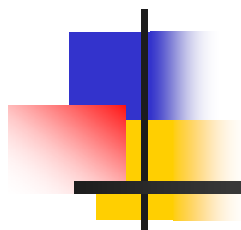


Overview of the Current California Milk Pricing and Pooling System and the Requirements of a Stand-Alone Quota Program



Producer Review Board Meeting
California Department of Food and Agriculture

Modesto, CA
May 30, 2017



TOPICS

Review of CA Statutes and Regulations

Current Quota Program: Connection to
Class Prices and Milk Pooling

Current CA Milk Check Scenario

Potential Stand-Alone Quota Program

Potential CA Milk Check Scenario

Specific Details of a Stand-Alone Quota Program



CA Statutes and Regulations

- CDFA administers its milk pricing and pooling program under the governance of both statutes (laws) and regulations
- The California Food and Agricultural Code (referred to as the Food & Ag Code) contains the statutes or laws that allow for the existence of the CA milk pricing and pooling program.
- The Stabilization and Marketing Plans for Market Milk (Stabilization Plans) **and** the Pooling Plan for Market Milk (Pool Plan) contain the regulations pertaining to specific details of how to administer the CA milk pricing and pooling program.



CA Statutes and Regulations

The Law: Food & Ag Code

- The Food & Ag Code provides CDFA with:
 - Authority to perform specific functions and tasks
 - Mandates to accomplish certain goals through discretion and judgment (flexibility)
 - Directives with detailed instructions to perform certain tasks
- The Food & Ag Code was created and is modified through legislation passed by the CA state legislature and signed by the governor.
- The Food & Ag Code supersedes regulations and provides the authority for regulations to be created and modified.



CA Statutes and Regulations

Regulations: Stabilization and Pool Plans

- The Stabilization and Pool Plans provide CDFA with:
 - Detailed or step-by-step directions on how to perform certain tasks; for example:
 - calculation of class prices
 - calculation of various pool prices, including quota
 - handling of revenues in the statewide pool
 - transfers of quota
- The authority to create and maintain the Stabilization and Pool Plans are found in the Food & Ag Code. These Plans are modified through the public hearing process administered by CDFA.



CA Statutes and Regulations

Brief Summary of Milk Pricing & Pooling Laws

- The laws associated with the CA Milk Pricing and Pooling program are found in Division 21, Part 3, Chapters 1 through 3.5 of the CA Food & Ag Code.
- Some important key elements of these chapters include:
 - Chapter 1 – General Provisions
 - Definitions
 - Bonding and licensing of handlers
 - Records
 - Unlawful practices



CA Statutes and Regulations

Brief Summary of Milk Pricing & Pooling Laws

- Chapter 2 – Minimum Pricing
 - Promote stability and orderly marketing conditions
 - Establish minimum class prices for market milk
 - Create/Amend stabilization plans
 - Obligate handlers to account to pool based on class prices and classified usage of producer milk
 - Enforcement of payments to producers
 - Assess fees from handlers and producers to fund the cost to run Dairy Marketing Branch



CA Statutes and Regulations

Brief Summary of Milk Pricing & Pooling Laws

- Chapter 2.5 – Trust Fund
 - Establish Milk Producers Security Trust Fund (Trust Fund)
 - Create Trust Fund Board
 - Establish methodology to finance, administer, make payouts for payment default by handlers



CA Statutes and Regulations

Brief Summary of Milk Pricing & Pooling Laws

- Chapter 3 – Pooling Program
 - Establish and administer state-wide pooling program
 - Create/amend Pool Plan
 - Create and administer producer quota and producer-handler exempt quota
 - Establish pool prices (quota and non-quota)
 - Create the Producer Review Board
 - Details the referendum process to make substantive changes to the Pool Plan
 - Assess fees from producers to fund the cost to run Milk Pooling Branch



CA Statutes and Regulations

Brief Summary of Milk Pricing & Pooling Laws

- Chapter 3.5 – Quota Price Calculation
 - \$1.70/cwt spread: quota price established as fixed level above price of non-quota milk, on only solids-not-fat
 - Regional Quota Adjusters (RQA) specified in Pool Plan to be subtracted from quota price
 - Specifies how transportation allowances and restricted use market milk to be considered
 - Outlines referendum process to discontinue \$1.70/cwt spread



CA Statutes and Regulations

Brief Summary of Stabilization & Pool Plans

- Stabilization Plan
 - Pricing formulas for 5 classes of milk
 - Requires handlers to report usage and classification of milk to Milk Pooling Branch and be subject to pool obligation
 - Transportation Credits and Call Provisions

