

ITEM	Page
Agenda FOR August 9, 2007	2
<i>Exhibit 1</i> QRC Goal	3
<i>Exhibit 2</i> QRC – informal feedback from other producers	4
<i>Exhibit 3</i> Option 1 Unchanged: Positive Factors (ranked)	5
<i>Exhibit 4</i> Option 1 Unchanged: Negative Factors (ranked)	19
<i>Exhibit 5</i> Option 2 Modify Quota – Alternatives (ranked)	30
<i>Exhibit 6</i> Option 3 Retiring Quota	47
<i>Exhibit 7</i> Quota and Pooling Data exhibits	59

1. **Opening Remarks- Ann Silva, Chair**
2. **Review Meeting Notes from July 27, 2007- Ann Silva**
3. **Discussion Items:**
 - a. CDFA facts on Administrative & legislative procedures and preliminary data complexities in issuing a bond;
 - b. Review a “synthesis of the 3 primary options” as developed by the QRC in meetings 1-5.
 - c. Decision process – QRC recommendations to the Secretary of Agriculture
4. **Other Comments/Questions**
5. **Items for QRC Follow-up** (e.g. presentations in multiple locations to the dairy industry)
6. **Travel Expense Claims**
7. **Adjourn**

The Quota Review Committee's Goal is to provide a recommendation on the three milk pool Quota options to CDFA Secretary A.G. Kawamura on or about August 1, 2007.

This goal *does not* include follow-up for statewide presentation to Producers for broad industry input and discussion.

Part of the recommendation will include suggestions on obtaining industry input and connecting with the California legislature and Dairy Industry lobbyists.

Exhibit 2: Informal Feedback from Producers

The following are representative examples of comments from Producer's received by QRC members (prior to meeting #2 -June 7, 2007; random order):

1. Quota System needs change
2. Some not sure what the change is. If quota is retired, payout should be at least 75% to 110% of value
3. Quota is very positive in North Bay
4. Committee needs to be able to explain why retirement of quota would be favored- how does it strengthen the pooling system?
5. What is the justification to change system?
6. How would change affect pooling?
7. Quota has value, don't want to lose value
8. Leave it alone (no changes to Quota)
9. Why do we have Regional Quota Adjusters (RQAs)?
10. If quota is going to be retired, NOW is a good time to do it
11. If we replace it, what do we replace it with?
12. The Dairy Industry is changing, quota may be an obstacle to making other changes to pooling\pricing system
13. Producers want to keep the California pooling system, but want to reduce pressure from out-of-state milk
14. Quota system does not impact out-of-state milk vs. Quota has a major impact (opinions differed on this!)
15. Retiring quota should be the first step in changing the CA pooling\pricing system
16. Quota is not doing the job it was originally was intended to do, (system periodically needs major tweaks (such as blue sky quota issued in 70's; 1991-92 Blue Ribbon Committee that agreed on \$1.70 fixed differential; this Quota Review Committee to evaluate 3 options for Quota)

Exhibit 3: Quota Unchanged – POSITIVE Factors

Positive Factor		Votes	Who	Pg
3.1	Quota improves producer profitability (an investment tool)	7	Ben Curti	6
3.2	Maintaining current system avoids massive public scrutiny (of a complicated pricing system)	6	Dennis Leonardi	7
3.3	Quota is equity/asset (useful with your banker)	6	Pete Vander Poel	8
3.4	Maintaining quota helps create a “vote of confidence” in the pooling\quota system	6	Frank Konyn	9
3.5	Quota helps protect the Pool	6	Steve Maddox	15
3.6	Quota maintains an historic producer/distributor exemption	4	Richard Shehady	16
3.7	Quota benefits higher cost areas. To change the quota system is detrimental to high production cost areas of CA	4	Domenic Carinalli	18
<i>Only shown in Exhibits 3 & 4 are positive and negative factors that received at least 1 vote from QRC members.</i>				

Exhibit 3.1: Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who
3.1 Quota improves producer profitability (an investment tool)	7	Ben Curti

quota premium snf	quota premium per # snf	quota premium per # snf per year	curti purchase	extra revenue for 1691.99 pounds	total revenue per/yr for 1691.99 pounds	internal rate of return	payback period	
1.43	8.7	0.164367816	59.9942529	1691.99	\$101,509.68	\$845,995.00	12.00%	8.334132
1.7	8.7	0.195402299	71.3218391	1691.99	\$120,675.84	\$845,995.00	14.26%	7.010475
				521.95	4350	0.119989	8.334132	
amortization over 10 year				620.5	4350	0.142644	7.010475	
year	6.5% int on \$845995	extra revenue	cash flow	6.5% INTER	CASH FLOW			
12	\$101,166.44	\$101,509.68	\$343.24	12	520.19	521.95	1.76	
9.48	\$120,202.00	\$120,675.84	\$473.84	9.48	618.06	620.5	2.44	

roi in the South Valley with \$500 per pound snf quota would be 12% and the pay back period 8.33 years
 roi in Southern California with \$500 per pound snf quota would be 14.3% and pay back period is 7.01 years

in the south v suppose you pay \$845,995 for 1691.99 pounds of snf quota. Your extra revenue in the South Valley would be \$101,509.68 and multiplied by 8.334132 would yield \$845,995 in revenue. So the payback period is 8.334132 years.

in southern c suppose you pay \$845995 for 1691.99 pounds of snf quota. Your extra revenue in Southern California would be \$120,675.84 and multiplied by 7.010475 years would yield revenue of \$845,995 so the payback period is 7.010475 years

with 6.5 interest rate and \$500 per pound snf quota the cash flow would be somewhat positive if amortized over 12 years in the South Valley
 with 6.5 interest rate and \$500 per pound snf quota the cash flow would be somewhat positive if amortized over 9.48 years in Southern California

CONCLUSION:

There is payback and positive return on investment.

Exhibit 3.2 Quota Unchanged – POSITIVE Factors

Positive Factor		Votes	Who
3.2	Maintaining current system avoids massive public scrutiny (of a complicated pricing system)	6	Dennis Leonardi
<ol style="list-style-type: none">1. Clearly outline the charge given to the committee2. Outline the considerations evaluated both pro and con regarding each topic3. Provide details that supported the pro and con considerations4. Reference details in conclusion portion of recommendation			
CONCLUSION:			
We are following a thorough evaluation process.			

Exhibit 3.3 Quota Unchanged – POSITIVE Factors

Positive Factor		Votes	Who
3.3	Quota is equity/asset (useful with your banker)	6	Pete Vander Poel
<p>1. Pool quota currently can be sold on a readily established market. CDFA publishes the prior months sales results. When looking at collateral financial institutions will not normally finance quota purchase or lend specifically against quota however they do look at the value of quota when evaluating the overall financial health of the operation both in asset value and in cash flow effects as the quota provides a higher sales price for milk. Lenders first criteria is cash flow and the source of funds to repay their obligations. The increase in the income stream is a positive long term factor.</p> <p>2. The California tax effect of selling quota is a top tax rate of 9.3% of the gain and 15% federal. This tax consequence may be eliminated or taxed at a lower rate as a consideration in any buyout of less than full value.</p> <p>3. Wells Fargo (example): could be 10-20% in borrowing value to a producer having quota.</p> <p>Source: CA accounting firm Frazer & Torbet</p> <p>CONCLUSION: Agree – this is a financial and investment asset.</p>			

Exhibit 3.4 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who
<p>3.4 Maintaining quota helps create a “vote of confidence” in the pooling\quota system</p>	6	Frank Konyn
<p>Theory: Maintaining quota helps create a “vote of confidence” in the pooling / quota system. This could lead to an increase in the market value of quota.</p> <p>Initially I pulled together all the historical prices of quota from August 1969 till June 2007. That was 37 pages of yearly data, which yielded an information overload. Then I felt that I could look at just the yearly average. However that would have provided misleading information as there were time periods that the price of quota sold varied by over a hundred dollars per pound in a calendar year such as:</p> <p>January 1991 = \$271 vs. August 1991 = \$410 February 1995 = \$428 vs. December 1995 = \$318 January 2002 = \$435 vs. December 2002 = \$538</p> <p>A dramatic difference was the drop in June 1988 at \$430 down to January 1990 at \$263.</p> <p>Along with the help of Don Shippelhoute and Tom Gossard we began to graph these monthly numbers. We utilized only the “Average Monthly Price of Quota sold Without Cows.” This provided us a more complete data source as well as data uncorrupted by tax evasion plans. Pictures often describe more than words. Our initial graph did not show a dramatic correlation that the quota affirmation of the 1991 / 1992 quota committee yielded a significant increase in the market price of quota. It did however show that the Producer - Handler exemption most definitely caused a run up of the price directly prior to its closure on March 1, 1995. Apart from that any other correlations were not jumping out at me.</p>		

Exhibit 3.4 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who	Pg
<p>3.4 Maintaining quota helps create a “vote of confidence” in the pooling\quota system</p>	6	Frank Konyn	
<p>The Producer – Handler rule allows a person who owns both production and processing facilities to exempt the amount of Class 1 sales from the Pool for which they possess that amount in quota, before accounting to the Pool.</p> <p>Although I had initially believed that a “vote of confidence” would increase the market value, I now believe that there are too many factors involved that effect the actual market value. In discussions with a quota “broker,” we agreed that a “vote of confidence” from our current committee may at best help the market value by \$20 per pound over a slow buildup of many months.</p> <p>What would affect the market price of quota? I theorized that maybe the quota market price was affected by the Quota / Overbase price differential. Once again Don and Tom came though with the same graph, only this time the price differential was overlaid on the market price of quota. They also included a 12 month running average of each to create a line of market direction through the graph. Once again we did not have any correlation.</p> <p>In further discussion with the quota “broker,” I was led to accept his theory that first and foremost, the interest rate is going to affect the demand of quota which in turn affects the market price of quota. When dairy families can borrow cheaply and receive a double</p>			

Exhibit 3.4 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who	Pg
<p>3.4 Maintaining quota helps create a “vote of confidence” in the pooling\quota system</p>	6	Frank Konyn	

digit return on quota, they are going to do so. When the price of borrowing money gets higher, you are less likely to go through the trouble of trying to borrow to buy quota, thus lowering the demand. Conversely, if you have money sitting around making 3 or 4 percent return, quota looks positive and demand goes up. If interest rates are returning 8 or 9 percent and that is guaranteed, the risk of ownership of quota can not compete. Once again demand goes down and as such price goes down.

Other factors that affect the market price of quota include disposable income. High milk prices and or a large dairy land sale in high price property Southern California could have contributed to the run up of prices from May 1997 though December 2002 (\$292 up to \$538). When milk prices turned down in 2003, likewise the market price of quota did also.

Lastly one could argue that since quota is being discussed and the McKenzie report recommended the removal of quota, that there should be a lack of confidence in quota currently and that its price should go down. Although this could be true, the other side of the equation suggests the recent economic hardships in the dairy industry caused many producers to rely on quota to improve their efficiency. Thus there is lack of supply of quota for sale, and this is keeping the low demand in check and prices from falling.

A “vote of confidence” by this committee will likely not have as much affect on the market price of quota as would a change in the interest rate, or an event that causes a large increase in disposable income for many dairy families. The only historical event that links strongly to the market price of quota would be the approaching of and the eventual change of the Producer – Handler exemption.

Exhibit 3.4 Quota Unchanged – POSITIVE Factors

Positive Factor

3.4 Many factors contribute to the selling price of quota; keys appear to be ROI & interest rates and traditional supply and demand

Votes

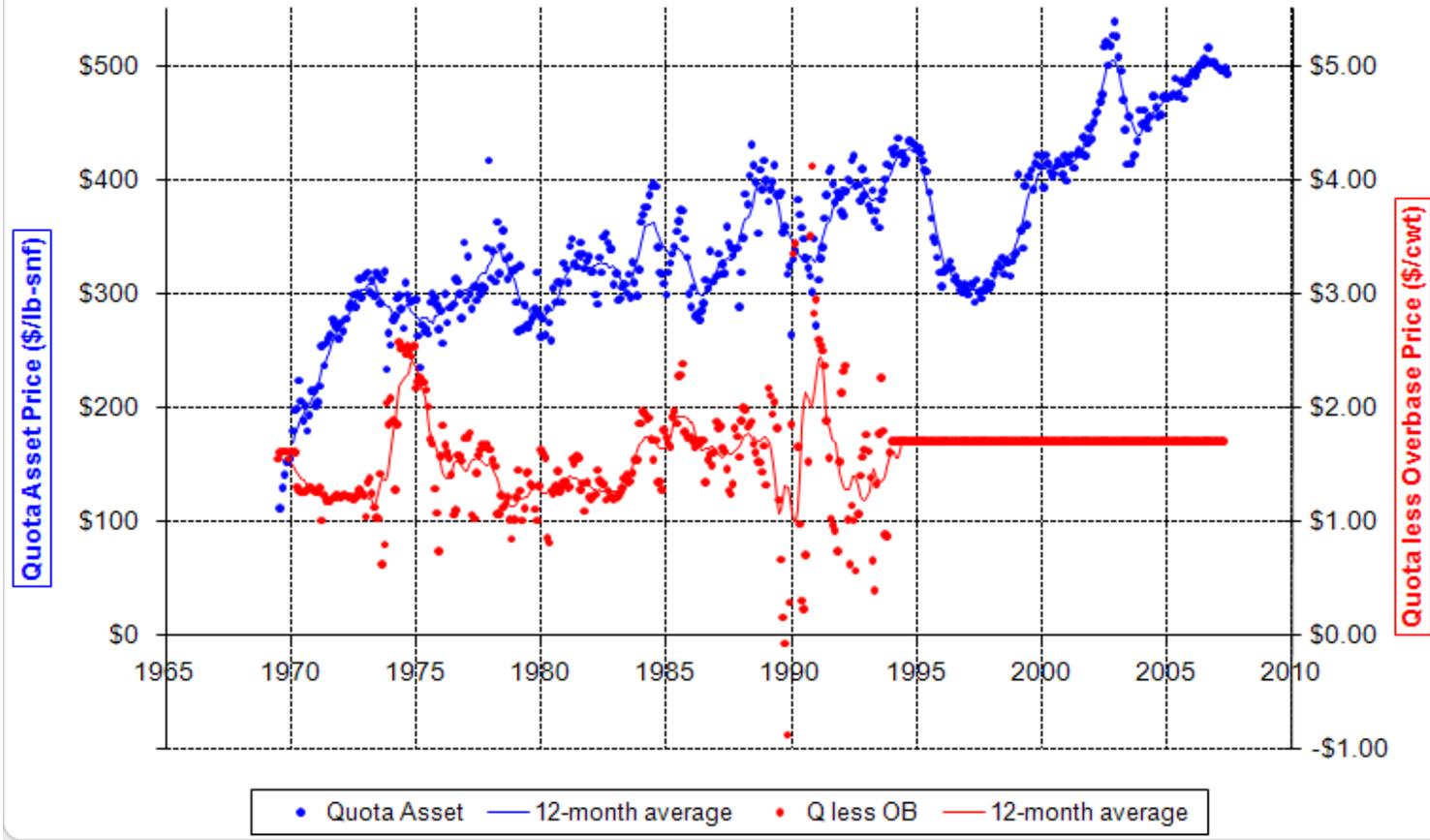
6

Who

Frank
Konyn

Pg

Selling Price of Quota without Cows (\$/lb-snf) compared to Quota Price less Overbase Price (\$/cwt) monthly, 1969 to 2007



This means?

