

Producer Review Board
Meeting Minutes
May 30, 2017
(DRAFT)

The Producer Review Board, Board of Directors, held this meeting on May 30, 2017, at 9:00 a.m., at the Modesto Centre Plaza, 1000 K Street, in Modesto. In attendance were:

Members Present

Charles Ahlem
Jarrid Bordessa
Wes Bylsma
Arie H De Jong
Fred Douma
Joey Fernandes
Mike Gallo
Craig Gordon
Rodney Kamper
Scott Magneson
John Moons
George te Velde
Case Van Steyn

Alternate Members Present:

Tony Nunes III
Arlin Van Groningen

Members Absent

Ted De Groot
Ron Koetsier

CDFA Executive Office

Secretary Karen Ross
Undersecretary Jim Houston
Michele Dias, General Counsel

CDFA Marketing Services Division Staff

Jeff Cesca, Director of Marketing Services
Candace Gates, FMMO Coordinator
Hyrum Eastman, Dairy Economic Advisor
Donald Shippelhoute, Chief of Dairy Marketing
Joe Monson, Senior Agricultural Economist
Steven Donaldson, Research Manger

Call to Order and Roll Call

At 9:09 am, Jeff Cesca welcomed everyone to the Producer Review Board (Board) meeting. Mr. Cesca, introduced CDFA Secretary Ross, Undersecretary Houston, General Counsel Michele Dias and other CDFA staff. Mr. Cesca provided a synopsis of the procedure for the work ahead related to a proposed stand-alone quota program separate from the USDA's proposed Federal Milk Marketing Order (FMMO) within the State of California. Mr. Cesca introduced Chairperson Rodney Kamper. The Chair provided an overview of the expanded Board membership. Roll call was taken and thirteen (13) of fifteen (15) members were present, establishing a quorum.

The Chair addressed that the prior meeting minutes would be accepted as a draft as there is not a quorum of the prior Board in attendance. Due to quorum requirements, the Chair shared that the Board had not been able to meet since September 2015. The Milk Pooling Budget was handled by CDFA staff and put forth with no issues from the prior Board.

Chair Kamper then introduced Secretary Ross. The Secretary thanked all the members for their participation. Secretary Ross stated that the decisions made by this Board will affect the next generation of producers. The Board's statutory authority provides a structured forum for industry self-determination regarding a stand-alone quota program. The Secretary expressed appreciation for Undersecretary Houston's work to address a stand-alone quota program and that a spot bill has been introduced should a stand-alone quota program require legislative changes.

After thanking Secretary Ross, Chair Kamper then introduced CDFA Staff Counsel, Michele Dias. Ms. Dias provided a synopsis of the Bagley-Keene Open Meeting Act, which requires the Board to deliberate actions in an open and transparent manner. Ms. Dias also addressed that the alternate members would only serve in the event that a Board member is no longer able to serve or resigns.

Selection of Chair and Vice Chair

Chair Kamper requested nominations for Chair. The following motions were made:

Board Action #2017-1: It was moved by Mr. Van Steyn and seconded by Mr. Fernandes to nominate Mr. Fred Douma for Chair. Vote was five (5) in favor and eight (8) opposed to the nomination. See attached Exhibit "A" for roll call vote.

Board Action #2017-2: It was moved by Mr. te Velde and seconded by Mr. Alhem to nominate Mr. Rodney Kamper for Chair. Vote was eight (8) in favor and five (5) opposed to the nomination. See attached Exhibit "A" for roll call vote.

Mr. Kamper was selected as Chairperson based upon the majority of yes votes. The Chair then requested nominations for Vice Chair. The following motions were made:

Board Action #2015-3: It was moved by Mr. Van Steyn and seconded by Mr. Magneson to nominate Mr. Fred Douma for Vice Chair. Vote was six (6) in favor and seven (7) opposed to the nomination. See attached Exhibit "A" for roll call vote.

Board Action #2015-4: It was moved by Mr. Moons and seconded by Mr. Gallo to nominate Mr. George te Velde for Vice Chair. Vote was seven (7) in favor and six (6) opposed to the nomination. See attached Exhibit "A" for roll call vote.

Mr. te Velde was selected as Vice Chairperson based upon the majority of yes votes.

