

Women, Infants, and Children (WIC)

**Fiscal Year 2020-21
November Estimate**



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I. ESTIMATE

A. Program Overview

The California Department of Public Health/Women, Infants and Children (Public Health/WIC) Division operates a \$1.1 billion program that serves approximately 900,000 low-income California residents per month. Public Health/WIC receives federal funding to supervise and administer the WIC program through 83 WIC local agencies and nearly 4,000 WIC authorized grocers. The funding is 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 federal grant. It is California's third largest federally-funded food and nutrition assistance program after CalFresh/Supplemental Nutrition Assistance Program (SNAP) and subsidized school meal programs.

According to the most recent data (Eligibles and Program Reach, 2016, by USDA/Food and Nutrition Service (FNS) released in February 2019), Public Health/WIC serves 65.6 percent of eligible Californians (the second highest coverage of eligible persons of all state WIC Programs, third nationally behind Puerto Rico and Maryland), while the national average is 54.5 percent.

The WIC program provides nutrition services and food assistance for pregnant, breastfeeding, and non-breastfeeding women, infants, and children up to age five 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 \$31,284 for a family size of two in 2019). The WIC program services include nutrition education, breastfeeding support, assistance with finding health care and other community services, and benefits 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 the WIC program funds are required under federal laws and regulations, and Public Health/WIC must report funds and expenditures monthly.

Public Health/WIC revenues are comprised of the federal grants and retained manufacturer rebates. The total number of participants served by Public Health/WIC depends largely on food package costs, of which infant formula is a large percentage. Purchase of infant formula represents approximately 37 percent of gross food expenditures. WIC program federal regulations require all states to obtain infant formula manufacturer rebates through a competitive bidding process to offset this cost and maximize the number of participants that can be served. The California state budget authorizes Public Health/WIC to retain infant formula rebate revenue and use it to offset the cost of food for WIC participants. Rebate revenue accounts for approximately 28 percent of Public Health/WIC revenue for food.

In addition to funding for food expenditures, the Local Assistance budget authority includes other federal funds including the Nutrition Services and Administration (NSA) Grant, and Technology Grant Funds, which are used to assist local agencies in the direct services provided to WIC families and support the Management Information System (MIS) used in the provision of those services. The NSA Grant also funds Public Health/WIC State Operations for administering the program.

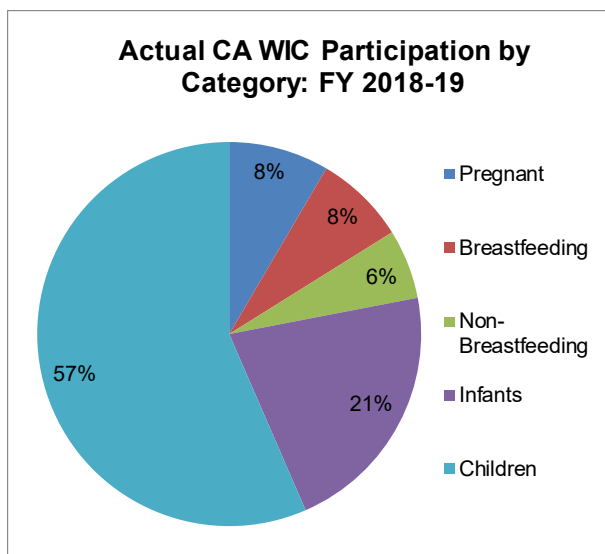
This Estimate projects food expenditures based on participation, historical expenditures by participation categories, any regulatory changes that affect costs, and inflation. Public Health/WIC estimates cost per participant in this Estimate at the participant category level. These categories are: (1)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

The Healthy, Hunger-Free Kids Act of 2010, requires all WIC state agencies to implement an electronic benefit transfer (EBT) system by October 1, 2020. California is in the process of transitioning from the current paper voucher system to the EBT system called the California WIC Card. The new California WIC Card will be available statewide by Spring 2020.

The new system allows WIC local agencies to issue food benefits to WIC families electronically and allows participants to shop in a process that works similar to a debit card. The California WIC Card provides a safer, easier, and more efficient WIC shopping experience and provides flexibility in the way participants can shop.

Public Health/WIC successfully piloted the California WIC Card in both Napa and Solano Counties and will continue to rollout the California WIC Card in waves throughout California to meet the October 1, 2020 deadline. The California WIC Card is unique to WIC and is administered separately from the Golden State Advantage card for CalFresh (SNAP) and California Work Opportunity and Responsibility to Kids (CalWORKs)/Temporary Assistance for Needy Families (TANF).

The following figure displays the distribution of California WIC participants by category:



The largest participant category served is children, due to the length of children’s eligibility (age 1 to 5th birthday). Other participant categories are limited to one year of eligibility or less.

B. Food Expenditure Projections (See Appendix A)

The following chart details food expenditures and the resources (federal funds or rebate funds) used to support those expenditures. Expenditures paid from the Nutrition Services and Administration (NSA) grant are also displayed in the chart to show total federal funds used by Public Health/WIC for Local Assistance and State Operations:

EXPENDITURE COMPARISON (all funds)								
<i>All figures in dollars, rounded to the nearest thousand</i>								
Expenditure Category	2019 Budget Act	SFY 2019-20			SFY 2020-21			
		2019-20 Governor's Budget	November Estimate	Change from 2019 Budget Act	November Estimate	Change from 2019 Budget Act		
Participant Food Package Costs	690,220,000	702,512,000	688,383,000	(1,837,000)	-0.27%	646,046,000	(44,174,000)	-6.40%
Cash Value Voucher Increase	6,194,000	6,194,000	2,046,000	(4,148,000)	-66.97%	-	(6,194,000)	-100.00%
Prudent Reserve	20,892,000	21,261,000	20,651,000	(241,000)	-1.15%	19,381,000	(1,511,000)	-7.23%
Total Food Expenditures	717,306,000	729,967,000	711,080,000	(6,226,000)	-0.87%	665,427,000	(51,879,000)	-7.23%
<i>Food Expenditures Paid from Rebate Funds</i>	<i>213,678,000</i>	<i>214,929,000</i>	<i>208,188,000</i>	<i>(5,490,000)</i>	<i>-2.57%</i>	<i>193,110,000</i>	<i>(20,568,000)</i>	<i>-9.63%</i>
<i>Food Expenditures Paid from Federal Funds</i>	<i>503,628,000</i>	<i>515,038,000</i>	<i>502,892,000</i>	<i>(736,000)</i>	<i>-0.15%</i>	<i>472,317,000</i>	<i>(31,311,000)</i>	<i>-6.22%</i>
Other Local Assistance Expenditures (Federal NSA)	314,834,000	300,867,000	314,834,000	-	0.00%	304,243,000	(10,591,000)	-3.36%
Total Federal Local Assistance Expenditures (Food + NSA)	818,462,000	815,905,000	817,726,000	(736,000)	-0.09%	776,560,000	(41,902,000)	-5.12%
State Operations (Federal NSA)	62,270,000	62,270,000	62,270,000	-	0.00%	59,210,000	(3,060,000)	-4.91%

Cash Value Voucher Increase

On August 27, 2018, the USDA issued a memorandum to states regarding an inflationary increase to the monthly value of cash value vouchers (CVV) for fruits and vegetables for child participants (see Assumption Cash Value Voucher Increase description below). The memorandum increases the cash value benefit issued to all child participants from \$8 to \$9. Child participants represent approximately 57 percent of total participant issued benefits. Given the required implementation date was October 1, 2018, Public Health/WIC estimated the increase to be \$4.9 million in FY 2018-19, and \$6.2 million annually thereafter in the 2019 May Revision.

The revised amount of the CVV impact for FY 2019-20 is \$2.0 million, which includes a decrease of \$4.1 million or 66.97 percent when compared to the 2019 Budget Act amount of \$6.2 million. This revision represents a compilation of the projected CVV impact for June through September 2019 and actual expenditures for October 2018 through May 2019 (where the CVV increase is already included in base per participant for food expenditures).

