

# **Women, Infants, and Children (WIC)**

**Fiscal Year 2017-18  
May Revision Estimate**



**Karen L. Smith, MD, MPH**  
*Director and State Public Health Officer*

**California Department of Public Health**

## TABLE OF CONTENTS

I.	ESTIMATE .....	1
A.	Program Overview .....	1
B.	Food Expenditures .....	2
1.	Current Year .....	2
2.	Budget Year .....	2
C.	Other Local Assistance and State Operations Projections.....	2
1.	Current Year .....	3
2.	Budget Year .....	3
D.	Fiscal Comparison Summary .....	3
E.	Expenditure Methodology/Key Drivers of Cost.....	4
F.	Food Expenditure Projections (See Appendix B) .....	4
II.	FUND CONDITION STATEMENT .....	6
III.	Assumptions.....	6
1.	Future Fiscal Considerations .....	6
2.	New Assumptions/ Premises .....	6
3.	Existing (Significantly Changed) Assumptions/Premises .....	7
4.	Unchanged Assumptions/Premises .....	7
IV.	APPENDICES .....	10
	APPENDIX A: Rationale and methodology for Participation and Expenditure Projections.....	10
	APPENDIX B: Participant and Food Cost Projections by Category .....	13
	APPENDIX C: WIC Special Display Chart (Government Code 13343) .....	16
	APPENDIX D: Revenue Projections .....	17
1.	Revenue Estimate Methodology Federal Funds: Fund 0890 .....	18
2.	Federal Food Grant.....	19
3.	NSA Grant .....	20
4.	Rebate Funds: WIC Manufacturer Rebate Fund 3023.....	21

## I. ESTIMATE

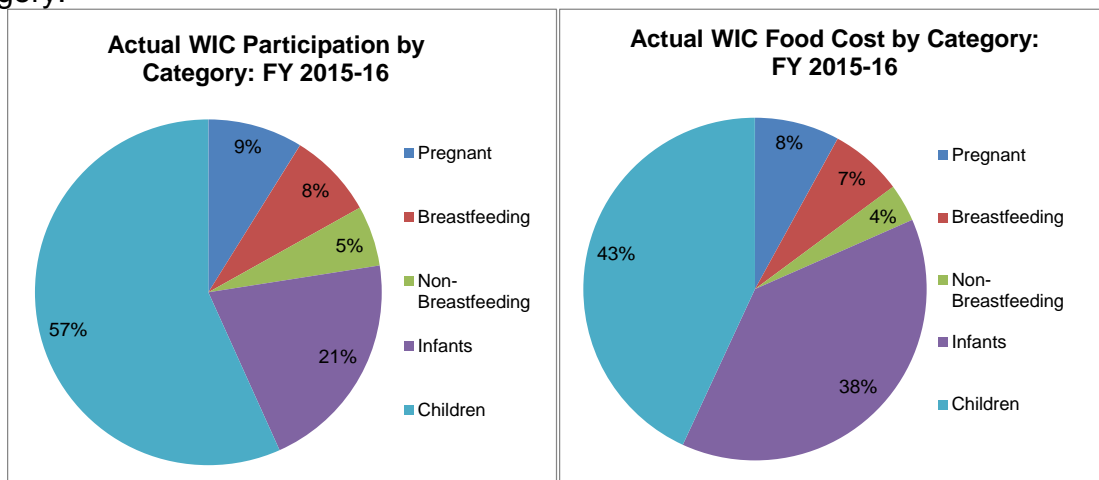
### A. Program Overview

The California Department of Public Health/Women, Infants and Children (CDPH/WIC) Division operates a \$1.2 billion program serving approximately 1.1 million of California’s residents each month. CDPH receives federal funding to administer the WIC Program based on a discretionary grant appropriated by Congress, plus subsequent reallocations of prior year unspent funds. The WIC Program is not an entitlement program; the number of participants served is limited by the discretionary grant.

The WIC Program provides nutrition services and food assistance for pregnant, breastfeeding, and non-breastfeeding women, infants, and children up to their fifth birthday who are at nutritional risk. In addition to the categorical eligibility requirement, participants must be at or below 185 percent of the federal poverty level (equivalent to an annual income of \$29,637 for a family size of two in 2017). WIC Program services include nutrition education, breastfeeding support, assistance with finding health care and other community services, and vouchers for specific supplemental foods redeemable at California WIC authorized grocers. The WIC Program is federally funded by the United States Department of Agriculture (USDA) under the federal Child Nutrition Act of 1966 and the Healthy, Hunger-Free Kids Act of 2010, as amended. Specific uses of WIC Program funds are required under federal laws and regulations, and CDPH must report funds and expenditures monthly.

This Estimate projects food expenditures based on: participation, historical expenditures by participation categories, any regulatory changes that affect costs, and inflation. CDPH/WIC estimates cost per participant in this Estimate at the participant category level. These categories are: (1) pregnant women, (2) breastfeeding women, (3) non-breastfeeding women, (4) infants, and (5) children. The Estimate also includes other Local Assistance and State Operations expenditures.

The two figures below display the distribution of participants and food cost by participant category.



The largest participant category served is children, due to children's eligibility being the longest (age 1 to 5<sup>th</sup> birthday). Other participant categories are limited to one year of eligibility or less. Infants comprise 21 percent of the participants; however, they represent a higher percent of the food cost (38 percent), due to the higher cost of infant formula compared to other foods provided by the WIC Program. The proportionally higher cost of infant formula reduces the cost shares of the other categories below their participation share (e.g., the cost of the child category accounts for 43 percent of food costs despite its 57 percent participation share).

## **B. Food Expenditures**

### **1. Current Year**

Food Expenditures are comprised of the federal food expenditures and the WIC Manufacturer Rebate food costs. The 2017-18 Governor's Budget estimated \$957.9 (\$734.5 federal and \$223.4 rebate) million for food expenditures. This May Revision Estimate anticipates revised FY 2016-17 expenditure levels of \$863.6 million (\$641.9 million federal fund and \$221.7 rebate fund), which is a decrease of \$94.4 million or 9.85 percent compared to the 2017-18 Governor's Budget amount of \$957.9 million. The federal food expenditures decreased by \$92.7 million or 12.62 percent and the rebate expenditures decreased by \$1.7 million or 0.74 percent for total decrease of \$94.4 million. This decrease is mainly due to lower projected participation and a significantly lower Consumer Price Index (CPI) inflation rate. The most recent CPI rate projects a decrease in food costs of 1.02 percent for FY 2016-17. The previous FY 2016-17 CPI rate used in the 2017-18 Governor's Budget projected a 3.16 percent increase in food costs.

### **2. Budget Year**

The 2017-18 Governor's Budget proposal estimated \$973.2 million (\$756.8 million federal fund and \$216.4 million rebate fund) for food expenditures. This May Revision anticipates revised FY 2017-18 expenditure levels of \$874.3 million (\$637.6 million federal fund and \$236.7 million rebate fund), which is a decrease of \$98.9 million or 10.16 percent compared to the 2017-18 Governor's Budget amount of \$973.2 million. The federal food expenditures decreased by \$119.2 million or 15.75 percent and the rebate expenditures increased by \$20.3 million or 9.38 percent. The decrease in federal food expenditures is mainly due to lower projected participation and a lower CPI inflation rate in current year that impacts budget year forecasts. The increase in Manufacturer Rebate revenue is due to a new contract that will begin August 1, 2017, that will increase the rebate dollars received per can of infant formula.

