# Chapter 2
# State Cost-Containment Practices and Their Administrative Costs

## Introduction

This chapter describes the cost-containment practices in the six case study States and presents estimates of their associated administrative costs. The information was obtained from State WIC program documents and interviews with officials of State and local WIC agencies in the six States. The interviews were conducted in spring and summer 2001. All data refer to practices in place in Spring 2001, when other data were collected for the study.[1]

State WIC agencies use three main types of cost-containment practices: vendor restrictions, food-item restrictions, and manufacturer rebates. These practices consist of various policies, depending on the State, as follows:

- **Vendor restrictions:**
  - Using competitive price comparisons to select stores for authorization and reauthorization as WIC vendors.
- **Food-item restrictions:**
  - Limiting the choice of WIC foods within certain categories to brands or types that meet both cost and nutritional standards.
  - Requiring the purchase of the least expensive brand of certain WIC foods.
  - Requiring the purchase of private-label or store-brand items for certain WIC foods.
  - Specifying minimum package sizes or forms for WIC foods.
- **Manufacturer rebates**
  - Contracting with manufacturers to obtain rebates on WIC sales in exchange for exclusive use of the manufacturer's product.

Cost-containment practices not addressed by this study include infant formula rebates and substitution of food package items. All States have rebate contracts governing the purchase of infant formula. The mandate for this study explicitly excluded this practice from consideration. States may also substitute food packages items to contain costs, particularly when experiencing unexpected increases in food prices. These adjustments in the types of foods prescribed must be made in a way that is consistent with the nutritional needs of participants, as required by FNS regulations. **Tailoring** of food quantities for individuals or categories of participants (i.e., prescribing less than the maximum authorized amount) is permitted only for nutritional reasons.

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[1] Appendix E provides general information on the cost-containment practices used by all State WIC agencies, as of late 1999. This information is not discussed in the chapter, because the report focuses on the six States selected for the case studies. The information is useful, however, for placing the selected States in the broader context of State cost-containment practices.

# Summary of Findings

The principal findings on the patterns of cost-containment practices in the six States covered by this study are described below.

### Vendor Restrictions

- All six States collected price data from retailers applying for authorization or reauthorization as WIC vendors. The States used this information for vendor management and, in some States, to ensure that retailers with excessive prices were not authorized as WIC vendors.
- Four of the six States (all except North Carolina and Ohio) used competitive price comparisons when they determine whether to authorize or reauthorize stores as WIC vendors.[2]
- In practice, States using competitive price comparisons rarely denied vendor authorization based on price. Instead, the States required a modest number of stores to reduce excessive prices in order to obtain or maintain authorization.
- North Carolina and Ohio also notified vendors if WIC item prices were considered excessive and encouraged the vendors to reduce these prices.
- All six States also collected data on the prices of participating vendors between authorization cycles. This practice was used for monitoring vendors and did not directly affect vendor authorization. Thus, although it was intended to reduce food costs, it is not considered a cost-containment practice that might limit participants' choice of WIC vendors.

### Food-Item Restrictions

- Four States required purchase of the least expensive brand of item for certain food categories, as follows: Connecticut (milk, eggs, cheese, citrus juice, and peanut butter); North Carolina (milk); Oklahoma (milk, cheese, eggs, and dried beans/peas); and Texas (milk and juice).
- Oklahoma was the only State that required purchase of private-label or store-brand items for cereal and juice (with some exceptions).
- California and Oklahoma had relatively narrow ranges of participant choice among cereals, as a result of price criteria and other factors considered when authorizing cereals for WIC use. California authorized 11 cereals, Oklahoma authorized 12, and the other States authorized 18 or more cereals.
- California also offered narrow ranges of choice among authorized juices (five types) and cheeses (four types), as the result of price and other food selection criteria. Oklahoma offered a narrow range of choice among authorized cheeses (five types). Texas offered a narrow range of choice among authorized juices (eight types).

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[2] North Carolina adopted WIC regulations requiring vendors to meet competitive price criteria effective July 1, 2002. All States are required to use competitive pricing as a criterion for WIC authorization as of October 1, 2002.

- All six States set minimum package sizes for at least one WIC food group, most commonly milk. California, Oklahoma, and Texas had the most package-size restrictions.

### Manufacturer Rebates

- California, Connecticut, and Texas received rebates on sales of infant cereal through contracts that specified a single authorized brand. Ohio received a voluntary grant from a national juice manufacturer equal to $1 for each 46-ounce can of the manufacturer's juice sold in the State.

### Administrative Costs

- Cost-containment practices were quite inexpensive to operate, compared with the overall cost of program operations. Estimated total administrative costs ranged from $0.14 per participant per year (PPY) to $1.03 PPY, with a cross-State average of $0.58 PPY.[3]
- On average, the administrative cost of cost-containment practices was about 0.4 percent of the total FY2001 nutritional services and administrative (NSA) cost in the study States. The range was from 0.1 percent to 0.6 percent.

This chapter describes the policies and procedures of the six States as of Spring 2001. Some States indicated during the interviews that they planned changes to cost-containment policies. For example, after June 2001, Oklahoma added four national-brand cereals to its food list in July 2001, and California increased its number of authorized juice labels to 84. Changes after June 2001 are not reflected in this chapter.

## Data Sources

Basic information on cost-containment practices was obtained by reviewing State WIC program documents, including the following: the WIC State plan submitted annually to FNS; vendor application forms, handbooks, and other communication materials; and food lists and buying guides for participants. The review followed a standard guide for abstracting specific information. Materials for the six study States were collected in March and April 2001.[4]

Interviews were conducted with representatives of all six State WIC agencies selected for the study. Connecticut interviews were held in person at the State's offices in Hartford in May 2001. All other interviews were conducted between June and August 2001 through a combination of telephone interviews (using a detailed questionnaire) and written correspondence.

Additional interviews were conducted with local WIC agency officials regarding the impact of cost containment on their operations. In each State, three local agencies were selected for telephone inter-

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3 These totals are affected by missing values, as discussed in the text.

4 Earlier versions of some of these materials had been collected from all WIC State agencies in the fall of 1999 for use in planning the study and selecting the sample. That information is summarized in the interim report. (See *Assessment of WIC Cost-Containment Practices: An Interim Report to Congress.* USDA, Economic Research Service, E-FAN-01-005, February 2001.)

views, representing one “urban,” one “suburban,” and one “rural” site.[5] Local agency interviews were conducted between July and September 2001.

### Interview Topics

The topics of the State agency questionnaire were:

- Vendor selection and management practices
- Food-item selection practices
- Administration of manufacturer rebates
- Food cost savings and their utilization
- Opinions and evidence regarding the impacts of cost-containment practices on participants.