Exhibit 3.4 Quota Unchanged – POSITIVE Factors

Positive Factor

3.4 Many factors contribute to the selling price of quota; keys appear to be ROI & interest rates and traditional supply and demand

Votes

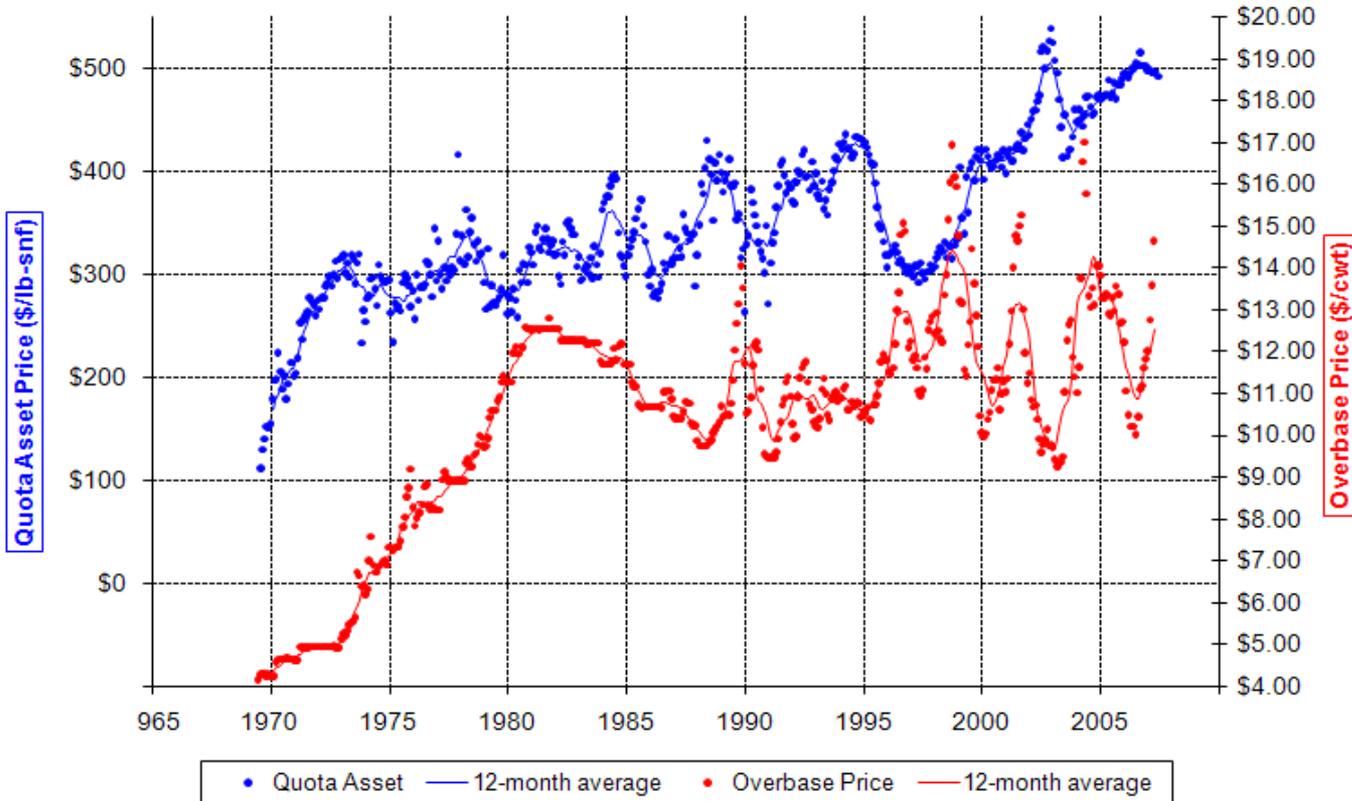
6

Who

Frank Konyyn

Pg

Selling Price of Quota without Cows (\$/lb-snf) compared to Overbase Price (\$/cwt) monthly, 1969 to 2007



This means?

Exhibit 3.4 Quota Unchanged – POSITIVE Factors

Positive Factor

3.4 Many factors contribute to the selling price of quota; keys appear to be ROI & interest rates and traditional supply and demand

Votes

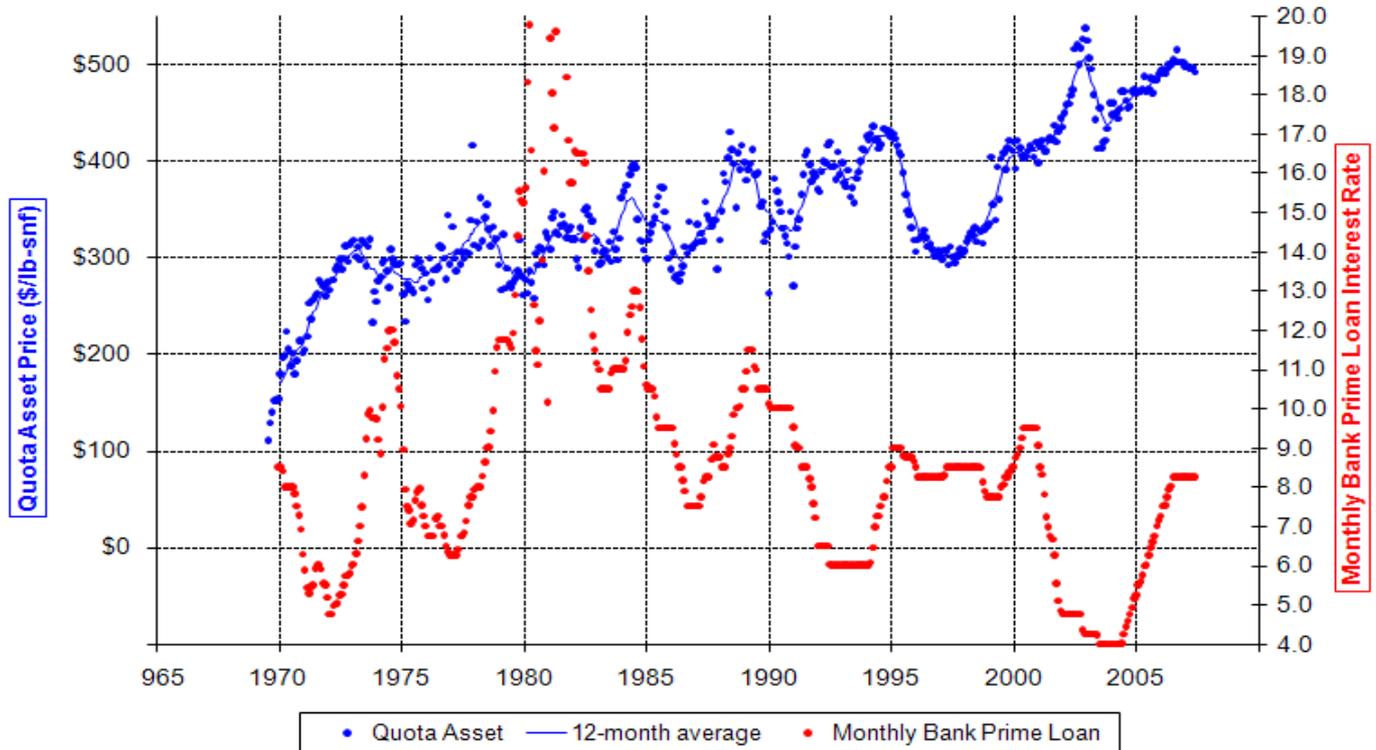
6

Who

Frank
Konyn

Pg

Selling Price of Quota without Cows (\$/lb-snf) compared to monthly bank prime loan, 1969 to 2007



CONCLUSION: there is no single factor that directly correlates with the price of quota.

Exhibit 3.5 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who	Pg
3.5 Quota helps protect the Pool (e.g. keeps milk in the pool)	6	Steve Maddox	15
<ol style="list-style-type: none"> 1. Without quota, some plants, particularly cheese plants, would be able to depool and pay their producers the minimum Class 4b price directly. 2. In April 2007, Class 4b contributed \$238 million to the pool (48%) --- possible dollar affect on the pool if there was a exodus from the pooling system 3. About 75% of the cheese plants could depool (proprietary plants CAN depool, but cooperatives cannot). 4. Depooling 25% of Class 4b milk in April 2007 would have decreased all pool prices by \$0.07 per cwt. 5. Depooling 50% of Class 4b milk in April 2007 would have decreased all pool prices by \$0.18 per cwt. 6. Cheese plants outside of California may depool (depooling is restricted in three of the federal milk marketing orders but not prohibited.) 7. California cheese plants have expressed an interest in having the ability to depool, just as their competitors outside of California do. 8. Without quota, some producers, when class 4b prices are favorable, would be able to depool and receive a price higher than the blend price accomplished by Producers switching from grade A to grade B (Producers upon annual notification are able to depool for the calendar year) 			
<p>CONCLUSION: quota helps protect the pool</p>			

Exhibit 3.6 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who	Pg
3.6 historic producer/distributor exemption has an impact on 5 Producer-Distributors (2007)	4	Richard Shehady	16
<p>Key Facts:</p> <ol style="list-style-type: none"> 1. The number of Producer's decreased 90% (from 49 to 5) between 1969 and 2007. 2. The total pounds of quota held by Producer's decreased 25% between 1969 and 2007. 3. The total pounds of quota held by Producer's accounted for 2.8% of regular quota. 4. Due to Producer class 1 sales growing 310% from 1985 to 2007; the amount of exempt quota held by Producer's (as a percentage of Producer class 1 sales) fell from 66% to 18%. 5. In April 2007, 4.4% of total pooled class 1 sales were Producer exempt. 6. In April 2007, .6% of total pooled milk was Producer exempt. 7. In April 2007, the difference between the class 1 price and quota price was \$.38/cwt. This would have yielded a theoretical cost to the pool of \$79,938 or \$.0025/cwt. 8. From January 2001 through April 2007, the difference between the class 1 price and the quota price was estimated to have averaged \$1.25/cwt. This would have yielded a theoretical cost to the pool of \$262,954 (based on April 2007 lbs.) or \$.008/cwt (based on April 2007 lbs.). <p>Analysis:</p> <p>Based on the facts provided above, the cost to the pool of maintaining the Producer exemption has become a relatively insignificant amount. However, to the few Producer's who have managed to survive it still represents a significant value. NOTE: ONCE PD quota is transferred it is no longer exempt.</p> <p>These numbers show that there is not a large amount of money that would benefit the pool.</p>			

Exhibit 3.6 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who	Pg
3.6 historic producer/distributor exemption has an impact on 5 Producer-Distributors (2007)	4	Richard Shehady	

	1969	1975	Apr 2007	Change '69 - '07
Number of PD's	49	27	5	-89.8%
Daily PD Quota Fat	32,802	22,563	24,875	-24.2%
Daily PD Quota SNF	79,773	54,575	59,814	-25.0%

<u>April 2007</u>	Regular Quota	Exempt Quota	Exempt % of Regular Quota
Daily Pounds Fat	883,013	24,875	2.8%
Daily Pounds SNF	2,153,723	59,814	2.8%

	Jan 1985	Apr 2007	Change '85 - '07
Total PD Class 1 Sales (lbs.)	27,783,804	114,073,380	310.6%
Total PD Quota (lbs.)	18,237,327	21,036,343	15.3%
% of Total PD Class 1 Sales Exempt	65.6%	18.4%	-71.9%

Total Pooled Class 1 Sales (lbs.)	474,846,535
% of Total Pooled Class 1 Sales Exempt	4.4%

Total Pooled Milk (lbs.)	3,256,061,174
% of Total Pooled Milk Exempt	0.6%

Theoretical Cost of Exempt Quota to Pool @ \$.38 / cwt*	\$ 79,938	\$.0025/cwt
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*Based on April '07 difference between Class 1 and quota prices.

Estimated Cost of Exempt Quota to Pool @ \$1.25 / cwt*	\$ 262,954	\$.008/cwt
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*Based on estimated average difference between class 1 and quota prices from 2001 - Apr 2007.

CONCLUSION:

Eliminating quota would have a major impact on the 5 P-D's but not significant to the overall Pool.