## **C. Other Local Assistance and State Operations Projections**

In addition to food costs, the Local Assistance budget authority includes other federal funds from the Nutrition Services and Administration (NSA) grant, which are used to contract with local agencies for the direct services provided to WIC families (including

intake, eligibility determination, benefit issuance, nutrition education, breastfeeding support, and referrals to health and social services). The NSA grant also funds CDPH/WIC State Operations for administering the program.

**1. Current Year**

In FY 2016-17, the NSA budget and the anticipated expenditures for local administration are estimated at \$300.9 million, which is the same as the 2017-18 Governor’s Budget. State Operations expenditures are estimated at \$62.1 million, which is a \$653,000 increase over the 2017-18 Governor’s Budget. This increase is the result of the Employee Compensation Adjustment.

**2. Budget Year**

In FY 2017-18, there is no change to the local administration expenditure estimate of \$300.9 million in the 2017-18 Governor’s Budget. State Operations expenditures are estimated to be \$63.5 million which is a \$254,000 increase over the 2017-18 Governor’s Budget. This increase is the result of the Employee Compensation Adjustment

**D. Fiscal Comparison Summary**

The following charts display comparisons of expenditures by fund source and the resources that will be used to support the expenditures from each fund. Sufficient federal funds and WIC Manufacturer Rebate Funds are available to support projected expenditures.

EXPENDITURE COMPARISON (federal funds)									
Fund 0890 Federal Trust Fund	2016 Budget Act	SFY 2016-17				SFY 2017-18			
		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget	
Local Assistance Expenditures	1,075,817,000	1,035,439,000	942,725,000	(92,714,000)	-8.95%	1,057,618,000	938,424,000	(119,194,000)	-11.27%
Food Expenditures (Food Grant)	774,950,000	734,572,000	641,858,000	(92,714,000)	-12.62%	756,751,000	637,557,000	(119,194,000)	-15.75%
Other Local Assistance (NSA Grant)	300,867,000	300,867,000	300,867,000	-	0.00%	300,867,000	300,867,000	-	0.00%
State Operations (NSA Grant)	61,429,000	61,429,000	62,082,000	653,000	1.06%	63,209,000	63,463,000	254,000	0.40%

REVENUE COMPARISON (federal funds)									
Fund 0890 Federal Trust Fund	2016 Budget Act	SFY 2016-17				SFY 2017-18			
		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget	
Total Available Resources	1,207,378,000	1,172,335,000	1,127,860,000	(44,475,000)	-3.79%	1,173,618,000	1,109,194,000	(64,424,000)	-5.49%
Food Grant	833,503,000	796,097,000	752,493,000	(43,604,000)	-5.48%	796,794,000	738,655,000	(58,139,000)	-7.30%
NSA Grant	373,875,000	376,238,000	375,367,000	(871,000)	-0.23%	376,824,000	370,539,000	(6,285,000)	-1.67%

EXPENDITURE COMPARISON (rebate funds)									
Fund 3023 Manufacturer Rebate	2016 Budget Act	SFY 2016-17				SFY 2017-18			
		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget	
Local Assistance Expenditures	217,085,000	223,377,000	221,725,000	(1,652,000)	-0.74%	216,412,000	236,711,000	20,299,000	9.38%

REVENUE COMPARISON (rebate funds)									
Fund 3023 Manufacturer Rebate	2016 Budget Act	SFY 2016-17				SFY 2017-18			
		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget	
Total Available Resources	217,085,000	223,377,000	221,725,000	(1,652,000)	-0.74%	216,412,000	236,711,000	20,299,000	9.38%

### E. Expenditure Methodology/Key Drivers of Cost

Food expenditures are divided into five participant categories as described below. Each participant category has special nutrition needs that influence food costs.

Pregnant women are certified on the WIC program at any point in their pregnancy, and receive supplemental foods high in protein, calcium, iron, vitamin A, and vitamin C to support optimal fetal development.

Breastfeeding women are eligible for benefits up to their infant's first birthday, and receive an enhanced supplemental food package with foods high in protein, calcium, iron, vitamin A, and vitamin C to support caloric needs during breastfeeding.

Non-breastfeeding women are eligible for benefits up to six months after the birth of their infants, and receive a supplemental food package to help in rebuilding nutrient stores, especially iron and calcium, and achieving a healthy weight after delivery.

Infants are certified until one year of age. The WIC Program promotes breastfeeding as the optimal infant feeding choice due to its many health, nutritional, economical, and emotional benefits to mother and baby. Infants may also receive supplemental foods that are rich in protein, calcium, iron, vitamin A, and vitamin C during this critical period of development.

Children are certified from age one to up to age five, and receive supplemental foods rich in protein, calcium, iron, vitamin A, and vitamin C. These nutrients have been shown to be lacking in the diets of children who qualify for WIC benefits and are needed to meet nutritional needs during critical periods of development. The food package also provides foods lower in saturated fat to reduce the risk of childhood obesity.

### F. Food Expenditure Projections (See Appendix B)

The following chart details food expenditures by participant category and the resources (federal funds or rebate funds) used to support those expenditures. Expenditures paid

from the NSA grant are also displayed in the chart to show total federal funds used by CDPH/WIC for Local Assistance and State Operations.

EXPENDITURE COMPARISON (all funds)									
Expenditure Category	2016 Budget Act	SFY 2016-17				SFY 2017-18			
		2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget	2017-18 Governor's Budget	2017 May Revision	Change from 2017-18 Governor's Budget		
Pregnant	75,577,000	70,450,000	64,881,000	(5,569,000)	-7.90%	69,259,000	63,379,000	(5,880,000)	-8.49%
Breastfeeding	64,788,000	61,893,000	57,331,000	(4,562,000)	-7.37%	62,542,000	58,188,000	(4,354,000)	-6.96%
Non-Breastfeeding	33,085,000	31,846,000	29,742,000	(2,104,000)	-6.61%	31,545,000	29,309,000	(2,236,000)	-7.09%
Infants	356,215,000	362,555,000	322,144,000	(40,411,000)	-11.15%	361,352,000	321,211,000	(40,141,000)	-11.11%
Children	419,389,000	389,216,000	358,039,000	(31,177,000)	-8.01%	406,033,000	376,717,000	(29,316,000)	-7.22%
Yogurt*	10,787,000	10,787,000	6,292,000	(4,495,000)	-41.67%	10,787,000	-	(10,787,000)	-100.00%
Cash Value Voucher Increase	3,300,000	3,300,000	-	(3,300,000)	-100.00%	3,300,000	-	(3,300,000)	-100.00%
Reserve	28,894,000	27,902,000	25,154,000	(2,748,000)	-9.85%	28,345,000	25,464,000	(2,881,000)	-10.16%
<b>Total Food Expenditures</b>	<b>992,035,000</b>	<b>957,949,000</b>	<b>863,583,000</b>	<b>(94,366,000)</b>	<b>-9.85%</b>	<b>973,163,000</b>	<b>874,268,000</b>	<b>(98,895,000)</b>	<b>-10.16%</b>
Food Expenditures Paid from Rebate Funds	217,085,000	223,377,000	221,725,000	(1,652,000)	-0.74%	216,412,000	236,711,000	20,299,000	9.38%
Food Expenditures Paid from Federal Funds	774,950,000	734,572,000	641,858,000	(92,714,000)	-12.62%	756,751,000	637,557,000	(119,194,000)	-15.75%
Other Local Assistance Expenditures (Federal NSA)	300,867,000	300,867,000	300,867,000	-	0.00%	300,867,000	300,867,000	-	0.00%
<b>Total Federal Local Assistance Expenditures (Food + NSA)</b>	<b>1,075,817,000</b>	<b>1,035,439,000</b>	<b>942,725,000</b>	<b>(92,714,000)</b>	<b>-8.95%</b>	<b>1,057,618,000</b>	<b>938,424,000</b>	<b>(119,194,000)</b>	<b>-11.27%</b>
State Operations (Federal NSA)	61,429,000	61,429,000	62,082,000	653,000	1.06%	63,209,000	63,463,000	254,000	0.40%

\*The projected \$6.3 million in yogurt expenditures represents 7/12 months of our \$10.8 mil projection for FY 2016-17. The remaining \$4.5 million in actual expenditures is spread among the 4 woman and child participant categories. Infants do not receive yogurt.