Appropriate respondents were identified in each State, based on which staff had responsibility for the areas to be covered in the interview. Respondents were asked about their current cost-containment practices, including procedures and associated staff roles, changes in policies and procedures over time, and reasons for using or not using various cost-containment practices. To guide the interviews, a structured, open-ended questionnaire was used.[6] The researchers identified a comprehensive list of tasks associated with each cost-containment practice. States were also asked for quantitative data on administrative costs associated with cost containment, but generally were unable to provide these data.

State agency respondents estimated the staff time and other costs devoted to the administration of cost-containment practices. The respondents provided estimates to the extent that they were able to separate these costs from related program management functions (for example, to separate the use of price in vendor selection from other application-processing activities). In some cases, respondents estimated staff time for each individual task associated with one of the major cost-containment practices. More often, the respondents provided overall time estimates for the administration of each cost-containment practice.

The local agency interviews included questions about local responsibilities and administrative costs associated with orienting WIC participants about cost-containment restrictions. In North Carolina, these interviews included local agency roles in vendor training and food-instrument processing, activities that were centralized in the other States. The local agency respondents were also asked their views on the effects of cost-containment on participants and on the impediments to using savings in food costs to maintain or increase participation. In addition, these interviews gathered background information on the local agency to help understand the respondent’s perspective.

The descriptive data collected in the interviews with State and local WIC staff are summarized in the text of this chapter and in tables showing key similarities and differences among States. Quantitative data on staff time and other costs related to cost-containment were used to estimate administrative costs associated with each cost-containment practice. The chapter gives only an overall summary of

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[5] Appendix A describes sampling procedures and provides a list of the sampled offices.

[6] See appendix F for further information on these interviews.

the administrative cost results because of data limitations. Appendix F presents administrative cost estimates by State for each cost-containment practice.

## Overview of Vendor Authorization Process and Criteria

Under WIC regulations, food retailers must apply for authorization from the State WIC agency before redeeming WIC food instruments.[7] When a store changes ownership, the new owner must apply for authorization. For new stores and new owners, WIC regulations require a written application, a visit by State WIC personnel to the store, and a written agreement setting forth the terms of the store's participation as a WIC vendor. After authorization is received, WIC vendors must apply every 1 to 3 years, depending on the State's policies, to renew this agreement.

In the vendor authorization process, the State seeks to promote several WIC program objectives: participant access to prescribed foods, vendor integrity, conservation of administrative resources, and containment of food costs. Other participant service considerations include the availability of an adequate inventory of WIC foods and the quality of service. In addition to these objectives, States have reason to be selective, where possible, in authorizing WIC vendors, because they have limited administrative resources for vendor-management activities.

Table 2-1 summarizes the criteria used for vendor authorization in the six States in this study. All the States examined retailers' prices, inventories of WIC foods, and business integrity. At the time of the study, North Carolina and Ohio did not require competitive prices as a condition of authorization. Under USDA regulations effective October 1, 2002, however, all States are required to use competitive prices as a condition of authorization. Ohio and Oklahoma restricted the number of WIC vendors in each county.[8] Ohio, Oklahoma, and Texas required WIC vendors to be authorized by the FSP. Ohio and Texas also required WIC vendors to maintain minimum levels of WIC redemption volume as a condition for renewal of agreements. In North Carolina, Oklahoma, and Texas the vendor agreement is valid for 1 year. In California, the agreement is valid for 1 to 2 years, and in Connecticut and Ohio the agreement period is 1 to 3 years, depending on the vendor's record of program participation and compliance.

Ohio and Oklahoma restricted the number of WIC vendors in each county. According to FNS, this policy of numeric limitation of vendor authorizations is not a cost-containment practice, because it is intended to conserve vendor-management resources, not to reduce food costs. The policy appears to have had little or no impact in the two States that used it. Numeric vendor limits in Oklahoma resulted in only about three denials per year from 1999 to 2001. Ohio had not denied any vendor applications based on numeric limits, although one county had reached its designated vendor total when data for the study were collected.

Ohio had a unique system of "cost-containment" vendor contracts, not reflected in table 2-1. In Ohio, each county has a designated application period every 3 years. A vendor entering the WIC program

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[7] The food delivery regulations (7 CFR 246.12) include rules on WIC vendor authorization and management. A final rule amending these regulations was published on December 12, 2000. All States must comply with the amended regulations by October 1, 2002.

[8] The number of vendors authorized per county is based on minimum ratios of participants to vendors for different types of counties, with more participants per vendor expected in urban areas.

outside the designated application period for the county must agree to charge no more than 90 percent of the "not-to-exceed" amount printed on the food instruments. (The "not-to-exceed amount" is part of the practice of limiting payments to vendors, as discussed later in this chapter.) In these cases, the cost-containment contract applies for 1 or 2 years until the next regular contracting cycle, when the vendor can apply for a regular contract allowing up to the full "not-to-exceed" amount. This may be a minor deterrent to WIC participation for some high-priced stores, but the State does not believe that it had a significant effect on vendor applications.

**Table 2-1—Vendor authorization criteria and frequency in the study States**

| Criteria | CA | CT | NC | OH | OK | TX |
|---|---|---|---|---|---|---|
| Competitive prices[a] | ✓ | ✓ | [b] | [c] | ✓ | ✓ |
| Number of WIC vendors per area | | | | ✓ | ✓ | |
| Minimum inventory[a] | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Business integrity[a] | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| FSP authorization | | | | ✓ | ✓ | |
| WIC redemption volume | | ✓ | | ✓ | | ✓ |
| Authorization period | 1-2 years | 1-3 years | 1 year | 1-3 years | 1 year[d] | 1 year |

a Competitive pricing, minimum inventory, and business integrity became mandatory criteria under the final food delivery rule to be implemented in all States by October 1, 2002.

b North Carolina reviewed vendor prices and occasionally asked vendors to reduce prices considered excessive, but competitive prices were not required as a condition for authorization.

c Ohio reviewed all vendor prices at application but did not deny applications on this basis unless the number of applicants in the area exceeded the maximum number of vendors under the State's numeric limiting criteria.

d Oklahoma conducted annual review and renewal of vendor agreements. Vendors had to reapply for reauthorization every three years.

## Use of Food Prices in Vendor Authorization

The use of price criteria in vendor authorization and reauthorization is one of the principal practices used to contain food package costs. All six of the States in the study collected prices from vendors and reviewed them as part of the authorization process, both for new vendors and for reauthorization of current vendors. The States differed, however, in the process for collecting prices, the standards for assessing them, and the actions taken when vendor prices were considered excessive. Table 2-2 summarizes each State's practices.

### Collecting Price Information

All States collected vendor price data to evaluate applications for initial authorization. Texas collected the data through in-store price surveys completed by WIC staff. The five other States required vendors to submit price surveys with their applications. The price surveys required vendors to provide current nonsale prices for some or all WIC foods that they stocked. Most of these States checked vendor prices through onsite review by WIC staff (for example, during preauthorization visits).

