



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

November 10, 2009

Dee Anne Holloway, Hearing Officer
California Department of Food and Agriculture
1220 N Street, Room 313
Sacramento, CA 95814

Dear Ms Holloway:

At the November 9, 2009, public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk, a three-day period was granted for interested parties to file a post-hearing brief for the purpose of amplification, explanation or withdrawal of testimony (Food and Agriculture Code 61903).

As the Department witness, I was asked two questions regarding audit procedures of weekly and monthly Nonfat Dry Milk (NFDM) sales reports: 1) Does CDFA during their audit of NFDM verify payments of sale invoices? 2) Without a review of general ledgers or other financial records, how does CDFA verify the completeness and accuracy of the report submitted?

Response to Questions:

1. No it does not verify payments. The audit that is performed by CDFA is a compliance audit to verify that all California sales of NFDM are included in the weekly and monthly price calculation.
2. Our audit is not a financial audit of the companies that sell NFDM. CDFA relies on the audit report submitted by an independent Certified Public Accountant (CPA) that performs financial audits on companies that submit powder sales. CDFA auditor(s) review sales invoices and bills of lading to verify NFDM sales reports are accurate. CDFA does use the NFDM production data for each company to verify the amount of NFDM powder sales reported do not exceed the plant production of NFDM.

Revision of Department Exhibit

During the hearing there was testimony that pointed out miscalculations on *Revised Table 6* that was entered into the hearing record as part of Exhibit 46. Attached is the corrected version of *Revised Table 6* to be re-entered into the hearing record.

Document

I would also like to enter a document into the hearing record that CDFA - Dairy Marketing received by email before the close of the hearing from dairy producer Evelyn Borba, dated November 9, 2009.

Sincerely

Original Signed By

Michael Francesconi
Hearing Witness
California Department of Food and Agriculture



Table 6a - Estimated Gain or Loss of Dairy Producer Income, January 2006 - June 2009

Based on CDFA Production Cost Survey Data

Statewide Blend Price Less Cost of Production						
Quarter	Year	NASS Cow Numbers (In Thousand Head) ¹	Average Gain or Loss Per Cow (In \$/Per Month) ²	Total Estimated Loss of Dairy Producer Income by Quarter (In Actual Dollars) ³	Estimated Percentage of Dairies Experiencing Loss of Income ⁴	Estimated Percentage of Dairies Experiencing Positive Income ⁴
1st Quarter	2006	1,779	\$2.13	\$11,350,638	43%	57%
2nd Quarter	2006	1,785	(\$28.90)	(\$154,741,864)	86%	14%
3rd Quarter	2006	1,772	(\$27.70)	(\$147,278,943)	85%	15%
4th Quarter	2006	1,782	(\$16.86)	(\$90,158,426)	74%	26%
1st Quarter	2007	1,795	\$6.26	\$33,715,289	20%	80%
2nd Quarter	2007	1,806	\$72.20	\$391,186,191	2%	98%
3rd Quarter	2007	1,819	\$117.32	\$640,204,600	1%	99%
4th Quarter	2007	1,830	\$99.43	\$545,979,463	3%	97%
1st Quarter	2008	1,840	\$42.44	\$234,284,016	13%	87%
2nd Quarter	2008	1,846	\$22.89	\$126,798,663	22%	78%
3rd Quarter	2008	1,845	\$1.05	\$5,825,034	44%	56%
4th Quarter	2008	1,843	(\$41.20)	(\$227,794,800)	87%	13%
1st Quarter	2009	1,813	(\$101.52)	(\$552,167,280)	94%	6%
2nd Quarter	2009	1,825	(\$87.65)	(\$479,883,750)	94%	6%

¹ National Agricultural Statistics Service estimated cow numbers for California

² Gross pool value after RQA and transportation allowance adjustments less CDFA Cost Of Production sample average cost by quarter (not including ROI and RFM)

³ Average gain or loss per cow times the number of cows estimated by NASS

⁴ Based on producers participation on CDFA Cost of Production cost study sample

Revised Table 6 - Estimated Gain or Loss of Dairy Producer Income, January 2006 - June 2009