- Pool Plan
 - Detailed instructions for pool price calculations
 - Quota eligibility and transfer provisions; producer handler exempt quota provisions
 - Transportation allowances, RQA, hardship provisions
 - Reporting, handler pool obligation calculations



Current Quota Program

- The current quota program is interdependent and connected to the establishment of class prices and the distribution of revenue from the statewide pool.
- Pool handlers are required to pay class prices and account to the statewide pool based on the usage of their milk according to specific details found in the Food & Ag Code and the Stabilization Plan. This creates the revenue that is shared by pooled producers.
- Pool prices for quota and non-quota milk are calculated from this revenue according to the specific details found in the Food & Ag Code and the Pool Plan.
- Producers share the revenue from the pool according to their individual quota and non-quota milk holdings.

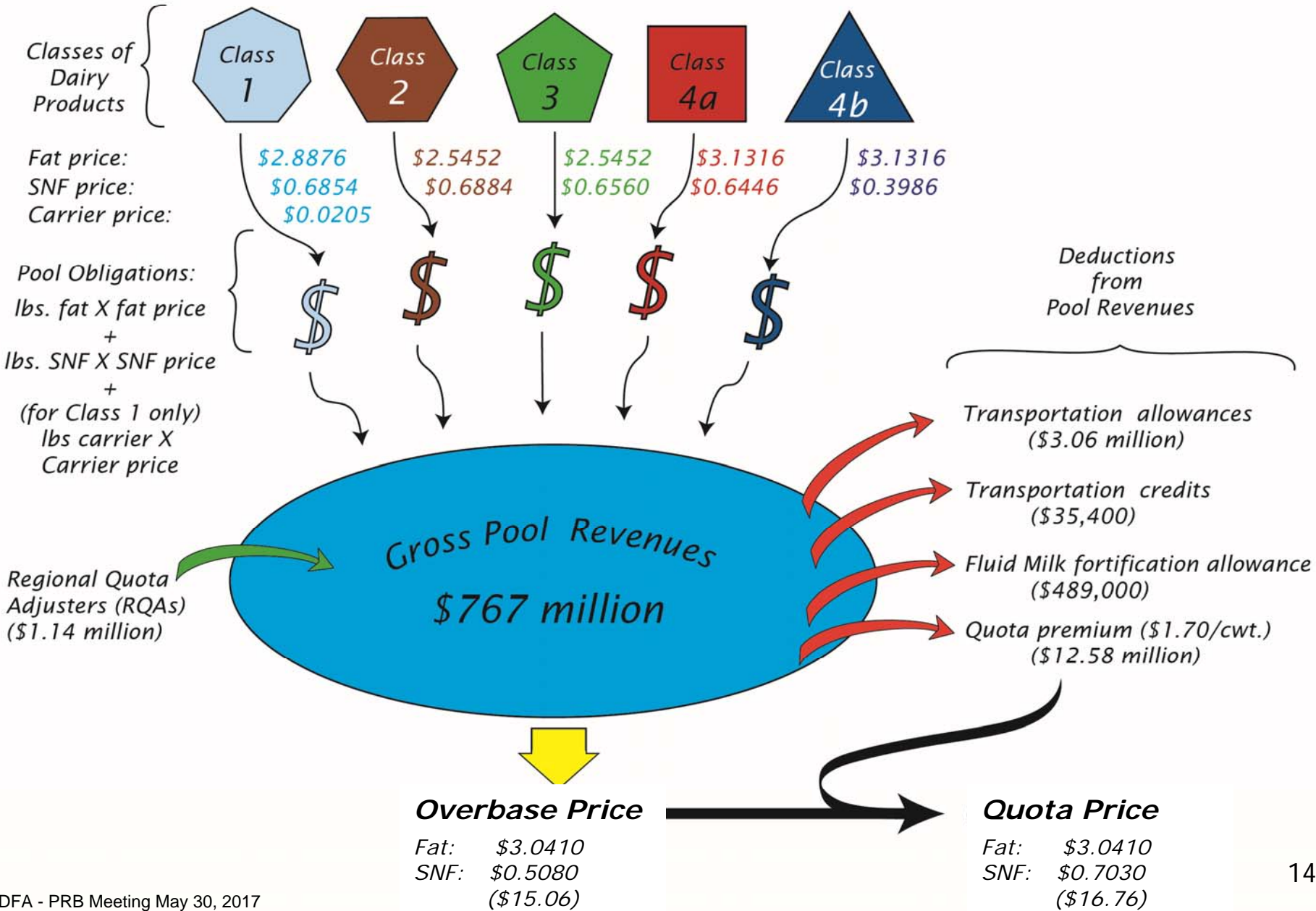


Current Quota Program



Illustration

Calculation of Pool Prices





Current CA Milk Check Scenario

- Pooled producers are paid according to the calculated pool prices that correspond to their quota and non-quota milk.
- In general, a producer's milk check will outline:
 - Pounds of total milk and milk components shipped
 - Pounds of quota and non-quota milk
 - Price/payment for quota and non-quota milk
 - Authorized deductions corresponding to assessments, hauling costs, RQA, etc.
- The following slides illustrate a generic milk check based on the pool prices corresponding to the previous pool price calculation example.

PRODUCTION:	QUOTA	BASE AND OVERBASE	DEGRADE	TOTAL
LBS of Milk	775,000	2,325,000	0	3,100,000
% Butterfat	3.75%	3.75%	0.00%	3.75%
%Solids not fat	8.85%	8.85%	0.00%	8.85%
% Total Milk	25.00%	75.00%	0.00%	100%

PROCEEDS:	QUOTA	BASE AND OVERBASE	DEGRADE	TOTAL
LBS of Butterfat	29,063	87,188	-	116,250
Pool Price	\$ 3.0410	\$ 3.0410	\$ 3.1316	
Dollar Value	\$ 88,379.06	\$ 265,137.19	\$ -	\$ 353,516
LBS of SNF	68,588	205,763	-	274,350
Pool Price	\$ 0.7030	\$ 0.5080	\$ 0.3986	
Dollar Value	\$ 48,217.01	\$ 104,527.35	\$ -	\$ 152,744