Between authorizations, five of the States monitored vendor prices through surveys or store visits. Four of the States—Connecticut, North Carolina, Ohio, and Oklahoma—required authorized vendors to submit price surveys two to four times a year.[9] In California, Ohio, and Oklahoma, WIC staff members checked prices during annual monitoring visits. Texas used redemption item prices instead of price surveys to monitor vendor pricing, as described below.

Vendor prices were also examined at reauthorization. Ohio and Oklahoma used their quarterly price surveys to check prices of stores applying for reauthorization. California, Connecticut, and North Carolina conducted separate price surveys for vendor reauthorization. WIC staff members checked prices during reauthorization visits in California, Connecticut, Ohio, and Oklahoma.

The food instrument redemption process also provided information about price. All of the States monitored redemptions for a variety of purposes, but two of the States explicitly used the prices of redeemed food instruments for vendor reauthorization. Oklahoma used redemption data along with vendor surveys in its price review for reauthorization.[10] Texas required vendors to record the price of each item on each food instrument, and the State analyzed the price information twice a year to identify vendors with excessive prices.[11] These vendors received warnings and risked nonrenewal of their WIC contracts.

#### Standards for Vendor Prices

States examined vendor prices to determine whether prices were in an acceptable range. The standard for the acceptable range, however, varied by State (table 2-2). Three States used well-defined standards, whereas three relied primarily on analysts' judgment.[12]

Connecticut, Oklahoma, and Texas compared a vendor's prices for a standard combination of items to the average for the vendor's peer group. The standard combination of items typically included selected items from each category of WIC foods (such as a gallon of whole milk, a dozen large white eggs, and so on). These "food baskets" for price comparisons included infant formula and infant cereal, as well as the foods prescribed for women and children. The peer group was defined by area (county or other geographic unit served by the local WIC agency) and store type (defined by number of registers or monthly food sales). The threshold for excessive prices was 5 percent above the peer group average in Oklahoma, 7.5 percent in Connecticut, and 8 percent in Texas.

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[9] These surveys were used both to monitor individual vendors' prices and to set limits on the value of food instruments.

[10] Connecticut examined food instrument redemptions if it suspected a vendor to be overcharging. The State compared the vendor's redemptions against the expected cost of food instruments, based on the vendor's reported prices. If overcharges were found, the State billed the vendor for the excess. This practice, however, did not directly affect the vendor's continued participation.

[11] Texas was the only State that obtained item prices on food instruments; the other States obtained only the total cost of the combination of items on the food instrument.

[12] "Analyst" is the typical job category for WIC vendor-management staff members who review applications.

**Table 2-2—Use of food prices in vendor authorization**

| Practice | CA | CT | NC | OH | OK | TX |
|---|---|---|---|---|---|---|
| Collecting price information at initial authorization | Vendor submits survey | Vendor submits survey | Vendor submits survey | Vendor submits survey<br>WIC staff check prices in store | Vendor submits survey | WIC staff complete survey in store |
| Collecting price information between authorizations | WIC staff annually check prices in store (for vendors with 2-year agreements) | Vendor submits survey 2-3 times a year | Vendor submits survey twice a year | Vendor submits survey 4 times a year<br>WIC staff annually check prices in store (for vendors with 2- to 3-year agreements) | Vendor submits survey 4 times a year<br>WIC staff annually check prices in store | Vendors record item prices on vouchers<br>WIC agency reviews redemption data twice a year |
| Collecting price information at re-authorization | Vendor submits survey<br>WIC staff check prices in store<br>Reauthorization is every 1-2 years | Vendor submits survey<br>WIC staff check prices in store<br>Reauthorization is every 1-3 years | Vendor submits survey<br>Reauthorization is every year | WIC agency uses latest quarterly survey data<br>WIC staff check prices in store<br>Reauthorization is every 1-3 years | WIC agency uses latest quarterly survey data and analyzes redemption data<br>WIC staff check prices in store<br>Reauthorization is every 3 years | WIC agency reviews redemption data and response to notice of excessive prices (if any)<br>Reauthorization is every year |
| Standards for vendor prices | Analyst determines that individual prices exceed maximum or are too high relative to average for store type and area, taking other factors into account | Cost of a standard combination of items is more than 7.5% above average for store type and area | Analyst judges individual prices to be excessive based on knowledge of prices | Analyst judges that cost of a standard combination of items is high relative to average | Cost of a standard combination of items is more than 5% above average for store type and area | Cost of a standard combination of items is more than 8% above average for store type and area |
| Response to excessive vendor prices | Survey returned with instruction to revise or justify prices | Survey returned with instruction to revise or justify prices | Analyst asks vendor to revise or justify prices | Analyst advises vendor that prices are high | Survey returned with instruction to revise or justify prices | Vendor notified that prices are excessive and given one chance to revise |
| Can application be denied if vendor does not reduce excessive prices? | Yes, but vendors always reduce prices and qualify | Yes, but vendors almost always reduce prices; only one denial in 3 years | No | No, unless number of applicants exceeds limit for area; no denials to date | Yes, but vendors always revise prices or are denied for other reasons | Yes, but vendors almost always revise prices; small number denied |

In California, North Carolina, and Ohio, a WIC staff analyst reviewed vendors' prices and applied judgment and experience rather than a fixed standard. Ohio compared a vendor's total price for a combination of foods with an average, but the determination that a vendor's prices were high was based on the analyst's judgment. Vendors would be ranked by price if the number of applicants exceeded the State's limit on the number of vendors in the county, but this did not happen. In California, the analyst checked individual item prices against a standard based on location and store type, but the State's policy required the analyst to consider several other factors when determining whether prices were excessive.[13] In North Carolina, an analyst identified a problem only when a vendor submitted a price that was exceptionally high, based on the analyst's knowledge of prices for the item.

### Response to Excessive Vendor Prices

When excessive prices were found, four of the six States (California, Connecticut, Oklahoma, and Texas) returned the price survey forms and instructed the vendor to reduce the excessive prices or risk exclusion from the WIC program. In these cases, the vendor had the opportunity to justify high prices on the basis of high wholesale prices or other considerations, but the States rarely granted exceptions to their price standards.

The incidence of excessive-price determinations appears to vary among these four States, but none of them could quantify it. California estimated that, aside from chain stores, the vast majority of new vendor applicants had at least one or two prices identified as high. (The State finds that most chain stores have competitive prices for all WIC items.) Connecticut estimated that a small but nontrivial proportion of applications had excessive prices (approximately 10 to 30 of a total of 100 to 200 applications a year). Oklahoma indicated that high prices on vendor applications were not common. In contrast, Texas indicated that it was not uncommon for even chain stores to have some prices "out of line" when they first submitted their applications.[14]

Actual denials of applications based on price criteria occurred rarely in these States, because vendors cooperated and reduced their prices. California and Oklahoma had never denied an application on this basis, and Connecticut had denied only one, in 1998. Texas indicated that denials of vendor applications were rare, but that excessive prices were the most frequent reason when denials occurred. (The State agency was unable to identify the number of denials for this or other reasons at the time of the study.) Texas also declined to renew vendor agreements if the vendor had failed to reduce prices after a warning (based on semiannual analyses of redemption data), but no count of these cases was available.