Stand Alone Quota Program in Conjunction with Proposed FMMO

Chair Kamper introduced Hyrum Eastman, Dairy Economic Advisor with the CDFA Division of Marketing Services. Mr. Eastman gave a presentation titled "Overview of the Current California Milk Pricing and Pooling System and the Requirements of a Stand-Alone Quota Program" (a copy of the presentation is attached to these minutes).

Mr. Eastman explained the differences between the statutes from the Food and Agriculture Code and the Stabilization Plans and the Pool Plan. Mr. Eastman proceeded to explain the various statutes governing the establishment of class prices, pool prices, equalization funds and Milk Producers Security Trust Fund (MPSTF). There was a question whether the existing MPSTF is a stand-alone program and whether it is viable under the current structure. General Counsel relayed that the Board's progression on this task will help determine if changes are necessary. Chair Kamper stated that an agenda item regarding the MPSTF will be added to a future meeting.

Discussion continued in regards how California pool prices are intertwined with class prices and how some plants may pay into or draw from the equalization fund related to paying producers the pool prices.

The presentation shifted to USDA's determination that quota could not be incorporated into a FMMO. Federal Milk Marketing Orders, authorized by the Agricultural Marketing Agreement Act of 1937 do not allow different pricing structures like the California quota and overbase prices. However, USDA determined that if the industry wanted to maintain quota, it could be operated as stand-alone quota program that could be funded through assessments deducted from producer milk checks and administered by CDFA.

The Board took a break for lunch from approximately 11:15 a.m. to 12:20 p.m.

What milk would be assessed to generate the quota payout?

Under the current Pool Plan, only pooled milk is assessed. The assessment excludes Grade B milk, exempt Producer Handler (type PH 70 and PH 66), milk shipped to and contracted with an out of state plant and Grade A milk contracted with a non-pool plant. The Chair acknowledged 96% of the Grade A production is currently pooled and assessed.

Questions were asked regarding if Grade B milk and milk coming in from out of state could be assessed. Assessing Grade B milk could require a legislative change. Assessing out state milk could create an interstate commerce issue and a legal is needed so such an assessment is not challenged. After some discussion the following motion was made:

Board Action #2017-5: It was moved by Mr. Moons and seconded by Mr. De Jong to assess all Grade A and Grade B milk produced in the State of California in order to generate funds for the quota payout.

Discussion: A concern was expressed that producers currently have a choice to pool or not to pool and by assessing all milk, that fundamental choice is removed. It was shared that there need to be a referendum among producers before a stand-alone quota program can be implemented. It was mentioned that Grade B producers cannot own quota, and therefore they would not be able to benefit from a quota program. It was also shared that in an FMMO, the handler (plant) makes the selection to pool or not, not the producer. In addition if an FMMO is in place, assessments could be erratic based upon depooling.

Public Comment: The Board heard public comments. A comment was made that a producer tax will not generate prosperity. Instead of assessing producers, it was asked if legislation could be proposed to have Class 1 fund the quota program? A producer tax will not necessarily generate prosperity. Another question asked was whether out of state milk could be assessed in order to contribute to the quota program? It was mentioned under current statutes, out of state milk cannot be assessed. A comment was made, that justification for assessing out of state milk would need to indicate a benefit for out of state producers. It was requested that assessing out of state milk be put on the agenda for the next meeting. One comment supported assessing both Grade A and Grade B milk in order to limit loop holes, while another comment relayed that Grade B dairies should not be able to escape an assessment based upon existing quality standards.

Vote on Board Action #2017-5: The motion passed with nine (9) votes in favor and four (4) votes in opposition. See attached Exhibit "A" for roll call vote.

How would the quota payout be calculated?

California's current quota payout is calculated as a fixed \$1.70/cwt or \$0.195/pound on solids-not-fat (SNF), above the overbase price. The quota price is subject to a Regional Quota Adjuster (RQA) which reduces the quota payout based upon a dairy's location.

A member reiterated the cooperatives desire to maintain the current fixed \$1.70/cwt spread for quota. Another member stated that based upon future inflation it may be beneficial to have a sliding scale on the quota payout, since milk prices may climb and a fixed \$1.70/cwt spread would provide a diminished return for quota holders. Discussion revolved around changing or eliminating the current RQA's. Based upon data provided the statewide average quota payout with RQA's is approximately \$1.54/cwt.

The Board tasked CDFA to take out the FMMO costs to see how it impacts the program. CDFA was asked to provide a sample milk check of both a large and small quota holder.