Exhibit 3.7 Quota Unchanged – POSITIVE Factors

Positive Factor	Votes	Who	Pg
<p>3.7 Quota benefits higher cost areas. To change the quota system is detrimental to high production cost areas of CA</p>	4	Domenic Carinalli	18
<p>According to CDFA, 2006 production costs for areas of California were as follows:</p> <ul style="list-style-type: none"> North Coast: \$16.72 cwt North Valley: \$14.20 cwt South Valley: \$14.10 cwt Southern California: \$13.73 cwt State Average: \$14.18 cwt <p><u>As an example</u>: factors to be considered in high cost areas include elements such as rainfall, transportation costs, land topography.</p> <p>Instead of buying cows or land, producers in higher cost areas can purchase quota as an alternative investment and mechanism for needed cash flow</p> <p>Having dairy producers in multiple legislative districts assists dairy farmers in promoting constituent concerns to elected officials. Elimination of quota could collapse the industry into only low cost areas eliminating widespread congressional support.</p> <p>CONCLUSION: Quota is a financial tool of value to dairy operations.</p>			

Exhibit 4: Quota Unchanged – NEGATIVE Factors

Negative Factor		Votes	Who	Pg
4.1	Non-Quota holders could help vote out current Pooling system returning producers to the old contract system. (Risk).	11	Frank Faria	20
4.2	Quota COULD go away with NO value.	8	Ray Veldhuis	21
4.3	Quota has changed from the original purpose. When \$1.70 fixed rate was implemented Quota became more of an investment tool.	6	Brad Scott	22
4.4	If Quota is not changed, we lose the potential to increase the overall California blend price	3	Steve Maddox	23
4.5	Overbase producers are unhappy with \$1.70 spread.	3	Ben Curti	24
4.6	Without a change to Quota it is harder to make other changes to Pooling System	2	Steve Maddox	25
4.7	It is difficult to gain support for California Pooling\ Pricing System from legislators while CA has Quota and other milk marketing orders do not.	2	Steve Maddox	26
4.8	With no change to Quota, it is harder to bring supply management ideas to the table.	2	Frank Faria	27
4.9	California's Class 1 milk market share is decreasing	1	Brad Scott	28
4.1 0	If we make no change, it looks like Committee is "rubber stamping" the current system.	1	Dennis Leonardi	29

Exhibit 4.1 Quota Unchanged – NEGATIVE Factors

Negative Factor		Votes	Who	Pg
4.1	Non-Quota holders could help vote out current Pooling system returning producers to the old contract system. (Risk).	11	Frank Faria	
<p>1. If producers that produce 25% or greater of the volume and 25% of dairymen, they can force a referendum.</p> <p>2. It takes 51% of producers representing 51% of the producers voting milk to reinstitute the variable spread (e.g. a vote out)</p> <p>3. It takes 51% of producers representing 65% of the voting milk to eliminate pooling OR 65% of producers representing 51% of the voting milk to eliminate pooling. At least 51% of eligible producers must participate to be a valid referendum.</p> <p>4. \$1.70 is "hard coded" into the pooling legislation to change to another fixed rate; e.g. \$1.70 to \$1.60. The purpose of the fixed rate is to be applied equally and eliminate fluctuation. However, the hard coded rate is/can be adjusted by RQA's.</p> <p>CONCLUSIONS (triggers to vote out pooling):</p> <ul style="list-style-type: none"> • Low milk prices • draw on overbase milk to subsidize quota shippers • Once we move to a referendum to change one aspect of quota/pooling, everything may be up for evaluation 				

Exhibit 4.2 Quota Unchanged – NEGATIVE Factors

Negative Factor	Votes	Who	Pg
4.2 Quota COULD go away with NO value.	8	Ray Veldhuis	

1. As milk production increases (e.g. 4% a year) the cost of retiring quota is less as the pool volume increases.

CONCLUSION:

It is unlikely that quota would go away with no value in the “near future” (e.g. next 5 years). A potential mitigating factor - RQA’s radically change.

Legislatively, it is technically possible to eliminate quota and retain pooling.

Exhibit 4.3 Quota Unchanged – POSITIVE Factors

Negative Factor		Votes	Who	Pg
4.3	Quota fixed \$1.70 spread (vs. variable) was and is to stabilize the industry. Any increase class price revenue goes to the pool not exclusively to quota holders.	6	Brad Scott	

Sample comments came from a variety of Producers.

1. Some producers call the \$1.70 a political compromise when the last time the Quota Review committee met. Giving a higher value to the Quota holder making it worth more & an investment tool. (This spread also came out of the Overbase producer's income in the last 2 ½ years)
2. With the increased value of Quota some have sold theirs to finance the expansion of there dairy operations.
3. Some producers may not have the financial resources to buy Quota even if it is on the market for sale.
4. Those who do not own Quota or who did but sold theirs for there own reasons will always complain about those who do own it.
5. This will always be a means of discussion as a division of the different classes of producers.
6. If there is no additional value to Quota why would anyone want to own it?
7. It forced the concept of a two tier pricing formula (positive or negative based on perspective)

CONCLUSION:

- **The original purpose was to stabilize the pooling system; \$1.70 was a 15 year average (this was a compromise number).**
- **as stated above: Quota fixed \$1.70 spread (vs. variable) was and is to stabilize the industry. Any increase class price revenue goes to the pool (shared by all quota and over quota producers). Under the variable spread class 1 price increases went exclusively to quota holders.**

Exhibit 4.4 Quota Unchanged – NEGATIVE Factors

Negative Factor	Votes	Who	Pg
4.4 If Quota is not changed, we lose the potential to increase the overall California blend price	3	Steve Maddox	
<ol style="list-style-type: none"> 1. The quota price is funded by removing the quota premium from the revenue pool, and, thus, the overbase price is lower because of the existence of quota within the last 2 ½ years. 2. In April 2007, the quota premium was \$11.5 million. 3. Without quota, there will be a single blend price, not a two-tiered pricing system, and the blend price will exceed the overbase price. 4. A blend price sounds more equitable to most California dairy producers as a whole (may vary by specific areas of the state) 5. In April 2007, the blend price would have been \$0.35 per cwt. higher than the overbase price (does not include any factors for buyout). Note: to get to a unified blend price we would need legislative action. <p>CONCLUSION:</p> <p>Changing the quota/pooling system to mirror federal milk marketing orders would improve chances of passing federal legislation to pool class 1 milk from out-of-state sources.</p>			

Exhibit 4.5 Quota Unchanged – NEGATIVE Factors

Positive Factor	Votes	Who	Pg
4.5 Quota and Overbase producers are unhappy with \$1.70 spread.	3	Ben Curti	
<p>1. Overbase producers do not like OB milk subsidizing Quota milk at there expense (during the last 2 ½ years in particular). Some producers would like to see the fix spread removed and allow the spread to float, this option takes referendum action, maybe not so easy and risky considering the possibility that pooling might get caught up in the issue.</p> <p>2. I have spoken to Don S about how we might show a possible administrative approach. Don was going to try to see if he could get something worked up. What if we just used the \$1.70 and had a floating RQA. The RQA could be large or small at times as long as it lessons the draw from OB milk. I don't know if any of this could be possible and how it would even work but it might be something that could be used and not disrupt the whole system at this time. Handouts necessary hopefully can be produced by Don for Mondays meeting. He has already done a worksheet of the variable spread with the current formula. Please have copies of the revised calculations available.</p>			
<p>CONCLUSION:</p> <p>Some producers that have low to no quota are dissatisfied with the \$1.70 spread.</p>			

Exhibit 4.6 Quota Unchanged – NEGATIVE Factors

Negative Factor	Votes	Who	Pg
4.6 Without a change to Quota it is harder to make other changes to Pooling System	2	Steve Maddox	
<p>1. Not changing the quota system would impede the ability of plants to depool readily (a good thing for producers who remain in the pool).</p> <p>2. Not changing the quota system may restrict the ability of the industry to come to consensus regarding changes in the RQA system.</p> <p>3. Not changing the quota system would make it difficult to consider seriously expanding the support for quota by issuing more quota or altering the method by which the quota price is paid out (i.e., \$1.70 differential).</p> <p>4. Fear of undermining the value of quota has prevented widespread representation and support to efforts of enhancing pool revenue.</p> <p>5. Quota does not guarantee producer profitability (2006 producer margins).</p> <p>CONCLUSION:</p> <p>Quota is an integral part of the pooling system. Changes to the pooling system would have to evaluate the implications on/of quota.</p>			

Exhibit 4.7 Quota Unchanged – NEGATIVE Factors

Negative Factor		Votes	Who	Pg
4.7	It is difficult to gain support for California Pooling\Pricing System from national and California legislators while CA has Quota and other milk marketing orders do not.	2	Steve Maddox	
<ol style="list-style-type: none"> 1. Quota may be used an excuse by members of Congress not to consider federal legislative changes suggested by California. 2. Quota is a common stumbling block, an odd piece in milk pooling often misunderstood, inhibiting the acceptance of California input on national milk pricing issues. (forward contracting, MILC payments, etc.) 3. The quota system adds another layer of complexity to an already complex system. Fewer and fewer legislators have any agricultural background at all (federal and state levels). 4. Quota is a \$1 billion asset and producers may be fearful of asking for ANY legislative changes because changes to the quota system and to quota value may become intermingled inadvertently. <p>CONCLUSION:</p> <p>Quota adds complexity to our pricing structure increasing the difficulty to understand the system.</p>				

Exhibit 4.8 Quota Unchanged – NEGATIVE Factors

Positive Factor	Votes	Who	Pg
4.8 With no change to Quota, it is harder to bring supply management ideas to the table.	2	Frank Faria	
<p>1. Dairymen in California are split between the "Have's", and the "Have Not's", creating divisions among all dairymen in accomplishing a common goal: an equitable pricing system for all.</p> <p>2. As long as Quota remains an issue both in California and on a national basis, we as dairymen continue to be divided and a common goal of supply management cannot be attained.</p> <p>3. To further divide dairymen, the fact that over-base milk has been subsidizing Quota for over two and one-half years has really driven dairymen further apart than ever before.</p> <p>Brad Scott (personal opinion and discussions with other Dairymen): The Gonzales act which created Milk Pooling & Quota to me was the original supply management plan. Producers were allocated Quota based on Class 1 usage & a base was set. Over base was just what it says Milk Over the Base. These were the rules put in place & everyone knew what was going on. Over time producers have chosen to either sell there Quota to be a Over base producer or have continued to produce milk knowing that they would receive Over base price. Now we have producers wanting to get more for there milk when they knew that they were a Over base producer & are due the over base price. To me that was intended to be the supply management tool that is currently in place. This has changed in the eyes of some to think that they should be entitled to more of the pie.</p> <p>CONCLUSION:</p> <p>Not in the QRC charter – <u>dropped</u> from our quota evaluation</p>			

Exhibit 4.9 Quota Unchanged – NEGATIVE Factors

Negative Factor	Votes	Who	Pg
4.9 California's Class 1 milk market share is decreasing (absolute pounds if flat to slight increase)	1	Brad Scott	
<p>Mc Kinsey report. Spring 2006 part 1 pg. 40</p> <ol style="list-style-type: none"> 1. A. Declining fluid milk consumption will lead to a small decrease in Class 1 sales (market share). 2. B. California population will grow 1 percent per year through 2020 3. C. Class 1 sales will decrease by 0.3 percent per year. 4. D. 200 million fewer pounds of milk will go into Class1. (If this trend continues) 5. E. CDFA history state's Class 1 utilization which was used for beverage products command higher prices for the pool. 6. F. No new quota will be issued, with no new Class 1 usage. <p style="margin-left: 40px;">Add some data here for July 13th meeting"</p> <p>CONCLUSION:</p> <p>Without increases in class 1; no more quota to be issued.</p> <p>The influx of out-of-state packaged class 1 milk is not known but taking away CA dairy industry market share. This in turn takes away revenue from Pool revenue.</p>			

Exhibit 4.10 Quota Unchanged – NEGATIVE Factors

Negative Factor		Votes	Who	Pg
4.10	If we make no change, it looks like Committee is “rubber stamping” the current system (perception)	1	Dennis Leonardi	
<p>1. If legislation is proposed or needed for any fix or modify the current system each and every step provides public opportunity to comment on the proposed changes or the system in general.</p> <p>2. If producer referendum is needed there is an extra ordinary amount of energy to prepare and present the changes to dairymen</p> <p>3. If legislation in needed or hearings required trade organization and producers will invest thousand of hours to prepare testimony or language needed to effect change.</p> <p>4. The billion dollar plus value could be in jeopardy if a comprehensive overhaul is considered</p> <p>5. Changes outside the hearing process have multiple entry points for others unfamiliar with pricing system to make changes that could be detrimental</p> <p>CONCLUSION:</p> <p>The response to this negative factor is the current process of QRC (see 3.2)</p>				

Exhibit 5: Modify Quota – Alternatives to be Evaluated

Modification of Quota - ALTERNATIVE		Votes	Who	Pg
5.1	Look at changing Regional Quota Adjusters (RQAs) across the State (make them all the same in each region)	10	Ben Curti, Domenic Caranallij	31
5.2	Reinvigorate Quota . Add more value by reconstructing Pool by expanding Classes of Milk. Include and reissue Quota.	6	Steve Maddox	37
5.3	Double Quota but cut fixed differential in half from \$1.70 to \$0.85.	5		39
5.4	Distribute all Quota to all dairymen and take current money in overbase and redistribute to Quota value losers.	1		40
5.5	Go back to pre 1994 variable spread between Quota and Overbase. Only Quota holders would get higher/lower Class 1, 2, 3 values	1		41
5.6	Redistribute Quota to ALL producers	1		42
These alternatives had zero votes:				
5.7	Raise the fixed differential from \$1.70 to a higher level to encourage investment in Quota.	0		43
5.8	Freeze the Overbase going into the Quota Pool. Link Quota Pool only to Class 1, 2, and 3.			44
5.9	Producer/Distributors- Calculate value of milk that is covered by Exempt Quota, compare to historical levels. Consider including it in Pool.			45

Exhibit 5.1 Modify RQA

Modification Alternative	Votes	Who
5.1	Looking at changing Regional Quota Adjusters across the state	10 Ben & Domenic

The RQA dollars have increased over the years thus the \$'s needed for quota have declined due to the relocation quota from low to high RQA areas.

We can change RQA's through administrative procedure with a referendum if more than 5% of producers are opposed.

