



# **Regulatory Alert**

## **2013-03**

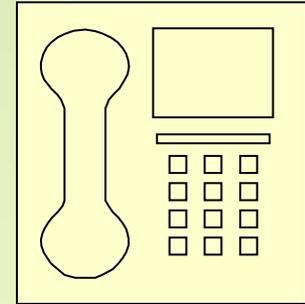
# **Stakeholder Workgroup Consultation Webinar**

January 21, 2014



# Webinar Tools

- Use \*6 to mute and unmute your phone
- Raise your hand during the feedback periods to ask questions/provide input
- In case you are experiencing technical difficulties, please call (916) 928-8504
- You may review the Vendor Authorization Criteria Regulatory Alert at this address:  
<http://www.cdph.ca.gov/programs/wicworks/Pages/WICRegulations.aspx>



# Agenda

1. Background of Regulatory Alert and Regulatory Process
2. Regulations by Bulletin Process and Timeline
3. Review Regulatory Alert
  - Review Peer Group Criteria
  - Review Reimbursement System
4. Receive input on the adoption of the Peer Group and the Reimbursement System for Vendors



# Background

- September 29, 2012: Assembly Bill (AB) 2322 signed into law amending or adding sections 123280, 123285, 123312, and 123322 to the California Health and Safety Code.
- Health and Safety Code 123322 allows WIC to adopt specified department requirements into State regulation through a Regulatory Bulletin Process.
- Health and Safety Code 123322 also establishes requirements for stakeholder consultation.



## Regulatory Alert 2013-03

- “Regulatory Alert 2013-03: Peer Group Criteria and Reimbursement System for Vendors,” posted on the WIC website on December 13, 2013
- Proposes to adopt WIC vendor peer group criteria and a corresponding reimbursement system into California regulation
- Pursuant to Health and Safety Code Section 123322, in accordance with the federal requirements governing the WIC Program.



# Process and Timeline

- Public posting of proposed action. Regulatory Alert and Attachments: December 13, 2013
- Conduct Stakeholder Workgroup Meeting: January 21, 2014.
- Public Comment Period: December 16, 2013 – January 24, 2014
- Public posting of final action on WIC website (no later than 120 days from the end of the comment period): No later than May 23, 2014



# Questions



# §50000: Peer Group Criteria

- Federal regulation (7 C.F.R. §246.12(g)(4)) and state law (Health & Saf. Code §123322) require the Department to establish a vendor peer group system.
- Federal regulations and state law define “peer group” and establish requirements for a valid vendor peer group system.
- Under federal regulation (7 C.F.R. §246.12(g)(4)(ii)(C)), the Department has the authority to change a vendor’s peer group whenever a change is warranted.



# §50000 Vendor Peer Group Criteria

- Purpose of this section:
  - This section is needed to conform California regulations to state and federal law and comply with conditions for federal funding.
  - The Department must establish the criteria it will use for conducting on-site preauthorization visits and peer group assessments required by federal regulations.
  - The Department must have a verifiable method for counting inventory for peer group assignment. The requirements in this section are consistent with the Minimum Stocking Requirements in §71100 of the Vendor Authorization Criteria (W.R.B. 2013-01).



# Federal Definition of “Peer Group”

- Federal regulation (7 C.F.R. §246.2) defines a vendor peer group system as the following:
  - *“...a classification of authorized vendors into groups based on common characteristics or criteria that affect food prices, for the purpose of applying appropriate competitive price criteria to vendors at authorization and limiting payments for food to competitive levels.”*
- Under federal regulations (7. C.F.R. §246.12(g)(4)(ii)(A)), the Department must use at least two (2) criteria for classifying vendors in a peer group system.
- Federal regulations require one of those criteria to be a store’s geographic location, unless the state agency receives a waiver from FNS. The Department has received a waiver for this requirement.



# State Definition of “Peer Group”

- State law (Health & Saf. Code §123310) defines a “peer group” as a group of vendors with similar characteristics such as:
  1. Geographic location
  2. Store size
  3. Type of store
  4. Number of cash registers
  5. WIC sales volume
  6. Gross sales volume
  7. Inventory
  8. Other characteristics defined by the Department



## §50000: Peer Group Criteria Cont.

- The Department is establishing the new vendor peer group criteria described in Sections 50100, 50200, and 50300.
- The Department will use this criteria to place vendors in appropriate peer group categories and subgroups based on reviews and assessments of vendors at authorization and any time during the term of the vendor agreement.
- This section establishes general requirements for the assessments conducted to assign a vendor to a peer group.



# §50000 Vendor Peer Group Assessments

- When will vendors be assessed?
  - Prior to or at authorization
  - Within 6 months of authorization
  - Annually, at reauthorization
  - At any time during the term of the vendor agreement
- What information will WIC use to assess vendors?
  - Store inventory available for purchase
  - Register count
  - California Board of Equalization (BOE) State, Local and District Sales and Use Tax Return
  - Inventory and sales records



# §50000 Vendor Peer Group Assessments Cont.

| Assessment Type                                     | Means of Assessment  |
|---|--|
| Prior to or at authorization                        | <ul style="list-style-type: none"> <li>• On-site assessment of inventory and registers in store</li> <li>• Information from other authorized stores</li> </ul>   |
| Within 6 months of authorization                    | <ul style="list-style-type: none"> <li>• BOE State, Local and District Sales and Use Tax Return Statement</li> <li>• The Department may require vendors who file returns every 12 months and those who do not file because they only sell non-taxable goods to submit sales and inventory records</li> </ul> |
| Annually, at reauthorization                        | <ul style="list-style-type: none"> <li>• BOE State, Local and District Sales and Use Tax Return Statement</li> <li>• The Department may require vendors who do not file returns because they only sell non-taxable goods to submit sales and inventory records</li> </ul>                                    |
| At any time during the term of the vendor agreement | <ul style="list-style-type: none"> <li>• On-site assessment of inventory and registers in store</li> <li>• BOE State, Local and District Sales and Use Tax Return Statement</li> <li>• Records submitted pursuant to federally-required compliance activities</li> </ul>                                     |

