

Updated SFY 2027 Nursing Facility Value-Based Purchasing (VBP) Methodology

Virginia Department of Medical Assistance Services

PAYMENT INNOVATION & PROGRAM EVALUATION (PIPE) DIVISION

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VIRGINIA'S MEDICAID PROGRAM



CardinalCare
Virginia's Medicaid Program

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Executive Summary

In 2021, the Virginia General Assembly directed the Department of Medical Assistance Services (DMAS) to establish a nursing facility (NF) Value-Based Purchasing (VBP) program designed to improve the quality of care furnished to Medicaid members. This document details the NF VBP program methodology for State Fiscal Year (SFY) 2027. Federal approval by the Centers for Medicare and Medicaid Services (CMS) is required for many aspects of the program's methodology. Because CMS's review and approval process will not take place until the second half of the SFY 2027 performance period (i.e., Federal Fiscal Year 2026), the SFY 2027 program methodology described here may be modified at a later date in order to secure CMS approval.

Program Components

In SFY 2027, payments made under the NF VBP program will consist of three parts shown in Exhibit 1.

Exhibit 1. The Components of the Total NF VBP Payment



The size of Performance Measure (PM) payments under the program are contingent on NF performance across four measures addressing staffing and avoidance of negative care events. All payments are adjusted to account for the volume of Medicaid member days at a given NF. PM payments for each measure for SFY 2027 are provided in Table 1.

Table 1. NF VBP SFY 2027 Program Components and Measures

NF VBP Program Components	PM Weight	SFY 2027 Funding
Total Nurse Staffing Turnover (RN + LPN + nurse aides)	20%	\$37.0 M
Total Nursing Hours per Resident Day (RN + LPN + nurse aide hours)	20%	\$37.0 M
Percentage of Long-Stay Residents with One or More Falls with Major Injury	30%	\$55.5 M
Percentage of Long-Stay Residents with Pressure Ulcers	30%	\$55.5 M
Performance (Attainment and Improvement)	100%	\$185 M

Performance Measure Tiers

NFs can earn funds through both attainment on individual measures and improvement over prior years. For the attainment portion of PM payments, NFs earn funds through performance that falls into one of three categories: Fair, Better, and Best. To comply with federal regulations, only NFs that demonstrate maintenance (or improvement) compared to the previous year will earn the maximum possible attainment payment for an individual measure. If the NF falls below the minimum thresholds of the Fair category, it will not receive any attainment funds for a particular measure. Table 2 illustrates the performance and improvement thresholds associated with each measure.

Table 2. NF VBP SFY 2027 PM Attainment and Improvement Thresholds

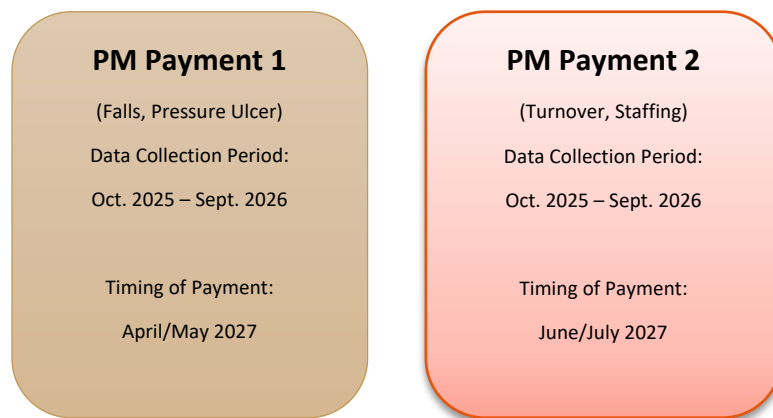
PM Tiers	Fair Thresholds	Better Thresholds	Best Thresholds	Improvement Thresholds
Total Nurse Staffing Turnover (RN, LPN, nurse aides)	48.61 - 58.80	40.31 - 48.60	0.00 - 40.30	≥5%; up to the Best tier*
Total Nurse Staffing Hours per Resident Day (RN, LPN, CNA) – case-mix adjusted	3.08 – 3.43	3.44 – 3.83	3.84 +	≥0.5%; up to the Best tier*
Percentage of Long-Stay Residents with One or More Falls with Major Injury	3.30 - 4.65	2.04 - 3.29	0.00 - 2.03	≥5%
Percentage of Long-Stay residents with pressure ulcers	5.23 - 7.63	3.45 - 5.22	0.00 - 3.44	≥5%

**NF can earn improvement when they move into a higher tier than previously held.*

Payment Timing and Structure

Due to regulatory, budget, and data availability constraints associated with the program, DMAS will distribute NF VBP payments in lump sums at two different points throughout the year as shown in Exhibit 2.