	RQA \$	Quota \$ (less RQA)
April-04	\$997,594	\$11,602,696
April-05	\$1,033,620	\$11,557,923
April-06	\$1,065,755	\$11,514,880
April-07	\$1,098,296	\$11,500,985

Exhibit 5.1 Modify RQA

Modification Alternative	Votes	Who
5.1 Looking at changing Regional Quota Adjusters across the state	10	Ben & Domenic

Option 1: Eliminate RQAs (no change in \$1.70 quota differential)

- Based on the April 2007 pool, RQA's amounted to \$1,098,296
- \$1,098,296 divided by the 32,560,612 cwt of pooled milk in April 2007 = approximately \$0.034 per cwt cost on all milk to eliminate

	April-07	% Quota coverage for breakeven given RQA elimination and no adjustment to current \$1.70 differential	NEW
RQA (San Joaquin & North)	-\$0.11	30.7%	\$0.00
Quota differential	\$1.59		\$1.70
RQA (N. Bay/Coast)	-\$0.05	67.5%	\$0.00
Quota differential	\$1.65		\$1.70
RQA (Fresno, Kings, Tulare)	-\$0.27	12.5%	\$0.00
Quota differential	\$1.43		\$1.70
RQA (Kern)	-\$0.205	16.5%	\$0.00
Quota differential	\$1.50		\$1.70
RQA (S. California)	\$0.00		\$0.00
Quota differential	\$1.70		\$1.70
		Cost to all milk given elimination of RQAs	\$0.034

Exhibit 5.1 Modify RQA

	Modification Alternative	Votes	Who
5.1	Looking at changing Regional Quota Adjusters across the state	10	Ben & Domenic

Option 2: Eliminate (e.g. uniform) RQAs but spread cost across quota holders = pool neutral

- Results in same quota differential across the state = \$1.5521 cwt
- \$1,098,296 divided by the 64,611,697 pounds of quota SNF in April 2007 =
- \$0.0170 per pound of SNF or \$0.1479 per cwt reduction in \$1.70 differential needed for a pool neutral impact
- Individual producer impact depends on quota holdings and RQA area

Modifying RQA's to \$1.5521 per CWT would be pool neutral and would equalize all quota holders in the state. This I feel would be a great compromise for all quota holders in the state and would have broad support.

Current \$1.70 Differential (estimates)

Estimation of Net Returns from Quota Ownership by RQA area and % Coverage (using upper boundary)									
			Percent Quota Coverage						
			0%	1-25%	26-50%	51-75%	76-95%		
RQA (San Joaquin & North)	-\$0.11	# of producers	289	245	168	86	45	20	
Quota differential	\$1.59	Effective quota premium (using higher boundary)	\$0.00	\$0.40	\$0.80	\$1.19	\$1.51	\$1.59	
RQA (N. Bay/Coast)	-\$0.05	# of producers	43	5	28	42	19	23	
Quota differential	\$1.65	Effective quota premium (using higher boundary)	\$0.00	\$0.41	\$0.83	\$1.24	\$1.57	\$1.65	
RQA (Fresno, Kings, Tulare)	-\$0.27	# of producers	249	195	91	36	10	7	
Quota differential	\$1.43	Effective quota premium (using higher boundary)	\$0.00	\$0.36	\$0.72	\$1.07	\$1.36	\$1.43	
RQA (Kern)	-\$0.21	# of producers	23	11	15	8	4	0	
Quota differential	\$1.50	Effective quota premium (using higher boundary)	\$0.00	\$0.37	\$0.75	\$1.12	\$1.42	\$1.50	
RQA (S. California)	\$0.00	# of producers	46	11	25	36	27	5	
Quota differential	\$1.70	Effective quota premium (using higher boundary)	\$0.00	\$0.43	\$0.85	\$1.28	\$1.62	\$1.70	
		Total # of Producers	650	467	327	208	105	55	
		Average Net Return	\$0.00	\$0.39	\$0.79	\$1.18	\$1.49	\$1.57	
							Weighted Average	\$0.51	

Exhibit 5.1 Modify RQA

Modification Alternative	Votes	Who
5.1 Looking at changing Regional Quota Adjusters across the state	10	Ben & Domenic

Option 2: Eliminate RQAs but spread cost across quota holders = pool neutral

Under Statewide Differential (estimates)

Estimation of Net Returns from Quota Ownership Given a Statewide Differential and % Coverage (using upper boundary)								
			Percent Quota Coverage					
			0%	1-25%	26-50%	51-75%	76-95%	96+%
RQA (San Joaquin & North)	\$0.00	# of producers	289	245	168	86	45	20
Quota differential	\$1.55	Effective quota premium (using higher boundary)	\$0.00	\$0.39	\$0.78	\$1.16	\$1.47	\$1.55
RQA (N. Bay/Coast)	\$0.00	# of producers	43	5	28	42	19	23
Quota differential	\$1.55	Effective quota premium (using higher boundary)	\$0.00	\$0.39	\$0.78	\$1.16	\$1.47	\$1.55
RQA (Fresno, Kings, Tulare)	\$0.00	# of producers	249	195	91	36	10	7
Quota differential	\$1.55	Effective quota premium (using higher boundary)	\$0.00	\$0.39	\$0.78	\$1.16	\$1.47	\$1.55
RQA (Kern)	\$0.00	# of producers	23	11	15	8	4	0
Quota differential	\$1.55	Effective quota premium (using higher boundary)	\$0.00	\$0.39	\$0.78	\$1.16	\$1.47	\$1.55
RQA (S. California)	\$0.00	# of producers	46	11	25	36	27	5
Quota differential	\$1.55	Effective quota premium (using higher boundary)	\$0.00	\$0.39	\$0.78	\$1.16	\$1.47	\$1.55
Total # of Producers			650	467	327	208	105	55
Average Net Return			\$0.00	\$0.39	\$0.78	\$1.16	\$1.47	\$1.55
Weighted Average								\$0.51

Exhibit 5.1 Modify RQA

Modification Alternative	Votes	Who
5.1	Looking at changing Regional Quota Adjusters across the state	10 Ben & Domenic

Option 1: Eliminate RQAs (no change in \$1.70 quota differential)

- If you are going to eliminate RQA, then I feel that we should eliminate Transportation Credits also. Southern California has a distinct disadvantage at higher rail and trucking cost to get feed in and manure out because of lack of available land around us. Why should we put the Central Valley at an even playing field with us and then help subsidize their milk haul? Yes we chose to live here, but we also chose to have quota.
- Agree with option 1, with the understanding that to have \$1.70 RQA differential on all quota milk would cost the pool approximately \$0.034 per CWT on all milk in the pool. I feel that this would be difficult to get support for implementation.
- Modifying RQA's to \$1.5521 per CWT would be pool neutral and would equalize all quota holders in the state. This I feel would be a great compromise for all quota holders in the state and would have broad support.

Exhibit 5.1 Modify RQA

Modification Alternative	Votes	Who
5.1 Looking at changing Regional Quota Adjusters across the state	10	Ben & Domenic

Option 1: Eliminate RQAs (no change in \$1.70 quota differential) = zero QRC votes

Option 2: Eliminate RQAs but spread cost across quota holders = pool neutral = 111

Option 3: variable RQA (with a fixed spread) (based on class 1, 2, 3; process will need clarity on what will the overbase price be drawn on) = 1

Option 4: unchanged = 11111

Exhibit 5.2 Reinvalidate Quota

Modification Alternative	Votes	Who
5.2		Reinvalidate Quota . Add more value by reconstructing Pool by expanding Classes of Milk. Include and reissue Quota.
	6	Steve Maddox
<p>a. Instead of cutting the differential, increase it. The higher differential will encourage producers to invest in quota and give a larger support base of quota owners.</p> <p>b. For example, a \$5.00 differential for April would have resulted in a quota price of \$18.87 and an overbase price of \$13.87. The quota price would have been \$2.53 higher than the announced price, and the overbase price would have been \$0.77 lower than the announced price.</p> <p>c. Issuing more quota in addition to raising the differential may make the higher quota prices and lower overbase prices more appealing.</p> <p>d. A higher differential may be a means of instituting supply management indirectly as the overbase price will be (possibly) lower than the lowest class price.</p> <p>e. Example of a new system: Reissue quota/base using average production over a 3-year period tempered by a factor of overall milk production. Payout of revenue pool using the state survey cost of production (make allowance for producers). Any milk production over the quota/base amount would be priced using the balance of pool capped at a set spread. Quota can be retired within cost of production allowances.</p> <p>f. Quota/base growth tied to market consumption.</p> <p>Any modification of quota that enhances value <u>without</u> providing for new issuance will further exacerbate the current concerns and problems.</p> <p>CONCLUSION Unanimous agreement of QRC - this is not a viable option.</p>		

Exhibit 5.2 Reinvalidate Quota

Modification Alternative	Votes	Who
5.2		Reinvalidate Quota . Add more value by reconstructing Pool by expanding Classes of Milk. Include and reissue Quota.
	6	Steve Maddox
NEW COMMENTS:		
<ul style="list-style-type: none"> • Nobody can predict the future. What if production continues to grow and once again overbase producers have more weight than quota producers? What if production decreases and there is money tied up in quota ownership that is not yielding a return on the dollar. The current system is not that bad, and was founded on solid principles. People knew the rules ahead of time. • Supply management of any sort flies in the face of a free market enterprise society, and will never encourage us to compete in a world market. Supply management only insures existing producers will have guaranteed income. Business is about risks. Deal with it. Get up earlier, work harder, don't spend so much time at meetings, and don't keep going to the Governor asking for relief every time the weather gets hot and your cows die • I feel that this page is difficult to understand and implement. I feel it should not be considered. • Quota was established to draw into the pooling concept, by incentives, segments of the dairy industry that otherwise would have little interest in joining. That system has been an incredibly beneficial move for the California dairy industry. • Quota is freely traded, is available at a price to any producer, has few restrictions, has no victims, no downsides. It provides a financial "handicap" to producers needing a boost because of where their facility is located, and after 39 years, the industry's geographic configuration is likely heavily impacted by that fact. • Quota returns 11%-15% on dollars invested, and cows return 30%-35%. Obviously, those who purchase quota, at least in many cases, are those who permanently or temporarily cannot add cows. This is an additional asset growth opportunity. • Not sure current quota holders would approve of this, would this erode value by 1/2? 		

Exhibit 5.3 Double Quota

Modification Alternative	Votes	Who
5.3 Double Quota but cut fixed differential in half from \$1.70 to \$0.85.	5	

NEW COMMENTS:

- Why are we wasting time discussing this? Isn't the underlying feeling of our group is that the quota system is not that broke?
- If it isn't broke why fix it? Is there such a clear cut injustice that the quota system provides?
- Not sure this would help in solving the issue of quota drawing \$ from overbase, if your going to this much trouble just return to a variable differential.
- The positive benefit would increase the number of quota holders.

CONCLUSION: Unanimous agreement of the QRC this is not a viable option.

Exhibit 5.4 Distribute Quota to all Dairymen

Modification Alternative	Votes	Who
5.4 Distribute all Quota to all dairymen and take current money in overbase and redistribute to Quota value losers.	1	
<p>NEW COMMENTS:</p> <ul style="list-style-type: none">• Just another form of a buyout, without eliminating quota altogether.• This approach requires periodic updates (e.g. every 10 years). <p>CONCLUSION: Unanimous agreement of the QRC this is not a viable option.</p>		

Exhibit 5.5 Go back to pre-1994 Quota variable spread

Modification Alternative	Votes	Who
5.5 Go back to pre 1994 variable spread between Quota and Overbase. Only Quota holders would get higher/lower Class 1, 2, 3 values.	1	
<p>NEW COMMENTS:</p> <ul style="list-style-type: none">• Many dairyman would like to see this happen if quota is not eliminated.• Implications to the Pool (using the current formulas): the overbase producers would be worse off going to the variable spread. <p>CONCLUSION:</p> <ul style="list-style-type: none">• This is <u>not</u> a viable option: 1111111 <p>This <u>is</u> a viable option: 11</p>		

Exhibit 5.6 Redistribute Quota to all producers

Modification Alternative	Votes	Who
5.6 Redistribute Quota to ALL producers	1	
<p>NEW COMMENTS:</p> <ul style="list-style-type: none">• Would still need to compensate current quota holders for the investments that have been made. <p>CONCLUSION: Unanimous agreement of the QRC this is not a viable option.</p>		

Exhibit 5.7 Raise the fixed Quota differential

Modification Alternative	Votes	Who
5.7 Raise the fixed differential from \$1.70 to a higher level to encourage investment in Quota.	0	
<p>NEW COMMENTS:</p> <ul style="list-style-type: none">• Counter productive to what we are trying to accomplish <p>CONCLUSION: Unanimous agreement of the QRC this is not a viable option.</p>		

Exhibit 5.8 Reinvigorate Quota

Modification Alternative	Votes	Who
5.8 Freeze the Overbase going into the Quota Pool. Link Quota Pool only to Class 1, 2, and 3.	0	
<p>NEW COMMENTS:</p> <ul style="list-style-type: none">• Instead of this we need to not have overbase contribute any monies to quota and vice versa. How can this be accomplished? <p>CONCLUSION: Unanimous agreement of the QRC this is not a viable option.</p>		

Exhibit 5.9 P-D exempt Quota – consider including in the pool

Modification Alternative	Votes	Who
5.9 Producer/Distributors - Calculate value of milk that is covered by Exempt Quota, compare to historical levels. Consider including it in Pool.	0	
<p>NEW COMMENTS:</p> <ul style="list-style-type: none">• We have already dealt with this issue, hard sell and historical exemptions. Not that much money involved.• Why? Minimal impact (benefit) to the pool; major negative impact to 5 PD's. <p>CONCLUSION: Unanimous agreement of the QRC this is not a viable option.</p>		

Exhibit 6: Retire Quota – Alternatives to be Evaluated

Retire Quota - ALTERNATIVE		Who	Pg
6.0	CONCLUSIONS of QRC on single vs. installment method		47
6.1	Single payout method: LOOKS LIKE		48
6.11	Single Payout Method (pros - upside)		50
6.12	Single Payout Method (cons - downside)		51
6.2	installment payout method: LOOKS LIKE (PRIMARY OPTIONS)	All QRC members to comment	52
6.21	installment Payout Methods (pros - upside)		55
6.22	installment Payout Methods (cons - downside)		56
6.3	Challenges of retiring quota		57
	Benefits of retiring quota		58

CONCLUSIONS OF QRC:

1. Self-funding installment method:

The cash flow requirements of using a installment payout method would not require a debt instrument. The way the math could work is paying out quota on a fixed rate of return (say 6%) with the quota (\$1.70) differential no longer be paid. The differential would be used to retire quota; "\$11 million" per month will pay off \$1 billion in 10 years @ a rate of 6%.

