COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

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December 15, 2025

MEMORANDUM

TO: The Honorable Glenn Youngkin
Governor of Virginia

The Honorable Luke E. Torian
Chair, House Appropriations Committee

The Honorable L. Louise Lucas
Chair, Senate Finance and Appropriations Committee

FROM: Cheryl J. Roberts
Director, Virginia Department of Medical Assistance Services

SUBJECT: Nursing Facility Value-Based Payment Incentive Prospective Payment Workgroup

This report is submitted in compliance with Item 288.QQQ.2.e. of the 2025 Appropriations Act, which states:

The department shall work with stakeholders to develop recommendations on modifying the timing and structure of the value-based payment (VBP) program's metric-based payment methodology. Recommendations will consider alternatives to the existing annual retrospective lump sum payment arrangement. These will include, but are not limited to, the structure and frequency of payments to ensure that the annual appropriation to the VBP program will not be overspent. The department's work with stakeholders shall be completed by November 1, 2025, and the department shall report its findings to the Governor and the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by December 15, 2025.

Should you have any questions or need additional information, please feel free to contact me at (804) 664-2660.

CJR/wrf

Enclosure

Pc: The Honorable Janet V. Kelly, Secretary of Health and Human Resources

Nursing Facility Value-Based Payment Program Timing and Methodology Workgroup

December 2025

Report Mandate:

Item 288.QQQ.2.e of the 2025 Appropriation Act states:

The department shall work with stakeholders to develop recommendations on modifying the timing and structure of the value-based payment (VBP) program's metric-based payment methodology. Recommendations will consider alternatives to the existing annual retrospective lump sum payment arrangement. These will include, but are not limited to, the structure and frequency of payments to ensure that the annual appropriation to the VBP program will not be overspent. The department's work with stakeholders shall be completed by November 1, 2025, and the department shall report its findings to the Governor and the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by December 15, 2025.

Background

The Nursing Facility (NF) Value-Based Payment (VBP) program was established by the 2021 Appropriation Act[1]. Under this program, nursing facilities can receive NF VBP program payments by meeting performance standards on specific staffing and quality of care indicators. In SFY2025, 264 nursing facilities – approximately 93% of nursing facilities enrolled in Virginia Medicaid – were eligible to receive NF VBP program payments. The total appropriation for this program is $185 million for SFY2026.

Current NF VBP Program Payment Timing and Structure

Nursing facilities that qualify for performance-based payments receive program funding as lump sum payments towards the end of the State Fiscal Year. Due to varying dates of performance period data availability, DMAS and Medicaid Managed Care Organizations (MCOs) make two sets of lump sum payments – one in April/May and one in June/July. Those payments are based on nursing facilities' performance on the program's measures from the preceding federal fiscal year (October – September).

A comprehensive description of the program's measures, data sources and payment framework is provided in the program's methodology document.

Federal Regulations Affecting Future Payment Timing and Structure

Several recent revisions to the Medicaid managed care federal regulations impact options for changing the NF VBP program's payment timing and/or structure in the long term[2]. Specifically:

[1] See item 313.LLLLL.2 of the 2021 Reconvened Special Session I Virginia Acts of Assembly Chapter 552 (HB 1800)

[2] See 89 FR 41002 available at: https://www.federalregister.gov/documents/2024/05/10/2024-08085/medicaid- program-medicaid-and-childrens-health-insurance-program-chip-managed-care-access-finance

- DMAS has more flexibility in setting the performance period in advance of the State Fiscal Year. Previously, CMS required overlap between the performance period and the managed care "rating period", which for Virginia is the State Fiscal Year. Due to this previous requirement, the NF VBP program's performance period has been the Federal Fiscal Year that precedes the beginning of the State Fiscal Year[3]. Under 42 CFR § 438.6(c)(2)(vi)(B)(3), the performance period can now precede the rating period by 12 months. This rule change would make it feasible to use performance during a prior State Fiscal Year as the basis for payments made during the following State Fiscal Year.

- By July 1, 2028, DMAS must transition how the agency distributes NF VBP program funding to MCOs under 42 CFR § 438.6(c)(6). Currently, DMAS distributes most of the NF VBP program funding to MCOs shortly before MCOs make lump sum payments to nursing facilities[4]. As part of this process, DMAS specifies the exact amounts each MCO must pay each nursing facility based on that nursing facility's performance. However, effective July 1, 2028 (i.e., SFY29), federal rules will prohibit DMAS from distributing NF VBP program funding to MCOs as lump sum/stand-alone payments[5]. Instead, DMAS will be required to incorporate NF VBP program funding into the MCO capitation rates. The capitation rate setting process precedes the start of each state fiscal year.