Exhibit 2. Payment Timeline for the PM Payments



Project Overview

In 2021, the Virginia General Assembly directed DMAS to establish a NF VBP program. This program seeks to improve the quality and outcomes of care furnished to Medicaid members by enhancing performance accountability in the areas of staffing and avoiding negative care events. This document provides the NF VBP program methodology for SFY 2027 (July 1, 2026 – June 30, 2027), which makes program payments based on performance during Federal Fiscal Year (FFY) 2026 (October 2025 – September 2026). Currently in the 5th year program implementation, approximately \$185 million in performance-based funding is available to facilities that meet or exceed designated performance and improvement thresholds associated with the provision of high-quality care to Medicaid members.¹

Stakeholder Engagement

Initially, DMAS convened a wide range of NF stakeholders to consult on development of the NF VBP model. This group consisted of NF executives, NF association representatives, Aging Services representatives, Medicaid MCOs and MCO association representatives, hospital association representatives, member advocacy via the State Long-Term Care Ombudsman, Virginia's Quality Improvement Organization (QIO), and the Virginia Veterans Administration. In addition, DMAS identified participants for ad hoc subgroups specifically devoted to financial and performance measurement expertise to be consulted as needed.

DMAS continues to convene this group to review updates to the program based on performance each year. In the fall of 2024, DMAS reconvened members from the original ad hoc subgroup for input on two of the PMs for the SFY 2026 methodology to address a significant change by the CMS in an underlying data source (the Minimum Data Set) affecting those measures.² In the summer of 2025, DMAS discussed several aspects of the SFY 2027 methodology with stakeholders. To inform this discussion, DMAS reviewed historical performance on all program

measures for SFY 2026, performance on select measures not part of the methodology through SFY 2026, and alignment between the potential SFY 2027 measure set and CMS' Nursing Facility value-based performance program for Medicare.³

Program Eligibility

Nursing Facilities eligible for NF VBP program payments encompass NFs participating in Medicaid managed care; NFs that do not participate in managed care but previously received enhanced per diem payments as part of COVID-19 response support and assistance; and NFs not currently under a cost settlement structure. NFs shall be defined as Provider Types 010 (Skilled Nursing Home) or 015 (Intermediate Care Nursing Home). Beginning SFY 2027, DMAS will exclude NFs that are a Special Focus Facility (SFF) or a SFF candidate at the end of the performance period.⁴ These potential changes are subject to approval by CMS.

Performance Measures

To prioritize simplicity and reduce administrative burden, DMAS selected PMs that are already standard reporting for Virginia NFs through the CMS Minimum Data Set (MDS) and Payroll Based Journal (PBJ) NF staffing measures. Utilizing these established measure sources allows Virginia NFs to participate in the NF VBP program without additional reporting requirements.

For SFY 2027, the program has revised the performance measures as noted in Table 3.

Table 3. SFY 2027 Nursing Facility VBP Performance Measures⁵

Performance Measure	Description	Domain	NF VBP Performance Weight
Total Nurse Staffing Turnover (RN, LPN, nurse aides)⁶	Percentage of nursing staff that left the nursing home over a 12-month period	Staffing	20%
Total nursing hours per resident day (RN + LPN + nurse aide hours) – case-mix adjusted⁷	Total nurse staffing hours per resident day within a quarter, adjusted for case-mix.	Staffing	20%
Percentage of Long-Stay Residents with One or More Falls with Major Injury⁸	Percentage of long-stay residents who have experienced one or more falls with major injury reported in the target period or look-back period (one full calendar year).	Avoidance of Negative Care Events	30%
Percentage of Residents with Pressure Ulcers⁹	Percentage of long-stay, residents with Stage II-IV or unstageable pressure ulcers.	Avoidance of Negative Care Events	30%

Data Collection

A combination of existing data sources currently used by CMS' Nursing Home Care Compare Five-Star Quality Rating will be used to evaluate performance on the NF VBP PMs. These data sources include CMS' nursing home provider information, nursing home MDS based quality measures, and PBJ staffing data. Utilizing these data sources does not require additional reporting, data collection, or submission on the part of participating NFs. The chosen measures, data collection, and reporting are managed by CMS and therefore the methodology for calculation and collection may change at CMS' discretion. The NF VBP program will evaluate eligible facilities' performance based on the applicable methodology for PMs based on available data.