# §50000 On-site Assessment Requirements

- Visits will occur during regular business hours
- Staff conducting visits shall identify themselves upon arrival
- The Department is not required to notify the vendor of the on-site visit in advance
- Vendors shall provide the Department with access to food stock and inventory records
- All food items must be documented by invoices or transfer records for that store
- During inventory reviews for peer group assignment, staff will only review food items in the store's public area where merchandise is available for purchase. Three exceptions to this rule exist:
  - Infant formula in storage on premises during review
  - Infant meats in storage on premises during review
  - Milk in storage on premises during review



# Input



# §50100: Peer Group Category A Above-50-percent (A-50) Vendors

- This Section:
  - Establishes a peer group for A-50 vendors as “Peer Group Category A”
  - Requires the Department to assign vendors who receive more than 50 percent of their total food sales from WIC redemptions in Peer Group Category A
  - Creates an assessment process enabling the Department to determine if a vendor should be assigned to Peer Group Category A

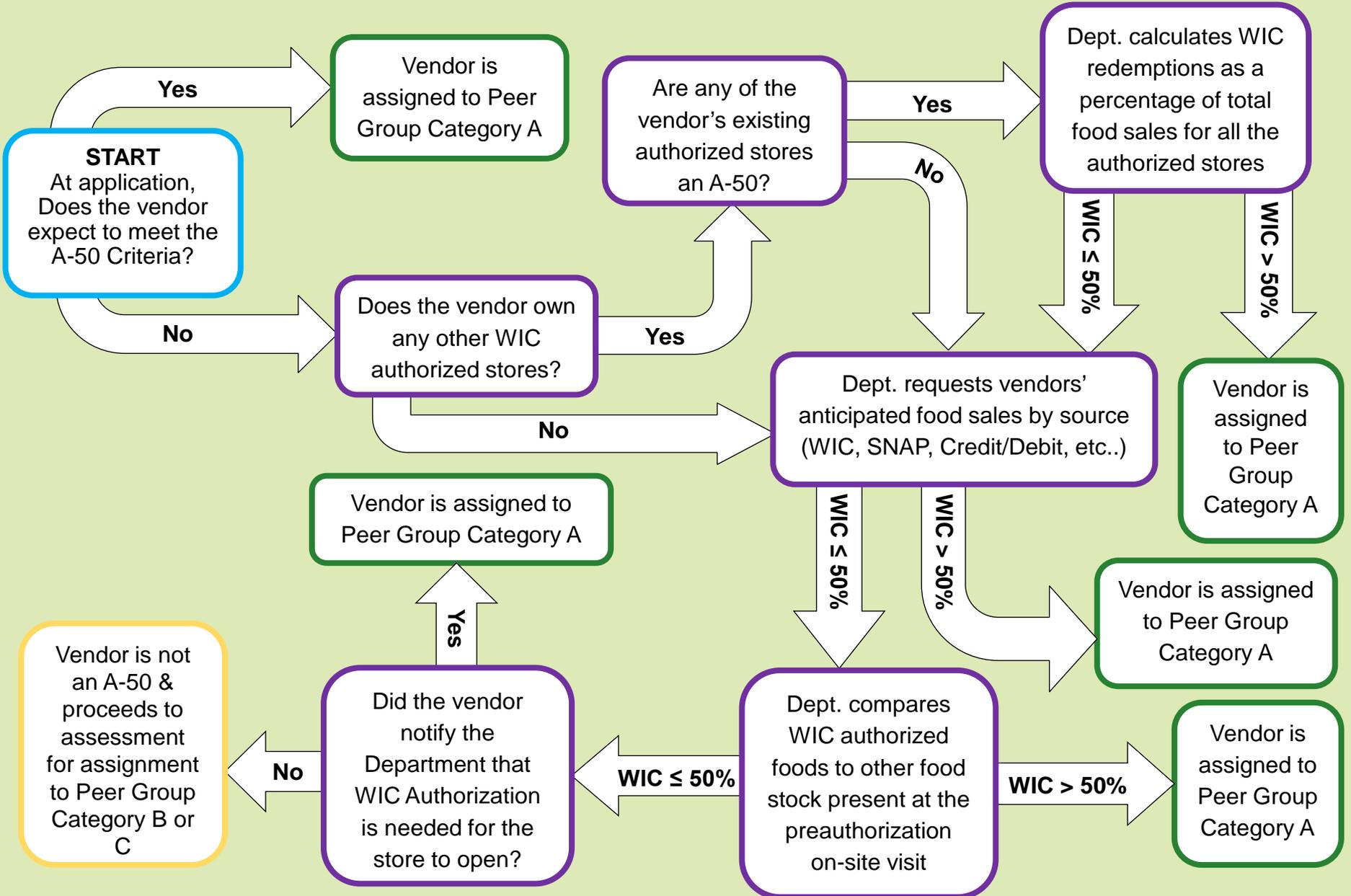


# §50100: Peer Group Category A Cont.

- Purpose of this Section:
  - Federal regulation (7 C.F.R. §246.2) defines A-50 vendors as:
    - Vendors receiving more than 50 percent of their annual food sales revenue from WIC food instruments (FIs)
    - Vendor applicants who expect to meet this criterion upon application
  - Federal regulation (7 C.F.R. §246.12(g)(4)(i)) requires the Department to identify whether vendors and vendor applicants meet the A-50 criteria.
  - Federal regulation (7 C.F.R. §246.12(g)(4)(i)(B)) requires the Department to assess vendors within 6 months of authorization to determine if they meet the criteria and reassign vendors based on this assessment.
  - Federal regulation (7 C.F.R. §246.12(g)(4)(i)(F)) requires the Department to determine if authorized vendors meet the A-50 criteria by evaluating WIC redemptions as a percent of total food sales.
  - The Department must have a verifiable method for determining if a vendor meets the A-50 criteria.