### Prudent Reserve for Food Expenditures

A prudent reserve request of 3 percent for food expenditures is revised for current year to \$25.2 million, which is a decrease of \$2.7 million or 9.85 percent compared to the 2017-18 Governor's Budget. The prudent reserve request for FY 2017-18 is revised to \$25.5 million; this is a decrease of \$2.9 million or 10.16 percent compared to the 2017-18 Governor's Budget.

The USDA allows states a 3 percent prudent reserve for food inflation and for any unexpected occurrences or natural disasters, which could affect food prices more than any projected "normal" inflation. An unexpected increase in food inflation or unemployment could increase costs beyond the projections in this Estimate. This amount also includes approximately \$3 million in allowable breast pump purchases that are projected to be made in each fiscal year using food funds.

**II. FUND CONDITION STATEMENT**

The Fund Condition Statement below shows the status of the WIC Manufacturer Rebate Fund 3023 for actual revenues and expenditures for FY 2015-16, and projected revenues for FY 2016-17 and FY 2017-18.

<b>FUND CONDITION STATEMENT</b> (dollars in thousands)			
<b>3023 WIC Manufacturer Rebate Fund</b>	<b>SFY 15-16 Actuals</b>	<b>SFY 16-17 Estimate</b>	<b>SFY 17-18 Estimate</b>
BEGINNING BALANCE	116	179	219
Prior Year Adjustments		-	-
Adjusted Beginning Balance	116	179	219
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investment	36	40	40
4172100 Fines - Court	20	-	-
4172500 Miscellaneous Revenue	217,659	221,725	236,711
Total Revenues, Transfers, and Other Adjustments	217,715	221,765	236,751
Total Resources	217,831	221,944	236,970
EXPENDITURES AND EXPENDITURE ADJUSTMENTS			
Expenditures:			
4265 Department of Public Health (Local Assistance)	217,652	221,725	236,711
Total Expenditures and Expenditure Adjustments	217,652	221,725	236,711
<b>FUND BALANCE</b>	<b>179</b>	<b>219</b>	<b>259</b>

**III. ASSUMPTIONS****1. Future Fiscal Considerations**

There are no future fiscal considerations

**2. New Assumptions/ Premises****a. Infant Formula**

**Background:** On July 31, 2017, the current CDPH/WIC infant formula contract with Mead Johnson and Company will expire. In August 2016, an invitation for bid (IFB) was issued to infant formula manufacturers for the purpose of procuring revenue generating contracts for the provision of milk-based and soy-based iron-fortified infant formula for the WIC Program in three (3) forms: liquid concentrate, powder, and ready-to-feed. The IFB included separate solicitations for milk-based and soy-based iron-fortified infant formula. The current contractor, Mead Johnson and Company, once again offered the lowest total net cost per month for both milk-based and soy-based infant formula;



therefore, in December 2016, CDPH awarded the infant formula contract for both milk-based and soy-based infant formula to Mead Johnson and Company. The term of the infant formula contract will be for three years, with the option of extending up to two additional years for a total of five years. The new contract will start August 1, 2017.

**Description of Change:** The rebated dollar amount CDPH will receive per can of formula sold will significantly increase, which will result in a decrease in the net cost for infant formula purchased by CDPH/WIC, thereby decreasing overall food expenditures.

**Discretionary:** No. Federal WIC regulations require that CDPH/WIC has a continuous revenue-generating rebate contract in place for cost containment of both milk-based and soy-based infant formula.

**Reason for Adjustment/ Change:** Increase in infant formula rebate dollar amounts will result in a decrease to the overall cost of infant formula.

**Fiscal Impact (Range) and Fund Source(s):** \$24 million increase to the WIC Manufacturer Rebate Fund (3023) and a \$24 million decrease to the Federal Trust Fund (0890) in FY 2017-18, as this rebate fund increase is a direct offset to the expenditure of food funds.

### 3. Existing (Significantly Changed) Assumptions/Premises

There are no Existing (Significantly Changed) Assumptions/Premises.

### 4. Unchanged Assumptions/Premises

#### a. Infant Formula Wholesale Price and Rebate Increase

**Background:** Federal WIC regulations require that CPDH/WIC has sole supplier rebate contracts in place with an infant formula manufacturer(s) for milk-based and soy-based infant formula. The current contract brand infant formula manufacturer increased their wholesale price per can for all powdered infant formulas provided to WIC participants effective May 1, 2016. The change was announced following the completion of the May Revision Estimate for fiscal year (FY) 2016-17. The infant formula rebate contract allows the manufacturer to increase wholesale prices and requires a cent-for-cent increase to the rebate amount paid to CDPH/WIC following the wholesale price increase to result in manufacturers charging the same total net monthly cost of infant formula as in the original contract.

**Description of Change:** Although rebate revenue will increase in direct proportion to the increase in wholesale price to WIC Authorized Vendors, CDPH/WIC will still experience an increase in food expenditures due to expected increase in retail markup on the infant formula as a result of the wholesale price increase.

**Discretionary:** No

**Reason for Adjustment/ Change:** Change in manufacturer's wholesale price of infant formula results in increased food costs, despite contractual cost neutrality, due to the retailer's disproportionate price mark-up in response to wholesale price increase. As a result, CDPH/WIC's food expenditures for infant formula have increased.

**Fiscal Impact (Range) and Fund Source(s):** Overall annual increase in food expenditures of approximately \$21.1 million, on-going: \$15.6 million would be covered by increased rebate revenue in the WIC Manufacturer Rebate Fund (3023) and the remaining \$5.5 million would be covered by the Federal Trust Fund (0890).

#### **b. Changes to Methodology to Identify and Remove Partially-redeemed Food Instruments by Vendor Peer Group**

**Background:** CDPH/WIC posted the final action for WIC Regulatory Bulletin 2016-01 on August 3, 2016 with an effective date of September 7, 2016. This bulletin amended WIC Bulletin Regulation (WBR) 60300 regarding Rules for Calculating the Maximum Allowable Department Reimbursement (MADR) rate. California Health and Safety Code §123322 authorizes CDPH/WIC to adopt criteria used for WIC vendor authorization using a bulletin regulatory process. The amendments modify the methodology CDPH/WIC uses to identify and exclude partially-redeemed food instruments (FIs) from the Statewide Average. The new methodology identifies partially-redeemed FIs by determining the Minimum Full Redemption Value (MFRV) at the peer group level. Redemptions identified as partially-redeemed are excluded from the calculation of the Statewide Average because their presence in the data used for these calculations artificially lowers the MADR rate.

**Description of Change:** CDPH/WIC identifies and excludes partially-redeemed FIs from the Statewide Average by determining the MFRV at the peer group level. This results in increased food fund expenditures due to the increased MADR rates for Above-50-Percent vendors, since the MADR for the Above-50-percent vendors is calculated using the Statewide Average.