GROSS PROCEEDS:	\$ 136,596.08	\$ 369,664.54		\$ 506,260.61

DEDUCTIONS:	CWT	QUOTA	BASE AND OVERBASE	DEGRADE	TOTAL
Dairy Council	Formula	\$ 27.75	\$ 37.92	0	\$ 65.67
Regional Quota Adjuster	\$0.2700	\$ 2,092.50	\$ -	0	\$ 2,092.50
National Dairy Promotion	\$0.0500	\$ 387.50	\$ 1,162.50	0	\$ 1,550.00
Market Milk Admin Fee	\$0.0080	\$ 62.00	\$ 186.00	0	\$ 248.00
Pool Admin Fee	\$0.0110	\$ 85.25	\$ 255.75	0	\$ 341.00
Dairy Food Control Fee	\$0.0010	\$ 7.75	\$ 23.25	0	\$ 31.00
Marketing Order - CMAB	\$0.1000	\$ 775.00	\$ 2,325.00	0	\$ 3,100.00
Dairy Inspection Fee		\$ 60.59	\$ 132.21	0	\$ 192.80
Hauling	\$0.3400	2,635.00	7,905.00	0	\$ 10,540.00
NET PROCEEDS:		\$ 130,462.74	\$ 357,636.91		\$ 488,099.64
Advance 1 Gross Proceeds					\$ 224,525.84
Advance 2 Gross Proceeds					\$ 224,525.84
				NET AMOUNT:	\$ 39,047.97
			Return:	Gross Proceeds	\$ 16.33
				Net Proceeds	\$ 15.75



Potential Stand-Alone Quota Program

Federal Statute

- In contrast to the current CA quota program, a stand-alone quota program would be separate from the establishment of class prices and the distribution of revenue under a Federal Milk Marketing Order.
- According to USDA's Recommended Decision released in February 2017, Federal Milk Marketing Orders are authorized by the Agricultural Marketing Agreement Act of 1937 (AMMA).
- The AMMA is the federal statute that defines the policy goals and specific provisions that must be contained in the Federal Milk Marketing Order framework.



Potential Stand-Alone Quota Program

Federal Statute

- According to USDA, one important provision of the AMMA is the uniform payment provision that requires all producers whose milk is pooled on a Federal Milk Marketing Order to receive the same price for their milk regardless of how it is utilized.
- Since all producers must be paid the same price for pooled milk, there can not be one price for quota milk and a different price for non-quota milk calculated from the Federal Order pool.
- Therefore, USDA determined that the quota program would need to be maintained and operated by CDFA as a stand-alone program outside of a Federal Order milk pricing and pooling program.



