resources for these costs. OHA is currently working with the Department of Consumer and Business Services to help identify reimbursement potential.
- *Supply chain issues* - the use of testing methods such as sample pooling and other efficiencies are intended to help mitigate supply chain issues caused by the global demand for testing supplies. However, the effectiveness of this strategy, coupled with the unknown magnitude of possible surges in cases in Oregon and elsewhere, remains unclear and could limit the ability for UO and OSU to process tests at the targets assumed in this proposal.

Because of these uncertainties, LFO recommends the Emergency Board approve a limited approach that provides expenditure limitation and no General Fund for the requested \$7.4 million for one-time infrastructure costs. This recommendation is based on these costs being supported by approximately \$5.6 million in FEMA reimbursement matched by \$1.9 million in CRF funding. One caveat with this recommendation is that some or all of the UO construction costs might be ineligible for FEMA reimbursement or CRF. This part of the recommendation, therefore, tasks OHA with finding solutions to support, if possible, any unqualifying costs within existing resources, which could potentially involve fund shifts to align costs with eligible revenue sources. LFO does not recommend the Emergency Board allocate General Fund or increase expenditure limitations to support testing costs not reimbursed by insurance at this time given the additional work LFO believes is necessary. OHA is able to use its existing ELC award to support these costs should the agency determine this to be an important use of those funds.

LFO further recommends OHA to report to the Emergency Board no later than December 2020 on the status of this proposal, including the progress made increasing the state's testing capacity and related costs and expenditures, as well as a comprehensive summary of the agency's testing strategy. In advance of this report, LFO will request OHA to provide routine updates to LFO and the Department of Administrative Services' Chief Financial Office.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board increase the Oregon Health Authority's Other Funds expenditure limitation by \$1,850,000 and Federal Funds expenditure limitation by \$5,550,000 in the 2019-21 biennium to increase COVID-19 testing capacity and require the agency to report to the Emergency Board no later than December 2020 on the status of the agency's COVID-19 testing strategy and related expenditures.

Request: Allocate \$29.4 million General Fund from the State Emergency Fund to the Oregon Health Authority for increased testing for COVID-19.

Recommendation: Establish Other Funds expenditure limitation of \$29.4 million for the Oregon Health Authority (OHA) for one-time capital costs to build out COVID-19 testing capacity and for software needed to manage the testing process, with the understanding that OHA will keep the Department of Administrative Services Chief Financial Office and the Legislative Fiscal Office informed on their progress in seeking insurance reimbursement for testing.

Discussion: The OHA is leading the state's public health response to the COVID-19 outbreak. In that role, OHA requests \$29.4 million General Fund to expand the testing capacity in the state by building out existing labs at the University of Oregon (UO) and Oregon State University (OSU) to be able to process an additional 400,000 COVID-19 tests by the end of December 2020.

Testing, along with quarantining and contact tracing, are cornerstones of the state's public health response to COVID-19. The World Health Organization uses a metric of having fewer than a 5.0 percent positive rate on tests as a way to determine whether there is sufficient testing in a given location to be able to slow the spread of the disease by standard public health interventions like quarantine and testing and tracing contacts. In order to suppress the disease, Harvard Global Health Institute recommends targeting a positivity rate below 3.0 percent, as well as 24-hour turnaround time for tests. The state has not been able to meet either of these objectives on a consistent basis in recent months, with daily positivity rates sometimes exceeding the 5.0 percent metric. Supply chain issues and increased national demand for testing on a national level have led to delays in processing at national commercial laboratories, as the outbreak has worsened in states in the Southeast.

The additional testing capacity requested would allow Oregon to meet a surge in cases estimated at two to four times greater than the current number. Currently Oregon's published epidemiological modelling of the COVID-19 epidemic predicts new cases up to three weeks in advance. While epidemiological models at the Centers for Disease Prevention and Control and OHA's preferred model do not yet predict a significant increase in diagnosed cases during their respective forecast periods, OHA is planning for a scenario in which cases increase as a result of the loosening of public health restrictions, the fall/winter flu season, and the evacuations of large numbers of Oregonians from the recent wildfires.