**Discretionary:** Yes. Federal WIC regulations allow state WIC agencies to exclude partially-redeemed FIs upon establishing an empirical methodology approved by USDA. WIC Bulletin Regulations section 60300 created a methodology for identifying and excluding partially-redeemed food instruments across all peer groups.

#### **Reason for Adjustment/ Change:**

- Partially-redeemed FIs were identified for each food item number by summing the lowest shelf prices submitted for each food item, regardless of vendor or peer group.
- Stakeholder feedback indicated this methodology did not sufficiently exclude partially-redeemed FIs from the calculation of the Statewide Average by not creating an adequate partial redemption threshold and failing to identify and exclude some partially-redeemed FIs.

- By using different prices from different vendors regardless of peer groups to calculate a MFRV, it is possible that the MFRVs did not represent real prices charged by any single authorized store.
- The methodology change established by these amendments meets USDA standards for an empirical methodology and results in a more accurate Statewide Average redemption value without a significant impact on food or workload costs.

**Fiscal Impact (Range) and Fund Source(s):** Ongoing annual cost of approximately \$800,000 to the Federal Trust Fund (0890).

### **c. Yogurt Allowable as a Replacement for Milk**

**Background:** On March 4, 2014, the USDA published revised WIC food package regulations entitled, “Special Supplemental Nutrition Program for Women, Infants and Children (WIC): Revisions in the WIC Food Packages; Final Rule.” The final rule expanded the options under the milk and milk substitutions category to include yogurt. CDPH/WIC added yogurt as an allowable milk substitution for the quart of milk on the WIC Authorized Food List and Shopping Guide, effective March 28, 2016.

**Description of Change:** The issuance of yogurt instead of the quart of milk was implemented March 28, 2016. Analysis shows that the addition of yogurt may result in CDPH/WIC spending more food dollars since a quart of yogurt (average cost of \$2.88 per quart) is more expensive than a quart of milk (average cost of \$1.95 per quart). Yogurt replaces the quart of milk, and therefore, will be included in nearly every food package. Approximately 78 Food Instruments (FIs) contain the quart of milk in addition to the gallons of milk, and about 966,622 FIs are issued to women or children each month. Using the difference in price between a quart of milk versus a quart of yogurt, CDPH/WIC estimated that adding yogurt would result in a projected cost increase of \$898,958 per month. USDA is aware of the additional cost associated with issuing yogurt instead of the quart of milk. CDPH/WIC plans to minimize the fiscal impact of adding yogurt through limiting factors, such as disallowing the following: higher-cost package sizes, organic yogurt, and Greek yogurt; these limiting factors are reflected in the cost estimate above.

**Discretionary:** Yes

#### **Reason for Adjustment/ Change:**

- Final USDA food package regulations allow states to offer one quart of yogurt in lieu of one quart of milk.
- California is opting to offer yogurt as an allowable option for participants to purchase.
- The change was implemented March 28, 2016.

**Fiscal Impact (Range) and Fund Source(s):** In FY 2015-16 there was an estimated increase of \$2.7 million to the Federal Trust Fund (0890). The increase in FY 2016-17 and on-going will be \$10.8 million annually to the Federal Trust Fund (0890).

## IV. APPENDICES

### APPENDIX A: Rationale and Methodology for Participation and Expenditure Projections

According to the most recent data (Eligibles and Program Reach, 2013, by USDA/Food and Nutrition Service released in December 2015), CDPH/WIC serves 76 percent of eligible Californians (the highest coverage of eligible persons of all state WIC Programs, second nationally behind Puerto Rico), while the national average is 60 percent.

Federal fiscal year (FFY) 2013 marked the first decline in California's WIC Program participation since 2000, following similar participation declines nationwide that began in 2012. A variety of factors may have contributed to the decline of participation and/or eligible persons, including economic factors such as unemployment, demographic changes such as birth rates, immigration trends, and technology trends that are influences outside the control of CDPH/WIC.

Participation in the WIC Program in California is one of the drivers of food costs.

The five participation categories are forecasted separately, based on:

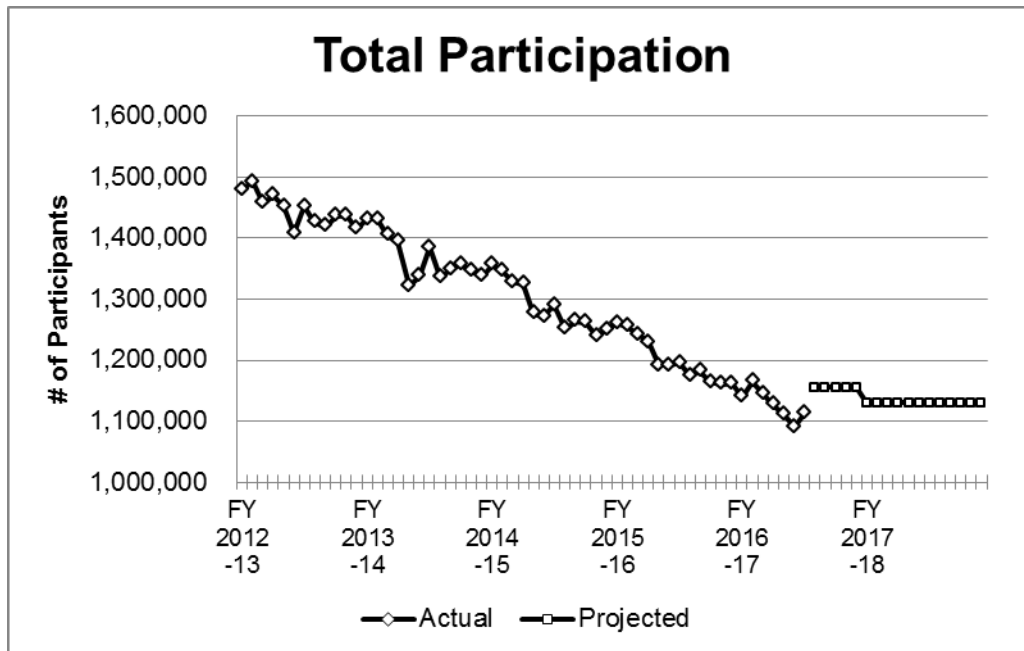
- The participation numbers during the prior year;
- The five-year trend in participation in each category (average of percentage changes over the past five years); and
- The forecasted number of births obtained from the Department of Finance (Finance) (applied for all categories except children).

For each category, the five-year trend in actual participation is applied to the prior year category participation, and 60 percent of the forecasted change in births is added to that number (except for children) to arrive at a final forecast. The births adjustment is based on research showing that 60 percent of all infants born in California were enrolled in WIC by their first birthday (California WIC Association, 2012). Finance projects births to decrease by 0.12 percent in FY 2016-17. Live birth projections are an indication of participation rates because the WIC Program serves pregnant and postpartum women and their infants, as well as other children they could bring into the WIC Program.

Total estimated FY 2016-17 participation is calculated as a sum of forecasted participation in each participant category. For FY 2015-16, monthly average participation was 1,200,425. For July 2016 through January 2017, the monthly average actual participation was 1,127,579. CDPH/WIC estimates FY 2016-17 participation will continue to decrease, but at a slower rate of 5.09 percent (compared to 6.81 percent in FY 2015-16). February through June 2017 is projected to have a monthly average participation of 1,155,720 with the overall estimated monthly average for the entire FY 2016-17 projected at 1,139,305 participants.