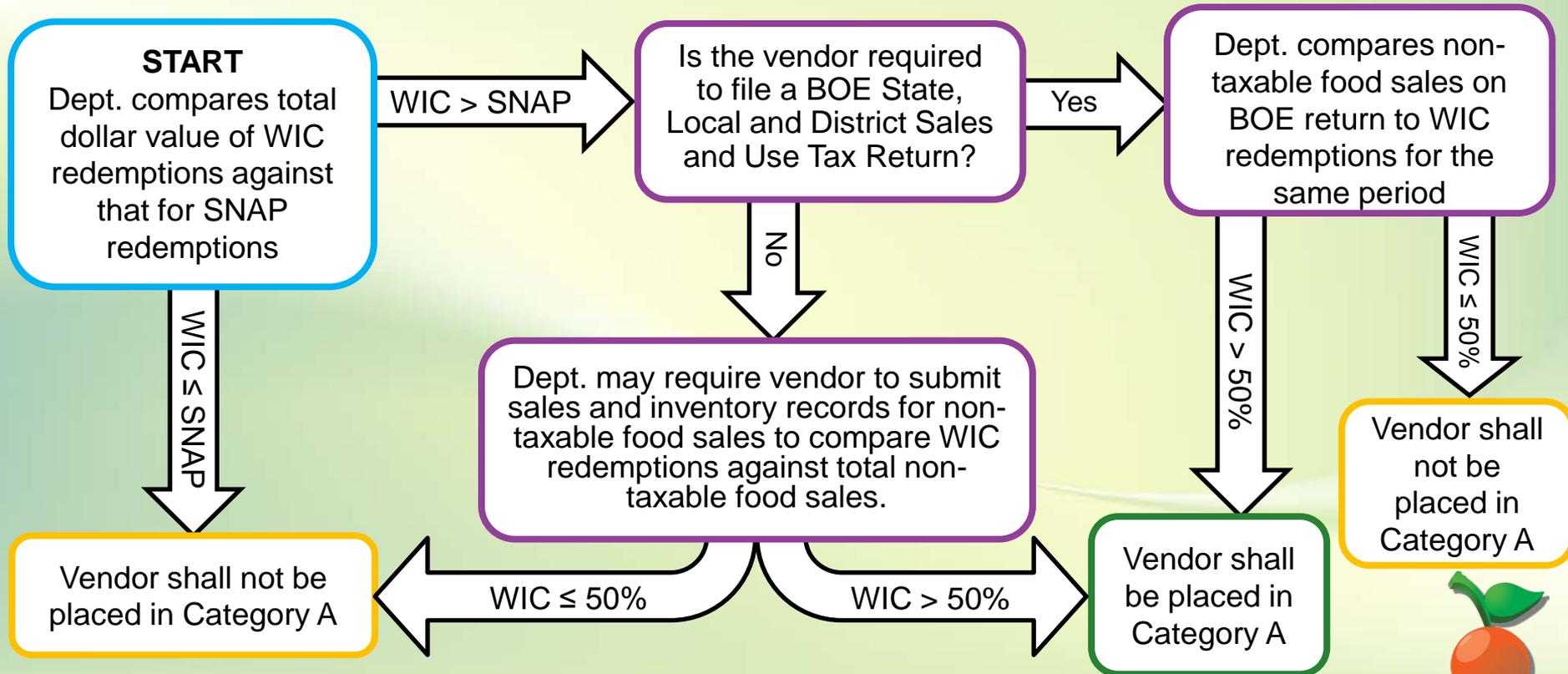


# § 50100: Initial A-50 Assessment Process



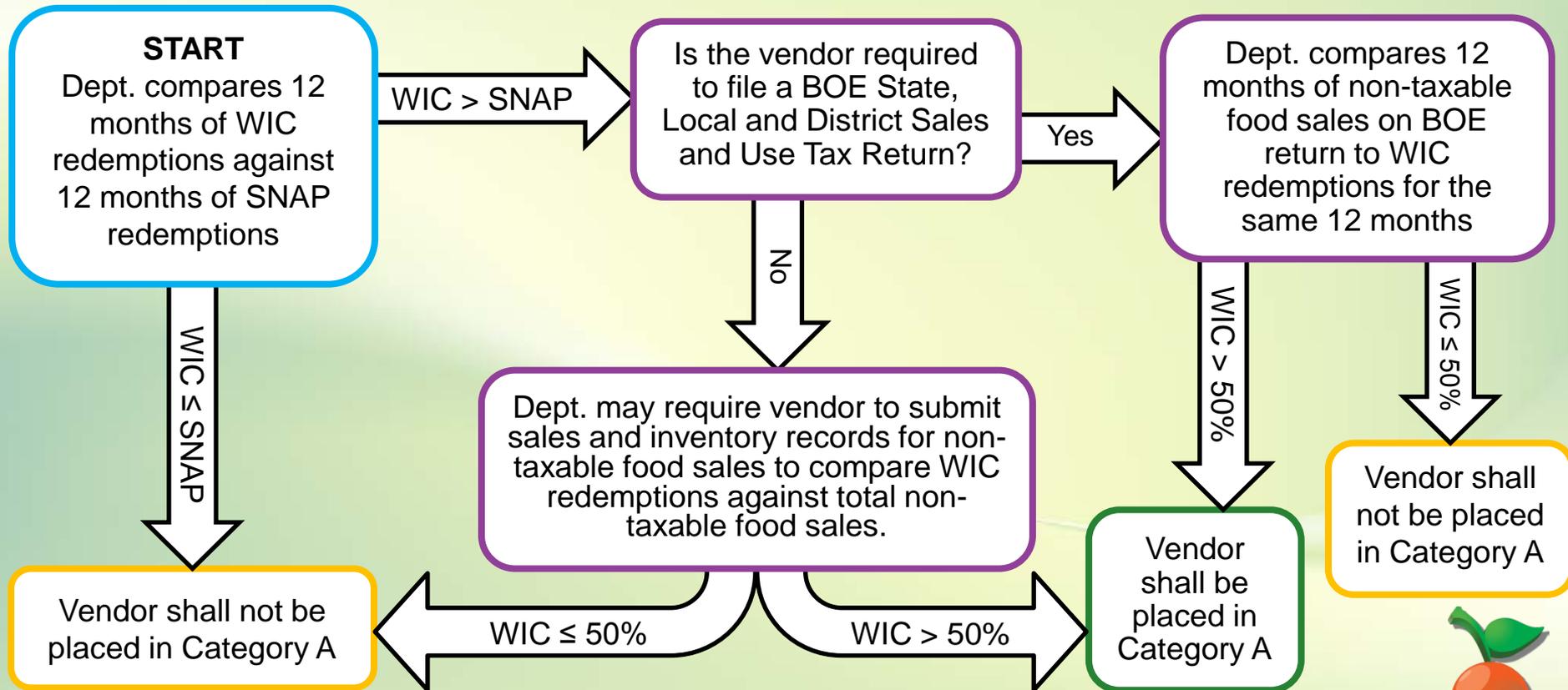
# §50100: A-50 Assessments Six Months After Authorization