Calculating Resident Days

For all eligible NFs participating in Medicaid managed care, resident days for each facility will be based on its eligible Medicaid days using managed care encounters submitted to DMAS' Enterprise Data Warehouse Solution (EDWS) system. DMAS will use resident days in the calculation of payment levels under the program.

Due to the steps required to validate MCO Medicaid encounters by both DMAS and its vendor partners, the 4th quarter Medicaid days' data of a given performance period are still being processed by the time payment 1 performance data is available. To address the incomplete fourth quarter NF days while still distributing funds to NFs responsively, the NF VBP program generates a proxy quarter Medicaid days' value for each CMS Certification Number (CCN) based on an average of the Medicaid days of the first three quarters' performance year across data sources (i.e., Medicaid fee-for service or managed care). The total Performance Year Medicaid Member days for each CCN is the sum of the first three quarters of Medicaid days' data and the proxy quarter Medicaid days' value, as follows:

$$Q1days + Q2days + Q3days + \left(\frac{Q1days + Q2days + Q3days}{3} \right)$$

For the limited number of NFs eligible for the NF VBP program but that do not participate in managed care, resident days for each facility will be based on fee-for-service paid Medicaid claims. Days are calculated by taking the header end date of service and subtracting the header first day of service and adding 1 (for the discharge date). If this calculation is 0 (because the header starts and end dates are the same date), then the days count is set to 1. DMAS will use the FFY 2026 timeframe (i.e., October 1, 2025, to September 30, 2026) to calculate Medicaid days for SFY 2027. The Medicaid days' data for this period will be considered final after the third month following the end of the prior performance year. DMAS reserves the right to decide the appropriate days used for payment determination.

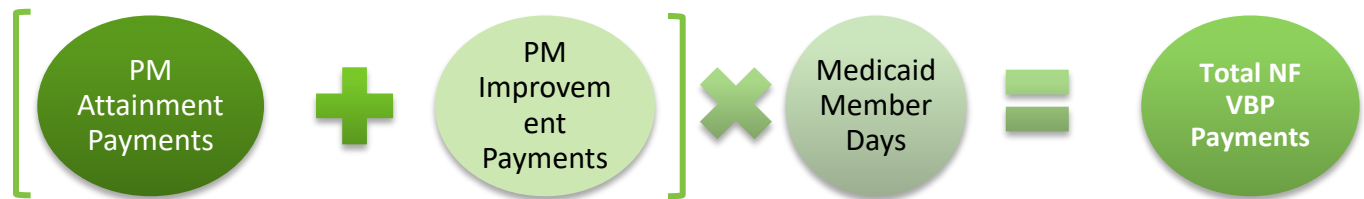
Performance Evaluation Period

SFY 2027 performance-based payments will consider both attainment on the specified measures, as well as improvement from the previous performance year. In the fifth year of the NF VBP program, the PM performance evaluation period will run from October 2025 through September 2026.

NF VBP Payment Mechanics Components of Total NF VBP Payment

As depicted in Exhibit 3, DMAS will derive payment under the NF VBP program based on several components. These components include (1) earned attainment funds for each measure, (2) earned improvement funds for applicable measures (if available), and (3) the number of applicable Medicaid days for the facility.

Exhibit 3. Components of the NF VBP Payment



Performance Measure Weights

PM weights define the total dollar amount allocated to each PM based on available funding for the program. Table 4 demonstrates the distribution of total funds across the PMs for SFY 2027. Staffing measures account for 40% of the total funds available for the PM component of the program. Measures to avoid negative care events account for the remaining 60% of performance funds.