The OHA proposes to address these supply chain issues and increase the state's capacity to perform tests by partnering with OSU and the UO to develop or convert existing lab space to process tests for COVID-19. The OHA would use \$6.5 million to assist UO with building out space and purchasing equipment at the Genomics and Cell Characterization Core Facility, \$370,000 to purchase equipment for OSU's Veterinary Lab, and \$500,000 to purchase software so the state can manage the flow of testing. These labs would use a variety of testing methods and technologies in the hopes of avoiding the supply chain issues limiting the state's ability to ramp up testing. The lab at OSU is currently processing COVID-19 tests and could ramp up shortly after receiving additional supplies and equipment. The lab at UO would require until November 15 to fully build out and start processing tests for the state.

The remaining \$22 million General Fund requested by OHA would ensure the two labs were compensated at Medicare rates for the tests they ran. These estimates rely on significant assumptions around the rate of insurance reimbursement (discussed below) and as a result could be materially either higher or lower. Approving the request as Other Funds will allow OHA the flexibility needed to ensure testing and reimbursement can begin promptly upon completion of the needed capital improvements, while OHA works to identify revenues to support the proposal.

State Public Health Lab

The OHA operates a public health laboratory with the capacity to process approximately 600 tests per day for COVID-19 (among other diseases), but space and capacity constraints in the facility means Oregon's testing strategy has relied heavily on non-state labs. Between March 1 and September 15, 2020, the State Public Health Lab (OSPHL) processed approximately 3.8 percent of the 613,000 tests performed on Oregonians. The OSPHL has focused on testing for the uninsured and testing at workplaces and other areas with mass outbreaks. The OHA is not requesting to further expand the capacity at OSPHL out of a desire to diversify the types of tests labs in Oregon can process and to expand the number of Oregon facilities that can process tests.

Insurance Reimbursement

While creating the additional lab capacity for COVID tests, OHA will continue to work with the universities and other state departments to determine how the labs will be paid for their testing, with the biggest questions remaining for those with commercial health insurance. Approximately 53.3 percent of Oregon's population is covered by commercial insurance (both the individual and group markets), with 25.4 percent covered by the Oregon Health Plan, another 15.2 percent covered by Medicare, and the remaining six percent being uninsured. Commercial insurers must reimburse for COVID tests ordered by a medical provider who is caring for a patient, but it is unclear whether or under what specific circumstances commercial insurers would reimburse for tests ordered for population surveillance or recommended by public health officials, as a result of contact tracing efforts. Under ORS 743A.264, the director of the Public Health Division of OHA can order insurers to cover "necessary antitoxins, serums, vaccines, immunizing agents, antibiotics, antidotes and other pharmaceutical agents, medical supplies or other prophylactic measures... that the director deems necessary to prevent the spread of the disease." As of the date of this analysis, the order had not been given and so insurance reimbursement from commercial plans remains uncertain.

There are scenarios in which public insurers will not pay for COVID-19 tests, depending on the circumstance. Tests are covered by the Oregon Health Plan as long as they are deemed medically necessary. Medicare will reimburse for one test per person, with any additional tests requiring the order of an attending physician.

The billing is also a concern at both university labs, with neither having extensive experience in billing health insurance plans for the tests they run. The OHA plans to provide technical assistance to the universities to help them bill insurance. The OHA's contracts with both university labs will require the universities to seek insurance reimbursement for tests as the first option. The OHA estimates, in the long term, 50 percent of tests reimbursed by insurance or federal grants will increase to 80 percent.

Federal Grants

The OHA has received two major grants in recent months, which can be used to pay for COVID-19 testing. The OHA received \$94 million of the state's allocation of Coronavirus Relief Fund from the August 2020 meeting of the Emergency Board to be used for contact tracing, public

health response, and testing. Of this, OHA plans to use \$20.7 million to pay for tests performed at the Oregon State Public Health Laboratory.