- Within six (6) months of authorization, the Department will assess whether a new vendor should be placed in Peer Group Category A using the following process:



# §50100: Annual A-50 Assessments

- The Department will assess all authorized vendors annually to determine if they meet the criteria for Peer Group Category A using the following process:



# Input



# §50200: Peer Group Category B Full-line Grocery Store Vendors

- This section:
  - Establishes a peer group for full-line grocery stores called “Peer Group Category B”
  - Creates criteria a vendor must meet to be categorized as a full-line grocery store
  - Creates subgroups for different register counts
  - Creates standards that the Department will use to assign vendors for Peer Group Category B and register count subgroups



# §50200: Peer Group Category B Full-line Grocery Criteria

- Purpose of this Section:
  - Federal regulations require the Department to create a peer group system achieving cost containment.
  - Research findings from UC Davis and the Department show that variety of stocked food is a characteristic impacting redemption amounts.
  - The food groups included in the full-line grocery criteria are consistent with the SNAP staple foods.
  - Research performed by the Department shows that if a vendor stocks a food item, the vendor will generally stock at least 5 units of that food item.



# §50200: Peer Group Category B Register Subgroups

- Purpose of this section:
  - Research conducted by UC Davis demonstrates that register count is an effective method for approximating store size
  - This research showed that store size is a characteristic impacting food pricing
  - The register subgroups enable the Department to more effectively group vendors by shared characteristics
  - The Department must have a verifiable method for counting registers





# §50200: Peer Group Category B Full-line Grocery Criteria

To meet the criteria, a vendor must not be an A-50 and must stock the following varieties and quantities of the food groups below:

| Type of Food                             | Number of Varieties Required | Quantity of Each Variety Required |
|--|------------------------------|-----------------------------------|
| Cereal                                   | 5 Varieties                  | 5 Units                           |
| Bread/Tortillas                          | 4 Varieties                  | 5 Units                           |
| Fresh Dairy Products<br>(including eggs) | 5 Varieties                  | 5 Units                           |
| Fresh Fruits                             | 7 Varieties                  | 5 Units                           |
| Fresh Vegetables                         | 7 Varieties                  | 5 Units                           |
| Fresh<br>Meat/Poultry/Seafood            | 4 Varieties                  | 5 Units                           |





# §50200: Peer Group Category B Defining Terms

| Term        | Definition   | Examples That Meet The Definition   | Examples That Do Not Meet The Definition  |
|-------------|--|---|---|
| Variety     | <ul style="list-style-type: none"> <li>Different types of food items in the food group</li> </ul>  | <ul style="list-style-type: none"> <li>Dairy: Eggs, cheese, milk, yogurt and butter</li> <li>Bread: Sliced Rye, Sliced whole wheat, whole wheat rolls, flour tortillas</li> </ul> | <ul style="list-style-type: none"> <li>Dairy: Different flavors of yogurt</li> <li>Cereal: Different brands of the same cereal</li> </ul>   |
| Food Groups | <ul style="list-style-type: none"> <li>Cereals</li> <li>Breads/Tortillas</li> <li>Fresh Dairy (including eggs)</li> <li>Fresh Vegetables, Fresh Fruit</li> <li>Fresh Meat/Poultry/Seafood</li> </ul> | <ul style="list-style-type: none"> <li>Cereal, bread, fresh dairy, fresh produce, fresh meat.</li> </ul>  | <ul style="list-style-type: none"> <li>Counting different types of foods in one food group as different food groups</li> <li>Counting food in one group towards another food group</li> </ul> |
| Unit        | <ul style="list-style-type: none"> <li>A package (pre-packaged)</li> <li>The denomination by which the food item is packaged for sale (bulk)</li> <li>Set quantity (set quantity items)</li> </ul>   | <ul style="list-style-type: none"> <li>Pre-packaged: 1 carton of milk</li> <li>Bulk: 1 pound of tomatoes</li> <li>Set Quantity: 1 bunch of bananas</li> </ul>                     | <ul style="list-style-type: none"> <li>Counting six frozen meat patties in a package as six units</li> </ul>  |
| Fresh       | <ul style="list-style-type: none"> <li>Items not cooked, frozen, canned, dried, or shelf-stable</li> </ul>   | <ul style="list-style-type: none"> <li>Fresh meat in a meat counter</li> <li>Fresh produce</li> </ul>   | <ul style="list-style-type: none"> <li>Frozen meat patties</li> <li>Canned tomatoes</li> </ul>  |



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## §50200: Register Subgroups



- Vendors in Category B will be assigned to the following subgroups based on register count:
  - 1-2 register vendors
  - 3-5 register vendors
  - 6-9 register vendors
  - 10+ register vendors



# §50200: Register Subgroups Counting Registers

1. 1. Only registers that comply with W.B.R. §70300 adopted in WIC Regulatory Bulletin 2013-01 Vendor Authorization Criteria will be counted:
  - *70300 Cash Register.* (a) Each vendor and vendor applicant must maintain and use a cash register system in conducting all business sales transactions.