Table 4. SFY 2027 NF VBP PM Weights

Components of VBP Program	Weight	Total SFY 2027 Funding
Total Nurse Staffing Turnover (RN, LPN, nurse aides)	20%	\$37.0 M
Total Nurse Staffing Hours per Resident Day (RN, LPN, CNA) – case-mix adjusted	20%	\$37.0 M
Percentage of Long-Stay Residents with One or More Falls with Major Injury	30%	\$55.5 M
Percentage of Long-Stay Residents with Pressure Ulcers	30%	\$55.5 M
Performance (Attainment and Improvement)	100%	\$185 M

Performance Measure Tiers & Payment Calculation

Performance tiers were originally established by modeling CY 2020 data for all performance measures except the Days without Minimum RN hours staffing measure, which used 2019 facility data. DMAS used 25th, median, and 75th percentile values to set the thresholds for the Fair, Better and Best performance tiers for all measures except for one staffing measure. DMAS held the performance tier values constant for the first three years of the program. Details on the development of the performance measure tiers for prior program years are available from the NF VBP methodology document for each year.

The SFY 2027 Total Nurse Staffing tiers have been adjusted to ensure alignment between the minimum score required to receive an attainment payment with Virginia’s statutorily required minimum threshold.¹⁰ For the new measures - Total Nurse Turnover and Percentage of Long-

Stay Residents with Falls with Major Injury, the thresholds were set using the FFY 2025 data to determine the quartiles. Table 5 depicts the PM level thresholds associated with each level of performance for each measure.

Table 5. SFY 2027 NF VBP Performance Measure Tier Thresholds¹¹

Domain	Performance Measure	Threshold		
		Fair	Better	Best
Staffing	Total Nurse Staffing Turnover (RN, LPN, nurse aides)	48.61-58.80	40.31-48.60	0-40.30
	Total Nurse Staffing Hours per Resident Day (RN, LPN, CNA) Case-mix adjusted	3.08-3.43	3.44-3.83	3.84+
Avoidance of Negative Care Events	Percentage of Long-Stay Residents with One or More Falls with Major Injury	3.30-4.65	2.04-3.29	0-2.03
	Percentage of Long-Stay Residents with Pressure Ulcers	5.23-7.63	3.45-5.22	0-3.44

NFs can earn the maximum per diem award for attainment through performance levels in the Best performance tier. Partial awards are made for performance in lower tiers (Better and Fair).

As depicted in Exhibit 4, NFs can earn the full value (i.e., 100%) of the per diem award for attainment through performance levels in the Best performance tier. The maximum attainment payment for the “Better” tier is 75% of the per diem award, and the maximum attainment payment for the “Fair” tier is 50% of the per diem award. The “Below” tier does not earn attainment payments. Each PM is evaluated independently for each eligible NF.

Exhibit 4. SFY 2027 NF VBP Performance Measure Tier Maximums

<u>Best</u>	<u>Better</u>	<u>Fair</u>	<u>Below</u>
100% PM per diem earned	75% PM per diem earned	50% PM per diem earned	0% PM per diem earned
75 th percentile +	Median – 75 th percentile	25 th percentile – Median	Below 25 th percentile

Federal regulations at 42 CFR § 438.6(c)(2)(iv)(C) published in 2024 that impacted the NF VBP program beginning in SFY 2026 require DMAS to modify the attainment payment schedule for SFY 2027. Specifically, the program can only award NFs that demonstrate maintenance (or improvement) compared to the previous year.¹² For SFY27, DMAS defines maintenance as not falling by more than one tier compared to SFY 2026 results for a given measure. That is, if an NF’s

performance on a given measure drops by two tiers from the prior period, no payment is awarded. For NFs that fall by one tier, the attainment payment is reduced compared to the maximum attainment payment possible for the Better and Fair tiers. Table 6 describes the attainment payment schedule that results from this definition of maintenance. To account for any tier threshold changes made year-to-year, a NF that has the same, or better, performance measure score compared to the prior year, but drops a tier, will receive the maximum attainment payment possible for that tier.