Viable: 1111111

2. Single Payout method (Industrial revenue bond funding):

Lump sum payment requires a debt instrument. The concept of floating a bond presented in the McKinsey report was unintentionally misleading as to relative ease and cost issuing a bond to finance the payout. The numbers presented in the McKinsey are general and extremely inaccurate.

We would be looking at a minimum 12-20 year payout period considering costs for underwriting and the premiums for related risks involved.

Viable: 11

PRIMARY ELEMENTS TO INCLUDE:

Lump sum payout with two options:

1. 110% payout based on a one year average quota CDFA registered selling price. 111111
2. 100% payout based on a one year average quota CDFA registered selling price. 111

Options to go with 1 or 2:

- State “green credits” for environmental improvement
- Use 12 month average quota net sales price
- Financing alternative (for the lump sum payout) using a long-term bond secured by the pool

ADDITIONAL COMMENTS:

- Any retirement quota value set at a higher or lower percentage than a determined time period’s average selling price can be perceived as unfair (greedy) by the industry.
- Grossing up quota retirement price to cover potential tax liability raises undue review and skepticism from the public, department, legislators, and the industry.
- Potential backlash on “cute” pricing scheme would split industry and endanger what we are trying to protect- Pooling and Quota investment.
- Either one of these proposals would be clean and simple to implement. By far, they are the best proposals. Using 12 month or 3 year average on quota prices would be fair and equitable to all. Green credits for environmental improvements may get complicated and hard to regulate. Financing alternatives with a bond secured by the pool would be the simplest way to buy out quota

PRIMARY ELEMENTS TO INCLUDE:

Lump sum payout with two options:

1. 100% payout based on a three year average quota net selling price PLUS a 15% pick-up to cover capital gains.
2. 110% payout based on a three year average quota net selling price PLUS a 15% pick-up to cover capital gains.

Options to go with 1 or 2:

- State “green credits” for environmental improvement
- Use 12 month average quota net sales price
- Financing alternative (for the lump sum payout) using a long-term bond secured by the pool

ADDITIONAL COMMENTS:

- Option 1 combined with some form of lump sum payout is best alternative.
- I think Lump Sum Payout with two options: 1) 100% and 15% capital gains 2) 110% payout with 15% capital gains. Either one of these proposals would be clean and simple to implement. By far, they are the best proposals. Using 12 month or 3 year average on quota prices would be fair and equitable to all. Green credits for environmental improvements may get complicated and hard to regulate. Financing alternatives with a bond secured by the pool would be the simplest way to buy out quota.

BENEFIT

1. A fair way to buyout the existing quota system.
2. Lump sum up front to offset lost income.
3. Provides opportunities to reinvest in your dairy operation and/or offset environmental requirements.
4. Transaction completed in one step; clear knowledge of financial status.
5. With a lump sum payout it provides the dairyman with options to:
 - a. Buy cows;
 - b. Pay down debt;
 - c. Invest in alternatives;
 - d. Purchase land and reinvest in other or related businesses.
6. Pay the taxes: the tax rate will be going up.

ADDITIONAL COMMENTS:

- #6 should be deleted due to its' divisive perception of charging the pool and other dairymen to pay ones taxes.
- Though legislation possibility of a "green tax" on fluid milk to help pay quota bond cost. Offset in deduction to pool could be termed as a monthly environmental offset to help defray new environmental regulatory costs.
- Best option for all. Quota retired and everyone has their money to invest as they wish.
- Agree with all comments as presented at last meeting.

COSTS - NEGATIVES

1. Taxes, taxes, taxes.
2. Loss of return differential: quota is approximately 16% ROI which will be difficult to match.
3. Timing of lump sum payment is critical to adjust for tax implications.
4. Potential for decreased cash flow to run operations.
5. ROI alternatives (estimates – needs evaluation support):
 - a. 8% return on solids;
 - b. $2 \frac{1}{2} \text{ lbs/cow} \times \$40 = \$100$
 - c. $25,000 / 250 \text{ cwt}$ nets to \$.40 vs. \$1.70

ADDITIONAL COMMENTS:

- 5 to 7 years down road without other pooling changes quota bond payments could outstrip increase to blend price.
- Loss of income and tax issues two most pressing problems. With work can be overcome.
- Agree with the many problems that were put on the table at the last meeting.

6.2 INSTALLMENT PAYOUT METHOD

PRIMARY ELEMENTS TO INCLUDE:

Option 1: installment process over 5-7 years in equal payments. (Option 1a: same as 1 but 3-5 years)

Option 2: installment buyout in 5 equal increments (option 2a – equal installments but monthly over 60 months)

- a. the quota holder continues to earn income on all unretired quota;
- b. TBD – what is the value of quota: e.g. 100%; 100% + 15% up-take, etc.

Option 3: variations on 1 & 2 above:

- a. Interim value opportunity to sell quota.
- b. December 31 and January 1 installment options.

Monthly Payment Required to Repay \$1,090,260,811 Loan

Rate	Years			
	5	10	15	20
0%	18,171,014	9,085,507	6,057,005	4,542,753
5%	20,574,567	11,563,907	8,621,713	7,195,239
6%	21,077,796	12,104,130	9,200,240	7,810,967
7%	21,588,471	12,658,852	9,799,572	8,452,780
8%	22,106,558	13,227,872	10,419,100	9,119,378
9%	22,632,021	13,810,963	11,058,151	9,809,360
10%	23,164,820	14,407,877	11,715,998	10,521,253

Amount based on 2,215,977.26 pounds at \$492 per pound

PRIMARY ELEMENTS TO INCLUDE:

The cash flow requirements of using an installment payout method would require a debt instrument. The way the math could work is payout quota on a fixed rate of return (say 6%) but quota (\$1.70) differential would no longer be paid. The differential would be used to retire quota; \$11 million per month will pay off \$1 billion in 10 years @ a rate of 6%.

PRIMARY ELEMENTS TO INCLUDE:

Option 1: installment process over 5-7 years in equal payments. (Option 1a: same as 1 but 3-5 years)

Option 2: installment buyout in 5 equal increments (option 2a – equal installments but monthly over 60 months)

- a. the quota holder continues to earn income on all unretired quota;
- b. TBD – what is the value of quota: e.g. 100%; 100% + 15% up-take, etc.

Option 3: variations on 1 & 2 above:

- a. Interim value opportunity to sell quota.
- b. December 31 and January 1 installment options.

PRACTICAL REALITIES: the cash flow requirements of using a installment payout method would require a debt instrument. The way the math could work is payout quota on a fixed rate of return (say 6%) but quota (\$1.70) differential would no longer be paid. The differential would be used to retire quota; \$11 million per month will pay off \$1 billion in 10 years @ a rate of 6%.

ADDITIONAL COMMENTS:

- Another option- 10 year payoff with interest from pool- quota retired day 1 or option of upfront payoff (partial bond).
- The installment buyout option 2a is very good. It needs to be over 7 to 10 years, payout should not exceed the current monthly amount that quota draws on pool. Additionally if quota holder is bought out with this type of plan then should only receive 100% of value, getting value from remaining quota each year.
- Option 1, 2, and 3 are very complicated and difficult. It would be hard both for the department and the dairy industry to understand the process of installment payout method. It would extend the time to complete the elimination of quota

BENEFIT

1. Tax planning.
2. Spreads out the cost to the pool (reduces or eliminates the need for underwriting a bond issue).
3. Ability for quota holders to take advantage of remaining quota.
4. Offsets a higher blended rate of return.
5. Fixes rate of return (reduces risk).

ADDITIONAL COMMENTS:

- Agree with comments 1 through 5
- Best option is incremental buyout over 7 to 10, option 2a, allows these benefits to be accessed.

COSTS - NEGATIVES

1. Potential tax increase for quota.
2. Do not have "all money" up front to make major changes.
3. System is complicated for CDFA to maintain.
4. Installments reduce the blend price.
5. Marketability of quota goes down over time.

ADDITIONAL COMMENTS:

- Less money left at end of installment period to reinvest or diversify by payoff dairymen.
- Less money in pool to make bond payment (potential negative blend price with bond payment).
- Potential for capital gains to increase over time.
- Marketable of quota will diminish over time.
- #2 is major reason for not using a installment buyout method

Challenges include:

1. Legislative action required.
2. Financial cost of retiring quota:
 - a. Single payment method: necessity of bond underwriting
 - b. Installment payment method: "some incremental costs for setting up the process"
 - c. For either method potential for increased cost to CDFA.
3. Decrease in cash flow for quota holders; lower rate return.
4. Requires industry support to implement a change.
5. P-D resistance unless they retain their exemption.
6. Help for dairies in how to manage the influx of cash.
7. At the end of the payout period what is the benefit to the California Dairy Industry?

ADDITIONAL COMMENTS:

- Pro/Con : dairymen should/may have the opportunity to vote on quota question.
- #1-This will be a lot of work.
- Would make all dairyman equal as far as pay price, opportunity for changing pooling so we can capture more class 1 \$, or stop \$ flow to other states or outside milk moving into our market.
- Agree with comments 1 – 7. I feel after reading the challenges, that we as a committee if necessary, need to implement minor changes, but overall to maintain the quota system.

Positives – advantages include:

1. All dairymen will receive equal blend price.
2. Retiring quota at the highest historical price.
3. If we do not retire quota, other dairy producers will.
4. Ensures a ROI on the quota investment.
5. The installment process may be the least painful transition out of quota.
6. Use of quota cash to meet environmental costs.

ADDITIONAL COMMENTS:

- Retiring quota will protect pool for long term, return value of quota investment to dairymen owners.
- Legislation for retirement could separate quota vote from whole pool vote (i.e. \$1.70 fixed differential) and at same time require a value to retire quota.
- I feel that there is little benefit, if any, to change a system that has worked well for the last 30+ years.
- #5 probably best method to paying for retiring quota. Needs to be over 7 to 10 years so it will not draw more \$ than it already is from the pool.
- After reading 1 – 6, I feel that there is little benefit, if any, to change a system that has worked well for the last 30+ years.

Exhibit 7: Quota and Pooling Data

Dairy Data affecting Pooling and Quota		Pg
7.1	Overbase Pool/Gain(loss) under fixed \$1.70 Differential vs. Variable Spread	60
7.2	Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas	65
7.3	Overbase Price Increase with Uniform Blend Price vs. Fixed Differential	71
7.4	Impact to the Pool for every CWT of Class 1 sales lost to out-of-state shippers	73
7.5	Change in Percent Production covered by Quota due to 10% increase in production	75
7.6	Referendum explanation	77
7.7	Amendments or Termination of the Milk Pooling Plan	80
<i>The above data/factual exhibits include explanatory comments from Donald Shippelhouse, CDFA</i>		

Exhibit 7.1 Overbase Pool/Gain(loss) under fixed \$1.70 Differential vs. Variable Spread

A common concern was raised early on in the discussions of this committee. That was that under the current pool payout method (\$1.70) money was being diverted from the overbase pool to the quota pool. This comparison was made assuming that the money that would have gone to overbase producers in the old payout method (variable spread) was overbase money.

The spreadsheet that was referred to as the "eye chart" due to its small font was prepared to show the revenue paid to overbase producers under the \$1.70 method vs. what they would have received under the variable spread. The far right hand column of this spreadsheet shows the net gain or loss to the overbase pool. Since January 1, 1994 (when the \$1.70 went into effect), using the historically announced prices, the overbase pool has been enriched by \$183,231,095.90. It also shows that in the last three years, that the overbase pool has contributed to the quota pool.

An easier to read version, which has had some of the data removed, and the font size increased is included in these notes.