(b) The cash register system must calculate, record, and print a daily totals summary of all sales transactions conducted during each business day showing the transfer of goods for money or monetary equivalents.

(c) The cash register system must automatically print an itemized receipt of each transaction. The receipt must be given to the customer at each transaction.

(d) The daily totals summary of all sales transactions from the cash register system must have the vendor's name and address, the transaction date, the quantity purchased, the sale price of the item purchased, the amount of tax charged, and the indication of tax status. Cash register receipt detail and daily totals summaries are part of the standard business records vendors are required to maintain for a minimum of three (3) years and are subject to both verification and Program audit. The daily totals summary of all sales transactions can be retained in paper or electronic formats.



# §50200: Register Subgroups Counting Registers Cont.

2. All registers must be counted whether they are used full time or occasionally.
3. Registers in specialty locations shall be counted if they transact food sales.
4. Specialty locations shall not be included in the register count if the location does not have a register.
5. ATMs or in-store banks with registers shall not be included.



# Input



# §50300: Peer Group Category C Other Vendors



- Consists of vendors who:
  - Meet the authorization criteria
  - Do not meet the criteria for assignment to Peer Group Categories A or B



# §50300: Peer Group Category C Other Vendors

- Purpose of this section:
  - Research findings from UC Davis and the Department show that vendors who do not meet the criteria for Categories A and B share distinct redemption characteristics impacting food pricing.
  - Category C vendors also do not consistently stock the variety or quantity of staple foods indicating a business model aimed at providing a range of nutritious food choices to WIC participants.
  - The Department will assign these vendors to Category C to maximize the selection of vendors in the Program, provide greater participant choice and limit food payments to competitive levels in compliance with federal requirements



# Input





**60000-60300**  
**Reimbursement of Vendors**



# 60000-60300 Reimbursement of Vendors Authority

- Federal Regulations:
  - Require state agencies to be responsible and accountable for the fiscal management of food delivery systems. State agencies may permit only authorized vendors and farmers to accept food instruments (FI) and cash value vouchers (CVVs) (7 C.F.R. § 246.12(a)(1)).
  - Require state agencies to establish and apply allowable reimbursement levels by peer group and competitive price criteria  
(7 C.F.R. § 246.12(h)(3)(viii), 7 C.F.R. § 246.12(g)(4)).
  - Require state agencies to ensure above-50-percent (A50) vendors do not inflate the competitive price criteria and require adjustments to A50 vendor payment levels to ensure cost neutrality  
(7 C.F.R. § 246.12(g)(4)(i)(D)).



# 60000-60300 Reimbursement of Vendors Authority

- Federal Regulations:
  - Require the vendor to enter the purchase price of authorized supplemental foods provided on the FI or CVV before it is signed by the participant (7 C.F.R. § 246.12(h)(3)(v)).
  - State the vendor can not charge the participant or seek other restitution from the participant for the foods provided through an FI or CVV (7 C.F.R. § 246.12(h)(3)(x)).
  - State the vendor can not provide unauthorized food items, nonfood items, cash or credit in exchange for either FI or CVV's (7 C.F.R. § 246.12(h)(3)(ii)(A)).



# 60000-60300 Reimbursement of Vendors Authority

- State Regulations:
  - Require the Department to develop and maintain a system for the delivery of supplemental foods (Health & Safety Code § 123290).
  - Require the Department to authorize vendors and develop a reimbursement system to compensate vendors for the delivery of WIC supplemental foods (Health & Safety Code § 123310).
  - Require vendors to comply with Department rules of vendor authorization, reimbursement, and monitoring that control program food costs, maximize participant access, and ensure program integrity (Health & Safety Code § 123315 (a)(7-8)).





# 60000 Reimbursement of Vendors: Definitions



# 60000 Reimbursement of Vendors Definitions

- Food Item Number is the 4-digit number on the FI corresponding to the foods that can be purchased by that FI.
- The Actual Selling Price is the amount entered on the FI or CVV at the time of sale.
- Maximum Allowable Department Reimbursement (MADR) rate is the uppermost limit the Department will reimburse vendors for providing supplemental foods to participants.



# 60000 Reimbursement of Vendors Definitions

- Statewide Average is the 12-week average of food redemption data from Peer Group Category B and C vendors.
- The Competitive Average Redemption Value (CARV) is the 12-week average of food instrument redemption from vendors in Peer Group Category B, Register Count Subgroups 6-9 and 10+.
- Tolerance Factor is a percentage adjustment applied to the CARV to accommodate differences in vendor prices.