Going forward, the estimated FY 2020-21 expenditures will not incorporate a CVV impact increase to the food package as the expenditure change will be included in the 12-month historical number.

Prudent Reserve for Food Expenditures

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.

As allowed, the prudent reserve request for food expenditures is revised for the current year to \$20.7 million, which is a decrease of \$241,000 when compared to the 2019 Budget Act. The prudent reserve request for FY 2020-21 is \$19.4 million, which is a decrease of \$1.5 million or 7.23 percent when compared to the 2019 Budget Act. The FY 2020-21 amount also includes approximately \$2.5 million in allowable breast pump purchases that are projected to be made in each fiscal year using Food Grant funds.

C. 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 - 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 - 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 - 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 - 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 mothers and babies. 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 - Children are certified from age one 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 essential to meet nutritional needs during critical periods of development.

D. Food Expenditures

1. Current Year

Food expenditures are comprised of the federal food expenditures and the WIC Manufacturer Rebate food costs. The 2019 Budget Act appropriation provided \$717.3 million (\$503.6 million federal fund and \$213.7 million rebate fund). The November Estimate anticipates a decrease in food expenditures in Fiscal Year (FY) 2019-20 to \$711.1 million (\$502.9 million federal fund and \$208.2 million rebate fund), a decrease of \$6.2 million or 0.87 percent compared to the 2019 Budget Act appropriation. The decrease in food expenditure is based on a continued decline in participation (895,798 participants projected in the November Estimate compared to 905,182 participants projected in the 2019 May Revision), a drop in the projected birth rate for California, and neutral inflation experience when compared with a 0.07 percent projected inflation rate provided for in the FY 2019-20 May Revision. The decline in participation is also the driving factor in the decrease in rebate revenue, resulting in a decrease in projected rebate food expenditures.

2. Budget Year

For FY 2020-21 Public Health/WIC's food expenditure estimate is \$665.4 million (\$472.3 million federal fund and \$193.1 million rebate fund), which is a decrease of \$51.9 million or 7.23 percent as compared to the 2019 Budget Act of \$717.3 million and a decrease of \$45.7 million or 6.42 percent from the revised FY 2019-20 food expenditures of \$711.1 million. The decrease in food expenditures is driven by the decrease in current and budget year (another 6.2 percent decrease from the current year) participation projections, including a drop in the projected birth rate for California, offset slightly by a food inflation rate of 1.62 percent. The decline in participation is also

the driving factor in the decrease in rebate revenue, resulting in a decrease in projected rebate expenditures.

E. Other Local Assistance and State Operations Projections

In addition to food costs, the Local Assistance budget authority includes other federal funds from the NSA Grant, including Technology Grant Funds, which are used to assist local agencies in the direct services provided to WIC families and support the MIS used in the provision of those services. Examples of direct services include intake, eligibility determination, benefit issuance, nutrition education, breastfeeding support, and referrals to health and social services. The NSA Grant also funds Public Health/WIC State Operations for administering the WIC program.

1. Current Year

In FY 2019-20, the NSA budget and anticipated expenditures for local administration are estimated at \$314.8 million, which is the same as the 2019 Budget Act. State Operations expenditures are estimated at \$62.3 million, which is the same as the 2019 Budget Act. This estimate includes the budget and the anticipated expenditure projections for transitioning to the California WIC Card and implementing the new MIS.

2. Budget Year

For FY 2020-21, the NSA budget and anticipated expenditures for local administration are estimated at \$304.2 million, which is a decrease of \$10.6 million from the 2019 Budget Act of \$314.8 million. State Operations expenditures are estimated to decrease by \$3.0 million to \$59.2 million from the 2019 Budget Act. The decreases are due to the decline in the implementation and transition expenditures for the California WIC Card.

F. 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) <i>All figures in dollars, rounded to the nearest thousand</i>								
Fund 0890 Federal Trust Fund	2019 Budget Act	SFY 2019-20				SFY 2020-21		
		2019-20 Governor's Budget	November Estimate	Change from 2019 Budget Act		November Estimate	Change from 2019 Budget Act	
Local Assistance Expenditures	818,462,000	815,905,000	817,726,000	(736,000)	-0.09%	776,560,000	(41,902,000)	-5.12%
Food Expenditures (Food Grant)	503,628,000	515,038,000	502,892,000	(736,000)	-0.15%	472,317,000	(31,311,000)	-6.22%
Other Local Assistance (NSA Grant)	314,834,000	300,867,000	314,834,000	-	0.00%	304,243,000	(10,591,000)	-3.36%
State Operations (NSA Grant)	62,270,000	62,270,000	62,270,000	-	0.00%	59,210,000	(3,060,000)	-4.91%

REVENUE COMPARISON (federal funds) <i>All figures in dollars, rounded to the nearest thousand</i>								
Fund 0890 Federal Trust Fund	2019 Budget Act	SFY 2019-20				SFY 2020-21		
		2019-20 Governor's Budget	November Estimate	Change from 2019 Budget Act		November Estimate	Change from 2019 Budget Act	
Total Available Resources	1,006,595,000	1,084,729,000	980,568,000	(26,027,000)	-2.59%	965,286,000	(41,309,000)	-4.10%
Food Grant	625,798,000	719,442,000	592,499,000	(33,299,000)	-5.32%	601,833,000	(23,965,000)	-3.83%
NSA Grant	380,797,000	365,287,000	388,069,000	7,272,000	1.91%	363,453,000	(17,344,000)	-4.55%

EXPENDITURE COMPARISON (rebate funds) <i>All figures in dollars, rounded to the nearest thousand</i>								
Fund 3023 Manufacturer Rebate	2019 Budget Act	SFY 2019-20				SFY 2020-21		
		2019-20 Governor's Budget	November Estimate	Change from 2019 Budget Act		November Estimate	Change from 2019 Budget Act	
Local Assistance Expenditures	213,678,000	214,929,000	208,188,000	(5,490,000)	-2.57%	193,110,000	(20,568,000)	-9.63%

REVENUE COMPARISON (rebate funds) <i>All figures in dollars, rounded to the nearest thousand</i>								
Fund 3023 Manufacturer Rebate	2019 Budget Act	SFY 2019-20				SFY 2020-21		
		2019-20 Governor's Budget	November Estimate	Change from 2019 Budget Act		November Estimate	Change from 2019 Budget Act	
Total Available Resources	213,678,000	214,929,000	208,188,000	(5,490,000)	-2.55%	193,110,000	(20,568,000)	-9.63%

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 2018-19, and projected revenues for FY 2019-20 and FY 2020-21:

FUND CONDITION STATEMENT (dollars in thousands)			
3023 WIC Manufacturer Rebate Fund	SFY 2018-19*	SFY 2019-20 Estimate	SFY 2020-21 Estimate
BEGINNING BALANCE	206	275	344
Prior Year Adjustments	-	-	-
Adjusted Beginning Balance	206	275	344
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4163000 Investment Income - Surplus Money Investments	69	69	69
4171600 External Revenue - Federal Government	-	-	-
4172500 Miscellaneous Revenue	220,175	208,188	193,110
Total Revenues, Transfers, and Other Adjustments	220,244	208,257	193,179
Total Resources	220,450	208,532	193,523
EXPENDITURES AND EXPENDITURE ADJUSTMENTS			
Expenditures:			
4265 Department of Public Health (Local Assistance)	220,175	208,188	193,110
Total Expenditures and Expenditure Adjustments	220,175	208,188	193,110
FUND BALANCE	275	344	413

*Financial statements are currently unavailable for SFY 2018-19. The amount displayed is an estimated amount.