Table 6. Attainment Payment Schedule

Measure Result		
SFY26	SFY27	% Per Diem
Best	Best	100%
	Better	50%
	Fair	0%
	Below	0%
Measure Result		
SFY26	SFY27	% Per Diem
	Best	100%
Better	Better	75%
	Fair	25%
	Below	0%
Measure Result		
SFY26	SFY27	% Per Diem
	Best	100%
	Better	75%
Fair	Fair	50%
Below	Below	0%
No Result		

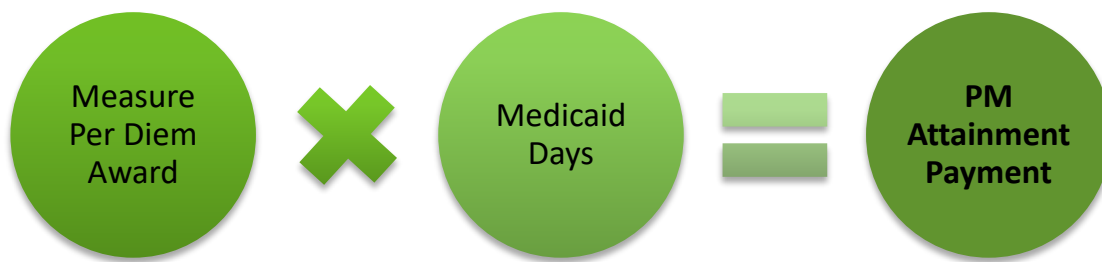
Table 7 illustrates the projected per diem level equivalent each NF can earn through achieving various levels of performance on designated measures. Projected per diem amounts listed in Table 7 are calculated from applying the distribution of SFY 2026 performance across each measure to the total amount of program funding available in SFY 2027. Should the distribution of SFY 2027 performance for any of the measures cause a misalignment between the size of the improvement pool relative to program goals, final SFY 2027 per diem amounts – which can only be calculated once all data are analyzed – may be increased relative to the projected per diem amounts. The magnitude of increases will depend on the magnitude of differences between NF performances in SFY 2026 compared to performance in SFY 2027. If the distribution of SFY 2027 performance for any of the measures causes the expenditure level to exceed allocated funding, the projected per diem amounts may be reduced to cap funding for that measure at the allocated amount.

Table 7. Projected SFY 2027 NF VBP Performance Measure Per Diems

Domain	Performance Measure	Threshold		
		Fair	Better	Best
Staffing	Total Nurse Staffing Turnover (RN, LPN, nurse aides)	\$4.27	\$6.41	\$8.55
	Total Nurse Staffing Hours per resident day (RN, LPN, CNA) – case-mix adjusted	\$5.80	\$8.70	\$11.60
Avoidance of Negative Care Events	Percentage of Long-Stay Residents with One or More Falls with Major Injury	\$5.94	\$8.91	\$11.88
	Percentage of Long-Stay Residents with Pressure Ulcers	\$6.26	\$9.38	\$12.50

To calculate the full attainment award earned by a facility for a designated measure, multiply the per-diem attainment (determined by DMAS) by the number of applicable Medicaid days in the performance period (Exhibit 5).