Potential Stand-Alone Quota Program

Proposed Authorized Assessment

- In its Recommended Decision, USDA envisioned using authorized assessments as the mechanism to collect revenue for a stand-alone quota program.
- In essence, the stand-alone program would recognize quota values through the use of producer monies by making authorized deductions from the payments due to dairy producers.
- The proposed assessment for quota would be deducted from producer milk checks similar to the other authorized deductions that are currently deducted from producer milk checks.



Potential CA Milk Check Scenario

- Once the payment amount to producers is determined, handlers would make a deduction from milk checks in the form of an assessment for quota and forward those monies to CDFA.
- The following slide illustrates a generic milk check and where a potential assessment for quota may appear.

PRODUCTION:	QUOTA	BASE AND OVERBASE	DEGRADE	TOTAL
LBS of Milk	775,000	2,325,000	0	3,100,000
% Butterfat	3.75%	3.75%	0.00%	3.75%
% Solids not fat	8.85%	8.85%	0.00%	8.85%
% Total Milk	25.00%	75.00%	0.00%	100%

The pay price to producers would be determined by the CA Federal Order pool for pooled milk. For milk not pooled, the pay price would presumably be determined by the producer's milk contract or cooperative.

PROCEEDS:	QUOTA	BASE AND OVERBASE	DEGRADE	TOTAL
LBS of Milk	775,000	2,325,000	-	116,250
Pool Price	\$ 3.0410	\$ 3.0410	\$ 3.1316	
Dollar Value	\$ 88,379.06	\$ 265,137.19	\$ -	\$ 353,516
LBS of SNF	68,588	205,763	-	274,350
Pool Price	\$ 0.7030	\$ 0.5080	\$ 0.3986	
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Hauling	\$0.3400	2,635.00	7,905.00	0	\$ 10,540.00
NET PROCEEDS:		\$ 130,462.74	\$ 357,636.91		\$ 488,099.64
Advance 1 Gross Proceeds					\$ 224,525.84
Advance 2 Gross Proceeds					\$ 263,573.80

An assessment for quota would appear as a deduction from the milk check.



Specific Details of a Stand-Alone Quota Program

- A potential stand-alone quota program would operate through assessments deducted from producer's milk checks instead of through the sharing of revenue from the Federal Order pool.
- Since the administration of a quota program based on assessments would be different than a quota program based on shared revenue from pooled milk, specific operational details of a new quota program need to be developed.
- In order to formulate the specific details of how a new quota program would operate, the following topics of discussion need to be addressed...



Specific Details of a Stand-Alone Quota Program

- What milk would be assessed to generate the quota payout?
- How would the quota payout be calculated?
- How would producer-handler exempt quota be administered?
- How should CDFA collect required data to operate the program?
- How should the quota payout be dispersed from assessed producers to producers receiving the payout?
- How would the cost to operate the program be funded?



Specific Details of a Stand-Alone Quota Program

Break



Specific Details of a Stand-Alone Quota Program

What milk would be assessed to generate the quota payout?

- The current CA quota payout to producers is embodied in the form of the calculated quota price from the statewide pool. The revenue in the current statewide pool is generated from only pooled milk under the current Pooling Program.
- The assessment revenue required to fund the quota payout under a stand-alone quota program could potential come from different groupings of milk.
- These groupings of milk include, but are not limited to:

Specific Details of a Stand-Alone Quota Program

What milk would be assessed to generate the quota payout?

- All California milk, including both Grade A and Grade B milk
- All California Grade A milk
- Only milk pooled under a potential CA Federal Order pool
- Only milk pooled under the current CA pool, which excludes the following:
 - Grade B milk
 - Out-of-state milk shipped into CA for processing
 - Milk from a CA dairy shipped out-of-state for processing
 - Producer-handler exempt quota milk (Type 70)
 - Producer-handler milk (Type 66) – small operations
 - CA milk processed by non-pool plants from:
 - Own production
 - Direct shippers



Specific Details of a Stand-Alone Quota Program

How would the quota payout be calculated?

- The quota payout under the current system is calculated as a fixed \$1.70/cwt or 19.5 cents/pound on solids not fat, above the overbase price. This price is reduced by applicable RQA's depending on the county in which the dairy is located.
- The payout options under a stand-alone quota program include, but are not limited to:
 - \$1.70/cwt adjusted by the current applicable RQA's
 - \$1.70/cwt adjusted by a RQA of some different level
 - Fixed \$1.70/cwt for all quota holders – eliminate RQA's
 - Fixed value at some level other than \$1.70/cwt



Specific Details of a Stand-Alone Quota Program

How would producer-handler exempt quota be administered?