State policies in North Carolina and Ohio, as implemented, did not permit the denial of authorization or reauthorization due to high prices. Ohio would have used price criteria if the number of vendors in a county exceeded specified limits, but these limits were never reached. Instead, Ohio reminded vendors that they would not be reimbursed for more than the maximum value specified by the State

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[13] In California, if a store's prices were high relative to its peers, the analyst considered whether the store had high transportation costs, low WIC volume, an extreme rural setting, or current wholesale costs that justified the prices. The California WIC agency plans to implement a system with more fixed criteria for vendor prices based on peer group averages, which will also be used to set maximum reimbursement levels for food instruments. At the time of the data collection, the State expected to implement this system by October 2002.

[14] Texas revised the criteria for categorizing vendors between 1996 and 2001 so that independent stores would not be compared with chain stores having much lower wholesale costs.

on WIC food instruments.[15] When high prices were identified in North Carolina, WIC officials tried to persuade the vendors to reduce them. North Carolina WIC staff indicated that these situations were rare, and that vendors usually agreed to lower prices or provided justification for existing prices.

### Summary of Vendor Restrictions Based on Prices

Among the States in the study, Connecticut, Oklahoma, and Texas had the most stringent policies regarding competitive pricing as a condition of vendor authorization. These States had quantitative price standards for new applicants and renewals. Retailers clearly could be excluded from WIC in these States based on excessive prices, although the incidence of such denials was very low.

California, North Carolina, and Ohio either did not use price criteria for authorizations or had less stringent policies regarding competitive pricing. North Carolina did not apply price criteria for authorizations. Ohio's price criteria were not actually applied, because they depended on numeric limits that had not been reached. California asked some retailers to adjust prices when they appeared high, but the State's relatively flexible price criteria were used solely to obtain adjustments in individual prices. None of these three States had ever denied vendor authorizations based on price.

For the purpose of this study, Connecticut, Oklahoma and Texas have been categorized as "restrictive" with respect to requiring competitive prices as a condition of vendor authorization, whereas California, North Carolina, and Ohio have been categorized as "nonrestrictive". The difference between the "restrictive" and "nonrestrictive" States in the number of actual denials of vendor authorization is quite small. The principal effect of the competitive pricing policy appears to be that modest numbers of vendors reduce some of their prices. Nevertheless, the competitive pricing policy in the "restrictive" States might conceivably influence vendor participation, because of the explicit standards applied by these States with the known possibility of the State denying vendor authorization. It does not seem likely that vendor participation would be influenced by the more limited use of price information in the "nonrestrictive" States.

### Use of Food Price Information to Limit Payments to Vendors

Under USDA regulations effective October 1, 2002, all State WIC agencies are required to establish price limitations on the amount that they will pay vendors. Prior to that date, the use of price limitations was at the discretion of the individual States. As described below, all six States in the study used price limitations when data for the study were collected in the spring and summer 2001.

As a practice for managing authorized vendors and ensuring the integrity of the food delivery system, all six States in the study used price standards for individual WIC foods to set limits on allowable payments for redeemed food instruments, otherwise known as maximum, or "not-to-exceed," values. In all of these States except Texas, each food instrument had a maximum total value that depended on the items on the instrument. Texas, on the other hand, set a maximum price for each item on the food instrument.

Maximum values for food instruments have two purposes. First, the process catches errors and deliberate overcharging by vendors. For example, if a clerk enters an extra zero on the price, so that the

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15 All six States specified maximum values for food instruments, but Ohio relied more on this policy to restrain vendor prices than the States with the authority to deny vendor applications based on prices.

vendor deposits a WIC check for two gallons of milk for $45.00 instead of $4.50, this error will be detected if the State has a maximum value of $6.00 for the check. Second, the maximum value limits the charges by vendors whose actual prices are high relative to the standard used by the State. This practice allows the State to ensure that food package costs are consistent with competitive prices among WIC vendors, particularly under the Texas model.

The "maximum value" policy is closely related to the use of food prices in vendor selection. As noted in the previous section, States notified vendors if the prices they submitted at the time of application exceeded the standards used by the State to set maximum values for food instruments. Price surveys of vendors and redemption data were the principal sources of market data for setting maximum values. The use of maximum values, in turn, provided feedback to the vendors: if their prices were high, the State rejected or reduced their requests for reimbursement.

The use of maximum values was not among the cost-containment restrictions on which this study focused. Maximum values are not intended to affect vendor participation or participants' choice of WIC foods. Therefore, the study did not look for any such effects or compare participant outcomes on the basis of differences in the implementation of this practice.

Nevertheless, the study collected information on the use of maximum values in the study States because of the possibility that this practice could have an impact on vendor participation. A stringent set of maximum values might have the effect of discouraging participation by small independent stores whose prices are high because of high costs for wholesale food and other expenses. This effect would help hold down food costs, but it could also reduce access to WIC foods for participants lacking access to large chain stores, including those in inner-city and rural communities. Thus, use of stringent maximum values could result in the State failing to comply with Federal rules requiring adequate geographic dispersion of WIC vendors.

Evidence suggested that limits to store participation in WIC were minimal or nonexistent. Very few food instruments were rejected or adjusted because they exceeded the maximum values. Furthermore, a high proportion of broad-line retailers were authorized as WIC vendors in the six States. The States regularly adjusted their maximum values when rejection rates rose or when they had evidence of wholesale price increases. Further information on the practices of the six States regarding maximum values and on the incidence of rejected food instruments appears in appendix G.

## Food-Item Restrictions

To contain food package costs, the six States in the study used a variety of restrictions on the food items authorized for purchase with WIC benefits. These restrictions were in addition to the Federal and State requirements for the nutritional content of WIC foods and the restrictions related to the States' contracts for infant formula rebates. Thus, each State's list of WIC-authorized foods reflected a combination of nutritional and cost considerations. This section describes how the six States applied cost criteria when establishing their WIC food lists and how they implemented each of these restrictions.

All six States take the cost of foods into account when they choose products for their food lists. Cost criteria were put in place in the early 1990s (or earlier in some of the States). The importance of food cost has varied over time, as program growth has slowed and issues of outreach and participant retention have become more important. Other criteria applied to WIC food lists include nutritional standards, participant satisfaction, and ease of administration. Some States impose more stringent nutritional standards than the Federal WIC standards. For example, California does not authorize any cereals containing fruit and has a preference for cereals with higher folic acid content. Participant satisfaction is important for two reasons: first, ensuring that participants will buy and consume the prescribed foods, and second, maintaining interest in the WIC program so that participants get its other benefits. States also seek to keep their food lists manageable in size, because they must educate local staff members, vendors, and participants about the lists on an ongoing basis. Another administrative factor is limited space on food instruments to specify prescribed foods.