Based on CDFA Cost of Production Survey Data

Mailbox Price Less Cost of Production						
Quarter	Year	NASS Cow Numbers (In Thousand Head) ¹	Average Gain or Loss Per Cow (In \$/Per Month) ²	Total Estimated Loss of Dairy Producer Income by Quarter (In Actual Dollars) ³	Estimated Percentage of Dairies Experiencing Loss of Income ⁴	Estimated Percentage of Dairies Experiencing Positive Income ⁴
1st Quarter	2006	1,779	\$10.35	\$55,234,109	43%	57%
2nd Quarter	2006	1,785	(\$20.59)	(\$110,271,346)	86%	14%
3rd Quarter	2006	1,772	(\$20.38)	(\$108,368,616)	85%	15%
4th Quarter	2006	1,782	(\$9.02)	(\$48,214,105)	74%	26%
1st Quarter	2007	1,795	\$13.65	\$73,531,420	20%	80%
2nd Quarter	2007	1,806	\$75.86	\$411,009,414	2%	98%
3rd Quarter	2007	1,819	\$119.19	\$650,438,188	1%	99%
4th Quarter	2007	1,830	\$103.85	\$570,235,837	3%	97%
1st Quarter	2008	1,840	\$48.68	\$268,701,184	13%	87%
2nd Quarter	2008	1,846	\$27.89	\$154,459,115	22%	78%
3rd Quarter	2008	1,845	\$7.72	\$42,716,916	44%	56%
4th Quarter	2008	1,843	(\$31.52)	(\$174,282,096)	87%	13%
1st Quarter	2009	1,813	(\$92.69)	(\$504,164,121)	94%	6%
2nd Quarter	2009	1,825	(\$78.30)	(\$428,719,039)	94%	6%

¹ National Agricultural Statistics Service estimated cow numbers for California

² Gross pool value after RQA and transportation allowance adjustments less CDFA Cost Of Production sample average cost by quarter (not including ROI and RFM)

³ Average Gain or Loss per cow times the number of cows estimated by NASS

⁴ Based on producers participation on CDFA Cost of Production cost study sample

Estimated Dairy Cow Value Loss				
Quarter	Year	NASS Reported California Cow Numbers (In Thousand Head)	Change Dairy Cow Replacement Value from August 2009 Less August 2008 ¹	Total Decrease in California Herd Value (In Actual Dollars)
2nd Quarter	2009	1,825	(\$700)	(\$1,277,500,000)

¹ Based on NASS California cow replacement value estimates

Mon 11/9/2009 5:17 PM

Dear CDFA,

In regard to today's Emergency Hearing, I am writing to you to declare my opposition for an increase in the make allowance as stated in the Alternative Proposal by California Dairies Incorporated. Now is not the time to increase the make allowance. Month after month, there has been a decrease in California's milk supply. An increase in the make allowance, warranted or not, is not going to help ensure a reliable supply of milk in California and may actually prolong the milk supply deficit.

Retail chains are literally running out of milk. One individual recently stated that during her weekly grocery-shopping trip, she noticed that both Wal-Mart and Costco were out of milk. This is proof that a shortage in the supply of milk exists.

Dairy farmers are exiting the dairy industry at an alarming rate. One attorney I spoke to stated that he has one bankruptcy a week and believes the number of bankruptcies per week will increase by the end of this year. During the past twelve months dairy farmers have repeatedly borrowed equity out of their dairy livestock and real estate in order to obtain money to pay their monthly operating expenses. Without borrowing the money, virtually all dairies would have run out of working capital and would have stopped operating. It is likely that a high percentage of the dairy operations have reached or will soon reach a point where they can not qualify to borrow more equity out of their operations. An increase in the make allowance will place an increased burden on these dairy farmers and their operations.

As a dairy farmer, I can tell you that business is not as usual and the amount of equity we have lost has been staggering. Simply put, we are out funds - by way of equity and cash flow. The milk check we receive every 1st and 15th of the month is gone before it is even deposited. I have to ask vendors and grain companies if I can post date checks for the next milk check date. I can also testify that the milk check isn't enough to cover our grain bill. Keep in mind we have many other vendors that need to be paid too.

Dairy farmers pay for Marketing, Transportation, and most pay into the CWT program. We can not afford to produce more milk since we are only receiving half of what it costs us to produce this product. How do you expect to fulfill the shortage in the supply of milk with a higher make allowance in place? This will take more money out of our pockets and will in turn create less production in milk.

I am being told the Hearing is now over. I do not have anymore time to write my testimony as it needs to be submitted before end of day today. I do support California Dairy Women's Association and California Dairy Campaign's proposals to increase our milk price to cost of production (with a floor).

Thank you for allowing me to present this testimony.

Sincerely,

Evelyn Borba