# 60000 Reimbursement of Vendors Definitions

| INDIVIDUAL NO. | PARTICIPANT / PARENT / GUARDIAN | FIRST DAY TO USE | LAST DAY TO USE | SERIAL NO. |
|----------------|---------------------------------|------------------|-----------------|------------|
| 231900713IG    | ISABELLE GALVAN                 | JAN 05 14        | FEB 04 14       | 269534015  |

|  |  |  |
|--|--|--|
|    | <b>FOOD ITEM NUMBER: 6145</b>  | <b>700-269534015</b>   |
|  | <b>Pay to the order of: WIC Authorized Vendor</b>                                      | 90-1342<br>1211  |
| <b>What to buy:</b> USE JULY 5, 2011 WAFL SHOPPING GUIDE<br>18 (4 OZ) INFANT FRUITS AND VEGETABLES<br>OR 18 (3.5 OZ) INFANT FRUITS AND VEGETABLES<br>***POUCHES NOT ALLOWED***<br>1 (16 OZ) INFANT CEREAL<br>4 FRESH BANANAS |  | <b>EXACT PURCHASE PRICE:</b><br><input type="text"/><br>MUST NOT EXCEED PERCENTUM ALLOWABLE DEPARTMENT REIMBURSEMENT RATE<br><b>FOOD ITEM NUMBER</b><br>6145 |
| <b>State of California WIC Program</b><br>VOID IF NOT DEPOSITED WITHIN 45 DAYS OF "FIRST DAY TO USE." NOT VALID IF ALTERED.  | <b>VALID ONLY FOR FOOD ITEMS SPECIFIED IN THE CALIFORNIA WIC AUTHORIZED FOOD LIST.</b> | <b>NON-NEGOTIABLE</b><br>AUTHORIZED SIGNATURE (SIGN AT PURCHASE)   |

**VOID**



# Input





# **60100 Maximum Allowable Department Reimbursement (MADR) Rates for Cash Value Vouchers (CVVs)**



# 60100 MADR Rates for CVVs Authority

- Federal Regulations require that:
  - The purchase price entered on FI or CVV must include only the authorized supplemental foods actually provided (7 C.F.R. § 246.12(h)(3)(v)).
  - Vendors may not charge participants for authorized supplemental foods obtained with FIs or CVVs and vendors may not seek restitution from participants for FIs or CVVs not paid or partially paid by the State agency (7 C.F.R. § 246.12(h)(3)(x)).
- Federal regulations allow State agencies to authorize participants to pay the difference when the purchase of authorized fruits and vegetables exceeds the value of the CVV.



## 60100 MADR Rates for CVVs All Peer Groups

- 60100 provides that:
  - The MADR rate for a CVV will be the dollar amount printed on the CVV,
  - The Department will only reimburse vendors for up to the amount of the authorized fruits and vegetables purchased by the CVV or the MADR (whichever is less), and
  - Participants may choose to pay the difference between the MADR and the purchase price of the authorized fruits and vegetables should the purchase price exceed the MADR of the CVV.



## 60100 MADR Rates for CVVs All Peer Groups

For example: A participant chooses to purchase 5 bananas (\$0.50 each) and 6 apples (\$0.50 each) for a total of \$5.50. The participant has two CVVs for \$5 each. The participant may either:

1. Redeem both CVVs, one for the full \$5 amount of the CVV and one for only \$0.50, forfeiting the remaining \$4.50 (the vendor may not be reimbursed the \$4.50 that was not used; the participant may not receive cash back or credit for the \$4.50 not used), or
2. Redeem one CVV for \$5 and save the remaining CVV for another shopping trip by either:
  - A. paying the remaining \$0.50 out of pocket,
  - B. not purchasing the fruits in excess of \$5, or
  - C. the vendor may provide the additional \$0.50 value of the fruits to the participant, at no cost to the participant (the vendor will not be reimbursed for any in-kind provided to the participant).



# Input





Families grow healthy with WIC

# **60200 Maximum Allowable Department Reimbursement (MADR) Rates for Food Instruments**



# 60200 MADR Rates for FI Authority

- Federal regulations require:
  - State agencies to apply limits on the amount of reimbursement allowed for FIs based on a vendor's peer group and competitive price criteria in order to contain costs (7 C.F.R. § 246.12(h)(3)(viii)).
  - States to regularly reassess the effectiveness of their peer grouping structure and competitive price criteria in order to “enhance system performance.” (7 C.F.R. § 246.12(g)(4)(ii)(C)).
- State regulations require that authorized vendors must accept up to the MADR as payment in full for the maximum allowable quantity of food listed on the FI (Health & Safety Code § 123315(a)(7))





## 60200 MADR Rates for FI Background

- The California WIC program offers a wide variety of brands and package sizes as part of its WIC Authorized Food List, or WAFL, at no charge to participants. Although the program encourages smart shopping, participants are not required to shop for the best prices.
- Between October 2009 and September 2011, California experienced increased food costs per participant while other Western Region State agencies' food costs were in decline.
- The USDA formally addressed concerns its about California's rising food costs in its 2011 State Technical Assistance Review (STAR).



## 60200 MADR Rates for FI Background

- On May 25, 2012, the USDA imposed an interim MADR methodology that limited 1-2 and 3-4 register vendors to 15% and 11%, respectively, above the average redemption of vendors with at least five registers.
- The Department seeks to implement a more permanent methodology which retains the cost containment results of the interim MADR methodology yet better represents the challenges our vendors, both small and large, face in cost effectively delivering WIC supplemental foods to participants.
- In combination with the new peer grouping structure and competitive price criteria, the Department finds it necessary to also modify its reimbursement methodology.



# Input



## 60200 MADR Rates for FI Terms of Reimbursement

- Vendors will be reimbursed the lesser of the vendor's posted price, the Actual Selling Price, or the MADR for all of the supplemental foods purchased by the participant and included on the FI.
- If a FI is submitted for reimbursement with an Actual Selling Price that exceeds the MADR, that FI will be rejected and returned to the vendor by the Department or its agent. Vendors must reduce the Actual Selling Price on the rejected FI so that it does not exceed the MADR and resubmit the FI.