- According to USDA, the recognition and continuation of producer-handler exempt quota, in whatever manner appropriate, should be determined by CDFA. However, USDA did not provide any possible suggestions for its administration like it did with producer quota.
- Exempt quota “exempts” producer-handlers from paying the Class 1 price into the statewide pool for milk they produce that is covered by exempt quota. In this manner, exempt quota does not receive a specific payout like producer quota does under the current CA milk pricing and pooling program.
- Options for administering exempt quota include, but are not limited to:



Specific Details of a Stand-Alone Quota Program

How would producer-handler exempt quota be administered?

- Exempt quota could receive the same payout as producer quota and be funded through assessments on either the same or a different grouping of milk that would fund producer quota.
- Exempt quota could receive a different payout than producer quota and be funded through assessments on either the same or a different grouping of milk that would fund producer quota.
- Exempt quota could be administered through some other method recommended by the PRB.



Specific Details of a Stand-Alone Quota Program

How should CDFA collect required data to operate the program?

- CDFA currently receives reports from handlers, cooperatives, and producers in order to acquire the information necessary to operate the current pool.
- Under a Federal Milk Marketing Order, USDA would operate the Federal Order pool and would receive the necessary reports from the CA industry to do so. CDFA would no longer receive its current forms from the CA industry.
- In order to operate a stand-alone quota program, CDFA would require some information. Options available to obtain such information include, but are not limited to:



Specific Details of a Stand-Alone Quota Program

How should CDFA collect required data to operate the program?

- CDFA could 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.
- CDFA could 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.



Specific Details of a Stand-Alone Quota Program

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

- CDFA currently uses a settlement fund to manage the revenue that flows into the pool from handlers that pay class prices and the payments to producers out of the pool in the form of pool prices.
- Under the current CA pooling system, handlers pay producers based on the pool price owed to them according to their quota milk and non-quota milk holdings. The monies paid to producers are deducted from the handler's obligation to the pool.
- CDFA then uses the settlement fund to manage the difference between the handler's pool obligation and the payment made to producers. The following slide describes this process.



Specific Details of a Stand-Alone Quota Program

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

- If a handler is obligated to pay the pool an amount of money that equals the amount to be paid to producers, then this handler will not interact with the settlement fund.
- If a handler is obligated to pay the pool an amount of money that is larger than the amount to be paid to producers, then this handler will send in a check for the difference between its pool obligation and the payment to producers. This check is deposited into the settlement fund.
- If a handler is obligated to pay the pool an amount of money that is smaller than the amount to be paid to producers, then this handler will receive a check from the settlement fund for the difference between its pool obligation and the payment to producers.



Specific Details of a Stand-Alone Quota Program

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

- In essence, the settlement fund is an account that the Milk Pooling Branch uses to balance the monies that handlers are obligated to pay the pool with the monies that producers are paid from the pool.
- How should CDFA administer the assessment monies that will fund the stand-alone quota program?
- There are a few options including, but not limited to:



Specific Details of a Stand-Alone Quota Program

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

- CDFA could 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.



Specific Details of a Stand-Alone Quota Program

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

- CDFA could control all aspects of the assessment money collection and the payout to producers.
 - Handlers would send checks to CDFA in the amount equal to the assessment producers owe.
 - CDFA would then issue checks to producers that own quota.
- CDFA could manage the funds using some other method recommended by the PRB.



Specific Details of a Stand-Alone Quota Program

How would the cost to operate the program be funded?

- In order to pay for the governmental cost associated with running the current statewide pool, which the current quota program is a part of, CDFA's Milk Pooling Branch assesses pooled Grade A milk and exempt quota milk 1.2 cents/cwt. The Food & Ag Code allows for an assessment up to 2.0 cents/cwt.
- Under a Federal Milk Marketing Order USDA would collect their own assessment to operate the Federal Order milk pricing and pooling program. CDFA would still require funds to pay for the costs of operating a potential stand-alone quota program.
- The options available to pay for CDFA's stand-alone quota program include, but are not limited to:



Specific Details of a Stand-Alone Quota Program

How would the cost to operate the program be funded?

- Develop new authority and an appropriate assessment rate to offset the costs to operate the program. The milk assessed this rate would need to be determined.
- 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 program cost could be administered through some other method recommended by the PRB.