Exhibit 5. NF VBP Performance Measure Attainment Award Calculation

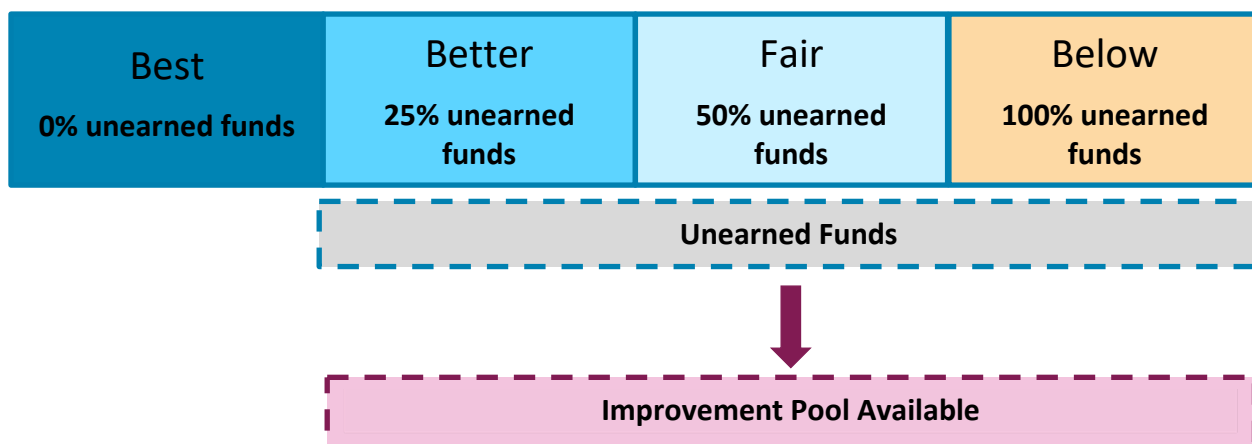


Performance Measure Improvement

After determining all PM attainment award amounts, the NF VBP program creates an “improvement pool” out of any remaining, unearned funds. The improvement pool is the sum of the remaining funds from facilities that did not earn any attainment funding or attained in the Better and Fair tiers (i.e., less than the maximum attainment per diem for a given PM), see Exhibit 6. The improvement pools are created on a measure-by-measure basis.

While an unlikely scenario, if all facilities attain at the Best tier for a specific PM, there would be no improvement pool for that PM because the facilities would have already earned all funding available for that PM.

Exhibit 6. NF VBP Performance Measure Improvement Pool Mechanics



Facilities that participated in the NF VBP program during a previous program year that meet or exceed a PM improvement target are eligible for improvement awards, pending pool availability. Improvement award amounts are dependent on each measure’s available improvement pool and the number of Medicaid days for the facilities that met the PM improvement target. By allowing unearned attainment funds to rollover into an improvement pool for a specific measure, the program can ensure that all funding available for a PM is dispersed based on NF performance, whether that performance is based on attainment and/or improvement. In most circumstances, facilities are eligible to earn funds for both attainment and improvement.

To determine the level of improvement payments, the program will take the total available improvement pool funds for a particular measure and divide this amount by the number of total Medicaid days for the NFs that meet the improvement threshold. The exact size of this award will vary based on 1) the size of the improvement pool and 2) the number of Medicaid days for NFs that meet the improvement target for any given measure. See

Exhibit 7 for a breakdown of this formula.

For both staffing measures (the Total Nurse Staffing Turnover and the Total Nurse Staffing Case-Mix Adjusted), NFs cannot earn an improvement payment if their previous performance was already within the Best performance tier (i.e. NFs cannot earn improvement funds for improvement within the Best tier). For all avoidance of negative care event PMs, NFs are eligible for improvement awards regardless of their previous or current tier.

Table 8 provides additional details.

Exhibit 7. Formula for Improvement Award for each NF Meeting PM Improvement Targets