- States currently have more flexibility in how they direct MCOs to pay VBP performance payments like the NF VBP incentive than previously. Under the revised federal regulations at 42 CFR § 438.6(c)(2), states are no longer prohibited from setting the amount and frequency of VBP payments to providers – even when the funding to the MCOs transitions to the capitation rates. This flexibility could allow DMAS to continue directing the MCOs to make lump sum payments to NF providers – either as the current schedule or earlier in the state fiscal year using a different performance period.

Workgroup

DMAS convened a workgroup to evaluate options for prospective payment for the NF VBP program. The workgroup met on August 11, 2025, and attendees included staff from DMAS, representatives from the Virginia Healthcare Association (VHCA), the Virginia Association of Health Plans, several nursing facilities, and four of the five Virginia Medicaid MCOs. On August 11, 2025, DMAS provided an electronic version of the presentation with a window for workgroup members to provide written feedback (by August 20) and followed up with a short online survey

[3] For example, the performance period for SFY25 (July 1, 2024 – June 30, 2025) was October 1, 2023 – September 30, 2024.

[4] A small number of NF VBP program nursing facilities do not participate in managed care. DMAS makes lump sum payments directly to those facilities.

[5] DMAS' payments to MCOs are referred to as "Separate Payment Terms" in federal rules.

summarizing options on September 8, 2025, that was due September 11.

Analysis of Options

Two options for modifying the current NF VBP structure and timing were considered by the workgroup:

- Option 1: Retain the current NF VBP payment structure (i.e., lump sum payments) but change their timing by making them earlier in the SFY.
- Option 2: Change both the structure and timing of payments by transitioning program funding to claims-based payments made throughout the SFY, with a reconciliation process after the end of the SFY.

Option 1: Transition lump sum payments to earlier in SFY

With the new federal flexibility allowing the performance period to precede the payout period by one year, DMAS could adjust the timing of payments while keeping the lump sum structure unchanged. If the NF VBP program were to move the performance period from a preceding FFY basis (i.e., October 1 – September 30) to a preceding SFY basis (July 1 – June 30), the timing of lump sum payments could be advanced approximately three months earlier[6]. In addition, Option 1 does not conflict with the federal rule that will require DMAS to integrate NF VBP program funding into MCO capitation rates beginning in SFY 2029[7]. Because DMAS would use its existing processes to implement earlier lump sum payments, there would not be additional administrative costs or administrative complexities to implement this option. However, to shift the timing of the payment, DMAS would require General Assembly authority to amend the Medicaid State Plan.

Option 2: Transition a portion of the payment to a claims-based payment

DMAS could adjust both the timing and structure of payments by disbursing program funding as a nursing facility per diem rate component (i.e., "add-on") paid out through MCO and DMAS claims systems[8]. Under such an approach, NFs would earn program funding incrementally throughout the year through their claims submitted to MCOs and DMAS.

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[6] One consideration regarding the transition of the performance period is that, in the transition year, it would be limited to only nine months. Another potential challenge with this approach is that payments to the facilities would not occur at the beginning of the SFY.

[7] Federal regulations that were updated in May 2024 grant states more flexibility in directing MCOs to make value- based performance payments to providers: see 89 FR 41092: "[CMS is] also finalizing the removal of certain requirements currently codified at § 438.6(c)(2)(iii)(C) and (D) (related to directing the timing and amount of expenditures and recouping unspent funds) and the redesignation of the current provision at § 438.6(c)(2)(iii)(A) to § 438.6(c)((2)(vi)(A)."

[8] In Virginia Medicaid nursing facilities are paid a prospective rate per resident per day. The rate consists of various components, and the NF VBP per diem amount could be added as a new rate component under Option 2.

Absent the federal restrictions on the number of months that the program's performance period can precede its payout period, this approach would be relatively straightforward to implement. For example, DMAS could use results from a performance period that began 24 months before the SFY as the basis on which to calculate per diem amounts. This performance period change would provide DMAS and MCOs with adequate time to load the NF VBP rate components into their claims processing systems prior to the beginning of the SFY in which payments would be made.