III. ASSUMPTIONS

1. Future Fiscal Issues

a. Transition to the California WIC Card

Background: The federal Healthy, Hunger-Free Kids Act of 2010 requires all states to migrate WIC from a paper-based food benefit delivery system to an EBT system no later than October 1, 2020. With USDA approval, California began Pilot operations in Solano and Napa Counties on June 3, 2019 with statewide rollout beginning September 2019 and completion scheduled for spring 2020. This will result in a precipitous drop-off in voucher (formally called paper food instruments) issuance and redemption as the California WIC Card is issued and electronic redemption increases through statewide rollout. The California WIC Card rollout will significantly impact how food costs are accounted for in FY 2019-20 and 2020-21.

Description of Change: There is no data to project whether the fiscal impact of the California WIC Card rollout will result in a net increase or decrease in food costs per participant. The California WIC Card will likely support easier participant access and use, but there may be some late adopters to the system. Participant enrollment patterns and inflationary impacts will continue to be applied according to established methodology until EBT usage data is available to update projections.

Discretionary: No.

Reason for Adjustment/Change:

- The federal mandate for the California WIC Card implementation is October 1, 2020.
- Data regarding potential food cost impact from California WIC Card implementation is not available.

Fiscal Impact (Range) and Fund Source(s): Fiscal impact is unknown. The fund that will be impacted is the Federal Trust Fund (Fund 0890). Public Health/WIC is closely monitoring the impact of EBT on participation. WIC will provide an updated on the issue in the 2020 May Revise.

b. Extending Child Eligibility to Age 6 and other Amendments

Background: On July 31, 2019, Senator Robert P. Casey (D–Pa.) and Senator Susan M. Collins (R–Me.) reintroduced a bill from 2015 (114th U.S. Congress) called the “Wise Investment in our Children (WIC) Act.” Senate Bill 2358 (S. 2358) includes provisions that aim to improve maternal and child health outcomes in the United States by expanding WIC eligibility for at-risk infants, children, and new mothers. These provisions include giving states the option to extend the maximum age of eligibility for children participating in the WIC program from five to six years of age, if not enrolled in full-day kindergarten. The bill would give states the option to extend the certification time for

infants to age two; and extend the certification timeframe for breastfeeding and non-breastfeeding women, to two years postpartum.

The intent of this legislation, if there are sufficient funds, is to cover the nutritional gap for children who have reached the age of maturity in the WIC program, but who are not yet eligible to enter public school where they would become eligible for school breakfast and lunch programs. Passage of this legislation will give states the option to further ensure continuous support for children's nutritional needs until they are eligible for school meals.

The WIC Act was previously introduced in 2015 in the 114th U.S. Congress, with substantially similar provisions. Senator Casey introduced S. 1796 with five co-sponsors including Senator Barbara Boxer (D-Ca.), House Democrats Representative Rosa DeLauro (D-Ct.) and Representative Linda Sánchez (D-Ca., 38th District/Lakewood) introduced its companion bill, H.R. 2660. Both bills stalled in policy committees.

Description of Change: This change may impact approximately one-quarter of the WIC program's child participants who may have up to an additional year of program eligibility. According to the bill author, the WIC Act would reach about 600,000 children nationwide. Additionally, the change may allow postpartum WIC participants to receive benefits for two years. This would triple the length of certification for non-breastfeeding women and double the length of fully breastfeeding participants.

Discretionary: Yes.

Reason for Adjustment/Change:

- Passage of federal legislation will revise basic program eligibility requirements.
- Positive health impact on young California children and postpartum women at nutritional risk.

Fiscal Impact (Range) and Fund Source(s): Ongoing annual cost of between approximately \$86-88 million to Federal Trust Fund (0890).

c. Changes to the Official Poverty Measure Calculation

Background: The Office of Management and Budget (OMB) has published a solicitation for public comment to consider changing the various consumer price indexes used to influence the estimation of the Official Poverty Measure (OPM) and other income measures produced by the Census Bureau. Currently, the OMB uses the Consumer Price Index (CPI) for All Urban Consumers (CPI-U) for the calculations. Based on public comments and consultation with experts, OMB may consider changing the specific inflation measures used to update the OPM.

The OPM, also known as the poverty threshold, is used by federal, state, local, and non-profit programs and services to determine income eligibility. They are updated each

year by the Census Bureau. The thresholds are used mainly for statistical purposes — for instance, preparing estimates of the number of Americans in poverty each year. (In other words, all official poverty population figures are calculated using the poverty thresholds, not the guidelines.)

Additionally, the OPM is used as the basis for developing the federal poverty guidelines, which the USDA FNS uses to determine income eligibility for program applicants. The guidelines are a simplified version of the thresholds and used for administrative purposes— for instance, determining financial eligibility for certain federal programs, including WIC. The income eligibility limit for WIC is 185 percent of the federal poverty guidelines, as adjusted and revised annually. Automatic income eligibility is provided to certain applicants based on their participation in other public programs such as CalFresh, CalWORKs, or Medi-Cal.

Description of Change: Potential changes to how the OPM is calculated, including how they are updated for inflation over time, may affect eligibility for programs that use the poverty guidelines.

Discretionary: No.

Reason for Adjustment/ Change:

- WIC income eligibility is based on the annual federal poverty guidelines. Changes to the OPM calculation may decrease program participation.

Fiscal Impact (Range) and Fund Source(s): Fiscal impact is unknown. The fund that will be impacted is the Federal Trust Fund (Fund 0890).

d. Revision of Categorical Eligibility in the Supplemental Nutrition Assistance Program (SNAP)

Background: The USDA FNS proposed a rule on July 24, 2019 that would update the categorical eligibility requirements for SNAP based on the receipt of TANF benefits. Currently, households that receive a broad range of TANF cash and non-cash benefits may be categorically eligible for SNAP. Categorical eligibility simplifies and streamlines the SNAP application process for both county agencies and households by reducing the amount of information that must be verified during the application process. Flexibility allowed in the definition of categorical eligibility has allowed states to use income thresholds and resource limits that are higher than the federal standards for SNAP.

The proposed regulation would redefine categorical eligibility to allow eligibility for SNAP only when the TANF benefits are ongoing, substantial, and focus on increasing self-sufficiency. Applicants who are certified as eligible to receive benefits under SNAP or TANF at the time of their application to WIC are adjunctively income eligible for WIC. Because SNAP and TANF programs generally document income, their use for WIC adjunct income eligibility determination purposes helps strengthen the integrity of the WIC eligibility determination process without undue burden.

Description of Change: Potential changes to categorical eligibility requirements may affect eligibility for SNAP. This change may increase participation in other nutrition assistance programs, including WIC, if SNAP participation decreases. However, SNAP participation is also used for adjunctive income eligibility for the WIC program. WIC participation may decrease if SNAP participation is adversely affected.

Discretionary: No.

Reason for Adjustment/ Change:

- Changes to the SNAP categorical eligibility definition may increase WIC program participation due to increased food insecurity.
- There may be an offsetting decrease in WIC program participation due to fewer SNAP adjunctively eligible applicants.
- Increased administrative burden on WIC local agencies to verify income during the eligibility process.

Fiscal Impact (Range) and Fund Source(s): Fiscal impact is unknown. The fund that will be impacted is the Federal Trust Fund (Fund 0890).

2. New Assumptions/Premises

a. Remove Cost Per Participant Category

Background: The California WIC Card Pilot operations began on June 3, 2019 with statewide rollout beginning September 2019 and completion scheduled for spring 2020. The current process is to issue separate Food Instruments (FIs) for each covered individual (e.g., post-partum mother, her infant under 1 year of age, and her 3-year-old are issued three separate FIs). Once issued, the California WIC Card individual participant benefits are then aggregated with all other benefits issued within a household (i.e., what previously would have been on three separate FIs will all appear on one California WIC Card for the family unit). As issued benefits are redeemed, units are deducted from the household as a whole, rather than being tied back to a specific participant within the household. Without the 1:1 linkage of issued to redeemed benefits at the participant level, any attempt to calculate per-participant cost calculations would not be accurate, as the calculation will rely on unverifiable assumptions of which specific participant within the given household is consuming which purchased foods within a family.

