

Quota Review Committee Meeting Notes

August 9, 2007
Sacramento, California

MEMBERS PRESENT

Ann Silva - Chair
Domenic Carinalli
Ben Curti
Frank Faria
Frank Konyn, Jr.
Steve Maddox
Brad Scott
Dennis Leondardi
Richard Shehadey
Pete Vander Poel
Ray Veldhuis

DEPARTMENTAL STAFF PRESENT

George Gomes, Undersecretary
Kelly Krug, Director
John Lee
Donald Shippelhoute
Mike Francesconi
Steven Donaldson
Nancy Hartman
Jeff Cesca
John Bressett
Marie R. Caron-Lyles

Jim Morgan, Strategy Dynamics

PUBLIC GUESTS IN ATTENDANCE

Tiffany LaMendola
Glenn Gleason
Jim Gruebele
Francis Pacheco

Mel Gadbut
Ana Borba
Lynda Carnalli

Opening: The Chair, Ann Silva, opened the meeting at 9:15 a.m. thanking all of the Quota Review Committee (QRC) for attending. Ms. Silva began the meeting reviewing the purpose and that is to discuss milk pooling quota and only quota. Ms. Silva read the options given to the committee, they are:

- Option #1: Should the existing quota system continue without change?
- Option #2: Should the quota system be modified?
- Option #3: Should quota be retired?

Ms. Silva stated at the last meeting the Committee reviewed at length RQA's with CDFA staff and members. The Committee also further prepared Option 2 and 3, dotting the I's and crossing the T's, for a Committee decision. Ms. Silva further stated this meeting will be to review a synthesis of the 3 primary options and administrative and legislative complexities in issuing a bond and any other options. This committee was charged with proceeding with the decision making process. The goal is to reach a recommendation to present to the Secretary of Agriculture.

As with the previous meeting, the facilitation portion of the meeting was QRC members input.

Ms. Silva restated her appreciation of the committee for all the hard work, completed homework assignments and taking the time to be here from their busy schedules. Ms. Silva again thanked CDFA staff for all their contribution and also thanked all visitors for their input.

Facilitation: Ms. Silva asked all attendees to introduce themselves. Facilitator Jim Morgan thanked the Committee for their work, CDFA staff for their input and contributing comments from visitors.

Review of QRC Goal: Mr. Morgan started the meeting with revisiting the QRC Goal which was to provide a recommendation on three milk pool Quota options to CDFA Secretary A.G. Kawamura.

Informal Comments: Mr. Morgan explained industry statements were clarified or expanded upon from the last meeting and stated the changes and comments for Section 5 and Section 6 have been reflected in this week's agenda. Mr. Morgan also stated the conclusions included in the packet were based on extensive discussion and evaluation by members of the Quota Review Committee with outstanding analytical and technical support from CDFA over the course of six meetings.

At the end of meeting 5, the Quota Review committee had made a request of Jim Morgan to develop an Executive Summary in draft form for refinement and discussion during the August 9th QRC meeting. This draft Executive Summary was distributed. After an allotted time for review of the Summary, the members began a lengthy discussion, summarizing, editing, and commenting on the three (3) primary options. The Committee felt this part of the process would help clarify the contents for any future reference.

At meeting 5, members asked CDFA staff to present facts on administrative and legislative complexities in issuing a bond (as part of reviewing option 3). Both Kelly Krug and John Lee stated that staff had discussions with bond experts from the California Treasurer's Office and Bank of America. Comments from the bond experts were briefly discussed with the members:

- A quota bond would be doable but a unique bonding situation
- Experts suggested CDFA seek advice of National Bond Council in developing legislation
- Bond holder would prefer the State to cover for any losses
- Insurance would be needed if a better interest rate is wanted.
- There would be additional fees such as legal, trust, and marketing fees some of which may be significant.
- Underwriting costs could be in the 2 percent range.

A further discussion was held regarding Option 3 (Single Payout Method) with the new information received on issuing a bond. A question was raised if an estimated figure could be

provided regarding the underwriting costs referenced in the Single Payout option section. Based on the bond expert discussions and the facilitator's work with bond issues, it was estimated that a quota bond issue could cost the Pool from \$22,000,000 up to \$50,000,000.

Decision process: It was at this point the facilitator stated the time has come for the Committee to provide a recommendation to the Secretary. A brief discussion was held with members expressing their concerns and thoughts. The following three options were reviewed and a vote taken:

- Option 1 Quota Continues Unchanged (6 QRC votes)
- Option 2 Modify Quota – NOT a viable option (unanimous consensus)
- Option 3 Retire Quota – (5 QRC votes)

With neither Option 2 or 3 receiving a super majority (8 of 11 votes), Option 1 will be the QRC recommendation to Secretary A.G. Kawamura. Copies of the recommendation would be sent to each QRC member.

The Committee requested CDFA to communicate to the Dairy Industry via a written communication (the CDFA Dairy Review newsletter) a concise summary of the decision, rationale and discussion of this process.

Comments: Committee members expressed their appreciation to the Jim Morgan for the excellent facilitation, to Ann Silva for her direction, to George Gomes for his dedication and to all CDFA staff for their hard work, information, and support. Committee members also pointed out it was hard work and they learned a lot.

Members of the public expressed their views that the meeting was a good effort, they appreciated the work of the Committee and listening to the discussions and exchanges., Several commented that the Committee meetings were an excellent education on California quota system.

Jim Morgan thanked the Committee and CDFA staff. Ms. Silva also thanked the committee stating the members went above and beyond. The written work of the Committee will be available for future efforts and reviews of Quota. Ms. Silva commented that the Committee's efforts and study were an incredible achievement and thanked Mr. Morgan for his assistance. Ms. Silva also thanked visitors for their input and gave a heartfelt thank you to the Department for their support.

In closing, George Gomes complimented CDFA staff, thanked each member for attending and taking time out from their business schedule, this was a difficult and challenging task. Mr. Gomes stated he appreciated the QRC member's dedication and hard work. If they have questions or if individuals from the Dairy Industry have questions, they are encouraged to call the Department of Food and Agriculture.

QRC members were distributed travel claims.

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The meeting adjourned at 1:45 p.m.

Original Signed By

John Lee, Chief
Milk Pooling Branch