Board Action #2017-6: It was moved by Mr. Moons and seconded by Mr. Douma, that the existing fixed spread of \$0.195/pound on solids-not-fat (\$1.70/cwt equivalent) and the current Regional Quota Adjusters remain the same under a stand-alone quota program.

Discussion: No additional Board discussion occurred.

Public Comment: A comment was made regarding the number of dairies in the state who own quota and the portion of an operation's production that would need to be covered by quota in order to breakeven with the proposed quota assessment.

Vote on Board Action #2017-6: The motion passed with ten (10) votes in favor and three (3) votes in opposition. See attached Exhibit "A" for roll call vote.

The Board took a break from approximately 2:25 p.m. to 2:41p.m.

How would producer-handler exempt quota be administered?

The Board discussed the current exemptions for Producer-Handlers within the state. Approximately twenty million pounds of milk is exempt from the pool each month. Producer-Handlers are paid the Class 1 price on the exempt portion of their milk production. A comment was made that the Producer-Handler exempt quota could be converted to regular quota.

Board Action #2017-7: It was moved by Mr. Douma and seconded by Mr. Magneson, that exempt quota should receive the same payout as producer quota and be funded through assessments on the same grouping of milk (Grade A and Grade B) that would fund producer quota.

Discussion: A member shared that a continuance of the quota exemption for Producer-Handlers is in conflict with the proposed FMMO, and therefore should not be incorporated under the stand-alone quota program. One member expressed that larger multi-state Class 1 processors have an advantage over the smaller Producer-Handlers and therefore important that the exemption remain. A member stated that an additional assessment would be needed to cover the Producer-Handler exemption. Another member suggested a possible refund to the exempt Producer-Handlers to address an exemption loss. It was asked that CDFA provide a historical value of the Producer-Handler exemption for the next meeting. Since the Board wanted to review this data, the following motion was made:

Board Action #2017-8: It was moved by Mr. Gordon and seconded by Mr. Gallo, to table Board Action #2017-7 until the next meeting.

Vote on Board Action #2017-8: The motion passed with eleven (11) votes in favor and two (2) votes in opposition. See attached Exhibit "A" for roll call vote.

How should CDFA collect required data to operate the program?

Ideas for data collection used to administer a stand-alone quota program were shared. Currently USDA collects data and generates prices based upon protein and other solids, whereas CDFA collects and generates pool prices based upon SNF values. Since the data does not match, CDFA would need to apply a mathematical conversion, in order to use the USDA numbers.

Board Action #2017-9 It was moved by Mr. Van Steyn and seconded by Mr. De Jong, that CDFA enter into a Memorandum of Understanding (MOU) with USDA in which a cooperative agreement would be created so that USDA would share data, that it would receive from the CA industry, with CDFA. CDFA would then use the data obtained through USDA to operate a stand-alone quota program.

Discussion: A member asked CDFA staff if an MOU was the best option. Staff shared that there is uncertainty regarding what USDA could share or would be willing to share in order for CDFA to administer a stand-alone program. It was suggested that it would be better for CDFA to collect data similar to what it currently does. With that in mind, Mr. Van Steyn and Mr. De Jong agreed to rescind Board Action #2017-9 and the following motion was made:

Board Action #2017-10 It was moved by Mr. Van Steyn and seconded by Mr. Alhem, that CDFA obtain necessary information from the California industry by requiring entities to report directly to CDFA with just the specific information required to run a stand-alone quota program.

Discussion: It was mentioned that milk tests should only be taken once, in order to avoid duplicity, but should be used for both USDA and CDFA reporting needs.

Public Comment: Members of the audience felt it was a good idea for CDFA, to obtain data needed to administer the quota program, yet it should be done in a streamlined and efficient manner. A question whether data collected by CDFA would be accurate and subject to an audit. It was mentioned USDA audits data, but there is a need to keep administrative cost down for the quota program. It was shared that USDA has MOU's with other agencies in place for sharing data. It was also mentioned that there is no requirement for plants to report non-pool milk to USDA.

Vote on Board Action #2017-10: The motion passed unanimously with thirteen (13) votes in favor and no votes in opposition. See attached Exhibit "A" for roll call vote.

How should the quota payout be dispersed from assessed producers to producers receiving the payout?