Exhibit 7.1 Overbase Pool/Gain(loss) under fixed \$1.70 Differential vs. Variable Spread

Overbase Pool Gain/(Loss) under Fixed \$1.70 Differential Vs Variable Spread

		Overbase Pounds		Overbase revenue		overbase gain or (loss)	Annual Dollars Gained by overbase milk
		Fat	SNF	\$1.70 spread	Variable Spread		
1994	Jan	45,001,204	100,240,486	\$129,381,420	\$125,402,006	\$3,979,414	
	Feb	41,351,716	92,824,965	\$119,386,310	\$116,042,428	\$3,343,882	
	Mar	46,004,317	107,559,394	\$139,616,692	\$137,550,062	\$2,066,631	
	Apr	44,299,616	108,354,376	\$138,825,808	\$139,290,233	(\$464,425)	
	May	45,744,946	112,523,609	\$138,416,992	\$135,340,873	\$3,076,119	
	June	43,835,636	107,923,122	\$131,740,179	\$124,946,645	\$6,793,534	
	July	44,483,852	109,846,514	\$136,107,959	\$130,994,796	\$5,113,163	
	Aug	44,074,376	108,712,860	\$132,491,034	\$132,042,040	\$448,993	
	sep	44,904,291	107,734,112	\$133,755,187	\$133,698,296	\$56,891	
	Oct	46,532,776	111,217,492	\$140,128,748	\$139,234,929	\$893,819	
	Nov	47,510,040	108,205,710	\$136,106,638	\$134,073,774	\$2,032,865	
	Dec	50,264,340	112,736,025	\$139,677,040	\$134,750,268	\$4,926,772	\$32,267,657
1995	Jan	49,245,337	109,041,844	\$136,221,511	\$130,795,057	\$5,426,454	
	Feb	43,850,713	100,271,493	\$123,781,738	\$122,840,522	\$941,215	
	Mar	48,483,547	111,886,289	\$139,439,036	\$138,376,135	\$1,062,901	
	Apr	47,039,259	111,246,995	\$134,182,153	\$132,166,123	\$2,016,030	
	May	48,157,665	116,378,108	\$139,487,259	\$136,817,742	\$2,669,517	
	June	44,433,917	109,214,894	\$134,773,790	\$133,233,264	\$1,540,526	
	July	44,254,040	111,066,543	\$136,586,246	\$135,855,019	\$731,227	
	Aug	42,849,621	107,924,294	\$135,337,638	\$135,486,669	(\$149,032)	
	sep	41,623,011	103,550,552	\$133,641,312	\$135,432,531	(\$1,791,219)	
	Oct	44,702,628	107,239,077	\$146,488,084	\$147,776,471	(\$1,288,386)	
	Nov	43,836,983	102,232,463	\$142,972,365	\$145,472,755	(\$2,500,390)	
	Dec	46,054,024	104,948,343	\$145,803,039	\$143,085,406	\$2,717,633	\$11,376,475
1996	Jan	46,881,648	106,672,228	\$148,132,182	\$144,198,336	\$3,933,846	
	Feb	43,840,206	100,084,225	\$135,213,086	\$131,667,995	\$3,545,091	
	Mar	46,970,882	109,371,099	\$146,749,475	\$143,449,825	\$3,299,650	
	Apr	45,343,765	109,248,000	\$146,642,605	\$146,184,399	\$458,206	
	May	44,310,413	109,803,681	\$153,743,386	\$156,590,996	(\$2,847,610)	
	June	41,807,377	102,946,933	\$153,929,814	\$160,120,888	(\$6,191,074)	
	July	43,092,156	104,011,151	\$161,888,431	\$172,743,383	(\$10,854,952)	
	Aug	42,627,117	102,560,884	\$176,357,361	\$177,375,875	(\$1,018,514)	
	sep	45,571,164	106,811,162	\$189,013,912	\$191,772,079	(\$2,758,168)	
	Oct	48,695,928	113,726,256	\$199,053,172	\$193,793,812	\$5,259,361	
	Nov	49,672,379	114,000,749	\$170,646,946	\$157,461,852	\$13,185,095	
	Dec	51,591,021	117,581,663	\$167,420,800	\$152,351,031	\$15,069,769	\$21,080,698

Exhibit 7.1 Overbase Pool/Gain(loss) under fixed \$1.70 Differential vs. Variable Spread

	Overbase Pounds		Overbase revenue		overbase gain or (loss)	Annual Dollars Gained by overbase milk	
	Fat	SNF	\$1.70 spread	Variable Spread			
1997	Jan	51,369,690	114,678,636	\$166,812,430	\$150,839,744	\$15,972,686	
	Feb	47,489,107	108,991,379	\$151,124,572	\$150,047,815	\$1,076,757	
	Mar	54,241,744	128,775,940	\$179,060,797	\$179,988,431	(\$927,633)	
	Apr	53,697,088	130,704,808	\$175,570,863	\$171,384,771	\$4,186,092	
	May	52,763,020	132,431,312	\$167,801,420	\$159,857,388	\$7,944,032	
	June	50,203,407	126,959,443	\$158,678,747	\$156,419,552	\$2,259,196	
	July	51,606,582	131,045,055	\$165,510,577	\$161,719,991	\$3,790,586	
	Aug	51,882,124	129,669,877	\$171,945,284	\$176,359,546	(\$4,414,262)	
	sep	50,517,945	123,643,920	\$166,005,028	\$170,703,046	(\$4,698,019)	
	Oct	54,624,622	129,829,216	\$191,266,990	\$192,305,451	(\$1,038,461)	
	Nov	54,250,246	125,669,503	\$189,586,809	\$193,484,256	(\$3,897,447)	
	Dec	57,337,573	128,047,981	\$197,331,516	\$195,517,502	\$1,814,015	\$22,067,542
1998	Jan	58,628,243	130,496,681	\$195,141,009	\$192,142,443	\$2,998,566	
	Feb	51,286,995	114,045,395	\$184,217,774	\$174,458,673	\$9,759,101	
	Mar	55,616,017	128,127,159	\$189,655,132	\$186,658,943	\$2,996,189	
	Apr	54,607,942	127,574,084	\$185,166,300	\$178,339,313	\$6,826,987	
	May	56,371,345	134,914,356	\$192,719,324	\$184,311,714	\$8,407,610	
	June	51,907,538	125,121,067	\$194,550,451	\$200,209,160	(\$5,658,710)	
	July	50,173,496	123,217,626	\$197,059,799	\$207,763,649	(\$10,703,850)	
	Aug	47,626,696	120,010,746	\$207,482,752	\$209,861,599	(\$2,378,847)	
	sep	46,792,769	116,783,327	\$214,834,846	\$221,764,814	(\$6,929,968)	
	Oct	5,573,622	132,889,176	\$137,195,744	\$127,103,776	\$10,091,967	
	Nov	54,412,658	129,088,806	\$244,093,295	\$242,197,974	\$1,895,321	
	Dec	58,886,321	135,339,207	\$255,254,235	\$248,686,409	\$6,567,825	\$23,872,193
1999	Jan	60,730,159	139,606,244	\$244,373,321	\$230,370,890	\$14,002,431	
	Feb	55,893,462	129,477,638	\$201,440,881	\$181,493,829	\$19,947,052	
	Mar	64,153,053	152,254,822	\$234,712,311	\$211,490,656	\$23,221,656	
	Apr	63,629,550	151,170,445	\$203,731,296	\$200,585,364	\$3,145,932	
	May	63,788,589	155,344,389	\$205,118,479	\$198,988,084	\$6,130,394	
	June	58,273,102	143,494,758	\$201,143,992	\$203,612,832	(\$2,468,840)	
	July	57,225,172	141,670,633	\$207,381,453	\$216,130,215	(\$8,748,762)	
	Aug	61,360,987	149,481,085	\$250,203,451	\$261,429,801	(\$11,226,350)	
	sep	59,956,651	144,514,046	\$229,010,027	\$234,969,977	(\$5,959,950)	
	Oct	63,922,493	151,505,052	\$227,156,267	\$206,344,723	\$20,811,544	
	Nov	64,278,677	149,282,777	\$212,575,521	\$185,692,489	\$26,883,032	
	Dec	69,187,880	157,078,481	\$194,208,745	\$188,354,840	\$5,853,906	\$91,592,044
2000	Jan	70,866,829	161,695,952	\$201,331,404	\$192,470,262	\$8,861,142	
	Feb	66,646,370	153,356,360	\$179,539,382	\$180,058,787	(\$519,405)	
	Mar	70,974,444	163,307,869	\$193,617,057	\$194,920,785	(\$1,303,727)	
	Apr	68,662,627	164,466,334	\$198,632,893	\$195,442,448	\$3,190,445	
	May	69,216,709	167,094,891	\$205,045,581	\$201,059,229	\$3,986,352	
	June	64,266,872	157,637,157	\$201,861,004	\$198,258,250	\$3,602,754	
	July	67,396,723	164,940,278	\$215,699,093	\$212,016,803	\$3,682,290	
	Aug	64,932,247	157,037,331	\$206,466,241	\$202,131,165	\$4,335,076	
	sep	64,386,466	153,322,108	\$208,088,634	\$206,781,588	\$1,307,045	
	Oct	67,991,022	159,724,491	\$199,142,033	\$190,070,217	\$9,071,815	
	Nov	67,859,515	155,470,862	\$204,743,185	\$197,343,056	\$7,400,129	

Exhibit 7.1 Overbase Pool/Gain(loss) under fixed \$1.70 Differential vs. Variable Spread

		Overbase Pounds		Overbase revenue		overbase gain or (loss)	Annual Dollars Gained by overbase milk
		Fat	SNF	\$1.70 spread	Variable Spread		
2001	Jan	74,218,743	168,757,267	\$222,655,408	\$207,602,881	\$15,052,527	
	Feb	67,760,103	155,744,375	\$210,385,057	\$204,364,232	\$6,020,825	
	Mar	73,496,942	171,464,242	\$247,631,442	\$245,557,291	\$2,074,151	
	Apr	72,423,511	171,887,540	\$262,137,703	\$262,081,130	\$56,573	
	May	73,142,789	176,306,317	\$288,178,205	\$295,431,896	(\$7,253,691)	
	June	69,649,532	169,166,804	\$290,534,010	\$293,736,019	(\$3,202,009)	
	July	70,203,467	169,949,583	\$290,062,694	\$291,634,362	(\$1,571,668)	
	Aug	70,467,900	170,611,988	\$298,328,466	\$299,945,536	(\$1,617,070)	
	sep	68,672,459	165,154,313	\$295,554,367	\$298,724,084	(\$3,169,716)	
	Oct	72,840,720	172,112,093	\$263,274,696	\$250,830,796	\$12,443,901	
	Nov	72,574,795	167,474,117	\$237,708,057	\$219,691,889	\$18,016,168	
	Dec	77,017,187	173,261,956	\$233,746,974	\$232,056,431	\$1,690,543	\$38,540,532
2002	Jan	78,249,999	175,539,152	\$242,432,788	\$241,694,288	\$738,501	
	Feb	71,885,447	164,044,794	\$211,826,395	\$208,407,793	\$3,418,602	
	Mar	80,133,399	187,367,452	\$236,094,073	\$232,682,655	\$3,411,418	
	Apr	77,272,949	183,682,209	\$230,192,372	\$228,862,140	\$1,330,232	
	May	80,401,472	193,477,088	\$233,115,719	\$230,322,113	\$2,793,606	
	June	75,638,702	184,302,399	\$211,039,085	\$209,196,270	\$1,842,815	
	July	75,222,532	183,749,155	\$203,545,095	\$198,340,680	\$5,204,415	
	Aug	76,414,274	185,320,349	\$210,183,182	\$210,258,400	(\$75,217)	
	sep	73,028,099	173,694,965	\$200,409,851	\$200,251,442	\$158,409	
	Oct	76,664,754	179,229,895	\$213,676,475	\$216,935,351	(\$3,258,876)	
	Nov	76,442,560	174,976,015	\$201,679,986	\$195,067,751	\$6,612,235	
	Dec	80,673,853	183,399,643	\$213,492,986	\$211,696,902	\$1,796,085	\$23,972,224
2003	Jan	81,760,052	185,851,981	\$215,633,065	\$212,842,332	\$2,790,733	
	Feb	75,097,446	173,106,845	\$193,060,938	\$191,814,579	\$1,246,359	
	Mar	83,457,644	193,869,641	\$211,683,025	\$208,293,982	\$3,389,043	
	Apr	80,766,406	190,199,983	\$208,610,081	\$209,108,540	(\$498,459)	
	May	81,090,166	192,734,932	\$211,011,430	\$211,565,067	(\$553,637)	
	June	75,329,314	184,434,057	\$202,781,923	\$203,697,625	(\$915,702)	
	July	73,417,617	179,013,319	\$229,086,316	\$241,687,170	(\$12,600,854)	
	Aug	73,592,077	180,916,523	\$256,024,070	\$262,505,789	(\$6,481,720)	
	sep	71,332,159	172,717,798	\$253,832,716	\$254,343,879	(\$511,164)	
	Oct	75,138,606	180,105,454	\$267,766,624	\$265,957,261	\$1,809,364	
	Nov	75,440,684	176,437,609	\$246,483,404	\$240,085,181	\$6,398,223	
	Dec	80,135,522	184,630,715	\$249,557,767	\$244,344,008	\$5,213,759	(\$714,055)
2004	Jan	81,385,107	186,783,766	\$244,874,189	\$244,515,583	\$358,606	
	Feb	77,208,062	178,472,921	\$247,164,826	\$251,753,617	(\$4,588,791)	
	Mar	82,165,315	193,613,706	\$314,873,597	\$339,296,790	(\$24,423,193)	
	Apr	80,223,926	193,295,552	\$373,116,971	\$398,404,827	(\$25,287,856)	
	May	80,213,900	196,341,644	\$386,416,881	\$390,632,393	(\$4,215,513)	
	June	76,346,655	187,069,534	\$339,480,864	\$326,559,482	\$12,921,382	
	July	77,088,794	189,361,089	\$292,041,042	\$279,389,450	\$12,651,591	
	Aug	78,150,036	190,261,189	\$288,123,233	\$291,209,619	(\$3,086,386)	
	sep	76,981,068	184,682,561	\$292,134,158	\$292,122,812	\$11,346	
	Oct	81,638,870	193,057,505	\$298,391,981	\$299,278,042	(\$886,061)	
	Nov	80,407,410	186,823,081	\$312,150,033	\$320,259,406	(\$8,109,373)	
	Dec	84,876,490	195,539,016	\$327,589,091	\$331,591,408	(\$4,002,318)	(\$48,656,566)

Class 1 < c

Exhibit 7.1 Overbase Pool/Gain(loss) under fixed \$1.70 Differential vs. Variable Spread