## 60200 MADR Rates for FI Terms of Reimbursement

- Vendors may not seek or accept payment for any difference between the price of the supplemental foods purchased and the MADR rate for a FI when the price of the supplemental foods exceeds the MADR rate.
- The MADR rate for a FI shall be assigned based on the MADR rate in effect at the time the FI is initially submitted by the vendor to the Department through the Vendor WIC Information eXchange (VWIX)



## 60200 MADR Rates for FI Peer Group Category A

- To maintain cost neutrality, the MADR for Peer Group Category A vendors will continue to be the Statewide Average.
- As established in section 60000 of this regulation, the Statewide Average is defined as the 12-week average of FI redemption data from Peer Group Category B and C vendors.
- For example: For single-item FI 4001, if the Statewide Average is \$4.10, it follows that the MADR rate for Peer Group Category A for this Food Item Number would be \$4.10.

| Peer Group Category | Tolerance         | Calculation | MADR   |
|---------------------|-------------------|-------------|--------|
| A                   | Statewide Average | \$4.10      | \$4.10 |



# Input



## 60200 MADR Rates for FI Peer Group Category B

- The Department contracted with Agricultural Economist researchers at the University of California, Davis, to fully understand the economics behind the retail pricing of food at WIC authorized vendors.
- Peer Group Category B vendors in the 6-9 and 10+ Register Count Subgroups are an appropriate base for determining reimbursement amounts and their redemption will be the basis for CARV.
- CDT (Cost Differential Tolerance) – A factor added to address the difference in cost due to store size.
- HDT (Heterogeneity Differential Tolerance) – A factor added to address the difference in cost due to variety and type of foods offered on the FI.
- The percentage adjustment added to the CARV for each peer group is derived from both the CDT and HDT.



# 60200 MADR Rates for FI Peer Group Category B

- In coordination with Agricultural Economist researchers at the University of California, Davis, the Department is proposing the following percentages to be added to the Competitive Average Redemption Value (CARV) for Peer Group Category B Vendors with the following Register Count Subgroups:

| Table 1<br>Peer Group Category B Recommended Tolerance Factors<br>Determined by Number of Items per FI |                |                |
|--|----------------|----------------|
| Register Count Subgroup  | Single Item FI | Combination FI |
| 1 – 2  | 28% of CARV    | 49% of CARV    |
| 3 – 5  | 22% of CARV    | 43% of CARV    |
| 6 – 9  | 16% of CARV    | 37% of CARV    |
| 10+  | 10% of CARV    | 31% of CARV    |



## 60200 MADR Rates for FI Peer Group Category B

- For example: For single-item FI 4001, the CARV is \$4.00 and the Statewide Average is \$4.10. It follows that the MADR rates for each Peer Group Category B Register Count Subgroup would be:

| Peer Group Category | Tolerance          | Calculation     | MADR   |
|---------------------|--------------------|-----------------|--------|
| B (1-2 Registers)   | CARV + 28% of CARV | \$4.00 + \$1.12 | \$5.12 |
| B (3-5 Registers)   | CARV + 22% of CARV | \$4.00 + \$0.88 | \$4.88 |
| B (6-9 Registers)   | CARV + 16% of CARV | \$4.00 + \$0.64 | \$4.64 |
| B (10+ Registers)   | CARV + 10% of CARV | \$4.00 + \$0.40 | \$4.40 |



# Input



## 60200 MADR Rates for FI Peer Group Category C

- The MADR rates for Peer Group Category C vendors shall be the CARV.
- This type of store offers a limited variety of products for purchase and therefore requires no tolerance.
- Redemption data from this type of store demonstrates pricing practices that are not consistent with cost containment goals and a business model that lacks the variety of foods that would justify a higher tolerance factor.
- For example: For single-item FI 4001, the CARV is \$4.00 and the Statewide Average is \$4.10. It follows that the MADR rates for Peer Group C would be \$4.00.

| Peer Group Category | Tolerance | Calculation | MADR   |
|---------------------|-----------|-------------|--------|
| C                   | CARV      | \$4.00      | \$4.00 |



# Input





# **60300 Rules for Calculating the Maximum Allowable Department Reimbursement (MADR) Rate**



# 60300 Rules for Calculating the MADR Rate

## Calculation Schedule

- The MADR effective period will be extended to 4 weeks to streamline procedures and ease the burden of checking MADR updates for WIC Authorized Vendors.

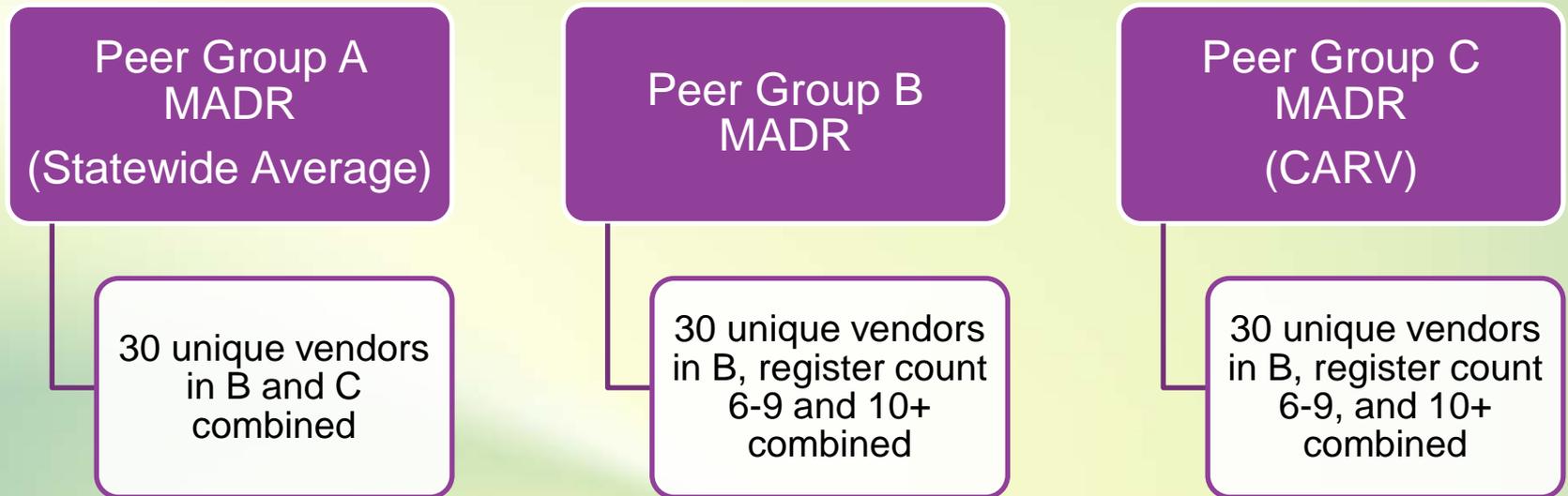
| S                         | M | T                      | W | T                        | F                      | S             |
|---------------------------|---|------------------------|---|--------------------------|------------------------|---------------|
|                           |   | Redemption Period Ends |   | Calculation Review Day 1 |                        |               |
|                           |   |                        |   |                          |                        | Review Day 10 |
| MADR Published at 12:01am |   |                        |   |                          | MADR Effective 12:01am |               |

