

Quota Implementation Plan

Public Forum Notes

August 8, 2024

Stanislaus County Agricultural Commissioner's Office

3800 Cornucopia Way

Modesto, CA 95358

Twenty-seven producers and/or interested parties were in attendance along with Department staff. The forum began with a brief introduction by John Suther, forum moderator, followed by a Department presentation on the proposed changes to the QIP, made by David Ko. Mr. Suther then opened the floor to producers that had signed up to provide comments/ask questions of the Department.

Disclaimers: The comments made by producers and/or interested parties have not been verified. This summary includes information about a presentation Mr. Frank Konyon made during the forum as well as his feedback to questions asked by attendees. Mr. Konyon is a member of the PRB, but he was not delegated authority by the Board or the Department to speak on their behalf. Accordingly, all his statements should be considered his personal opinion as a California milk producer. Finally, in the interest of brevity the questions that were asked multiple times are only listed in this summary one time.

Question: If the referenda passes and the quota premium payout is reduced to \$1, does that protect quota for the future? When the stand-alone program was created, the industry was told that the PRB would review quota every five years to see if it is still relevant. The program has continually had petitions and referenda since the start of the program. There was no 5-year grace period. If this referendum goes through, shouldn't that count as the 5-year review? Producers will have given their input on the Program, and will the vote protect quota for 5 years? Or will the industry continue to have to go through more referenda every year?

Department Answer: According to PRB minutes on file, as part of developing the current quota program, the PRB considered adding to the Plan a continuation referendum to be conducted every 5-years. However, the PRB felt that a referendum every 5 years would introduce uncertainty into the market for quota. In the end, the PRB voted to include in the Plan, a performance review survey to be completed every 5 years. The first survey was completed last year and has been shared with the industry. The survey did not involve any specific assessment amounts or continuation questions.

Regarding the petitions received by the Department: There is nothing in the Plan to prohibit a producer from submitting a petition. The Department received a new petition on August 5 and will be evaluating it after the Modesto and Tulare Forums are complete.

Substantive changes to the Plan can only be made through a producer referendum. There are currently no proposals that include a change to add a continuation provision or to prevent the submission of petitions to make changes to the Plan. If the current

referendum passes, the payout will change. The proposed changes to the language in the Plan were sent out to all producers by mail. If any new proposed changes are made to the Plan prior to the start of the referendum, the Department send the proposed changes to the industry prior to starting the vote.

Question: Some producers have calculated that Class 1 milk currently generates more than \$1.00. Has an economist looked at these numbers? Or is this an attempt to divide equity from producers who have purchased quota?

Department Answer: QIP was created as a stand-alone program by the Legislature. The current proposal was reviewed and considered by the PRB. While it is our understanding that it uses Federal Class 1 pricing as a reference value, there is no direct connection to the Federal Class 1 pricing. Outside factors, such as Class 1 prices, are not part of the Plan, however, any individuals who believe those outside variables are relevant to their personal circumstances may choose to consider them.

Request for an additional amendment: A request was made to have the 3 proposed changes voted on separately instead of one vote for all three.

Question: Why was the August 15 hearing postponed?

Department Answer: At the Santa Rosa meeting, it was requested that we further refine the proposed language. The proposed additional language would give the PRB the authority, if the referendum is approved, to put forth a recommendation to the Secretary to change the quota payout without a referendum. In view of this potential change, we decided to postpone the hearing so we could notify the industry in advance if CDFA decides to incorporate it to the final version of the proposal; it would give the industry an opportunity to review and comment/provide input.

Question: Seeking clarification on the Zoom meeting: Is this a forum (like Santa Rosa, Modesto, Tulare) or a formal hearing?

Department Answer: The Forums have been structured to be very informal to provide the opportunity for discussion among industry members while giving the Department a good record of the industry's opinion about the proposed changes. The hearing will provide a more structured format, including a hearing officer. It will be transcribed, and all information captured during the Forums will be presented as exhibits. The hearing is an administrative way of capturing all the information presented and having an official record.

Question: Will there be a PRB meeting before the hearing?

Department Answer: No, not planned at this time.

Question: When will the minutes of the last PRB meeting be available?

Department Answer: Minutes will be available prior to the next PRB meeting.

Question: If the PRB recommended these proposed changes be voted on as one, why was there discussion regarding dividing the changes into three separate votes?

Department Answer: For context - the PRB approved a motion that the proposed changes to the Plan be considered as an all or nothing vote. That PRB meeting was prior to these Forums where the industry is providing input. During these Forums, the industry has indicated that there is interest in having the proposed changes be voted on separately. The Department will consider that request.

Summary of Presentation by Frank Konyn:

The history of quota was originally tied to Class 1 sales and those sales have since declined. The purpose of the vote is not to eliminate quota but to bring it back in line with how it was historically designed. The intent of the change is to try to bring consensus to the industry. The proposal provides a compromise for both quota holders and non-quota holders because the proposed \$1.00 payout is a fair return and provides a fair compromise. Additionally, the proposal would remove the Regional Quota Adjusters and make language changes to the definitions of hardship and producer to bring the Plan back in sync with what it was under the Milk Pooling Program.