The basis for FY 2017-18 forecasts are the FY 2016-17 forecasted totals because actuals are not currently available, along with a projected 0.94 percent decrease in births for that FY. An additional 35,911 monthly child participants for FY 2017-18 were added as a forecasted result of the 2016-17 *Increasing the Enrollment of Children in WIC BCP*. CDPH/WIC estimates that FY 2017-18 total participation will continue to decrease, but at a slower rate of 0.75 percent (compared to the forecasted 5.09 percent in FY 2016-17). The overall estimated monthly average is 1,130,793 for FY 2017-18.

The participation graph below and the individual participant category charts located in Appendix B show the participation levels for FY 2016-17, which includes updated actual participation numbers for July 2016 through January 2017.



### Total Food Expenditures

Food expenditures for each participant category are divided by the number of participants in that category to determine the average food cost per participant, which is then adjusted using the Consumer Price Index (CPI) projections for Food at Home from the Finance Economic Research Unit (ERU). The updated projected CPI rate in FY 2016-17 is deflation of 1.02 percent, and for FY 2017-18 is inflation of 3.51 percent. Projected CPI rates used in the November Estimate were inflation of 3.16 percent and 2.87 percent for FY 2016-17 and 2017-18, respectively. Historical expenditures and average per participant food costs for FY 2016-17 through October 2016 were used to update projections for FY 2016-17 and FY 2017-18 food costs.

Below is a chart summarizing total actual food cost expenditures for FY 2015-16 and food cost projections for the current and budget years by participant category.

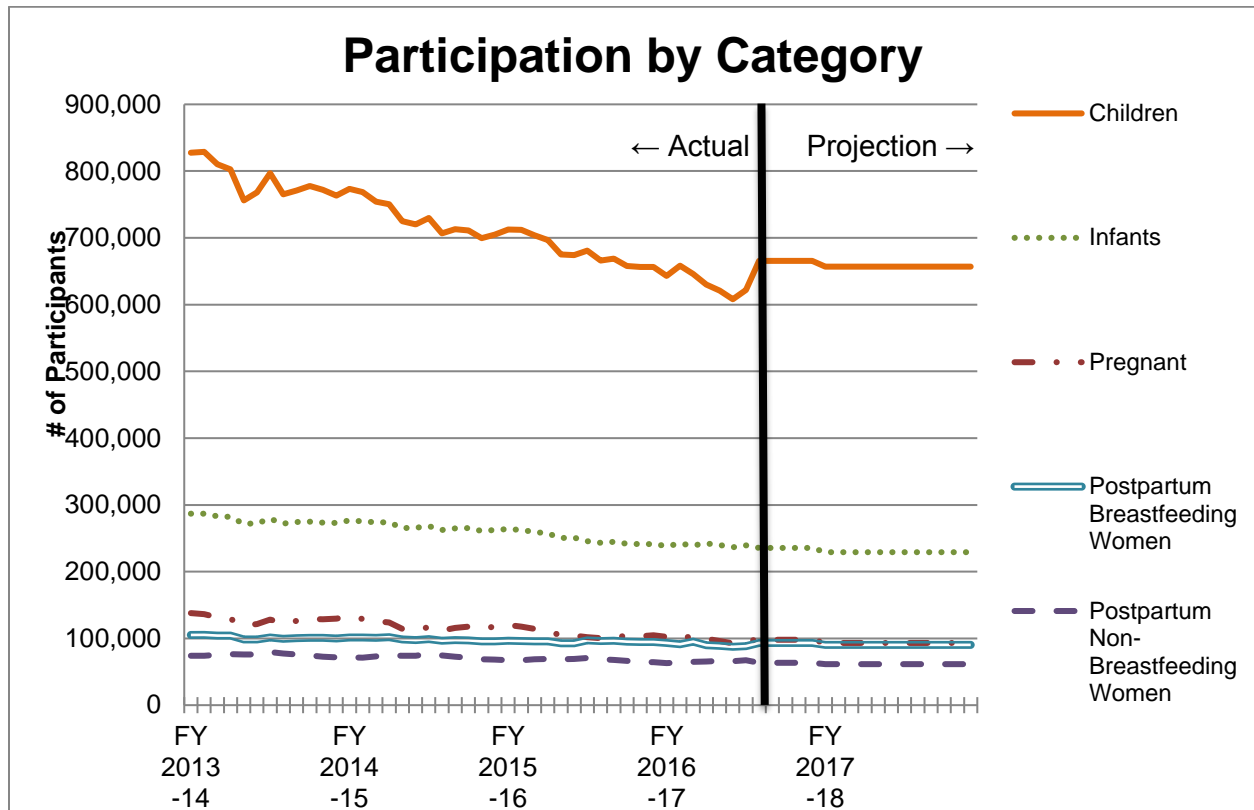
Factor	SFY 2015-16	SFY 2016-17				SFY 2017-18			
	Actuals	2017-18 Governor's Budget	2017 May Revision	Change from SFY 2015-16 Actuals		2017 May Revision	Change from SFY 2016-17 in 2017 May Revision		
Pregnant	Average monthly participation	106,303	104,762	98,574	-7,729	-7.27%	93,018	-5,556	-5.64%
	Average cost per participant*	\$ 55.41	\$ 56.04	\$ 54.85	\$ (0.56)	-1.01%	\$ 56.78	\$ 1.93	3.52%
	Annual Expenditures*	\$ 70,682,988	\$ 70,450,350	\$ 64,881,407	\$ (5,801,581)	-8.21%	\$ 63,378,744	\$ (1,502,663)	-2.32%
Postpartum Breastfeeding Women	Average monthly participation	96,317	91,595	92,107	-4,210	-4.37%	90,314	-1,793	-1.95%
	Average cost per participant*	\$ 52.40	\$ 56.31	\$ 51.87	\$ (0.53)	-1.01%	\$ 53.69	\$ 1.82	3.51%
	Annual Expenditures*	\$ 60,564,132	\$ 61,892,573	\$ 57,331,081	\$ (3,233,051)	-5.34%	\$ 58,187,504	\$ 856,423	1.49%
Postpartum Non-Breastfeeding	Average monthly participation	67,751	65,656	64,527	-3,224	-4.76%	61,430	-3,097	-4.80%
	Average cost per participant*	\$ 38.81	\$ 40.42	\$ 38.41	\$ (0.40)	-1.03%	\$ 39.76	\$ 1.35	3.51%
	Annual Expenditures*	\$ 31,552,992	\$ 31,845,786	\$ 29,741,785	\$ (1,811,207)	-5.74%	\$ 29,309,482	\$ (432,303)	-1.45%
Infants	Average monthly participation	248,949	245,155	237,864	-11,085	-4.45%	229,135	-8,729	-3.67%
	Average cost per participant*	\$ 114.02	\$ 123.24	\$ 112.86	\$ (1.16)	-1.02%	\$ 116.82	\$ 3.96	3.51%
	Annual Expenditures*	\$ 340,621,980	\$ 362,554,826	\$ 322,143,972	\$ (18,478,008)	-5.42%	\$ 321,210,608	\$ (933,364)	-0.29%
Children	Average monthly participation	681,105	663,829	646,233	-34,872	-5.12%	656,896	10,663	1.65%
	Average cost per participant*	\$ 46.64	\$ 48.86	\$ 46.17	\$ (0.47)	-1.01%	\$ 47.79	\$ 1.62	3.51%
	Annual Expenditures*	\$ 381,200,844	\$ 389,216,219	\$ 358,038,931	\$ (23,161,913)	-6.08%	\$ 376,716,718	\$ 18,677,787	5.22%
Total***	Average monthly participation	1,200,425	1,170,997	1,139,305	(61,120)	-5.09%	1,130,793	(8,512)	-0.75%
	Average cost per participant*	\$ 61.41	\$ 65.18	\$ 60.87	\$ (0.54)	-0.89%	\$ 62.55	\$ 1.69	2.77%
	Annual Expenditures*	\$ 884,622,936	\$ 915,959,754	\$ 832,137,176	\$ (52,485,760)	-5.93%	\$ 848,803,056	\$ 16,665,880	2.00%