- The MADR rates shall be calculated using the prior 12 weeks of data.



# 60300 Rules for Calculating the MADR Rate

## Minimum Requirements to Calculate



## 60300 Rules for Calculating the MADR Rate Manual Adjustments to MADR

- Upon implementation of this new methodology there may be some Food Item Numbers for which there is not sufficient redemption to reach the 30 unique vendors necessary for a MADR to automatically calculate.
- In these cases the Peer Group Category B, 10+ Register Count Subgroup's new MADR will be the average of the 10+ register peer group MADRs prior to the implementation of this regulation.
- The MADRs for the remaining Peer Group Categories and Register Count Subgroups will be derived using this new MADR for the 10+ register count subgroup.



# 60300 Rules for Calculating the MADR Rate

## Manual Adjustments to MADR

- For example:
  - Current 10+ register peer groups' MADRs for combination FI number 4002 = \$10.50, \$11.00, and \$11.50
  - New MADR for Peer Group Category B, 10+ register count subgroup = \$11.00, or the average of these three MADRs.
  - $MADR = CARV + \text{Tolerance Factor}$
  - 10+ Register Subgroup Tolerance Factor for Combo FI = 31% of CARV  
Step by step process for solving for CARV:
    - Step 1: \$11.00 = Substitute CARV + (31% of Substitute CARV)***
    - Step 2: \$11.00 = Substitute CARV x 1.31***
    - Step 3: Substitute CARV = \$8.40.***
  - Remaining Peer Group Category B Subgroups' MADRs = the substitute CARV + Tolerance Factors.





# 60300 Rules for Calculating the MADR Rate

## Manual Adjustments to MADR

- Redemption is fewer than 30 vendors
  - MADR = Prior MADR
- Redemption is fewer than 30 vendors for more than six subsequent four-week periods
  - MADR = Shelf Price Survey Average
- Peer Group Category A - When a food item has fewer than 30 vendors redeeming for the Statewide Average, the MADR for Peer Group Category A may be adjusted to comply with the federal requirements of cost neutrality.
  - The MADR for Peer Group Category A must not exceed the average price redeemed by Peer Group Category B and C vendors.



# Input





# 60300 Rules for Calculating the MADR Rate Partially-Redeemed FI

- Federal regulations define a partially-redeemed food instrument (FI) as a paper FI that is redeemed for less than all of the supplemental foods authorized for that FI (§ 246.2).
- States may remove partially-redeemed FI from the calculation of non-A50 vendor average reimbursements with USDA approval (7 C.F.R. § 246.12(g)(4)(i)(D)).
- The department will remove partially redeemed FIs from the calculation of the Statewide Average when complete market basket shelf price data (pursuant to W.R.B. §70600(c)) is available for each food item on the FI and these FIs each represent at least 0.1% of total dollars redeemed:

| Food Item # | Description  | % of Total Redemption<br>04/01/13 through 06/30/13 |
|-------------|--|--|
| 6000        | 1 Gallon Whole Milk, 1 (16 oz.) Whole Grains, 36 oz. Breakfast Cereal                    | 5.32%  |
| 6003        | 1 Gallon Lower Fat Milk, 1 (16 oz.) Whole Grains, 36 oz. Breakfast Cereal                | 15.50%   |
| 6107        | 2 Gallons Lower Fat Milk, 1 (16 oz.) Dry Beans, Peas or Lentils, 36 oz. Breakfast Cereal | 4.04%  |



# 60300 Rules for Calculating the MADR Rate

## Partially-Redeemed FI Example

- The Department will calculate a minimum full redemption value by determining the lowest shelf price for each market basket item reported by Peer Group B and C vendors in the most recent complete shelf price submission.
- Example: Food Item Number 6003

|  |               |
|--|---------------|
| 1 gallon milk, lower fat                   | \$2.50        |
| 1 (16 oz) whole grains                     | \$2.00        |
| <u>36 oz. breakfast cereal</u>             | <u>\$4.00</u> |
| <b>Total Minimum Full Redemption Value</b> | <b>\$8.50</b> |



- Partially-redeemed FI < Minimum Full Redemption Value.



# Input



# Important Reminders

- Public comment period for Regulatory Alert 2013-03 ends on January 24, 2014.
- Comments may be submitted via email to [WICRegulations@cdph.ca.gov](mailto:WICRegulations@cdph.ca.gov).
- Regulatory Alert 2013-03 may be accessed on the Statutes and Regulations section of the California WIC program's public website [www.wicworks.ca.gov](http://www.wicworks.ca.gov).
- Public posting of final action on WIC website (no later than 120 days from the end of the comment period): No later than May 23, 2014.



# Thank You!