		Overbase Pounds		Overbase revenue		overbase gain or (loss)	Annual Dollars Gained by overbase milk
		Fat	SNF	\$1.70 spread	Variable Spread		
2005	Jan	84,012,956	192,099,812	\$316,489,442	\$312,011,994	\$4,477,448	
	Feb	75,797,332	177,242,468	\$277,584,421	\$280,638,421	(\$3,054,000)	
	Mar	84,348,147	201,554,197	\$313,323,616	\$313,573,738	(\$250,122)	
	Apr	83,338,017	201,280,569	\$312,952,183	\$316,362,914	(\$3,410,731)	
	May	84,734,115	205,896,729	\$307,957,607	\$305,430,163	\$2,527,444	
	June	80,882,750	199,108,011	\$295,128,279	\$299,821,634	(\$4,693,355)	
	July	77,937,241	189,645,456	\$292,048,274	\$299,084,148	(\$7,035,874)	
	Aug	78,818,819	194,450,059	\$290,530,178	\$291,806,706	(\$1,276,527)	
	sep	79,773,110	193,276,503	\$305,020,251	\$312,550,482	(\$7,530,230)	
	Oct	83,559,398	198,415,965	\$311,845,047	\$315,235,472	(\$3,390,425)	
	Nov	82,103,017	193,282,484	\$288,292,069	\$287,097,266	\$1,194,804	
	Dec	86,793,934	202,357,781	\$303,120,272	\$305,522,354	(\$2,402,082)	(\$24,843,652)
2006	Jan	88,585,822	206,141,594	\$297,849,301	\$298,175,369	(\$326,067)	
	Feb	82,868,785	195,102,306	\$253,401,112	\$250,494,184	\$2,906,928	
	Mar	93,948,568	221,613,511	\$273,654,115	\$269,889,886	\$3,764,229	
	Apr	89,328,951	212,272,830	\$253,489,409	\$255,500,210	(\$2,010,801)	
	May	87,338,398	213,487,792	\$252,199,032	\$254,334,843	(\$2,135,811)	
	June	81,958,409	200,509,585	\$236,812,210	\$240,106,155	(\$3,293,945)	
	July	77,390,097	188,158,498	\$218,476,764	\$220,952,216	(\$2,475,452)	
	Aug	82,939,276	205,431,396	\$246,682,210	\$252,983,484	(\$6,301,273)	
	sep	81,678,479	197,241,317	\$255,091,827	\$264,225,953	(\$9,134,126)	
	Oct	85,536,569	204,267,676	\$266,883,297	\$269,328,899	(\$2,445,602)	
	Nov	84,066,965	199,650,938	\$271,611,862	\$279,628,323	(\$8,016,461)	
	Dec	90,989,041	211,382,400	\$294,651,970	\$301,795,636	(\$7,143,666)	(\$36,612,047)
2007	Jan	93,774,322	216,650,072	\$307,357,453	\$313,933,905	(\$6,576,452)	
	Feb	86,445,902	202,501,028	\$303,414,579	\$306,247,006	(\$2,832,427)	
	Mar	96,343,340	228,358,579	\$362,841,207	\$368,842,768	(\$6,001,562)	
	Apr	91,723,372	221,643,726	\$376,563,630	\$384,419,820	(\$7,856,190)	
						\$183,231,095.90	

Exhibit 7.2 Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas.

Two major factors dictate whether or not the overbase price will be higher or lower using the \$1.70 spread. They are the market price for commodities, and the economic formulas used to determine class prices. As mentioned above, for the last 3 years the overbase price has been contributing to the quota pool. However, significant changes have been made to the formulas that have the potential to change that situation. This spreadsheet was designed to show the difference that the current formulas would have made on the pool prices.

The prices listed under the heading "Prices Using Historic Formulas" were computed using the class price formulas in place historically. The prices under the subheading "\$1.70 Spread" are the adjusted quota and overbase using the \$1.70 method, and the spread between them would have always been \$1.70. Those prices under the variable spread are what the quota and overbase prices would have been under the old class price formulas, and the old variable spread. Next to the overbase price is the spread between the quota and overbase price.

The prices listed under the heading "Prices Using Current Formulas" are what the quota and overbase prices would have been had the class price formulas been in place since 1994, using the commodity price that existed at the time. The spread shows the spread between what the quota and overbase prices would have been using these new class price formulas.

This spreadsheet confirms what the first spreadsheet shows. That is that under the old class price formulas, for the last 3 years the overbase pool contributed to quota pool. It also shows that using the current formulas the overbase pool is better off using the \$1.70 differential.

While the overbase pool may be worse off in the last 4 months, even using the new formulas, it is due to the fact that we are in a time of rising commodity markets. When commodity prices drop, the situation will go the other way. An example of such a change can be seen by looking at February 2004 to July of 2004 spread under the new formulas section.

Exhibit 7.2 Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas.

	Prices Using Historic Formulas					Prices Using Current Formulas				
	\$1.70 Spread		Variable Spread			\$1.70 Spread		Variable Spread		
	Quota	Overbase	Quota	Overbase	Spread	Quota	Overbase	Quota	Overbase	Spread
January 94	\$ 12.63	\$ 10.93	\$ 13.15	\$ 10.61	\$ 2.54	\$ 12.12	\$ 10.42	\$ 12.48	\$ 10.21	\$ 2.27
February	\$ 12.61	\$ 10.92	\$ 13.11	\$ 10.63	\$ 2.48	\$ 12.06	\$ 10.36	\$ 12.32	\$ 10.21	\$ 2.11
March	\$ 12.83	\$ 11.13	\$ 13.11	\$ 10.98	\$ 2.13	\$ 12.38	\$ 10.68	\$ 12.32	\$ 10.74	\$ 1.58
April	\$ 12.80	\$ 11.11	\$ 12.76	\$ 11.15	\$ 1.62	\$ 12.53	\$ 10.83	\$ 12.36	\$ 10.96	\$ 1.40
May	\$ 12.37	\$ 10.68	\$ 12.79	\$ 10.44	\$ 2.35	\$ 12.19	\$ 10.49	\$ 12.95	\$ 10.06	\$ 2.89
June	\$ 12.29	\$ 10.60	\$ 13.22	\$ 10.05	\$ 3.17	\$ 11.71	\$ 10.01	\$ 12.39	\$ 9.61	\$ 2.78
July	\$ 12.46	\$ 10.76	\$ 13.14	\$ 10.36	\$ 2.78	\$ 11.59	\$ 9.89	\$ 11.39	\$ 10.03	\$ 1.36
August	\$ 12.28	\$ 10.58	\$ 12.35	\$ 10.55	\$ 1.81	\$ 11.91	\$ 10.21	\$ 11.86	\$ 10.25	\$ 1.62
September	\$ 12.40	\$ 10.71	\$ 12.43	\$ 10.70	\$ 1.72	\$ 12.12	\$ 10.42	\$ 12.10	\$ 10.45	\$ 1.65
October	\$ 12.55	\$ 10.85	\$ 12.69	\$ 10.79	\$ 1.90	\$ 12.29	\$ 10.59	\$ 12.38	\$ 10.56	\$ 1.82
November	\$ 12.39	\$ 10.70	\$ 12.69	\$ 10.55	\$ 2.14	\$ 12.18	\$ 10.48	\$ 12.57	\$ 10.27	\$ 2.30
December	\$ 12.20	\$ 10.50	\$ 12.86	\$ 10.14	\$ 2.72	\$ 11.80	\$ 10.10	\$ 12.29	\$ 9.83	\$ 2.46
Average	\$ 12.48	\$ 10.79	\$ 12.86	\$ 10.58	\$ 2.28	\$ 12.07	\$ 10.37	\$ 12.28	\$ 10.26	\$ 2.02
January 95	\$ 12.25	\$ 10.56	\$ 12.96	\$ 10.15	\$ 2.80	\$ 11.47	\$ 9.77	\$ 11.60	\$ 9.71	\$ 1.89
February	\$ 12.22	\$ 10.52	\$ 12.35	\$ 10.45	\$ 1.90	\$ 11.73	\$ 10.03	\$ 11.60	\$ 10.10	\$ 1.50
March	\$ 12.34	\$ 10.65	\$ 12.44	\$ 10.57	\$ 1.87	\$ 11.99	\$ 10.29	\$ 12.04	\$ 10.24	\$ 1.79
April	\$ 12.07	\$ 10.37	\$ 12.35	\$ 10.21	\$ 2.13	\$ 11.75	\$ 10.05	\$ 12.06	\$ 9.87	\$ 2.19
May	\$ 12.05	\$ 10.36	\$ 12.40	\$ 10.16	\$ 2.24	\$ 11.59	\$ 9.89	\$ 11.70	\$ 9.82	\$ 1.88
June	\$ 12.40	\$ 10.71	\$ 12.61	\$ 10.58	\$ 2.02	\$ 11.76	\$ 10.06	\$ 11.57	\$ 10.17	\$ 1.39
July	\$ 12.42	\$ 10.73	\$ 12.52	\$ 10.67	\$ 1.85	\$ 11.94	\$ 10.24	\$ 11.90	\$ 10.26	\$ 1.65
August	\$ 12.65	\$ 10.95	\$ 12.63	\$ 10.96	\$ 1.66	\$ 12.21	\$ 10.51	\$ 12.06	\$ 10.60	\$ 1.46
September	\$ 12.93	\$ 11.23	\$ 12.69	\$ 11.38	\$ 1.30	\$ 12.50	\$ 10.80	\$ 12.00	\$ 11.11	\$ 0.88
October	\$ 13.45	\$ 11.76	\$ 13.28	\$ 11.86	\$ 1.43	\$ 13.32	\$ 11.62	\$ 13.26	\$ 11.65	\$ 1.62
November	\$ 13.61	\$ 11.92	\$ 13.28	\$ 12.11	\$ 1.17	\$ 13.56	\$ 11.86	\$ 13.39	\$ 11.96	\$ 1.43
December	\$ 13.50	\$ 11.81	\$ 13.85	\$ 11.60	\$ 2.24	\$ 13.25	\$ 11.55	\$ 13.34	\$ 11.51	\$ 1.83
Average	\$ 12.66	\$ 10.96	\$ 12.78	\$ 10.89	\$ 1.89	\$ 12.25	\$ 10.55	\$ 12.21	\$ 10.58	\$ 1.63
January 96	\$ 13.49	\$ 11.80	\$ 14.00	\$ 11.50	\$ 2.49	\$ 13.31	\$ 11.61	\$ 13.75	\$ 11.35	\$ 2.40
February	\$ 13.21	\$ 11.51	\$ 13.37	\$ 10.93	\$ 2.44	\$ 15.34	\$ 13.64	\$ 12.94	\$ 13.84	\$(0.90)
March	\$ 13.19	\$ 11.49	\$ 13.61	\$ 11.25	\$ 2.36	\$ 13.02	\$ 11.32	\$ 13.21	\$ 11.21	\$ 2.00
April	\$ 13.29	\$ 11.59	\$ 13.34	\$ 11.56	\$ 1.78	\$ 13.35	\$ 11.65	\$ 13.22	\$ 11.36	\$ 1.86
May	\$ 13.87	\$ 12.17	\$ 13.49	\$ 12.40	\$ 1.09	\$ 13.68	\$ 11.98	\$ 13.46	\$ 12.12	\$ 1.35
June	\$ 14.66	\$ 12.97	\$ 13.84	\$ 13.48	\$ 0.36	\$ 14.51	\$ 12.81	\$ 14.05	\$ 13.10	\$ 0.96
July	\$ 15.09	\$ 13.40	\$ 13.72	\$ 14.28	\$(0.56)	\$ 14.81	\$ 13.11	\$ 13.60	\$ 13.89	\$(0.29)
August	\$ 16.47	\$ 14.78	\$ 16.35	\$ 14.85	\$ 1.49	\$ 16.18	\$ 14.48	\$ 16.13	\$ 14.51	\$ 1.61
September	\$ 16.76	\$ 15.06	\$ 16.39	\$ 15.27	\$ 1.12	\$ 16.55	\$ 14.85	\$ 16.35	\$ 14.97	\$ 1.37
October	\$ 16.58	\$ 14.88	\$ 17.27	\$ 14.48	\$ 2.79	\$ 16.12	\$ 14.42	\$ 16.56	\$ 14.18	\$ 2.38
November	\$ 14.44	\$ 12.74	\$ 16.20	\$ 11.78	\$ 4.42	\$ 13.94	\$ 12.24	\$ 15.53	\$ 11.38	\$ 4.15
December	\$ 13.79	\$ 12.10	\$ 15.75	\$ 11.02	\$ 4.72	\$ 12.87	\$ 11.17	\$ 13.91	\$ 10.60	\$ 3.31
Average	\$ 14.57	\$ 12.87	\$ 14.78	\$ 12.73	\$ 2.04	\$ 14.47	\$ 12.77	\$ 14.39	\$ 12.71	\$ 1.68

Exhibit 7.2 Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas.