Staff provided information about how CDFA currently utilizes a settlement fund to manage the revenue flows into and out of the pool. The industry would need to determine how a stand-alone quota program should disperse monies for the quota payout.

Board Action #2017-11 It was moved by Mr. Moons and seconded by Mr. Van Steyn that CDFA use a settlement fund and require handlers to help manage the quota payout monies. Handlers would deduct the

monies from their producers that would be required to pay an assessment and make a payment to their producers that would receive a quota payout. Handlers would either make a payment to a settlement fund or receive a payment from a settlement fund based on the difference between the total monies their producers would be assessed and the total monies their producers would receive in quota payments.

Discussion and Public Comment: No additional Board discussion occurred and no comments were offered by the public

Vote on Board Action #2017-11: The motion passed unanimously with thirteen (13) votes in favor and no votes in opposition. See attached Exhibit "A" for roll call vote.

How would the cost to operate the program be funded?

Staff provided information on the current Pooling assessments in addition to other CDFA fees associated with administering the Stabilization Plans. Different options were discussed. It was mentioned a stand-alone program should cost less to administer, but will be in addition to the assessment imposed by USDA to administer the FMMO. The Board requested CDFA to present an estimate of the assessment needed to administer the proposed stand-alone quota program.

Board Action #2017-12 It was moved by Mr. te Velde and seconded by Mr. Gallo that CDFA use the current Milk Pooling authority and assessment rate as the basis for establishing the assessment provisions to operate the stand-alone quota program.

Discussion: A member stated the Board would need to remain active to work out any future issues related to a stand-alone quota program, should it be implemented. It was asked whether the current Pooling assessment could also be used to fund the quota payout. General Counsel stated that CDFA would look at the viability of that option.

Public Comment: No comments were offered by the public

Vote on Board Action #2017-12: The motion passed unanimously with thirteen (13) votes in favor and no votes in opposition. See attached Exhibit "A" for roll call vote.

Next Meeting Date/Agenda Items

Staff, the Board and the members of the audience outlined a list of items requiring further discussion at the next meeting as follows:

- Milk Producers Security Trust Fund (MPSTF)
- Assessing out of state milk
- Assessing depooled Grade A and Grade B milk
- Producer voting requirements
- Comparison of RQA and FMMO differentials
- Quota performance requirements
- Budget to run a stand-alone quota program

Chairman Kamper reminded the Board that the next meeting was scheduled for June 15, 2017 at 9:00 a.m.

Travel Expense Claims and Personnel Documents

Mr. Donaldson assisted members with travel expense claims

There being no other business, the Chair adjourned the meeting at approximately 5:15 p.m.

Steven Donaldson
Milk Pooling Branch

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EXHIBIT "A"
Board Motion and Roll Call Vote Tally:

Board Action #2017-1 It was moved by Mr. Van Steyn and seconded by Mr. Fernandes to nominate Mr. Fred Douma for Chair. Vote was five (5) in favor and eight (8) opposed to the nomination.

YES Votes by: Fred Douma, Joseph Fernandes, Craig Gordon, Scott Magnuson, and Case Van Steyn

NO Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Arie De Jong, Michael Gallo, Rodney Kamper, John Moons, and George te Velde

Board Action #2017-2 It was moved by Mr. te Velde and seconded by Mr. Alhem to nominate Mr. Rodney Kamper for Chair. Vote was eight (8) in favor and five (5) opposed to the nomination.

YES Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Arie De Jong, Michael Gallo, Rodney Kamper, John Moons, and George te Velde

NO Votes by: Fred Douma, Joseph Fernandes, Craig Gordon, Scott Magnuson, and Case Van Steyn

Board Action #2015-3 It was moved by Mr. Van Steyn and seconded by Mr. Magnuson to nominate Mr. Fred Douma for Vice Chair. Vote was six (6) in favor and seven (7) opposed to the nomination.

YES Votes by: Arie De Jong, Fred Douma, Joseph Fernandes, Craig Gordon, Scott Magnuson, and Case Van Steyn

NO Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Michael Gallo, Rodney Kamper, John Moons, and George te Velde

Board Action #2015-4 It was moved by Mr. Moons and seconded by Mr. Gallo to nominate Mr. George te Velde for Vice Chair. Vote was seven (7) in favor and six (6) opposed to the nomination.