However, three factors complicate this approach:

- Federal regulations stipulate that the performance period cannot precede the SFY payout period by more than 12 months. Because the NF VBP program bases performance on a year-long performance period, if the performance period were transitioned to a SFY basis, the last day of the performance period would be the day before the start of the SFY in which payouts are made.
- Per diem add-on amounts based on the performance period must be loaded into DMAS' and MCOs' claims processing systems prior to the SFY in which claims payments are made. The process for loading rates typically takes 90 days.
- There is a delay of three to five months between the end of the performance period and when CMS makes data available.[9] The process for DMAS and MCOs to load rates into their respective claims processing systems based on performance period results could not take place until almost midway into the payout period.

The combination of these factors makes it operationally impossible to load a per diem add-on amount that is based on performance period results, even if the performance period is moved back to the SFY prior to the payout SFY.

As a result, DMAS would need to follow a multi-step approach to implement this option, such as by:

- Establishing a placeholder per diem add-on based on performance from a performance period that began 24 months prior to the SFY as a "best guess" of what NFs will earn when the actual performance period data are made available and analyzed.
- Loading a provisional per diem add-on into claims processing systems based on this "best guess" per diem. To mitigate the risk that the program pays out more to NFs than the appropriated amount if NFs do better than expected in the aggregate, the provisional per diem amount would likely be less than 100 percent of the placeholder per diem add-on amount (e.g., 60%).
- Conducting a reconciliation process after the end of the SFY to recoup program funding

[9] For example, the Percentage of Long-Stay Residents With a Urinary Tract Infection measure data reflecting performance between October 1, 2023, and September 30, 2024, was not available from CMS until March 2025.

from NFs that did significantly worse than expected – and were therefore overpaid through the provisional add-on amount – and make lump sum payments to NFs that are owed funding based on the difference between their provisional per diem add-on amount and what they should have received. The reconciliation process is anticipated to take up to one year following the conclusion of the payout SFY.

Option 2 would introduce a variety of new administrative costs and complexities to the program. These include:

- Changes to MCO and DMAS claims processing systems. DMAS estimates that system changes would have a one-time cost of $132,000, and one MCO indicated that the estimated cost for the required system changes would be between $2 and $5 million. MCOs indicated that the substantial modifications required to implement Option 2 would require a multi-step operational effort across various systems and could take six to 24 months to implement.
- Changes to DMAS' provider and data management systems (e.g., introduction of an additional rate code to the provider system and changes to the data management system to generate a new report detailing cumulative NF VBP spending (both FFS and managed care)).

Comparison of Options 1 and 2

Both Option 1 and Option 2 would result in earlier payments compared to the existing lump sum payment structure and timing:

- Option 1 would allow NFs to receive payments approximately three months earlier in the SFY.
- Option 2 would allow NFs to receive payments continuously throughout the SFY. However, these payments would not necessarily reflect the total award amounts or the most up- to-date performance awards for the facilities.

Option 1 would be less complex to implement than Option 2:

- Option 1 does not require any adjustments to NF payments after the conclusion of the rating period.
- Option 2 would require a multi-step process of determining placeholder per diems, loading provisional per diems into claims processing systems, and conducting a reconciliation process after the end of the SFY.
- Option 2 also carries an additional risk of overspending to the Commonwealth beginning SFY29, when the NF VBP program funding transitions to MCO capitation rates. If there is a significant rise in the number of Medicaid days resulting from unforeseen changes in the Medicaid members residing in nursing homes, NF VBP program funding disbursed to

MCOs through capitation payments could exceed the appropriated amount.

Both Options 1 and 2 would require the GA to grant DMAS the authority to amend the Medicaid State Plan to adjust the performance period and alter the timing of the NF payments.

Future Options to Mitigate Overspending

As previously described, DMAS will be required to integrate NF VBP program funding into MCO capitation beginning in SFY 2029. As part of this transition, DMAS is considering alternatives to mitigate the risk of program over- and underspending, such as implementing a risk corridor or stop loss provision. DMAS has not finalized the specific type of risk mitigation mechanism to address this change. It should be noted that risk mitigation implementation will require additional reporting and financial analysis on the part of the MCOs and DMAS. DMAS notified the workgroup members about this transition and the potential for implementing risk mitigation strategies, as these changes are expected to impact the overall administrative complexity of all available options – including the status quo.