Description of Change: Since WIC will no longer have the ability to report food cost at the participant category level, WIC will aggregate participant counts and commensurate food costs at the statewide, per-participant food cost level, regardless of participant category. The aggregated reporting of food costs for FY 2019-20 will result in a change in how the historical expenditures and cost graphs are illustrated in the FY 2020-21 November Estimate. This is a change to the food cost estimate, only, and there will be no change to the categorical participation projections (those issued benefits).

Discretionary: No.

Reason for Adjustment/Change:

- The California WIC Card is a federally mandated change in benefit issuance with an implementation deadline of October 1, 2020.
- The benefit redemption reconciliation process for the California WIC Card loses a precise 1:1 accounting of benefit utilization at the participant category level.

Fiscal Impact (Range) and Fund Source(s): No fiscal impact.

b. Rescission of Unspent Funds – Federal Fiscal Year (FFY) 2020

Background: The House of Representatives' budget proposes a funding level of \$6 billion for WIC in the FFY 2020 Agriculture, Rural Development, Food and Drug Appropriations bill, a slight decrease of \$75 million from the previous FFY 2019 levels. It also includes for the first time a \$90 million allocation to the Breastfeeding Peer Counselor Program. The proposed House budget is also coupled with an \$800 million rescission of unspent funds from prior year. The Senate has passed its budget proposal and is very similar to the House budget proposal, resulting in similar projected funding levels for Public Health/WIC. Although no budget has yet been approved by the President, the White House has expressed support for the House's proposed FFY 2020 WIC funding levels.

Description of Change: The rescission and the proposed reduction of the WIC budget will decrease funding for the Food and the NSA grants. However, there will be an increase in funding for the Breastfeeding and Peer Counselor Program grant. It is estimated that the currently proposed FFY 2020 appropriation will result in final Food and NSA Grants that are less than was projected in the 2019-20 Governor's Budget; however, California projects these amounts are more than sufficient to meet projected need.

Discretionary: No.

Reason for Adjustment/Change:

- The Federal budget for WIC that the Legislature votes and passes and the President signs has a major impact on California's Food and NSA funding levels.
- The funding level reflects lower participation levels for states and nationwide, which will result in lower funds remaining for future reallocations.
- Cost containment strategies have helped reduce program costs and rebate revenues are at the highest levels to date.
- WIC participation continues to decline.

Fiscal Impact (Range) and Fund Source(s): Reduction in projected Food Grant revenue for FY 2019-20 in the amount of \$33 million and reduction in projected NSA

revenue for FY 2019-20 in the amount of \$7 million when compared with the 2019 Budget Act (Federal Trust Fund 0890).

3. Existing (Significantly Changed) Assumptions/Premises

a. One-Time United States Department of Agriculture (USDA) Federal Funding Opportunity to Replace WIC MIS

Background: The federal Healthy, Hunger-Free Kids Act of 2010 requires all states to migrate WIC benefits from a paper-based food benefit delivery system to an EBT system by October 1, 2020. In addition, federal funding has been appropriated to assist with project costs associated with implementation. Not meeting the deadline could put California at risk for losing millions of dollars in federal funding for Public Health/WIC. Most WIC participants receive paper vouchers at WIC local agencies, which are redeemed for nutritious foods at WIC-authorized food retailers. Since commencement of California WIC Card Pilot operations on June 3, 2019, many WIC participants have been issued the California WIC Card for purchasing food benefits using store point-of-sale terminals.

The successful implementation of the California WIC Card requires a new MIS. The existing system has a number of limitations, but most significantly, lacks the core requirements to integrate the California WIC Card issuance into the existing system by October 1, 2020. The new MIS, called WIC Web Information System Exchange (WIC WISE), will replace the existing MIS in order to meet the federal mandate. The USDA anticipates that there will be sufficient funding available nationwide in Technology Grant Funds to assist with the cost of replacing states' systems for EBT capability

Description of Change: On June 18, 2019, Public Health/WIC submitted the annual Advanced Planning Document Update to the USDA with a request to increase the Technology Grant Funds for FFY 2020 to \$25.8 million (increase of \$11.8 million when compared to the 2019 Budget Act of \$14.0 million). Public Health/WIC will use these funds to support the one-time costs for MIS replacement and the California WIC Card implementation in 2020. This additional funding will not replace Public Health/WIC's current Food or NSA funds.

Discretionary: Yes.

Reason for Adjustment/Change:

- One-time funding opportunity to replace WIC MIS with WIC WISE and implement California WIC Card.

Fiscal Impact (Range) and Fund Source(s): Potential increase in revenue and expenditure for FFY 2020 of an additional \$11.8 million (for a total of \$25.8 million) when compared to the 2019 Budget Act of \$14.0 million. The fund that will be impacted is the Federal Trust Fund (Fund 0890).

4. Unchanged Assumptions/Premises**a. Cash Value Voucher Increase**

Background: On August 27, 2018, the USDA issued a memorandum to states regarding an inflationary increase to the monthly value of cash value vouchers for fruits and vegetables for child participants. WIC staff assessed the changes included in the letter and determined that the changes will have an impact on food costs for Public Health/WIC. The memorandum required an increase to the cash value benefit issued to child participants from \$8 to \$9 to be implemented on October 1, 2018.

Description of Change: The estimated impact to current year is \$2 million, which is calculated as a proration of the number of children to be served in the months of June 2019 through September 2019 until the adjustment is included in the base per-participant food costs for the prior year. The ongoing annual impact will be approximately \$6.2 million and is reflected in the total gross food costs for October 2018 through May 2019.

Discretionary: No. This change is required by federal regulations.

Reason for Adjustment/Change:

- Cash value vouchers are issued to all child participants.
- Children represent approximately 56 percent of participants issued benefits, per month.
- The increase to the cash benefit is required by federal regulations.

Fiscal Impact (Range) and Fund Source(s): The increase is calculated at \$1 per projected child participant and the total estimated impact is an increase of \$2 million to current year and \$6.2 million in ongoing food costs assumed in the base per participant food costs. Sufficient WIC program funds are available to support this increase. The fund that will be impacted is the Federal Trust Fund (Fund 0890).

b. Change in Inflation Rate Projection for Food at Home

Background: Starting with 2018 data, the California Department of Finance, Economic Research Unit (DOF ERU) expanded the number of California cities from two to four, adding Riverside and San Diego to San Francisco and Los Angeles, in its calculation of projected CPI that Public Health/WIC uses to estimate food inflation. In January 2019, the DOF ERU provided the formula for including these new areas in the weighting formula for statewide CPI for the Food at Home component of the CPI.

Description of Change: The former weighting formula used in the 2019 Budget Act was:

$$[(\text{Food at Home Los Angeles} \times .68) + (\text{Food at Home San Francisco} \times .32)] \times 1.0023$$

The new weighting formula, which will be used in the FY 2020-21 Governor's Budget, and all future budget estimates until further notice, is:

$$[(\text{Food at Home Los Angeles} \times .52) + (\text{Food at Home San Francisco} \times .18) + (\text{Food at Home San Diego} \times .13) + ((\text{Food at Home Riverside} \times .17) \times 2.5922)] \times 0.9982$$

The change to the weighted Food at Home inflation calculation resulted in a decrease of 0.45 percent in FY 2018-19 from 0.52 percent to 0.07 percent and a decrease of 0.26 percent for FY 2019-20 from 1.99 percent to 1.73 percent.

Discretionary: No. The change was made by the DOF ERU based on increased data availability.

Reason for Adjustment/Change:

- More information is available to more accurately calculate CPI across California.
- The update to the weighting formula was made by the DOF ERU and WIC is incorporating the change into this budget estimate for consistency across state departments.

Fiscal Impact (Range) and Fund Source(s): Projected impact is a decrease of \$4.9 million for FY 2019-20. The fund that will be impacted is the Federal Trust Fund (Fund 0890).