\* Numbers rounded to the nearest dollar

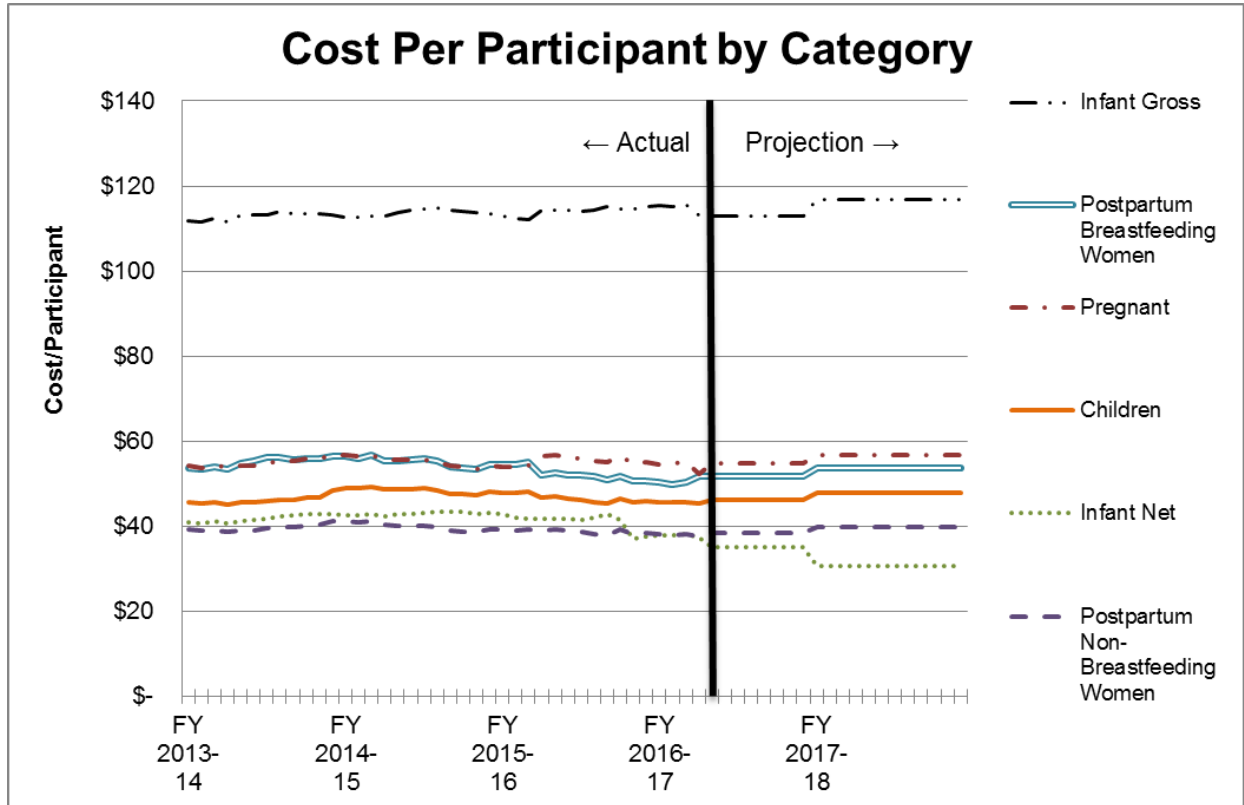
\*\*Does not include adjustments for Yogurt, or 3% Reserve in food expenditures

**APPENDIX B: Participant and Food Cost Projections by Category**

The figure below shows actual and projected participation trends since FY 2013-14. As mentioned previously, the Children participant category is the largest due to their longer period of eligibility. Forecasted monthly participation by category is included in the table in Appendix A.

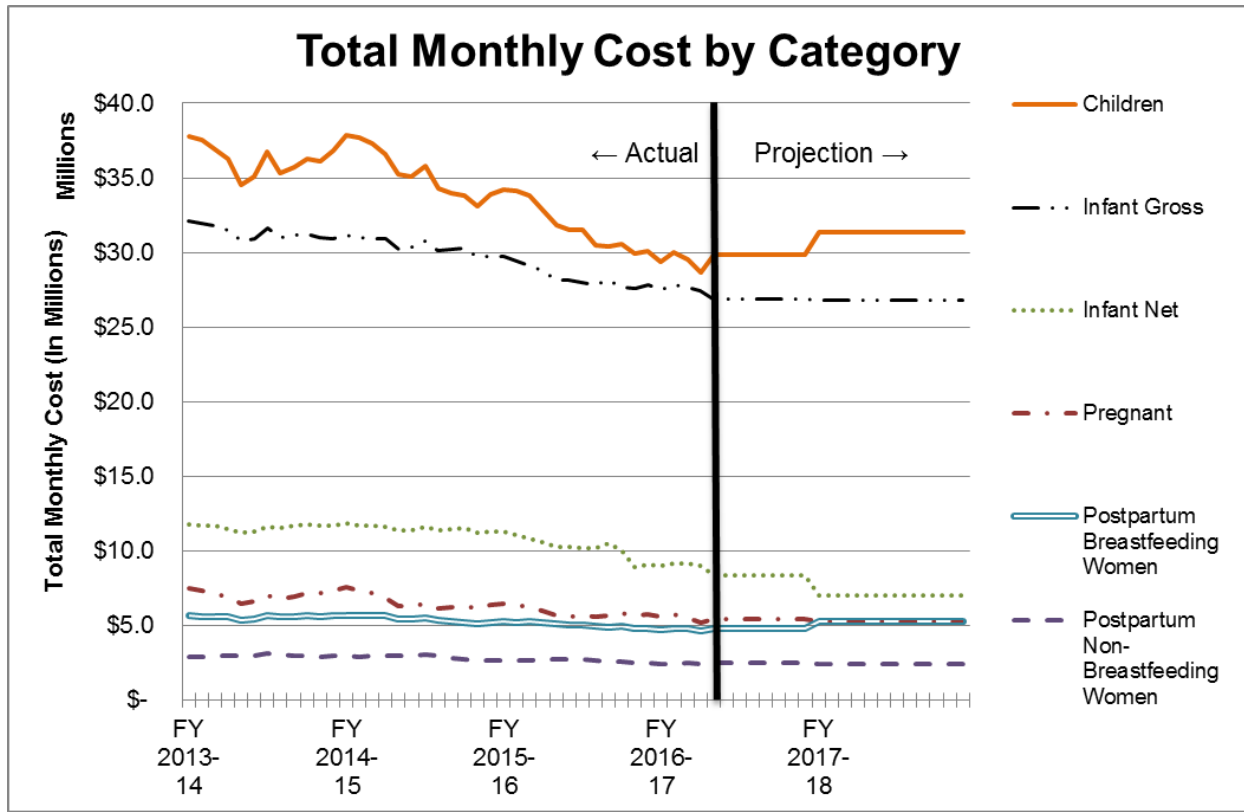


The figure below shows average cost per participant in each category. Projected costs per participant include inflation projections. See table below for details on projected changes.