The formulation of WIC food lists focuses mainly on breakfast cereal and juice. These food categories have much more variety, both in formulation and in price, than the categories of milk, eggs, peanut butter, and dried beans/peas. Consumers are believed to have stronger brand loyalties and taste preferences in cereals and juices than in the other categories. (Cheese is another food category with considerable variety in types of products and preferences, but Federal WIC regulations authorize only nine specific types of cheese.) Cereals and juices vary considerably in their nutrient content, by both brand and type, so the States have to check that each product meets WIC standards.[16]

The cycle for reviewing and revising food lists varied among the study States. All six States reviewed and updated their food lists at least every 2 years. Connecticut and Ohio had a regular 2-year cycle for their entire food lists. California did a review every 2 years of food selection criteria, market share of WIC foods, nutrient contents, and cereal costs. Oklahoma revised its food list every 1 to 2 years, and North Carolina revised its food list every year. Texas did a full review every year.

In addition to the regular review cycle, the States made changes if needed during the year. For example, when orange juice prices rose several years ago, several States temporarily took orange juice off their food lists. California made two revisions to its list of authorized juices within a period of several months as it made the transition from its exclusive rebate contracts for juice to having several authorized brands of each type (as discussed later in this section).

The basic process for reviewing and revising the food lists was quite similar in the six States. WIC staff reviewed the prices, nutritional content, and popularity of the currently authorized foods and other products that might be added. All of the States except Texas used data from vendor price surveys to identify the current prices of authorized WIC foods; Texas used the prices on redeemed WIC food instruments for this purpose. Other resources used by the States to determine food costs and sales volume included manufacturers' suggested retail prices, wholesalers' prices, market research data, and redemption data. Manufacturers' and suppliers' specifications and review of sample product labels were used to check nutritional contents. California, Connecticut, Ohio, and Texas used participant surveys, focus groups, or taste tests to provide input on food preferences and acceptability. This review could be done exclusively by State staff, with separate local office input, or by a joint team of State and local staff. For example, California solicited input from local agencies via regional meetings and a task force.

The six States differed in their approaches to incorporating cost considerations in their food lists. Oklahoma and Texas relied primarily on broad policies requiring least expensive or store brands,

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16 WIC regulations set a minimum level of vitamin C in juice and iron in cereal. The regulations also limit the amount of sucrose and other sugars in cereals (see appendix H).

although Texas also set minimum package sizes for different cereals based on cost. Connecticut would not authorize foods that exceeded 125 percent of the average cost for foods of the same type. (For example, the State's food list excluded foil-packet tuna, because the cost per ounce was more than 125 percent of the cost per ounce of canned tuna in water.) North Carolina ranked products by price within each food category and set a price limit for the category, although particularly popular brands or types that were considered important (such as rice cereals) might have been included even if they exceeded the limit. North Carolina described its price limits as "very liberal" because the State had not found it necessary to manage closely the average food package cost. In an effort to create a list with the best balance of cost, nutrition, and acceptance, California assembled alternative combinations of cereals and projected costs of these combinations, including both popular but more expensive products and less expensive ones. Ohio ranked food costs as the least important criterion for selecting foods for the WIC program; the State found that its vendor management practices ensured adequate control of food costs.

### Restrictions on Authorized Food Types

California and Texas were more restrictive than the other States with regard to the types of foods authorized on the WIC food list. In California, considerations of cost, nutrition and ease of administration led the State to offer the fewest types of cereal (11), cheese (4), and juice (6).[17] Oklahoma authorized fewer types of cheese (5) than any other State besides California. The State conducted more extensive cost analysis of cereals than cheese and juice. Texas authorized relatively few types of juice (8) as part of its multifaceted approach to containing juice costs.

The States varied in the types of eggs they allowed. Only North Carolina permitted purchase of brown eggs as well as white, and four States—California, Connecticut, Oklahoma, and Texas—prohibited purchase of extra large eggs.

### Least Expensive Brand Requirements

Connecticut, North Carolina, Oklahoma, and Texas required participants to select the least expensive brand of milk. Except for North Carolina, these States also required the purchase of the least expensive brand of one or more other foods. Connecticut applied this restriction to the most foods: milk, eggs, cheese, citrus juice, and peanut butter. Oklahoma had four categories in which the least expensive brand was required: milk, eggs, cheese, and dried beans/peas.[18] Texas required purchase of the least expensive brands of juice and milk. These policies had been in place in the four States since the early 1990s or before.

The foods for which these States had established least expensive brand requirements are generally commodity items that are quite similar across brands. For this reason, the States view the least expensive brand as a reasonable substitute for more expensive brands that participants may prefer. The differences among the States in the range of foods subjected to this policy reflect, in part, differences in the State's assessment of the acceptability of least expensive brands. For example, negative participant reactions to least expensive brand restrictions on peanut butter led Oklahoma and Texas to drop these restrictions. Concern about participation satisfaction was a major reason that officials in California and Ohio cited for not adopting these restrictions.

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17 An important administrative factor in California was the challenge of educating a linguistically diverse population.

18 The "dried beans/peas" category includes dry beans, peas, lentils and other legumes.

California had a policy of requiring the least expensive brand of milk from 1999 to 2000, adopted when milk prices were rising. Both participants and cashiers were often confused by the policy, so the State switched to using monthly data to set maximum prices for milk and dairy food instruments as a way to control costs while responding to changes in the market.

When these States require a participant to select the least expensive brand of a WIC food, the participant always has the choice of the type or flavor, as long as it is included in the WIC food prescription. For example, participants can generally choose among whole, reduced-fat, and low-fat fluid milk. The participant may also have a choice of form or package size, such as gallons versus half-gallons of milk. Within the participant's choice of authorized types and package sizes or forms, she must then choose the item that represents the least expensive brand (such as the brand with the least expensive gallon of whole milk). This distinction sometimes causes confusion for participants or store cashiers who may think that the participant must choose the least expensive type offered. (Such confusion was a factor in California's decision to drop its least expensive brand policy for milk.)[19]

Texas authorized both store brands and national brands in numerous categories of juice. The participant chose the type and form of juice (for example, frozen orange juice) and then had to select the item that represented the least expensive authorized brand. This might be a store brand or national brand, depending on the brands authorized by the State and offered by the vendor.