5. Discontinued Assumptions/Premises

There are no Discontinued Assumptions/Premises at this time.

IV. APPENDICES

APPENDIX A

Rationale and Methodology for Participation and Expenditure Projections

According to the most recent data (Eligibles and Program Reach, 2016, by USDA/Food and Nutrition Service (FNS) released in February 2019), Public Health/WIC serves 65.6 percent of eligible Californians (the second highest coverage of eligible persons of all state WIC programs, third nationally behind Puerto Rico and Maryland), while the national average is 54.5 percent.

FFY 2013 marked the first decline in Public Health/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 Public Health/WIC.

Participation is the main driver of food costs for Public Health/WIC.

The five participation categories, defined above, 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 Demographics Research Unit (DOF DRU) (applied to all categories except children).

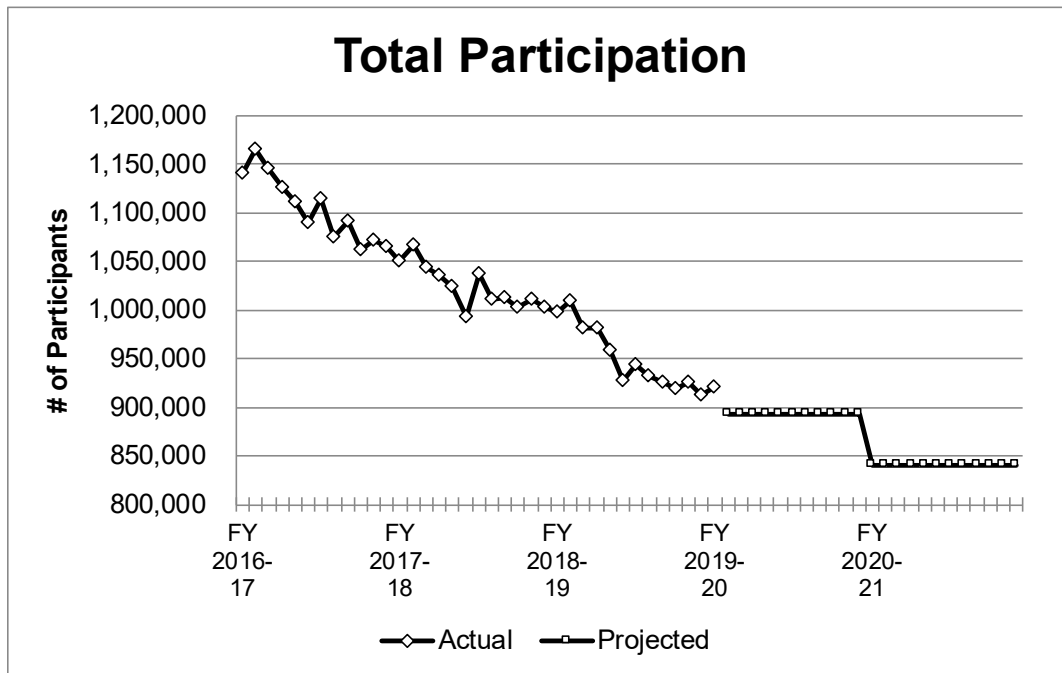
For each category, the five-year trend in actual participation is applied to the prior year category participation, and 60 percent of the forecasted change in births is added to that number (except for children) to arrive at a final forecast. The births adjustment is based on research showing that 60 percent of all infants born in California were enrolled in Public Health/WIC by their first birthday (California WIC Association, 2012). Recently updated data from the DOF DRU projects births to decrease by 0.2 percent in FY 2019-20, which is a difference of 0.26 percent compared with the 2019 May Revision, where FY 2019-20 birth rates were projected to decrease by 0.46 percent. 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 2019-20 participation is calculated as a sum of forecasted participation in each participant category. For FY 2018-19, monthly average participation was 951,140. Public Health/WIC estimates FY 2019-20 participation will continue to decrease, at a rate of 6.05 percent (compared to 7.14 percent in FY 2018-19). An additional 9,576 monthly child participants for FY 2019-20 were added

as a forecasted result of the FY 2016-17 *Increasing the Enrollment of Children in WIC* proposal. The overall estimated average for FY 2019-20 is projected to be 893,602 participants a month for August 2019 through June 2020.

The basis for FY 2020-21 forecasts are the FY 2019-20 forecasted totals along with one month of actuals and a projected 0.2 percent decrease in births for that fiscal year. An additional 9,576 monthly child participants for FY 2020-21 were added as a forecasted result of the FY 2016-17 *Increasing the Enrollment of Children in WIC* proposal. Public Health/WIC estimates that FY 2020-21 total participation will continue to decrease, at a rate of 5.96 percent (compared to the forecasted 6.05 percent in FY 2019-20). The overall estimated monthly average is 840,344 for FY 2020-21.

The participation graph below and the individual participant category charts located in Appendix B show the participation levels for FY 2020-21, which includes updated actual participation numbers through July 2019:



Total Food Expenditures

Food expenditures are divided by the number of participants to determine the average food cost per participant, which is then adjusted using the CPI projections for Food at Home from the DOF ERU. Actual CPI data is available from DOF ERU through July 2019, with projections through the end of FY 2020-21. The updated projected CPI rate in FY 2019-20 is 1.62 percent, and for FY 2020-21 is an inflation of 1.64 percent. The projected inflation rate used in the 2019 May Estimate was 1.72 percent for FY 2019-20. Historical expenditures and updated average per participant food costs for FY 2018-19 from November 2018 through May 2019 were used to update projections for FY 2019-20 and build the new projection for FY 2020-21 food costs.

Below is a chart summarizing total actual food cost expenditures for FY 2018-19 and food cost projections for the current and budget years.

Factor	SFY 2018-19	SFY 2019-20				SFY 2020-21		
	Actuals	Budget Act 2019	November Estimate*	Change from SFY 2018-19 Actuals		November Estimate	Change from SFY 2019-20 in 2019 November Estimate	
Total*** Average monthly participation	1,024,263	905,182	895,798	-128,465	-12.54%	840,344	-55,454	-6.19%
Average cost per participant	\$ 58.53	\$ 63.54	\$ 64.04	\$ 5.51	9.42%	\$ 64.07	\$ 0.03	0.04%
Annual Expenditures**	\$719,352,087	\$690,220,256	\$688,383,026	\$(30,969,061)	-4.31%	\$ 646,045,906	\$ (42,337,121)	-6.15%

* SFY 2019-20 Average Participation includes actual participation for July 2019 and projected participation for August 2019 through June 2020.