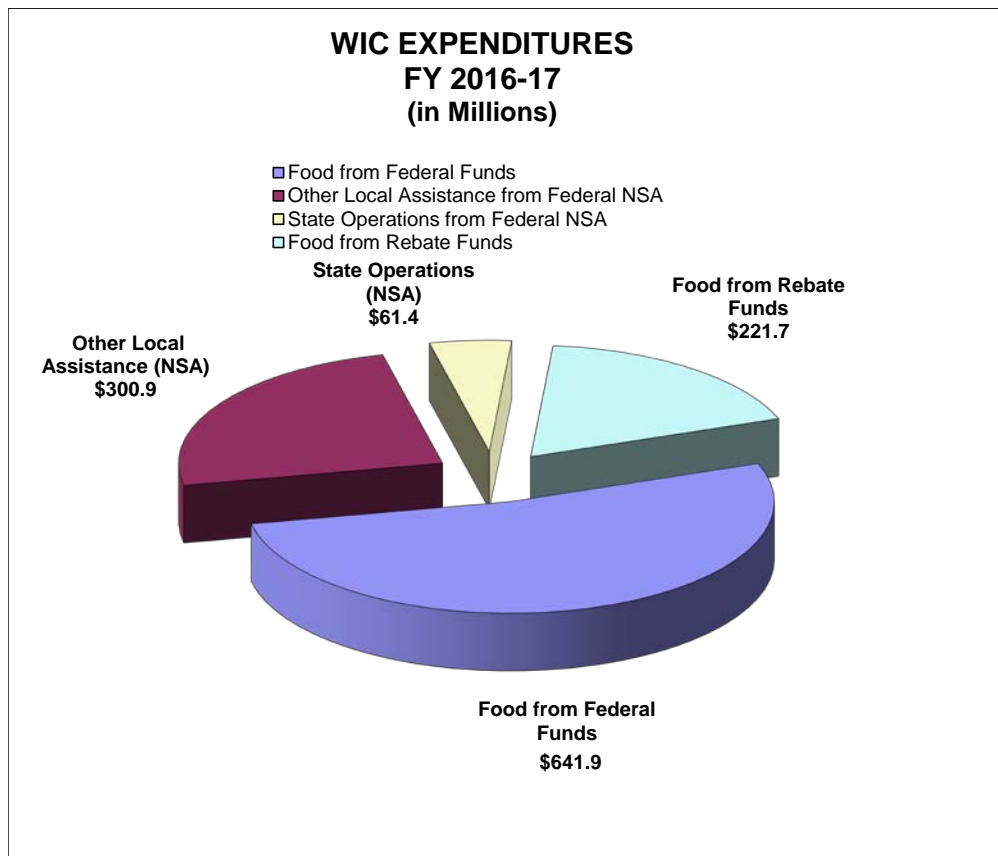


The figure below consolidates the information in the above two figures, and shows total monthly cost by category (forecasted participation times average cost per participant).



**APPENDIX C: WIC Special Display Chart (Government Code 13343)**

<b>CALIFORNIA WIC PROGRAM EXPENDITURES</b>			
	<b>PY</b> <b>SFY 2015-16</b> (Actual)	<b>CY</b> <b>SFY 2016-17</b> (Estimated)	<b>BY</b> <b>SFY 2017-18</b> (Proposed)
<b>LOCAL ASSISTANCE</b>			
0890 <i>Federal Grant for Food</i>	\$ 682,120,582	\$ 641,858,000	\$ 637,557,000
0890 <i>Federal Grant for Administration</i>	\$ 283,686,812	\$ 300,867,000	\$ 300,867,000
<b>Total Federal Funds</b>	<b>\$ 965,807,394</b>	<b>\$ 942,725,000</b>	<b>\$ 938,424,000</b>
3023 <i>WIC Manufacturer Rebate Fund</i>	\$ 217,652,290	\$ 221,725,000	\$ 236,711,000
<b>Total Other Funds</b>	<b>\$ 217,652,290</b>	<b>\$ 221,725,000</b>	<b>\$ 236,711,000</b>
<b>TOTAL LOCAL ASSISTANCE</b>	<b>\$ 1,183,459,684</b>	<b>\$ 1,164,450,000</b>	<b>\$ 1,175,135,000</b>
<b>STATE OPERATIONS</b>			
0890 <i>Federal Grant</i>	\$ 52,384,196	\$ 62,082,000	\$ 63,463,000
<b>TOTAL STATE OPERATIONS</b>	<b>\$ 52,384,196</b>	<b>\$ 62,082,000</b>	<b>\$ 63,463,000</b>
<b>GRAND TOTAL WIC PROGRAM</b>	<b>\$ 1,235,843,880</b>	<b>\$ 1,226,532,000</b>	<b>\$ 1,238,598,000</b>



**APPENDIX D: Revenue Projections**

CDPH/WIC is federally funded by the USDA through the Food Grant and the Nutrition Services and Administration Grant, as well as through rebates received from the contracted infant formula manufacturer.

The federal revenue estimates are revised for FY 2016-17 and total \$1.128 billion, which is a decrease of \$44.5 million or 3.79 percent compared to the \$1.172 billion amount provided in the 2017-18 November Estimate.

For FY 2017-18, the projected federal revenue will total \$1.109 billion, which is a decrease of \$64.4 million or 5.49 percent compared to the 1.174 billion amount provided in the November Estimate. This decrease was based on the current Continuing Resolution (CR) in FFY 2017.

REVENUE COMPARISON (all funds)									
Revenue Source	2015-16 Actual	2017-18 Governor's Budget	SFY 2016-17			2017-18 Governor's Budget	SFY 2017-18		
			May Revision	Change from 2017-18 Governor's Budget	% Change		May Revision	Change from 2017-18 Governor's Budget	% Change
Federal Food Grant	810,731,399	796,097,000	752,493,000	(43,604,000)	-5.48%	796,794,000	738,655,000	(58,139,000)	-7.30%
Rebate Food Funds	217,659,000	223,377,000	221,725,000	(1,652,000)	-0.74%	216,412,000	236,711,000	20,299,000	9.38%
<b>Total Funds for Food</b>	<b>1,028,390,399</b>	<b>1,019,474,000</b>	<b>974,218,000</b>	<b>(45,256,000)</b>	<b>-4.44%</b>	<b>1,013,206,000</b>	<b>975,366,000</b>	<b>(37,840,000)</b>	<b>-3.73%</b>
Federal NSA Grant	375,067,768	376,238,000	375,367,000	(871,000)	-0.23%	376,824,000	370,539,000	(6,285,000)	-1.67%
<b>Total Federal Funds</b>	<b>1,185,799,167</b>	<b>1,172,335,000</b>	<b>1,127,860,000</b>	<b>(44,475,000)</b>	<b>-3.79%</b>	<b>1,173,618,000</b>	<b>1,109,194,000</b>	<b>(64,424,000)</b>	<b>-5.49%</b>

1. Revenue Estimate Methodology Federal Funds: Fund 0890

The annual federal revenue for CDPH/WIC depends upon the amount of the discretionary grant appropriated annually by Congress, plus subsequent reallocations of prior year unspent funds. California's share of the federal grant is approximately 18 percent of the national appropriation. Federal funds are granted to each state using a formula methodology as specified in federal regulation to distribute the following:

- Federal Food Grant funds that reimburse authorized vendors for foods purchased by WIC participants; and
- NSA funds that reimburse local WIC agencies contracted for direct services provided to WIC participants and support state operations.

2. Federal Food Grant

Nationally, approximately 70 percent of the appropriation is allocated for food, and CDPH/WIC receives approximately 18 percent of that appropriation.