The rules for identifying the least expensive brand varied somewhat among the States. Most often, this was a store-brand or private-label product (unless the vendor carried only national brands). Many of the States' food lists equated "least expensive" with "store brand." Nevertheless, most of the States technically defined the least expensive brand as the one that cost least at the time of purchase, taking into account sale prices, coupons, and availability. Thus, the participant might have had to check prices to determine the least expensive brand, although the cashier was ultimately responsible for making sure the item was allowable. A national brand might have been the least expensive brand if it was on sale, if the participant had a manufacturer's coupon, or if it was the only brand available. For example, a manufacturer's coupon might have made Kraft American cheese less expensive than the store brand of this product, allowing a participant to choose the national brand while meeting the State's requirement.

In Texas, each vendor declared the "traditionally least expensive brand" for each type of WIC food subject to this requirement as part of the application process. This brand was the one that was normally least expensive, but it could have occasionally cost more than another brand that was on sale. To facilitate WIC shopping, the vendor marked the designated brand as "WIC authorized" on the shelf. If the designated brand was out of stock, the vendor was supposed to identify the least expensive brand that was in stock.

### Private-Label or Store-Brand Restrictions

"Private-label" or "store" brands are marketed exclusively by specific retailers or wholesalers.[20] They are usually offered as a less expensive alternative to a similar "national" brand, that is, a product

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19 An unbranded generic food might be the least expensive "brand," but none of the States identified such generic foods on their WIC food lists.

20 Another term for these products is "controlled brands."

branded by the manufacturer and marketed nationally in a variety of competing outlets. In contrast, the availability of private-label or store-brand products depends on the locations served by the retailer or wholesaler. Within a State, a retailer may operate in only selected areas, so the retailer's store-brand products may not be available statewide. State WIC agencies may require a brand to be available statewide to keep the number of authorized products manageable.

The proliferation of store-brand and private-label products provides both an opportunity and a challenge in compiling food lists. On the one hand, these products often provide significant cost savings over national-brand products. On the other hand, in considering a store-brand version of a product (such as toasted oat circles), the State needs to review all store-brand or private-label products offered, to assure equity among the many vendors. The State must determine that each brand of these products meets WIC nutritional standards, which is not always true even if the equivalent national-brand product is WIC-approved. The State also needs to be sure that the product is widely available, to avoid participant confusion and to keep the food list manageable. For these reasons, Ohio chose not to authorize store-brand or private-label cereals, but the State did authorize some store-brand and private-label juices. Only Oklahoma and North Carolina had extensive lists of authorized store-brand or private-label cereals.

Oklahoma had the broadest policy of restricting WIC food purchases to store-brand or private-label foods, with nearly all cereals and most adult juices subject to this policy. (Oklahoma did allow some national brands of frozen or shelf-stable concentrated juices, and also some full-strength canned juice blends.)[21] There were instances of this type of restriction, however, in two of the other States. California and Texas allowed only store-brand or private-label crispy rice cereals. (The discussion that follows uses the term "store brand" to include both store brands that are exclusive to a single retailing firm and private-label brands owned by a wholesaler that may supply them to several retailing firms.)

In practice, the least expensive brand is often the store brand, particularly in the supermarkets where most WIC participants shop. Therefore, the least expensive brand policy is similar in outcome to the store brand policy, but there is an important difference between the two. In States with the least expensive brand policy, the State authorizes national as well as store brands. Vendors can count the national brands towards the WIC food inventory requirements, and participants can choose national brands if they are the least expensive in that store. When the State authorizes only store brands, vendors must carry them as a condition of authorization, and participants can never purchase a national brand.

Texas removed national brands of cereals from its WIC food list in 1990, but began adding them back in 1995. The balance of store and national brands gradually shifted in later years, so that the 2001 food list had 17 national brands and 14 store brands. According to State officials, the original decision to drop the national brands was intended to reduce food package costs at a time when they were rising and the State was trying to stretch its food grant farther. The State began adding back national brands when it became clear that participants were dissatisfied with receiving only the store brands, although the State also found that nutritional formulations were better in the national brands (for instance, with folic acid added). To hold down the cost of adding the national brands, the State set

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[21] At the time of the study, Oklahoma had authorized two national brands of cereal, one for hot cereal and one that was a less popular competitor to the dominant national brand in its category. In July 2001, Oklahoma added four national brands to its list of authorized cereals. One reason for this decision was declining WIC participation, which the State thought might be influenced by the lack of national brand cereals.

minimum package sizes to take advantage of discounts on large packages, while still seeking to leave the participant flexibility in filling this part of the food prescription. Each year, the State evaluates its list of cereals for nutritional content, cost per ounce, and participant acceptance (the latter based on surveys). Thus, the list continues to evolve as the State tracks changes in available cereals and monitors participant satisfaction and costs.

### Package-Size Restrictions

The six States varied in their use of package-size restrictions to hold down the unit costs of WIC foods. The most notable variations were in the minimum package sizes for fluid cow's milk, cheese, and eggs. Three States—North Carolina, Ohio, and Texas—required at least half-gallon containers of fluid cow's milk, and two States—California and Oklahoma—required gallon containers.[22] California, North Carolina, and Texas had minimum package sizes for cheese.

The six States had similar minimum package sizes for juice, dried beans/peas, and infant cereal, with some exceptions. Texas restricted single-strength fluid juice purchases to 46-ounce cans (excluding the more expensive plastic bottles), and California restricted single-strength juice purchases to 64-ounce bottles (as discussed in the preceding text). Four States (all except Ohio and Oklahoma) had an 18-ounce minimum package size for peanut butter.

California, Connecticut and North Carolina had standardized minimum packages sizes for all brands of cereal, while Ohio and Oklahoma did not have minimum package sizes for cereal. Texas set different minimum package sizes for cereal, depending on the type and brand, so that the minimum package sizes were larger for the more expensive types or brands.

### Summary of Food-Item Restrictions

Table 2-3 summarizes the food-item restrictions used by each State. As the table shows, the most common restrictions were minimum package sizes (used in all six States), least expensive brand requirements (used in four States), and limits on allowed types (used in four States). Store-brand restrictions were used in three States. Texas used all four types of food-item restrictions, whereas Ohio used only one type. Chapter 3 provides detailed information on the restrictions for each WIC food group.

### Communicating and Enforcing Food-Item Restrictions

The list of allowed WIC foods is the primary medium for documenting and communicating food-item restrictions to participants and vendors. Each State distributes a list of authorized foods to all participants and vendors when they enter the WIC program. In addition, current participants and vendors receive updated lists when changes are made. Producing and distributing the food list is an important and resource-intensive activity, particularly when major changes are being made.

The food lists provide information on authorized food categories, food types, and package types or sizes. When the State has a policy limiting food choices to least expensive or store brands, this is specified on the food list. For ease of recognition by participants and vendors, several of the States

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[22] Different minimum package sizes applied to less commonly prescribed forms of milk, such as nonfat dry milk and lactose-reduced milk.

place photographs of authorized foods on their food lists, or at least the logos of the manufacturers of authorized brands. This approach is particularly helpful for States with substantial non-English-speaking populations, even when translations into Spanish or other common languages are available. It adds to the cost and complexity of producing the list, because the State needs to incorporate photographs of the items from manufacturers or suppliers.