YES Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Michael Gallo, Rodney Kamper, John Moons, and George te Velde

NO Votes by: Arie De Jong, Fred Douma, Joseph Fernandes, Craig Gordon, Scott Magnuson, and Case Van Steyn

Board Action #2017-5 It was moved by Mr. Moons and seconded by Mr. De Jong to assess Grade A and Grade B milk produced in the State of California in order to generate funds for the quota payout. The vote was nine (9) in favor and four (4) opposed.

YES Votes by: Jarrid Bordessa, Wes Bylsma, Arie De Jong, Joseph Fernandes, Craig Gordon, Scott Magnuson, John Moons, George te Velde, and Case Van Steyn

NO Votes by: Charles Alhem, Fred Douma, Michael Gallo and Rodney Kamper

Board Action #2017-6 It was moved by Mr. Moons and seconded by Mr. Douma, that the existing fixed spread of \$0.195/pound on solids not fat (\$1.70/cwt equivalent) and the current Regional Quota Adjusters the same under a stand-alone quota program. The vote was ten (10) in favor and three (3) opposed.

YES Votes by: Jarrid Bordessa, Wes Bylsma, Arie De Jong, Fred Douma, Joseph Fernandes, , Craig Gordon, Rodney Kamper, Scott Magneson, John Moons, and Case Van Steyn

NO Votes by: Charles Alhem, Michael Gallo, and George te Velde

Board Action #2017-7 (MOTION TABLED BY Board Action #2017-8) It was moved by Mr. Douma and seconded by Mr. Magneson, that exempt quota should receive the same payout as producer quota and be funded through assessments on the same grouping of milk (Grade A and Grade B) that would fund producer quota.

Board Action #2017-8 It was moved by Mr. Gordon and seconded by Mr. Gallo, to table Board Action #2017-7 until the next meeting that would fund producer quota. The vote was eleven (11) in favor and two (2) opposed.

YES Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Arie De Jong, Joseph Fernandes, Michael Gallo, Craig Gordon, Rodney Kamper, John Moons, George te Velde, and Case Van Steyn

NO Votes by: Fred Douma and Scott Magneson

Board Action #2017-9 (RESCINDED)

It was moved by Mr. Van Steyn and seconded by Mr. De Jong, That CDFA enter into a Memorandum of Understanding (MOU) with USDA in which a cooperative agreement would be created so that USDA would share data, that it would receive from the CA industry, with CDFA . CDFA would then use the data obtained through USDA to operate a stand-alone quota program. (**Motion was rescinded by Mr. Van Steyn and Mr. De Jong.**)

Board Action #2017-10 It was moved by Mr. Van Steyn and seconded by Mr. Alhem, that CDFA obtain necessary information from the CA industry by requiring entities to report directly to CDFA with just the specific information required to run a stand-alone quota program. The vote was thirteen (13) in favor and none opposed.

YES Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Arie De Jong, Fred Douma, Joseph Fernandes, Michael Gallo, Craig Gordon, Rodney Kamper, Scott Magneson, John Moons, George te Velde, and Case Van Steyn

NO Votes by: None

Board Action #2017-11 It was moved by Mr. Moons and seconded by Mr. Van Steyn that CDFA use a settlement fund and require handlers to help manage the quota payout monies. Handlers would deduct the monies from their producers that would be required to pay an assessment and make a payment to their producers that would receive a quota payout. Handlers would either make a payment to a settlement fund or receive a payment from a settlement fund based on the difference between the total monies their producers would be assessed and the total monies their producers would receive in quota payments. The vote was thirteen (13) in favor and none opposed.

YES Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Arie De Jong, Fred Douma, Joseph Fernandes, Michael Gallo, Craig Gordon, Rodney Kamper, Scott Magneson, John Moons, George te Velde, and Case Van Steyn

NO Votes by: None

Board Action #2017-12 It was moved by Mr. te Velde and seconded by Mr. Gallo that CDFA use the current Milk Pooling authority and assessment rate as the basis for establishing the assessment provisions to operate the stand-alone quota program. The vote was thirteen (13) in favor and none opposed.

YES Votes by: Charles Alhem, Jarrid Bordessa, Wes Bylsma, Arie De Jong, Fred Douma, Joseph Fernandes, Michael Gallo, Craig Gordon, Rodney Kamper, Scott Magneson, John Moons, George te Velde, and Case Van Steyn

NO Votes by: None

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