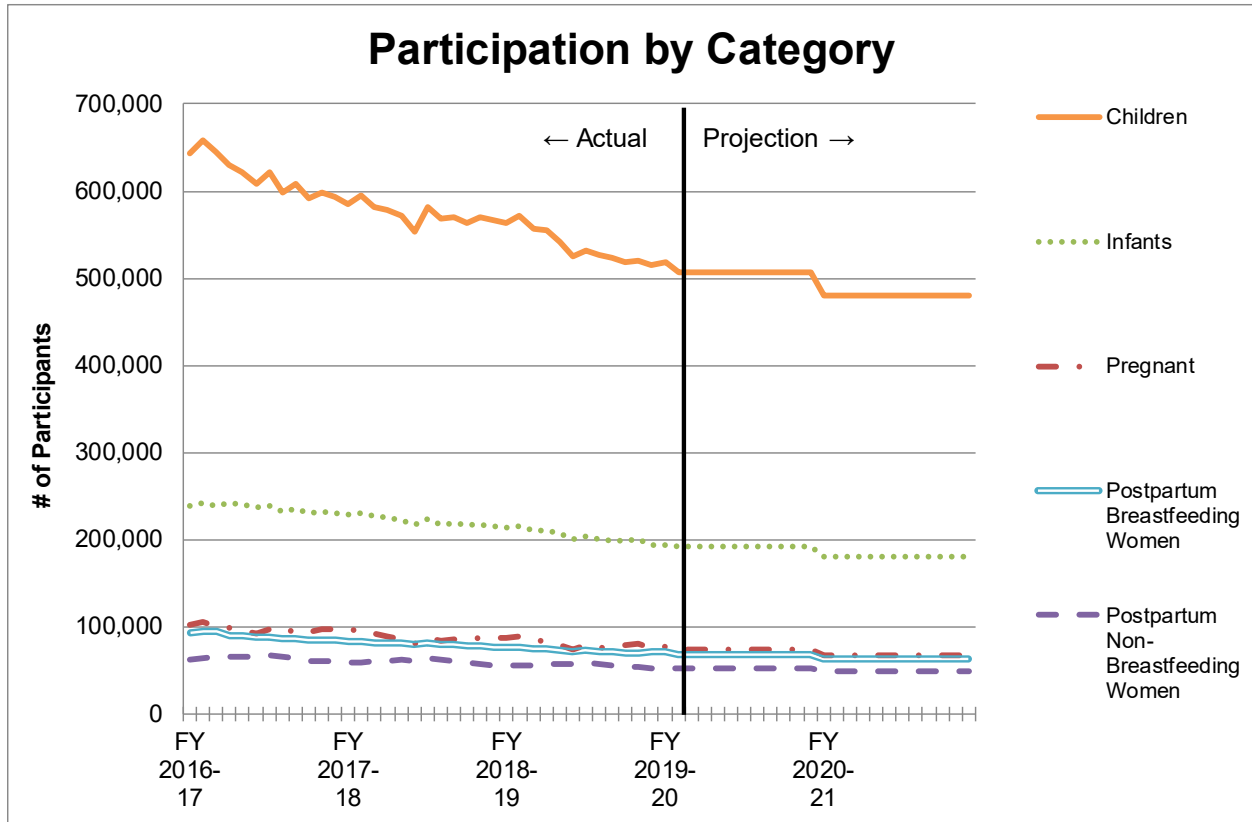
** Numbers rounded to the nearest dollar.

***Does not include 3% Prudent Reserve in food expenditures or CVW adjustment

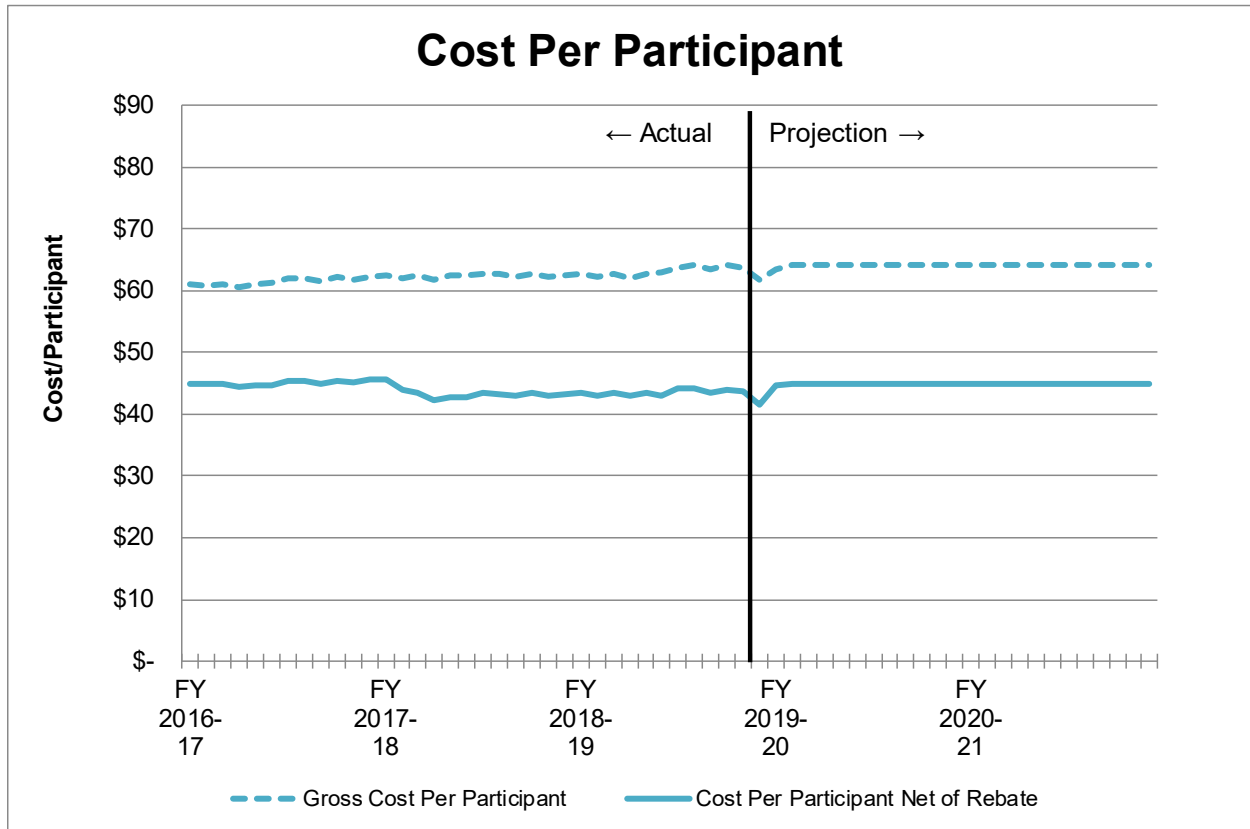
APPENDIX B

Participant and Food Cost Projections by Category

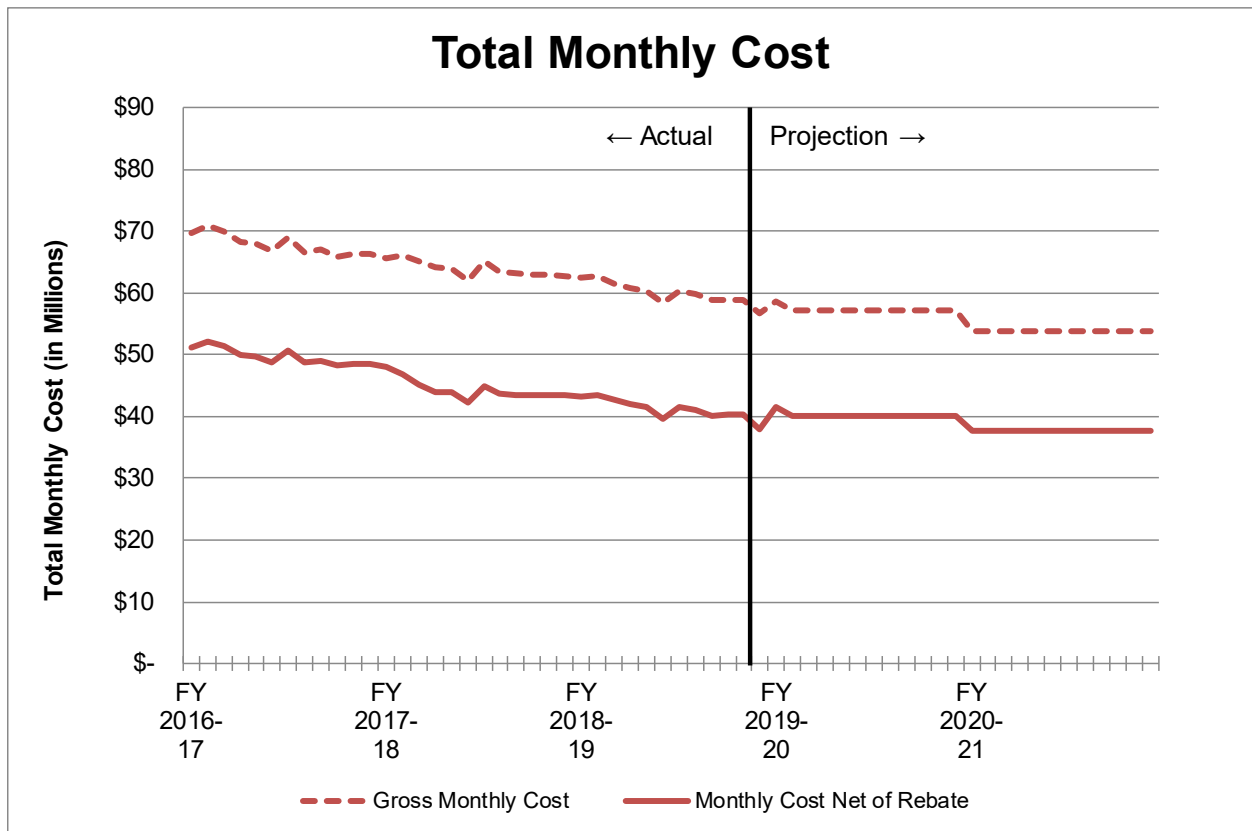
The figure below shows actual and projected participation trends since FY 2016-17. As mentioned previously, the Children participant category is the largest due to their longer period of eligibility. Forecasted monthly participation by category is included in the table in Appendix A:



The figure below shows average cost per participant. Projected costs include inflation projections:



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

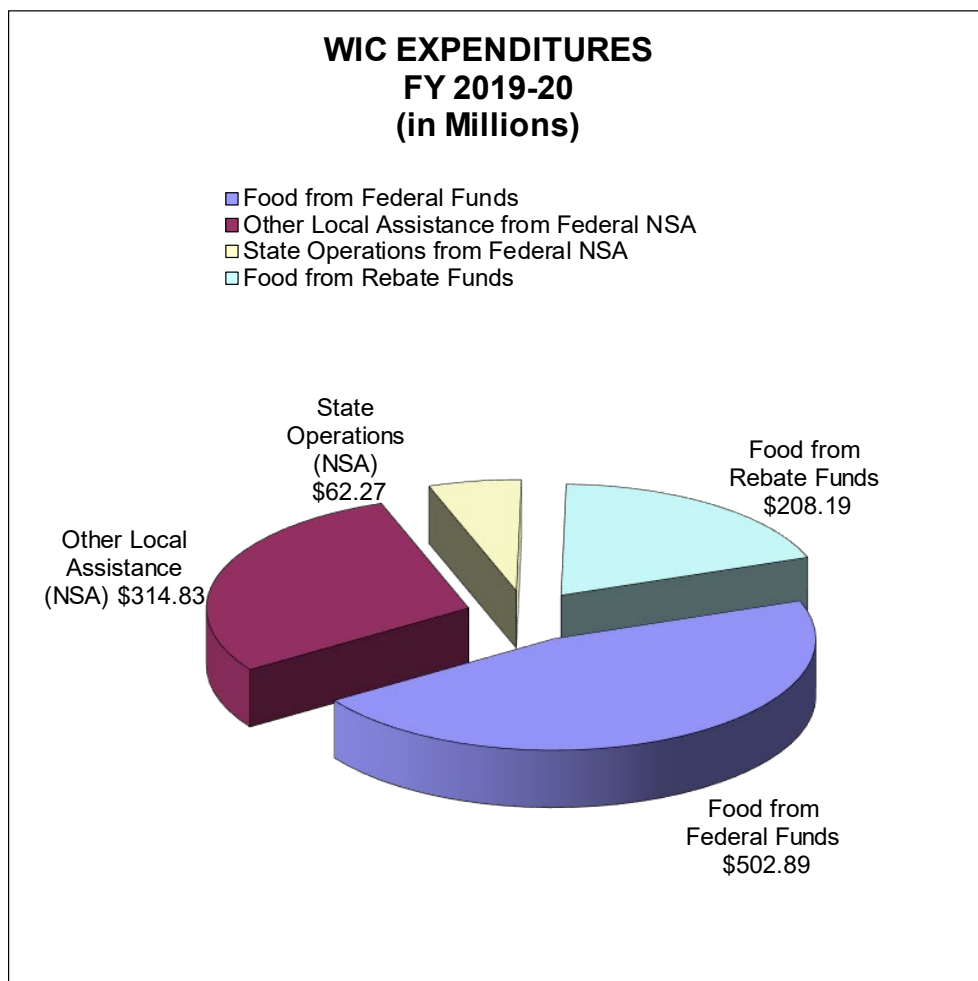


APPENDIX C

WIC Special Display Chart (Government Code 13343)

CALIFORNIA WIC PROGRAM EXPENDITURES			
	PY SFY 2018-19*	CY SFY 2019-20 (Estimated)	BY SFY 2020-21 (Proposed)
LOCAL ASSISTANCE			
0890 Federal Grant for Food	\$ 502,707,889	\$ 502,892,000	\$ 472,317,000
0890 Federal Grant for Administration	\$ 311,254,035	\$ 314,834,000	\$ 304,243,000
TOTAL FEDERAL TRUST FUND	\$ 813,961,924	\$ 817,726,000	\$ 776,560,000
3023 WIC Manufacturer Rebate Fund	\$ 220,175,441	\$ 208,188,000	\$ 193,110,000
TOTAL LOCAL ASSISTANCE	\$ 1,034,137,365	\$ 1,025,914,000	\$ 969,670,000
STATE OPERATIONS			
0890 Federal Grant for State Operations	\$ 57,203,523	\$ 62,270,000	\$ 59,210,000
GRAND TOTAL WIC PROGRAM	\$ 1,091,340,888	\$ 1,088,184,000	\$ 1,028,880,000

*Financial statements are currently unavailable for SFY 2018-19. The amount displayed is an estimated amount.



APPENDIX D**Revenue Projections**

Public Health/WIC is federally funded by the USDA through the Food Grant and the NSA Grant, as well as through rebates received from the contracted infant formula manufacturer.

The federal revenue estimates are revised for FY 2019-20 and total \$980.6 million, which is a decrease of \$26.0 million or 2.59 percent when compared to the \$1.007 billion amount provided in the 2019 Budget Act. The decrease is based on the House's proposed federal budget for federal fiscal year 2020.

For FY 2020-21, the projected federal revenue will total \$965.2 million, which is a decrease of \$41.3 million or 4.10 percent when compared to the 2019 Budget Act amount of \$1.007 billion, as follows:

REVENUE COMPARISON (all funds)							
<i>All figures in dollars, rounded to the nearest thousand</i>							
Revenue Source	2018-19 Actual	2019 Budget Act	SFY 2019-20			SFY 2020-21	
			November Estimate	Change from 2019 Budget Act		November Estimate	Change from 2019 Budget Act
Federal Food Grant	577,662,000	625,798,000	592,499,000	(33,299,000)	-5.32%	601,833,000	(23,965,000) -3.83%
Rebate Food Funds	220,175,000	213,678,000	208,188,000	(5,490,000)	-2.57%	193,110,000	(20,568,000) -9.63%
Total Funds for Food	797,837,000	839,476,000	800,687,000	(38,789,000)	-4.62%	794,943,000	(44,533,000) -5.30%
Federal NSA Grant	390,003,000	380,797,000	388,069,000	7,272,000	1.91%	363,453,000	(17,344,000) -4.55%
Total Federal Funds	967,665,000	1,006,595,000	980,568,000	(26,027,000)	-2.59%	965,286,000	(41,309,000) -4.10%

1. Revenue Estimate Methodology Federal Funds: Fund 0890

The annual federal revenue for Public Health/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
- NSA funds that reimburse WIC local agencies contracted for direct services provided to WIC participants and support state operations.