**Table 2-3—Summary of food-item restrictions, spring 2001**

| Restriction | CA | CT | NC | OH | OK | TX |
|---|---|---|---|---|---|---|
| Limits on allowed types of foods | Cheese, juice, adult cereal, no XL eggs | No XL eggs | | | No XL or L eggs[b] | Juice, no XL eggs |
| Least expensive brand requirements | | Milk, eggs, cheese, citrus juice, peanut butter | Milk | | Milk, eggs, cheese, beans | Milk, juice |
| Private-label or store-brand restrictions | Crispy rice cereals | | | | Adult cereal, non-concentrated juice | Crispy rice cereals |
| Package-size restrictions on fluid cow's milk, cereal and cheese[a] | Milk (g); cereal (12 oz.); cheese (12 oz.) | Milk (q); cereal (10 oz.) | Milk (h); cheese (8 oz.); cereal (12 oz.) | Milk (h) | Milk (g) | Milk (h); cereal (see note); cheese (10 oz.) |

a For juice, infant cereal, and beans, all States had package size restrictions with little variation. Texas set different minimum package sizes for different types or brands of cereal based on cost. California had a 64-oz minimum size for nonconcentrated juice; all other States had a 46-oz. minimum, with Texas permitting only cans. All States except Ohio and Oklahoma had an 18-oz. minimum package size for peanut butter. All States allowed eggs in only 1-dozen cartons.

b Oklahoma allowed large eggs if medium eggs were not available.

(g) = gallon; (h) = half gallon; (q) = quart; L = large eggs; XL = extra-large eggs.

Participants receive training on how to shop with WIC benefits when they are certified and recertified. Local WIC staff members provide this training on an individual or group basis. The training includes discussion of the WIC food list and how to locate authorized foods in the store. Connecticut, and Texas cited the least expensive brand policy as one of the main sources of participant confusion about authorized WIC foods, because this policy requires the participant to determine which is the authorized brand. In response to this challenge, Texas developed its requirement for vendors to mark the least expensive brand on the shelf. On the other hand, Oklahoma did not view this policy or its store-brand-only restrictions as a significant source of confusion. Other training topics are how to select cereals so that they fit within the minimum package-size restrictions and how to use as much of the 36-ounce WIC prescription as possible.[23] Participants can call their local WIC office or a toll-free State WIC hotline if they have questions about which foods they can buy with their WIC benefits.

[23] The range of package sizes can make it difficult for participants to select a combination of packages representing exactly 36 ounces of cereal, particularly when the minimum size is 12 ounces or more.

All of the States provide in-person training on WIC program rules and procedures to new vendors, and periodically to current vendors. This training typically includes discussion of the WIC food categories and careful review of the food list. The training may be one-on-one or in a group setting, depending on the number of vendors to be trained and the available staff. The States notify vendors whenever the WIC food list or a food package is changed.

Like the participants, vendor personnel appear to have more difficulty understanding least expensive brand policies than other cost-containment restrictions. Checkout clerks tend to assume that the store brand is always the authorized brand, but some of the States with this policy allow participants to select a national brand if it is priced lower than the store brand or if the participant has a coupon to achieve this result. In Texas, the "traditionally least expensive brand" policy avoids this problem, and the declaration of least-expensive brands helps to draw out any questions when the vendor first enters the program. In general, the States do not view food-item restrictions as difficult to communicate to vendors, although the States with fewer restrictions reported fewer problems. Vendors can get information by calling WIC vendor management staff at the State level or, in North Carolina, at the local level.

Routinely available information does not exist to help the States enforce food-item restrictions. Vendors do not provide information on the brands or types of foods selected by participants, and only Texas obtains the prices of individual items. Unless a WIC representative observes a violation of food-item restrictions or receives a complaint, there is no way for the State to know that a violation has occurred.

The States rely on preventive vendor-management practices, including training and monitoring visits, to promote compliance with food-item restrictions. None of the six States devotes substantial resources to enforcing participant and vendor compliance with food-item restrictions. They will investigate complaints and apply sanctions when violations are reported, but their compliance enforcement efforts focus on trafficking, overcharging, and other more serious violations. When they attempt purchases of unauthorized items during undercover compliance investigations, they usually choose blatantly ineligible items such as sugar-coated cereals or sodas. Some States have found that administrative hearing officers are reluctant to uphold vendor sanctions based on more technical requirements, such as specified brands. Investigators sometimes test compliance with package size limits, which are viewed as easy to understand. The States, however, do remind vendors periodically of the potential penalties if they are found to have sold unauthorized items. Texas indicated that it hopes to begin testing for compliance with item restrictions after other enforcement priorities have been met.

## Manufacturer Rebates

Three of the six States—California, Connecticut, and Texas—had contracts to secure rebates from Gerber Foods, a manufacturer of infant cereal. As a condition of these contracts, the States exclusively prescribed this brand of infant cereal. The Gerber brand was specified on the States' WIC food lists, and vendors were required to carry it. These contracts were established in the early 1990s, and the States have repeated the contracting cycle several times since then.

California had rebate contracts with several juice manufacturers in FY1998 through FY2000. Under these contracts, the State limited participant choice to the contract brand for each type of juice, and the manufacturers paid rebates that reflected WIC's impact on their sales. (California issues separate WIC checks for juice, so the total volume of WIC juice sales was known, but additional market data were used to determine the rebate under each contract.) These contracts yielded a total of $40,554,426 in rebates over 3 years, but the State determined they were not cost-effective and did not seek a second round of bids. Despite the magnitude of the rebates, these contracts did not yield net savings in the unit cost of juice, while imposing burdens on both participants and agency administrative staff. The 46-ounce container size specified in the WIC contracts was not popular among non-WIC consumers, who were buying 64-ounce containers. As a result, the cost per ounce of the 46-ounce containers after the rebate was higher than the market price per ounce of the more popular 64-ounce containers. Thus, the State determined that it could reduce juice costs by prescribing multiples of 64-ounce containers (for participants preferring shelf-stable juice to frozen juice) and requiring a minimum package size of 64 ounces.[24]

The States that did not have rebates for infant cereal or other foods did not believe that the yield from the rebates would justify the effort to establish them and obtain reimbursement. In North Carolina and Ohio, State officials indicated that food costs, particularly for infant cereal, did not pose a serious problem. Oklahoma's choice not to pursue rebates was based in part on the State's assessment that an infant cereal manufacturer would not find it worthwhile to contract with a small State for this purpose. These arguments highlight the tradeoff between the food cost savings to be realized by cost-containment practices and the WIC staff effort to administer these practices. In the case of infant cereal, three of the six States found that the scales were tipped by the potential administrative costs and the opportunity cost of not spending staff time on higher priorities.