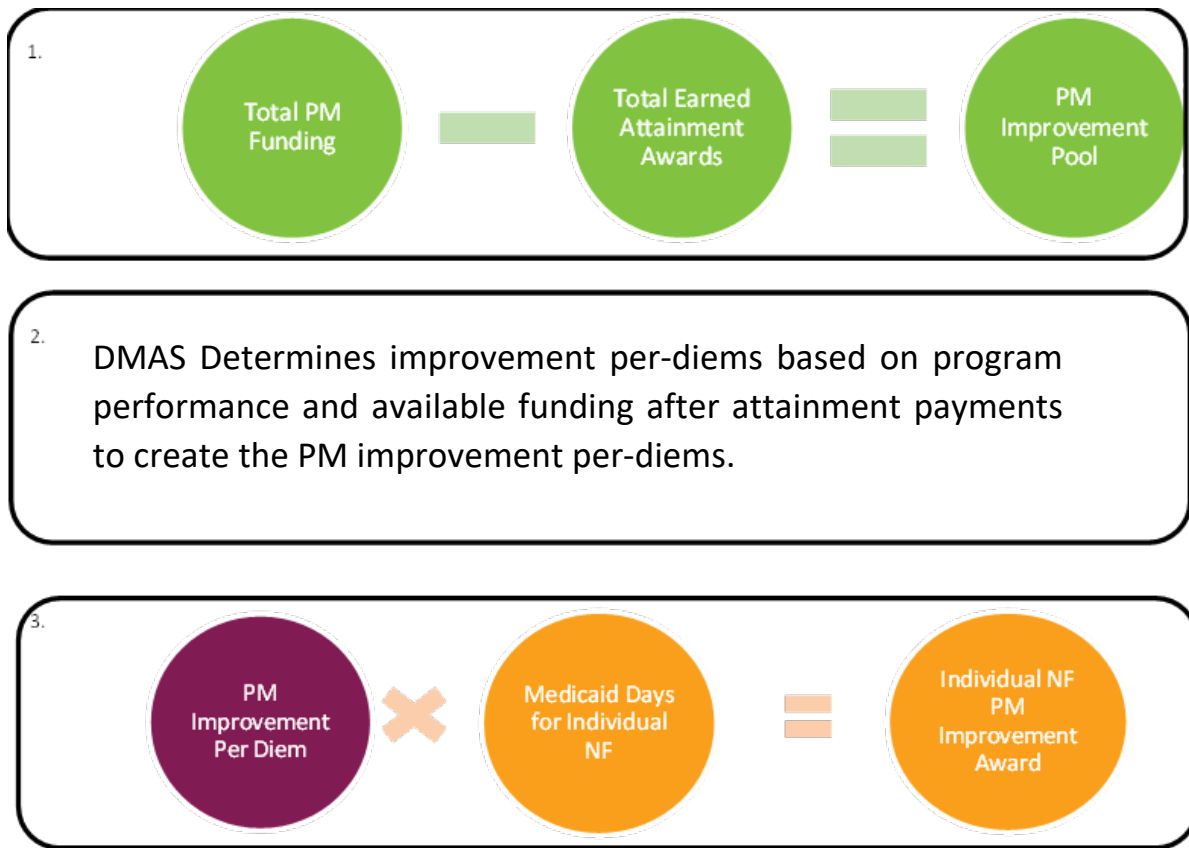


Table 8. SFY 2027 NF VBP Performance Measure Improvement Thresholds

Domain	NF VBP Quality Measure	Improvement
Staffing	Total Nurse Staffing Turnover (RN, LPN, nurse aides)	Improvement of $\geq 5\%$; up to the Best tier*
	Total Nurse Staffing Hours per Resident Day (RN, LPN, CNA) – case-mix adjusted	$\geq 0.5\%$; up to the Best tier*
Avoidance of Negative Care Events	Percentage of Long-Stay Residents with One or More Falls with Major Injury	Improvement of $\geq 5\%$
	Percentage of Long-Stay Residents with Pressure Ulcers (see Table 6 for details).	Improvement of $\geq 5\%$

*NF can earn improvement when they move into a higher tier than previously held.

VBP Program Payment Distributions

Payment Responsibility

To limit administrative burden and support transparency of total payments, each participating NF will receive their NF VBP payments from a single entity. For NFs that do not participate in Medicaid managed care, DMAS will be responsible for such payments. For NFs that do participate in Medicaid managed care, managed care plans will be responsible for making this payment in accordance with the timing and size of payment directed by DMAS.

As each NF may serve members from multiple managed care plans, DMAS will review available data to attribute each eligible facility to a single managed care plan.

Payment Timing

The Total NF VBP payments earned – performance attainment and performance improvement will be paid in two lump sums throughout the year. This timeline addresses limitations presented by two (2) significant requirements or impacts in implementing the program:

1. All funds allocated for the SFY must be distributed within that SFY.
2. PM data are available at differing intervals and require certain run-out periods.

Table 9 shows the data collection period, data reporting month, and anticipated payment month for each portion of NF VBP payments in program year 5. This schedule anticipates that eligible NFs will receive lump sum payments associated with the program components for both April/May 2027 and June/July 2027 in the fifth program year.

Table 9. NF VBP SFY 2027 Payment Timing

Performance Measure	Data Collection Period	Data Available	Payment Month
Percentage of Long-Stay Residents with Pressure Ulcers	October 2025 – September 2026 (FFY 2026)	January 2027	April/May, 2027
Percentage of Long-Stay Residents with One or More Falls with Major Injury			
Total Nurse Staffing Hours per Resident Day (RN, LPN, CNA) – case-mix adjusted		April 2027	June/July, 2027
Total Nurse Staffing Turnover (RN, LPN, nurse aides)			

Additional Stipulations

DMAS Consideration of Final Results

The full amount of NF VBP program funding will be distributed to eligible NFs based on the criteria established above. As actual data for the performance period are not known in advance, DMAS reserves the right to review the results and adjust criteria as necessary to distribute available funding equitably and completely. No payments will be made that exceed the available funding for the program in total. DMAS will provide notice of any such changes to program criteria prior to finalizing payments.