The calculations used for this proposal are consistent with those that were proposed by Economist Dr. Marin Bozic who was hired by UDF to conduct an economic analysis in 2019. This gives me confidence that the numbers presented are accurate. After several meetings with rigorous review, the PRB ultimately decided to support this proposal.

Producer Comment: This is a compromise but there is no guarantee this will save quota. The recently submitted petition wants to get rid of quota without any compensation to quota holders. The petitions are still a threat to quota. The current referendum should be considered carefully. If the result of this vote passing meant that quota was safe, it would be a good compromise. Some dairymen see this as a step going backwards by going down to \$1.00 but still have the threat of quota going away. If quota was safe in the future, would be in favor of the proposed changes. Without the guarantee of quota being safe, this proposal is not a good plan.

Question: If the petition that was recently received by the Department has enough signatures, will it go to referendum?

Department Response: It would be treated as any other petition. The Department would consider it, verify the signatures and then take it to the PRB for consideration. At that point, the PRB would make a recommendation to the Secretary.

Question: In the petition procedures, what does the word “shall” mean? It says: “the Secretary *shall* submit for referendum” does this mean that if it is recommended by the PRB that she will have to go to referendum?

Department Response: The Secretary takes the recommendation of the PRB very seriously. Because of this, we continue to remind everyone that it is important for the

industry to be involved in the PRB. There have been very few instances where the Secretary did not follow the Board's recommendation.

Mr. Konyon Response: Quota has never been safe since its inception. Quota has always had the possibility of being voted out. Each producer needs to evaluate their own needs and if it makes sense for their business to own quota. Every producer has the right to file a petition. We can't deny anyone their legal right to do so.

A provision to keep quota safe for the future was not added to the proposal as a compromise for two reasons:

- 1- That was not the historical intent of quota and
- 2 – We cannot take away anyone's ability to exercise their legal right to file a petition.

There is a safety feature in this proposal regarding hardships. At the last two PRB meetings, there were no less than 10 hardship cases that were on the agenda to consider. The Board has decided to table a decision on those cases because the PRB supports strengthening the hardship language in the Plan with this proposal. If the referendum does not pass, it will be difficult for the PRB to continue kicking the can down the road on these cases. Looking at the wording in the Plan, even Quota holders could claim hardship and if approved then they would be exempt from paying the Quota assessment but would still receive their Quota payment. The less assessments that are collected to support the program, the quicker the assessment rate will go up for those remaining producers that are paying the assessment. This proposal offers some security for the future of quota and is a good compromise.

Public Comment – That comment is why I feel that the proposed changes should be voted on separately.

Mr. Konyon Response: The PRB had a robust discussion on whether or not to recommend that the proposed changes be voted on as a whole or separately. Had discussions with Department legal counsel and typically, when there are multiple questions being asked in a referendum they would be voted on as individual pieces. But this was a compromise with give and take and this should go forward as a single proposal. Otherwise, there would be things that were taken away without giving, removing the compromise of the proposal.

Public Comment: Historically, hardships were to be voted on by the PRB and it was thought that the language in the Plan didn't matter because the PRB could determine if it was a hardship or not. It was generally known throughout the industry that a hardship is considered as a quota holder that is going out of business or retiring or is forced to sell their cows but that ultimately the Board can decide if it is a hardship. This feels like the Board is punting their decision.

Mr. Konyon Response: When the Plan was originally written, the hardship language was unintentionally omitted, which is where the PRB struggles with how to review the requests for hardship. The PRB knows what the intent of the definition of hardship is

but need that language written into the plan in order to consider the current requests for hardship.

Public Comment: In regard to compromise, it is quota holders that are being asked to compromise with this vote. The hope was that non-quota holders would also compromise but that is currently not the case. The petition that was recently submitted to end the quota program. They are not willing to compromise and want quota to go away with no compensation. Quota holders are being asked to compromise without the non-quota holders compromising so this proposal doesn't fit the definition of compromise.

Mr. Konyon Response: The intent of this proposal was to return quota back to the revenue generated by Class 1 sales. If we can return quota back to what the revenue that was originally generated by class 1 sales and recognize that today, Class 1 sales do not generate \$1.70, but they justify somewhere near \$1.00 or slightly below \$1.00. Over the last two years it was at \$0.96 so it was a compromise for the non-quota holders to have it be an even \$1.00.

Public Comment: It's hard to agree that this is a compromise when there is another petition that has been submitted to eliminate quota without compensation. The original thought was that everyone would actually compromise. Both sides would give something up to bring the industry together. This is currently not the case.

Public Comment: I have spoken to many dairymen who have all said that everyone needs to vote on this proposal because then it would "stop the war" and everyone will get along once this passes. However, no one is going to get along on this issue, it doesn't matter what proposals pass.

Public Comment: Quota holders purchase quota based on the return of \$1.59 so to go to \$1.00 doesn't make sense. Supports voting on proposed changes 1 and 2 together and 3 separately. Adding a review process by the PRB related to the quota differential in the Plan is a big change and not holding a referendum is new information. Recommend that this be an additional 3rd section to vote on the ballot. Does not support addition. It gives the Board a lot of power.

Mr. Konyon Response: This language is being added in the event that Class 1 sales increased, this would give the PRB the ability to consider adjusting the fixed \$1.00 to increase revenue for quota holders and recommend to the Secretary to adjust the \$1.00 without calling for a referendum.