The infant cereal rebate contracts are modeled on the States' contracts for infant formula rebates, and the procurement process is similar. Every 2 to 3 years, the State issues a request for proposals to qualified manufacturers of infant cereals. Interested manufacturers submit bids with specified rebates, and the State follows its procurement rules to select the winning bidder. Since these contracts were first established in the early 1990s, these States have often had only one bid. Texas had no infant cereal rebate contract for one year because it received no bids.

As specified in the rebate contracts, the States bill the selected manufacturer for rebates on a monthly basis. The State issues a separate food instrument for infant cereal and uses redemption data to determine the quantity purchased. Using the established formula for computing the rebate, the State generates an invoice and sends it to the manufacturer with supporting documentation. The manufacturer sends back the payment, which the State reviews and records in its financial records.

In addition to these exclusive rebate contracts, some of the States in the study had nonexclusive agreements to obtain rebates or reimbursements from manufacturers or suppliers. Ohio received a grant from a national juice manufacturer equal to $1 for each 46-ounce can of the manufacturer's juice sold in the State. The manufacturer computed the grant amount and sent it without any billing by the State.

Connecticut received a reimbursement from milk producers under the terms of the Northeast Dairy Compact. This payment was designed to offset the impact of the Compact on wholesale milk prices, so that the WIC program's net cost for milk was the same as it would be without the compact.

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[24] California's practices regarding juice prescriptions and package sizes are discussed further in Chapter 4.

Connecticut WIC staff used redemption data and a complicated formula to compute the reimbursement amount. The other State WIC agencies and participating school food authorities in the Compact States also received a similar reimbursement. Unlike the rebates and grants arranged between the States and manufacturers, the Northeast Dairy Compact reimbursements are mandated by regulations. State WIC agencies outside the Northeast region are not subject to the terms of the Compact.

Table 2-4 provides the infant cereal rebate amounts, in total and per participant, for FY1998 through FY2000.[25] Connecticut's dairy compact reimbursements are also included, even though the compact is not considered a WIC cost-containment practice.

**Table 2-4—Dollar value of manufacturer rebates (nonformula)**

| | FY1998 | FY1999 | FY2000 |
|---|---|---|---|
| Infant cereal totals | | | |
| California | $4,082,192 | $4,678,021 | $4,815,594 |
| Connecticut | 211,292 | 226,654 | 227,987 |
| Texas | 2,039,840 | 2,221,320 | 2,375,403 |
| Connecticut Dairy Compact reimbursement | $151,573 | $154,663 | $273,660 |
| Infant cereal rebate per participant[a] | | | |
| California | $3.36 | $3.80 | $3.95 |
| Connecticut | 3.51 | 3.89 | 4.48 |
| Texas | 2.95 | 3.14 | 3.22 |
| Connecticut Dairy Compact reimbursement per participant | $2.52 | $2.65 | $5.38 |

a Participant count is total, but rebate is earned only on cereal prescribed for infants.

## Administrative Costs of Cost-Containment Practices

Detailed data were collected on staff time for each cost-containment practice, as described in Appendix F. None of the States had previously measured or estimated the costs or level of effort for these practices. Instead, the State staff developed their best estimates of the time required, based on their recent experience. For some activities, the States estimated the total time and the proportion of time attributable to the cost-containment practice. (For example, the time spent on the use of price information to select foods for WIC authorization was difficult to estimate, so the States provided estimates of the total time on the food list selection process and the proportion attributable to the cost-containment practice.) Staff time estimates were combined with information on salaries, fringe

25 These figures were reported by the California, Connecticut, and Texas WIC agencies for this study. FY2000 data may not be identical to information on FNS financial reports finalized after the data collection in the summer of 2001. FY2001 data were not available at the time of the data collection.

benefit costs, and indirect costs to estimate the administrative costs of the cost-containment practices.[26]

The approach was potentially subject to a substantial amount of error or bias, because of the reliance on the judgment of the State staff. Also, fluctuations in administrative priorities and procedures could have made the estimates high or low relative to long-run average costs. Therefore, the following summary information is presented with considerable caution. It is primarily useful to illustrate the relatively small scale of the administrative costs for the cost-containment practices discussed in this chapter.

As table 2-5 shows, the cross-State average estimated cost of cost-containment practices was $0.58 per participant year (PPY). The range of estimates across the States was from $0.14 to $1.03 PPY. Despite these extreme values, four of the States had cost estimates in a much narrower range, from $0.46 to $0.79 PPY. (See appendix F for State-by-State estimates.)

**Table 2-5—Administrative costs of cost-containment in the study States (all dollar figures are per participant year)**

| Practice | Minimum[a] | Average[a] | Maximum[a] |
|---|---|---|---|
| Use of price data in vendor selection | $0.01 | $0.06 | $0.10 |
| Use of price data in selecting allowable brands, varieties and packages | <$0.01 | $0.19 | $0.71 |
| Communicating price-based restrictions on allowable foods to participants | $0.44 | $0.52 | $0.67 |
| Communicating price-based restrictions on allowable foods to vendors and monitoring compliance | $0.02 | $0.07 | $0.16 |
| Establishing and reviewing nonformula rebate contracts | <$0.01 | $0.03 | $0.05 |
| Tracking and claiming manufacturer rebates (nonformula) | <$0.01 | $0.01 | $0.03 |
| Total for all cost-containment practices[b] | $0.14 | $0.58 | $1.03 |
| Total as percent of FY2001 NSA cost | 0.1% | 0.4% | 0.6% |

a Minimum, average, and maximum are for States with non-zero estimates.

b Totals are based on State totals for estimated costs. Some costs were missing or not applicable for some States. Thus, averages for individual practices do not sum to overall average.

The process of communicating information to participants on price-based item restrictions had the largest average cost, $0.52 PPY, among the States for which estimates were obtained. Unlike the other practices, this one involves direct contacts at local agencies with participants. The use of price data in selecting allowable foods had the second-highest average cost, $0.19 PPY. The average costs for the other practices were less than $0.10 PPY.

[26] Some States (e.g. Connecticut) do not charge indirect costs against their WIC NSA grants. Indirect costs are included in the administrative cost estimates for all States so that the estimates are complete and comparable.

In the context of the overall costs of program administration, the cost-containment practices implemented by the case study States were inexpensive to operate. The estimated total administrative costs ranged from $0.01 per participant per month (PPM) in Oklahoma to $0.09 PPM in Connecticut. These estimates may under- or overstate actual costs because the States could not always provide information needed to estimate costs for specific functions. Even allowing for a considerable margin of error, however, costs related to cost-containment were small. The estimated costs represented, on average, about 0.4 percent of the States' FY2001 NSA costs, with range from 0.1 to 0.6 percent of NSA costs.