WESTERN**UNITED**DAIRYMEN

August 30, 2017

Ms. Candace Gates
CA FMMO Coordinator
California Department of Food and Agriculture
1220 N Street, Sacramento, CA

Re: Draft Quota Implementation Plan

Ms. Gates:

This comment letter is filed on behalf of Western United Dairymen (WUD), an association of dairy farmers representing the state's dairy families. WUD is a grass-roots organization headquartered in Modesto, California. As an association representing the interest of dairies throughout the state, WUD has a critical interest in the stand-alone quota program.

In light of CDFA's release of a draft quota implementation plan, WUD would like to provide comments on sections of the language that particularly matter to our members.

Article 9: Quota revenue assessment

How to determine the assessment rate is a key component of the draft language that will affect almost every producer in the state. Because the amount paid to quota holders for each day's production covered by quota is static, enough revenues must be generated each month to cover those payments. Due to fluctuating milk production in the state (either due to seasonality or other trends), it is not an easy task to determine what is the appropriate per hundredweight amount to assess every producer in the state. CDFA originally intended to review the assessment rate every three months based on the most recent three months of data. The Producer Review Board suggested giving the Secretary discretion on when to review it, while making sure the past twelve months of data are used. Using the last twelve months of data may avoid seasonal rate fluctuations, but could also incentivize CDFA to collect more than needed to avoid getting caught short of funds if milk production in the state is declining. A consistent review of the assessment rate would be more in line with the way quota monies are taken out of the pool each month. Producers may not currently see the rate to fund quota fluctuating on their paycheck, but it does move up or down with production trends as the size of the pool grows or shrinks each month. If a quarterly assessment rate review based on the past three months of data (as suggested in the original draft language) is of concern to the PRB, WUD would like to suggest a method that would mirror the current assessment rate as close as possible. One way to achieve this would be review the assessment rate each month, using data from the same month the prior year. Due to potential changes in milk production growth in the state, the data from the same month the prior year could be adjusted by a factor based on the last three months of production growth/decline. For example, when CDFA sets the assessment rate for June 2017, it would use production data from June 2016 and adjust it by -1.7% (the average year-over-year decline for the March, April and May 2017). When it sets the assessment rate for July 2017, it would use production data from July 2016 and adjust it by -1.4% (the average year-over-year decline for April, May and June 2017).

The second version of the draft language suggests a starting assessment rate not to exceed $0.38/cwt ($0.0436/lb snf). CDFA's original draft language stated the initial assessment should not exceed $0.3913/cwt ($0.045/lb SNF). WUD appreciates the PRB's intention to keep the assessment rate as low as possible. We would like to suggest that the initial assessment maximum level be based on the past twelve months of data, so it is reflective of current pool values and quota costs. Added to that amount should be the cost of funding the additional quota created by converting exempt quota to regular quota. Finally, it is not clear with the draft language whether there is an administrative fee included in the suggested assessment rate. CDFA currently has administrative costs to administer the pooling program, and by consequence the quota program. To stay consistent in allowing CDFA the necessary budget, WUD recommends the PRB should consider adding a section in the language that would cover CDFA's administrative costs. At the June 15, 2017 meeting, CDFA presented to the PRB information that stated the Department would need an assessment of approximately 0.2 and 0.3 cents/cwt. This number is not very high but is still very important and should have its own section in the language.

WUD also supports the revised version of the draft language which removes the following statement: "the continuance of the Plan shall be subject to approval by Producer Referendum any time the computed rate reaches a new threshold level of $0.005 per pound." Such a statement adds another possibility for a referendum, which adds unnecessary uncertainty on the longevity of the program. When producers buy quota, they make calculations expecting a return on their investment. Quota is a valuable, tradeable asset. Some may have received quota a long time ago from the state, but others made the decision to purchase it very recently. When producers make the decision to purchase it, they take into account the returns they will get from it. With a quota price of $550, like it has been trading recently, the average payback time is 8.4 years (depending on RQAs, the payback can be a little shorter for some or a little longer for others). Making an investment of this magnitude requires certainty. Including multiple mechanisms to terminate the program, as in the first version of the stand-alone quota program, creates uncertainty and is a departure from the current quota program. The cost to the pool fluctuates on a monthly basis, yet there currently are no referendum requirements if that cost moves significantly. We urge the board to keep this referendum requirement removed. It is a potential challenge to the quota system that currently does not exist. Therefore, it should not be a part of a stand-alone quota program.

Article 11: Administration

The same statement on uncertainty regarding the quota program applies to Section 1100 stating “the continuation of this Plan is subject to a producer survey every five (5) years. The survey shall be conducted by an independent party selected by the Producer Review Board. The survey shall evaluate the effectiveness of the Plan and the desire of producers to continue operation of the Plan.” This additional survey may not be a direct referendum trigger, but it adds uncertainty and is an unnecessary change from the current quota program. In addition, an independent survey would cost money. If the state must conduct such a survey, they should not use producers’ money to do so.

Removing this mandated survey does not remove producers’ ability to voice their concerns should any arise. It is a program for producers so it is important producers determine decisions regarding the program’s operation. As is currently the case, if producers have issues with the program, they can take matters into their own hands through section 1103 (where a petition can be submitted to the Secretary). The mandated survey is a potential new challenge to quota that is not part of the current system and therefore should not be a part of a proposed stand-alone quota program. The PRB has been clear during meetings that their intent is to keep the quota program as close as possible to the current program. This potential challenge (along with the referendum requirement based on assessment rate changes) is not in line with the direction the PRB has taken the industry thus far and should be removed from the language.

To conclude, WUD wants to emphasize how critical the mission of the PRB is. Developing recommendations outlining the criteria for a stand-alone producer funded quota program is necessary to protect the value of quota, which WUD believes is of the utmost importance.

WUD would like to thank the Producer Review Board for their commitment to make this a viable option for California dairy families.

Annie AcMoody

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