Another option to mitigate overspending would be to implement a non-reverting holding fund or "Special Fund" where a portion of the program's spending would be allocated to the fund and could be tapped in future years if program spending exceeded the budgeted allocation. DMAS reviewed this option with Department of Planning and Budget staff who indicated that the Special Fund would add significant administrative complexity to the Medicaid program. In addition, only the General Fund portion of the reserve amount could be held in the fund, and Special Fund balances have the potential to be re-allocated to other purposes by the legislature[10]. After providing this option to the Workgroup, feedback from Workgroup members indicated a preference for funding the Special Fund through recoupments from the MCO risk mitigation arrangement rather than setting aside a portion of the program's payment for future years. VHCA also expressed concerns that the initial allocation of a portion of NF VBP funding to a Special Fund would contradict the program's intent to allocate the complete appropriation to the NFs.

Workgroup Input

In addition to presenting options to the Workgroup on August 11, DMAS subsequently surveyed the workgroup members on their preferences for the options presented, including the status quo (i.e., lump sum payments made at the end/after the end of each SFY based on performance during the prior FFY). DMAS received responses from four stakeholders – two MCOs and two nursing facilities. All respondents supported moving the performance period to reflect the prior

[10] Although DMAS could develop protections to mitigate the possibility of the fund being reallocated to other purposes, the legislature, through the appropriations process, could use the fund to cover other funding shortfalls in Medicaid and/or other programs.

state fiscal year instead of the prior federal fiscal year[11]. In terms of the payment mechanism, the respondents were evenly split. One MCO and one NF wanted to use the claims-based payment with a reconciliation while the other MCO and NF supported a lump sum payment earlier in the year (November/December).

VHCA separately polled its membership about changing the performance period and the timing of the lump sum payments and provided that information to DMAS. There were nine respondents representing 100 facilities[12]. The majority (two-thirds) of respondents favored a transition to the prior SFY performance period but had different preferences for the timing of the payment. One-third (33%) of respondents favored no change in the current performance period and payment timing.

Recommendation

Based on feedback received from workgroup members and due to the administrative and financial challenges associated with Option 2 (Transitioning a portion of the payment to a claims-based payment), DMAS recommends either:

- Remaining with the status quo in which the performance period is based on the Federal Fiscal Year that precedes the payout period by 9 months, and lump sum payments are made at the end of the payout period; or
- Proceeding with Option 1, in which the performance period would be based on the State Fiscal Year prior to the payout period and lump sum payments would be made earlier in the SFY).

Compared to Option 2, Option 1 both is both administratively less complex for DMAS and MCOs and also avoids potential payment "claw backs" from nursing facilities that may arise during the reconciliation processes required under Option 2. While implementing Option 1 would not require additional administrative funds for DMAS, it would require legislative authority for DMAS to modify the State Plan to shift the performance period to a SFY basis and shift the timing of the lump sum payment. At this time, DMAS is not recommending the implementation of a Special Fund given the high administrative complexity and Workgroup member preferences against funding this type of arrangement before MCO payments shift to capitation payments.

About DMAS and Medicaid

The mission of the Virginia Medicaid agency is to improve the health and well-being of Virginians through

[11] Nursing facility respondents supported having the payments take place earlier in the year while MCO respondents preferred having the payments later in the year.

[12] In Program Year 3, a total of 264 nursing facilities participated in the Virginia Medicaid NF VBP program.

access to high-quality health care coverage. The Department of Medical Assistance Services (DMAS) administers Virginia's Medicaid and CHIP programs for over 2 million Virginians. Members have access to primary and specialty health services, inpatient care, dental, behavioral health as well as addiction and recovery treatment services. In addition, Medicaid long-term services and supports enable thousands of Virginians to remain in their homes or to access residential and nursing home care.

Medicaid members historically have included children, pregnant women, parents and caretakers, older adults, and individuals with disabilities. In 2019, Virginia expanded the Medicaid eligibility rules to make health care coverage available to more than 600,000 newly eligible, low-income adults.

Medicaid and CHIP (known in Virginia as Family Access to Medical Insurance Security, or FAMIS) are jointly funded by Virginia and the federal government under Title XIX and Title XXI of the Social Security Act. Virginia generally receives an approximate dollar-for-dollar federal spending match in the Medicaid program. Medicaid expansion qualifies the Commonwealth for a federal funding match of no less than 90% for newly eligible adults, generating cost savings that benefit the overall state budget.