DMAS will make all final determinations with regards to payments under the NF VBP program, including, but not limited to, determinations of any features pertaining to PM attainment and PM improvement, as well as any underlying data used to determine such payments. DMAS will work with stakeholders to address any disagreements in determinations on these points, but if DMAS and the stakeholder are unable to come to an agreement, DMAS decisions are final and not subject to appeal.

¹ Item 313#27c (DMAS) Continue Nursing Home Per Diem Payment & Begin Value-based Purchasing Program. HB1800 – Conference Report. (2021). Virginia’s Legislative Information System.

<https://budget.lis.virginia.gov/amendment/2021/2/HB1800/Introduced/CR/313/27c/>; Item 304 Section 000 2.a-c (DMAS) Medicaid Program Services. HB30 - Chapter 2. (2022). Virginia’s Legislative Information System.
<https://budget.lis.virginia.gov/item/2022/2/HB30/Chapter/1/304/>.

² See “[Updates to Nursing Home Care Compare Staffing and Quality Measures](#)” available from:
<https://www.cms.gov/files/document/qso-23-21-nh.pdf>.

³ Information on the CMS NF VBP program measures is available from: <https://www.cms.gov/medicare/quality/nursing-home-improvement/value-based-purchasing/measures>

⁴ DMAS will exclude the SFF and SFF candidates listed in CMS’ Provider Information dataset published in October, 2026. The most recent information about the Special Focus Facility program is available from: <https://www.cms.gov/files/document/sff-posting-candidate-list-september-2025.pdf>

⁵ Information on the technical specifications for the measures used in the DMAS NF VBP program are available from the CMS document “Design for Care Compare Nursing Home Five-Star Quality Rating System: Technical Users’ Guide” at:
<https://www.cms.gov/medicare/provider-enrollment-and-certification/certificationandcompliance/downloads/usersguide.pdf>

⁶ Data for the Total Nurse Turnover measure are found in the NH Provider Information File available from:
<https://data.cms.gov/provider-data/dataset/4pq5-n9py#overview>

⁷ Data for the total nursing hours per resident day case-mix adjusted measure are found in the NH Provider Information File available from: <https://data.cms.gov/provider-data/dataset/4pq5-n9py#overview>. The Total nursing hours per resident day (RN + LPN + nurse aide hours) – case-mix adjusted measure result are determined through a calculation of the weighted average of the four quarters of data based on Medicaid days.

⁸ Data for the Percentage of Long-Stay Residents with One or More Falls with Major Injury are found in the NH Compare Quality Measure MDS File available from: <https://data.cms.gov/provider-data/dataset/djen-97ju#overview>.

⁹ Data for the Percentage of Long-Stay Residents with Pressure Ulcers are found in the NH Compare Quality Measure MDS File available from: <https://data.cms.gov/provider-data/dataset/djen-97ju#overview>.

¹⁰ Virginia Acts of Assembly 2023 Chapter 483, 1.B.32 establishes a minimum staffing standard for Nursing Facilities of 3.08 hours of case mix-adjusted total nurse staffing hours per resident per day using DMAS’ Total Nurse Staffing measure. The adjusted lower bounds of the Best, Better and Fair SFY 2027 Total Nurse Staffing tiers have been increased by 5.12%, which represents the percentage difference between the SFY 2026 Fair lower bound threshold (2.93) and 3.08.

¹¹ Values are not rounded prior to threshold designation. If a measure value is exactly equivalent to a threshold value, it is determined to be within the set threshold. A value is not determined to be within a tier until that value is more than the minimum threshold for that tier. (e.g., if a facility has Total Nurse Staffing Hours per resident day (RN, LPN, CNA) – case-mix adjusted of 3.8399, this facility will fall within the Better threshold).

¹² Federal regulations at 42 CFR 438.6(c)(2)(vi)(B)(5) require that MCO payments to providers made under a State directed payment, such as the NF VBP program, are restricted to providers that demonstrate maintenance or improvement over baseline on the performance metrics upon which payments are based.