2. Federal Food Grant

Nationally, approximately 68 percent of the FFY 2019 appropriation is allocated for food, and Public Health/WIC receives approximately 16 percent of that appropriation. The food allocation for FFY 2020 will decrease to 66 percent, and Public Health/WIC will receive approximately 16 percent of the national appropriation:

FEDERAL REVENUE PROJECTIONS (Food)					
	A	B	C	D	E=(A-B)*C*D
	National Budget Appropriation	Discretionary Funds	Food Allocation	California Share	Total Allocated Food
FFY 2019	\$ 5,575,000,000	\$ 95,000,000	67.54%	15.98%	\$591,591,937
FFY 2020	\$ 5,200,000,000	\$ 125,000,000	65.54%	15.98%	\$531,646,824

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 all state's WIC programs that have not, or will not, be able to expend all 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. Public Health/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 2019-20, Food Grant revenue is expected to total \$592.5 million, which is a decrease of \$33.3 million or 5.32 percent less when compared to \$625.8 million in the 2019 Budget Act.

For FY 2020-21, Food Grant revenue is expected to total \$601.8 million, which is a decrease of \$24.0 million or 3.83 percent less compared to \$625.8 million for current year in the 2019 Budget Act.

WIC RESOURCES FOR FOOD			
	FFY 2019	FFY 2020	Prorate to SFY 2019-20
Base Appropriation	\$ 591,591,937	\$ 531,646,824	\$ 546,633,102
Reallocations	\$ 34,206,261	\$ 70,186,630	\$ 61,191,538
Recovery	\$ (61,302,023)	\$ -	\$ (15,325,506)
Total	\$ 564,496,175	\$ 601,833,454	\$ 592,499,134
	FFY 2020	FFY 2021	Prorate to SFY 2020-21
Base Appropriation	\$ 531,646,824	\$ 531,646,824	\$ 531,646,824
Reallocations	\$ 70,186,630	\$ 70,186,630	\$ 70,186,630
Total	\$ 601,833,454	\$ 601,833,454	\$ 601,833,454

3. NSA Grant

Approximately 32 percent of the national WIC appropriation for FFY 2019 was allocated for NSA, and California received approximately 15 percent of that allocation. The NSA allocation for FFY 2020 will increase to 34 percent; California's share will remain at approximately 15 percent of the national appropriation:

FEDERAL REVENUE PROJECTIONS (NSA)					
	A	B	C	D	E=(A-B)*C*D
	National Budget Appropriation	Discretionary Funds	NSA Allocation	California Share	Total Allocated NSA
FFY 2019	\$ 5,575,000,000	\$ 95,000,000	32.46%	15.42%	\$274,299,013
FFY 2020	\$ 5,200,000,000	\$ 125,000,000	34.46%	15.42%	\$269,678,871

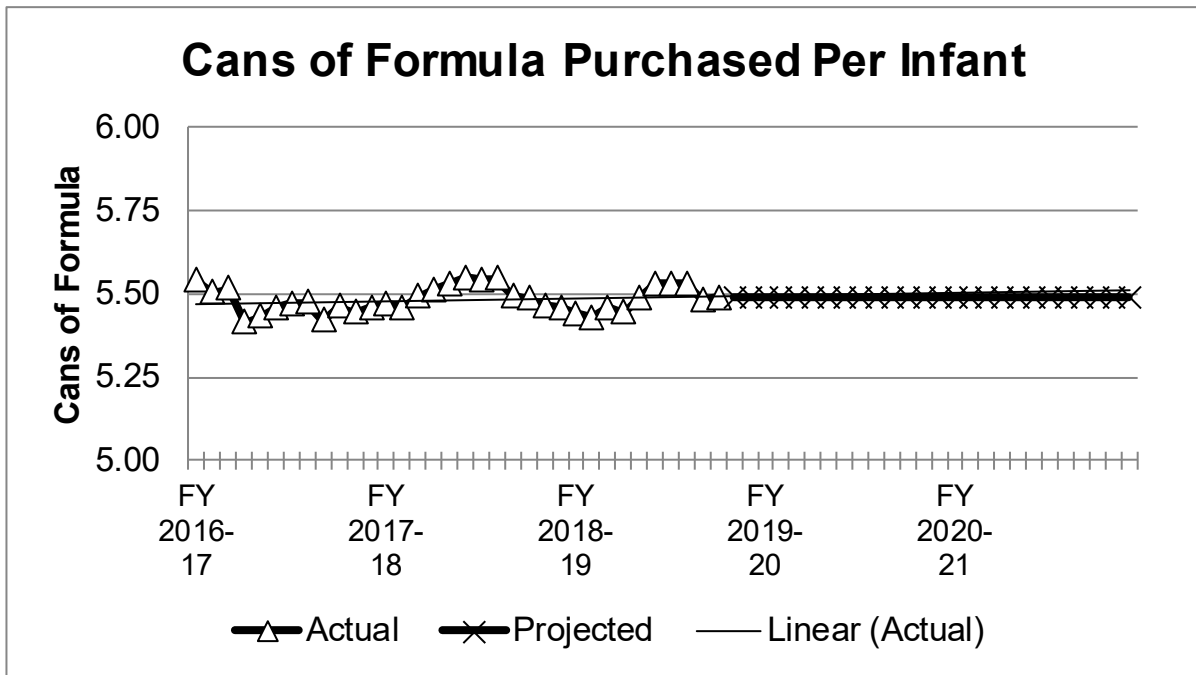
In FY 2019-20, NSA Grant revenue is expected to total \$388.1 million, which is an increase of \$7.3 million or 1.91 percent when compared to \$380.8 million in the 2019 Budget Act.

In FY 2020-21, NSA Grant revenue is expected to total \$363.5 million, which is a decrease of \$17.3 million or 4.55 percent when compared to \$380.8 million for current year in the 2019 Budget Act.

WIC RESOURCES FOR NSA			
	FFY 2019	FFY 2020	Prorate to SFY 2019-20
Base Appropriation, NSA	\$274,299,013	\$269,678,871	\$ 270,833,906
Farmers' Market and Nutrition	\$ 2,063,983	\$ 2,063,983	\$ 2,063,983
Breastfeeding Peer Counseling	\$ 8,364,780	\$ 10,990,301	\$ 10,333,921
Reallocations	\$ 57,149,085	\$ 59,143,706	\$ 58,645,051
Spendforward	\$ 34,251,566	\$ 31,550,210	\$ 32,225,549
Technology Grant	\$ 18,284,298	\$ 9,219,498	\$ 13,966,868
Total	\$394,412,725	\$382,646,569	\$ 388,069,278
	FFY 2020	FFY 2021	Prorate to SFY 2020-21
Base Appropriation, NSA	\$269,678,871	\$260,154,045	\$ 262,535,251
Farmers' Market and Nutrition	\$ 2,063,983	\$ 2,063,983	\$ 2,063,983
Breastfeeding Peer Counseling	\$ 10,990,301	\$ 10,990,301	\$ 10,990,301
Reallocations	\$ 59,143,706	\$ 59,143,706	\$ 59,143,706
Spendforward	\$ 31,550,210	\$ 27,776,224	\$ 28,719,720
Technology Grant	\$ 9,219,498	\$ -	\$ -
Total	\$382,646,569	\$360,128,259	\$ 363,452,962

4. Rebate Funds: WIC Manufacturer Rebate Fund 3023

In addition to the federal Food and NSA Grants, Public Health/WIC receives rebate funds from the contracted infant formula manufacturer. Public Health/WIC estimates current year infant formula WIC Manufacturer Rebate Fund revenues to total \$208.2 million, a decrease of \$5.5 million or 2.57 percent when compared to the 2019 Budget Act amount of \$213.7 million. In FY 2020-21, Public Health/WIC estimates infant formula WIC Manufacturer Rebate Fund revenues to total \$193.1 million, which is a decrease of \$20.6 million or 9.64 percent when compared to the 2019 Budget Act amount of \$213.7 million. The decline of rebate revenue is attributed to decreased participation.



Public Health/WIC prescribes approximately 5.5 cans of infant formula on average 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 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.