<b>FEDERAL REVENUE PROJECTIONS (Food)</b>					
	A	B	C	D	E=(A-B)*C*D
	National Budget Appropriation/ Continuing Resolution	Discretionary Funds	Food Allocation	California Share	Total Allocated Food
FFY 2016	\$ 6,350,000,000	\$ 90,000,000	71.50%	18.39%	\$ 823,120,584
FFY 2017	\$ 6,321,000,000	\$ 74,000,000	69.67%	18.24%	\$ 794,007,601

The appropriated grant for each fiscal year may be supplemented through federal reallocations, which are distributed at least twice and up to four times during the federal fiscal year. These are funds from other states' WIC programs that have not, or will not, be able to expend all of their grant funds, which are then redistributed by the USDA to those states that have demonstrated both a need for the additional funding and the ability to spend it. CDPH/WIC has typically applied for reallocations and has been successful in receiving these additional funds. In addition, states are eligible to receive WIC contingency funds, when authorized by the USDA Secretary, if the annual federal appropriation and supplemental reallocations are insufficient.

In FY 2016-17, Food Grant revenue is expected to total \$752.5 million, which is a decrease of \$43.6 million or 5.5 percent compared to \$796.1 million in the 2017-18 Governor's Budget.

In FY 2017-18, Food Grant revenue is expected to total \$738.7 million, which is a decrease of \$58.1 million or 7.3 percent compared to \$796.8 million in the 2017-18 Governor's Budget.

<b>WIC RESOURCES FOR FOOD</b>			
	FFY 2016	FFY 2017	Prorate to SFY 16/17
Base Appropriation	\$ 823,120,584	\$ 794,007,601	\$ 801,285,847
Reallocations & Voluntary Recovery*	\$ (29,112,983)	\$ (55,352,549)	\$ (48,792,658)
Total	\$ 794,007,601	\$ 738,655,052	\$ 752,493,189
	FFY 2017	FFY 2018	Prorate to SFY 17/18
Base Appropriation	\$ 794,007,601	\$ 794,007,601	\$ 794,007,601
Reallocations & Voluntary Recovery*	\$ (55,352,549)	\$ (55,352,549)	\$ (55,352,549)
Total	\$ 738,655,052	\$ 738,655,052	\$ 738,655,052

\* The negative amounts are due to an increase in recovery funds as a result of a decline in participation.

3. NSA Grant

Approximately 30 percent of the national WIC appropriation is allocated for NSA, and California receives approximately 17 percent of that allocation.

<b>FEDERAL REVENUE PROJECTIONS (NSA)</b>					
	A	B	C	D	E=(A-B)*C*D
	National Budget Appropriation/ Continuing Resolution	Discretionary Funds	NSA Allocation	California Share	Total Allocated NSA
FFY 2016	\$ 6,350,000,000	\$ 90,000,000	28.50%	16.67%	\$ 297,338,286
FFY 2017	\$ 6,321,000,000	\$ 74,000,000	30.33%	16.67%	\$ 315,852,745

In FY 2016-17, NSA Grant revenue is expected to total \$375.4 million, which is a decrease of \$0.9 million or 0.23 percent compared to \$376.2 million in the 2017-18 Governor's Budget.

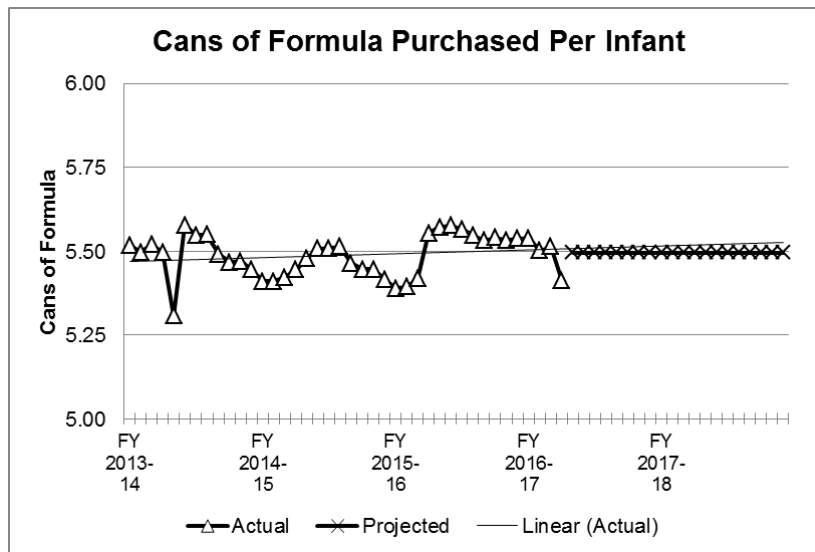
In FY 2017-18, NSA Grant revenue is expected to total \$370.5 million, which is a decrease of \$6.3 million or 1.67 percent compared to \$376.8 million in the 2017-18 Governor's Budget.

<b>WIC RESOURCES FOR NSA</b>			
	FFY 2016	FFY 2017	Prorate to SFY 16/17
Base Appropriation, NSA*	\$ 282,471,372	\$ 300,060,108	\$ 295,662,924
Farmers Market and Nutrition	\$ 2,063,983	\$ 2,063,983	\$ 2,063,983
Breastfeeding Peer Counseling	\$ 9,291,085	\$ 8,818,442	\$ 8,936,603
Reallocations, Transfers & Contingency	\$ 43,213,971	\$ 25,948,254	\$ 30,264,683
Spendforward	\$ 37,440,906	\$ 38,771,912	\$ 38,439,161
<b>Total</b>	<b>\$ 374,481,317</b>	<b>\$ 375,662,699</b>	<b>\$ 375,367,354</b>
	FFY 2017	FFY 2018	Prorate to SFY 17/18
Base Appropriation, NSA	\$ 300,060,108	\$ 300,060,108	\$ 300,060,108
Farmers Market and Nutrition	\$ 2,063,983	\$ 2,063,983	\$ 2,063,983
Breastfeeding Peer Counseling	\$ 8,818,442	\$ 8,818,442	\$ 8,818,442
Reallocations, Transfers & Contingency	\$ 25,948,254	\$ 31,939,902	\$ 30,441,990
Spendforward	\$ 38,771,912	\$ 25,948,254	\$ 29,154,169
<b>Total</b>	<b>\$ 375,662,699</b>	<b>\$ 368,830,689</b>	<b>\$ 370,538,692</b>

\* 5% is subtracted from Total Allocated NSA for Regional Contribution to Operational Adjustment funds to arrive at this amount

4. Rebate Funds: WIC Manufacturer Rebate Fund 3023

In addition to the Federal Food and NSA Grants, CDPH/WIC receives rebate funds from the contracted infant formula manufacturer. CDPH/WIC estimates current year infant formula WIC Manufacturer Rebate Fund revenues to total \$221.7 million, a decrease of \$1.7 million or 0.74 percent compared to the 2017-18 Governor’s Budget amount of 223.4 million. In FY 2017-18, WIC estimates infant formula WIC Manufacturer Rebate Fund revenues to total \$236.7 million, which is an increase of \$20.3 million or 9.38 percent compared to the 2017-18 Governor’s Budget.



The program as a whole prescribes approximately 5.5 cans of infant formula per month for each infant issued formula, which is then multiplied by the number of infants projected to be served monthly to arrive to total cans purchased. This number is then divided proportionally between the different forms of infant formula purchased by the program to account for price variations by type of formula. The total number of cans is multiplied by the rebate per can to arrive at a total rebate projection by obligation month.

Federal regulations require rebate revenue to be reported in the month in which it is received (cash basis). The rebate projection for the applicable state fiscal year is then adjusted to project revenue on a cash basis.