OHA also received an \$87.6 million grant from the Centers for Disease Prevention and Control for Epidemiology and Laboratory Capacity expansion related to COVID-19. Of this, OHA is planning to use \$16.3 million to expand capacity at the OSPHL from 400 tests per day to 600 tests per day. The OHA is also planning to use \$17.6 million to pay for testing for the uninsured and for testing for uninsured staff at long-term care facilities, for clients and staff at the Oregon Youth Authority and the Department of Corrections facilities. In addition, OHA plans to use \$6.0 million of this grant to support the testing and reporting needs of counties.

OHA has also applied to the Federal Emergency Management Agency for reimbursement for actions taken to respond to the COVID-19 emergency, including testing. The status of the request is still pending and any award amount is unknown.

With the availability of other funding sources and the need to increase testing capacity, the recommendation to increase Other Funds expenditure limitation by \$29.4 million for OHA allows the agency to move forward with increasing the state's testing capacity. OHA should provide the Chief Financial Office and the Legislative Fiscal Office with regular updates on the progress and fiscal position of this initiative.

Legal References:

Establishment of an expenditure limitation of \$29,400,000 for the Oregon Health Authority for the payment of expenses from fees, moneys, or other revenues including Miscellaneous Receipts, excluding lottery and federal funds, collected or received for the biennium beginning July 1, 2019, to build additional state capacity for COVID-19 testing through contracts with the University of Oregon and Oregon State University.



Office of the Director

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September 4, 2020

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairs:

Nature of the Request

The COVID-19 pandemic has created a new urgency for additional and more robust testing capacity in the state. As Oregon looks to reopen schools and be better prepared to quickly track and follow up on small outbreaks, additional rapid and in-state testing facilities are needed. This request for **\$29,400,000** will fill the gap in current state testing capacity and provide over 10,000 tests per day and build in-state testing capacity with more modern technology, a better supply of testing reagents and test kits, and quicker results.

This request of funding could be a combination of funding sources including any available Coronavirus Relief Fund, FEMA reimbursement, and General Fund dollars. OHA would request a joint OHA/CFO/LFO workgroup to meet before the September Emergency Board to determine potential funding sources for this request. In addition, we will work with the presiding officers to develop a more comprehensive six- and twelve-month regional testing plan.

OHA would like to work with the presiding officers around the need for continued funding for Coronavirus Relief Funded programs that are set to expire at the end of December 2020 to ensure that resources are available to meet upcoming public health response needs.

Agency Action

The Oregon Health Authority has reacted swiftly to the COVID-19 pandemic and is using resources provided by the Federal Coronavirus Relief Fund to monitor, test, and trace cases of COVID-19. The resources that are currently being utilized do not meet all of the testing needs of the state as the federal government

increasingly is pulling back from supplying testing supplies. Oregon needs to have a more consistent and regional approach to testing, and this request will allow for additional testing to occur as Oregon continues its fight against the pandemic.

Action Requested

This request for \$29,400,000 of General Fund, or a combination of other funds, which would allow for immediate increase in lab capacity through two partners in the University of Oregon and Oregon State University. The action requested would provide funding to both institutions to increase capacity to run tests. OHA is requesting \$7.4 million in startup costs for new equipment and capital and software costs. In addition, OHA is requesting \$10 million for specimen collection costs including test kits and PPE needed for collecting samples. Finally, OHA is requesting \$12 million for specific lab testing and reagent costs. OHA will work with the University of Oregon and Oregon State University on setting up third party reimbursement to help defray this expense.

Legislation Affected

Oregon Laws 2019, Chapter 695, Section 1, Subsection (1).

Sincerely,



Patrick M. Allen
Director

EC: Patrick Heath, Department of Administrative Services
George Naughton, Department of Administrative Services
Tom MacDonald, Legislative Fiscal Office
Ken Rocco, Legislative Fiscal Office