	Prices Using Historic Formulas					Prices Using Current Formulas				
	\$1.70 Spread		Variable Spread			\$1.70 Spread		Variable Spread		
	Quota	Overbase	Quota	Overbase	Spread	Quota	Overbase	Quota	Overbase	Spread
January 97	\$ 13.95	\$ 12.25	\$ 16.01	\$ 11.08	\$ 4.93	\$ 12.73	\$ 11.03	\$ 13.36	\$ 10.66	\$ 2.70
February	\$ 13.45	\$ 11.75	\$ 13.69	\$ 11.65	\$ 2.03	\$ 12.91	\$ 11.21	\$ 13.10	\$ 11.27	\$ 1.82
March	\$ 13.61	\$ 11.91	\$ 13.49	\$ 11.96	\$ 1.54	\$ 13.13	\$ 11.43	\$ 12.80	\$ 11.59	\$ 1.21
April	\$ 13.30	\$ 11.61	\$ 13.86	\$ 11.33	\$ 2.53	\$ 12.94	\$ 11.24	\$ 13.51	\$ 10.95	\$ 2.55
May	\$ 12.75	\$ 11.06	\$ 13.78	\$ 10.53	\$ 3.25	\$ 12.37	\$ 10.67	\$ 13.45	\$ 10.12	\$ 3.33
June	\$ 12.64	\$ 10.94	\$ 12.94	\$ 10.79	\$ 2.15	\$ 12.31	\$ 10.61	\$ 12.80	\$ 10.36	\$ 2.43
July	\$ 12.77	\$ 11.07	\$ 12.92	\$ 10.99	\$ 1.93	\$ 12.53	\$ 10.83	\$ 12.94	\$ 10.61	\$ 2.33
August	\$ 13.25	\$ 11.56	\$ 12.71	\$ 11.85	\$ 0.86	\$ 13.21	\$ 11.51	\$ 13.17	\$ 11.53	\$ 1.64
September	\$ 13.32	\$ 11.62	\$ 12.71	\$ 11.95	\$ 0.76	\$ 13.29	\$ 11.59	\$ 13.22	\$ 11.62	\$ 1.60
October	\$ 14.28	\$ 12.59	\$ 14.17	\$ 12.64	\$ 1.53	\$ 14.05	\$ 12.35	\$ 13.92	\$ 12.41	\$ 1.50
November	\$ 14.42	\$ 12.73	\$ 13.96	\$ 12.95	\$ 1.01	\$ 14.21	\$ 12.51	\$ 13.58	\$ 12.83	\$ 0.75
December	\$ 14.53	\$ 12.83	\$ 14.76	\$ 12.70	\$ 2.06	\$ 14.40	\$ 12.70	\$ 14.56	\$ 12.63	\$ 1.93
Average	\$ 13.52	\$ 11.83	\$ 13.75	\$ 11.70	\$ 2.05	\$ 13.17	\$ 11.47	\$ 13.37	\$ 11.38	\$ 1.98
January 98	\$ 14.19	\$ 12.49	\$ 14.55	\$ 12.30	\$ 2.25	\$ 13.99	\$ 12.29	\$ 14.32	\$ 12.15	\$ 2.17
February	\$ 14.58	\$ 12.88	\$ 14.90	\$ 12.69	\$ 2.21	\$ 14.28	\$ 12.58	\$ 14.67	\$ 12.36	\$ 2.31
March	\$ 14.19	\$ 12.49	\$ 14.56	\$ 12.28	\$ 2.28	\$ 13.69	\$ 11.99	\$ 13.78	\$ 11.94	\$ 1.84
April	\$ 14.00	\$ 12.30	\$ 14.87	\$ 11.83	\$ 3.04	\$ 13.49	\$ 11.79	\$ 14.00	\$ 11.52	\$ 2.48
May	\$ 13.91	\$ 12.21	\$ 14.95	\$ 11.66	\$ 3.29	\$ 13.41	\$ 11.71	\$ 14.10	\$ 11.34	\$ 2.76
June	\$ 15.03	\$ 13.33	\$ 14.33	\$ 13.70	\$ 0.63	\$ 14.91	\$ 13.21	\$ 14.59	\$ 13.38	\$ 1.21
July	\$ 15.53	\$ 13.83	\$ 14.24	\$ 14.58	\$ (0.34)	\$ 15.59	\$ 13.89	\$ 14.89	\$ 14.30	\$ 0.59
August	\$ 16.84	\$ 15.14	\$ 16.57	\$ 15.33	\$ 1.24	\$ 16.65	\$ 14.95	\$ 16.48	\$ 15.06	\$ 1.42
September	\$ 17.74	\$ 16.04	\$ 16.93	\$ 16.56	\$ 0.37	\$ 17.62	\$ 15.92	\$ 17.06	\$ 16.28	\$ 0.78
October	\$ 18.64	\$ 16.94	\$ 18.81	\$ 16.84	\$ 1.97	\$ 18.44	\$ 16.74	\$ 18.72	\$ 16.59	\$ 2.12
November	\$ 17.82	\$ 16.13	\$ 18.06	\$ 16.00	\$ 2.05	\$ 17.66	\$ 15.96	\$ 18.00	\$ 15.79	\$ 2.20
December	\$ 17.64	\$ 15.94	\$ 18.45	\$ 15.54	\$ 2.90	\$ 17.19	\$ 15.49	\$ 17.55	\$ 15.34	\$ 2.21
Average	\$ 15.84	\$ 14.15	\$ 15.93	\$ 14.11	\$ 1.83	\$ 15.58	\$ 13.88	\$ 15.68	\$ 13.84	\$ 1.84
January 99	\$ 16.46	\$ 14.76	\$ 18.17	\$ 13.92	\$ 4.25	\$ 16.37	\$ 14.67	\$ 18.43	\$ 13.65	\$ 4.78
February	\$ 14.86	\$ 13.16	\$ 17.53	\$ 11.84	\$ 5.69	\$ 14.39	\$ 12.69	\$ 16.92	\$ 11.44	\$ 5.48
March	\$ 14.87	\$ 13.17	\$ 17.60	\$ 11.86	\$ 5.74	\$ 13.45	\$ 11.75	\$ 13.98	\$ 11.46	\$ 2.52
April	\$ 13.24	\$ 11.55	\$ 13.63	\$ 11.37	\$ 2.26	\$ 12.88	\$ 11.18	\$ 13.40	\$ 10.96	\$ 2.44
May	\$ 13.10	\$ 11.40	\$ 13.84	\$ 11.06	\$ 2.78	\$ 12.65	\$ 10.95	\$ 13.42	\$ 10.59	\$ 2.83
June	\$ 13.84	\$ 12.15	\$ 13.56	\$ 12.29	\$ 1.27	\$ 13.21	\$ 11.51	\$ 12.66	\$ 11.79	\$ 0.87
July	\$ 14.41	\$ 12.72	\$ 13.36	\$ 13.25	\$ 0.11	\$ 14.05	\$ 12.35	\$ 13.20	\$ 12.79	\$ 0.42
August	\$ 16.15	\$ 14.46	\$ 14.75	\$ 15.11	\$ (0.35)	\$ 15.87	\$ 14.17	\$ 14.76	\$ 14.69	\$ 0.07
September	\$ 15.33	\$ 13.63	\$ 14.57	\$ 13.99	\$ 0.58	\$ 15.68	\$ 13.98	\$ 16.54	\$ 13.58	\$ 2.96
October	\$ 14.52	\$ 12.83	\$ 17.05	\$ 11.65	\$ 5.40	\$ 13.86	\$ 12.16	\$ 15.80	\$ 11.26	\$ 4.54
November	\$ 13.78	\$ 12.08	\$ 17.15	\$ 10.55	\$ 6.60	\$ 12.51	\$ 10.81	\$ 13.93	\$ 10.16	\$ 3.77
December	\$ 12.13	\$ 10.43	\$ 12.83	\$ 10.13	\$ 2.70	\$ 11.72	\$ 10.02	\$ 12.36	\$ 9.75	\$ 2.61
Average	\$ 14.39	\$ 12.69	\$ 15.34	\$ 12.25	\$ 3.09	\$ 13.89	\$ 12.19	\$ 14.62	\$ 11.84	\$ 2.77

Exhibit 7.2 Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas.

	Prices Using Historic Formulas					Prices Using Current Formulas				
	\$1.70 Spread		Variable Spread			\$1.70 Spread		Variable Spread		
	Quota	Overbase	Quota	Overbase	Spread	Quota	Overbase	Quota	Overbase	Spread
January 00	\$ 11.75	\$ 10.05	\$ 11.68	\$ 10.07	\$ 1.61	\$ 11.61	\$ 9.91	\$ 12.12	\$ 9.67	\$ 2.45
February	\$ 11.63	\$ 9.93	\$ 11.57	\$ 9.95	\$ 1.62	\$ 11.41	\$ 9.71	\$ 11.89	\$ 9.51	\$ 2.38
March	\$ 11.73	\$ 10.03	\$ 11.57	\$ 10.10	\$ 1.47	\$ 11.54	\$ 9.84	\$ 12.03	\$ 9.62	\$ 2.41
April	\$ 12.06	\$ 10.36	\$ 12.47	\$ 10.19	\$ 2.28	\$ 11.63	\$ 9.93	\$ 12.16	\$ 9.71	\$ 2.46
May	\$ 12.25	\$ 10.55	\$ 12.74	\$ 10.34	\$ 2.41	\$ 11.80	\$ 10.10	\$ 12.43	\$ 9.84	\$ 2.60
June	\$ 12.78	\$ 11.08	\$ 13.23	\$ 10.88	\$ 2.36	\$ 12.34	\$ 10.64	\$ 12.93	\$ 10.38	\$ 2.55
July	\$ 13.00	\$ 11.31	\$ 13.45	\$ 11.11	\$ 2.33	\$ 12.58	\$ 10.88	\$ 13.15	\$ 10.64	\$ 2.51
August	\$ 13.01	\$ 11.31	\$ 13.54	\$ 11.08	\$ 2.46	\$ 12.60	\$ 10.90	\$ 13.23	\$ 10.62	\$ 2.61
September	\$ 13.31	\$ 11.61	\$ 13.47	\$ 11.54	\$ 1.93	\$ 12.91	\$ 11.21	\$ 13.16	\$ 11.10	\$ 2.06
October	\$ 12.29	\$ 10.60	\$ 13.39	\$ 10.11	\$ 3.28	\$ 11.88	\$ 10.18	\$ 13.08	\$ 9.64	\$ 3.44
November	\$ 12.68	\$ 10.99	\$ 13.64	\$ 10.55	\$ 3.09	\$ 12.27	\$ 10.57	\$ 13.33	\$ 10.08	\$ 3.25
December	\$ 12.99	\$ 11.29	\$ 14.08	\$ 10.81	\$ 3.27	\$ 12.59	\$ 10.89	\$ 13.78	\$ 10.37	\$ 3.40
Average	\$ 12.46	\$ 10.76	\$ 12.90	\$ 10.56	\$ 2.34	\$ 12.10	\$ 10.40	\$ 12.77	\$ 10.10	\$ 2.68
January 01	\$ 12.73	\$ 11.03	\$ 14.53	\$ 10.29	\$ 4.24	\$ 12.39	\$ 10.69	\$ 14.22	\$ 9.94	\$ 4.29
February	\$ 13.04	\$ 11.34	\$ 13.84	\$ 11.00	\$ 2.83	\$ 12.74	\$ 11.04	\$ 13.53	\$ 10.71	\$ 2.82
March	\$ 13.89	\$ 12.19	\$ 14.14	\$ 12.08	\$ 2.06	\$ 13.60	\$ 11.90	\$ 13.83	\$ 11.80	\$ 2.03
April	\$ 14.65	\$ 12.96	\$ 14.68	\$ 12.94	\$ 1.73	\$ 14.40	\$ 12.70	\$ 14.37	\$ 12.70	\$ 1.67
May	\$ 15.70	\$ 14.01	\$ 14.86	\$ 14.35	\$ 0.51	\$ 15.48	\$ 13.78	\$ 14.56	\$ 14.16	\$ 0.40
June	\$ 16.46	\$ 14.76	\$ 16.08	\$ 14.65	\$ 1.43	\$ 16.26	\$ 14.56	\$ 15.77	\$ 14.49	\$ 1.28
July	\$ 16.35	\$ 14.65	\$ 16.16	\$ 14.73	\$ 1.43	\$ 16.26	\$ 14.56	\$ 16.19	\$ 14.59	\$ 1.60
August	\$ 16.70	\$ 15.00	\$ 16.50	\$ 15.09	\$ 1.41	\$ 16.66	\$ 14.96	\$ 16.69	\$ 14.95	\$ 1.74
September	\$ 16.96	\$ 15.26	\$ 16.49	\$ 15.45	\$ 1.04	\$ 16.92	\$ 15.22	\$ 16.70	\$ 15.32	\$ 1.39
October	\$ 14.68	\$ 12.98	\$ 16.13	\$ 12.38	\$ 3.75	\$ 14.65	\$ 12.95	\$ 16.36	\$ 12.25	\$ 4.12
November	\$ 13.62	\$ 11.92	\$ 15.80	\$ 11.03	\$ 4.77	\$ 13.58	\$ 11.88	\$ 16.02	\$ 10.88	\$ 5.14
December	\$ 12.92	\$ 11.22	\$ 13.11	\$ 11.15	\$ 1.96	\$ 12.72	\$ 11.02	\$ 12.81	\$ 10.99	\$ 1.82
Average	\$ 14.81	\$ 13.11	\$ 15.19	\$ 12.93	\$ 2.26	\$ 14.64	\$ 12.94	\$ 15.09	\$ 12.73	\$ 2.36
January 02	\$ 13.16	\$ 11.46	\$ 13.24	\$ 11.43	\$ 1.81	\$ 13.08	\$ 11.38	\$ 13.29	\$ 11.30	\$ 1.99
February	\$ 12.51	\$ 10.81	\$ 12.93	\$ 10.64	\$ 2.30	\$ 12.29	\$ 10.59	\$ 12.67	\$ 10.43	\$ 2.24
March	\$ 12.36	\$ 10.67	\$ 12.75	\$ 10.51	\$ 2.23	\$ 12.11	\$ 10.41	\$ 12.48	\$ 10.27	\$ 2.21
April	\$ 12.40	\$ 10.70	\$ 12.55	\$ 10.64	\$ 1.91	\$ 12.13	\$ 10.43	\$ 12.30	\$ 10.37	\$ 1.94
May	\$ 12.05	\$ 10.35	\$ 12.36	\$ 10.23	\$ 2.13	\$ 11.72	\$ 10.02	\$ 12.08	\$ 9.88	\$ 2.20
June	\$ 11.58	\$ 9.88	\$ 11.79	\$ 9.80	\$ 1.99	\$ 11.24	\$ 9.54	\$ 11.69	\$ 9.37	\$ 2.32
July	\$ 11.27	\$ 9.57	\$ 11.86	\$ 9.33	\$ 2.54	\$ 10.85	\$ 9.15	\$ 11.63	\$ 8.83	\$ 2.80
August	\$ 11.47	\$ 9.78	\$ 11.57	\$ 9.78	\$ 1.78	\$ 11.06	\$ 9.36	\$ 11.33	\$ 9.29	\$ 2.04
September	\$ 11.58	\$ 9.88	\$ 11.59	\$ 9.88	\$ 1.72	\$ 11.19	\$ 9.49	\$ 11.32	\$ 9.44	\$ 1.88
October	\$ 11.84	\$ 10.14	\$ 11.46	\$ 10.30	\$ 1.16	\$ 11.53	\$ 9.83	\$ 11.20	\$ 9.97	\$ 1.22
November	\$ 11.40	\$ 9.71	\$ 12.18	\$ 9.38	\$ 2.81	\$ 11.17	\$ 9.47	\$ 12.07	\$ 9.10	\$ 2.98
December	\$ 11.45	\$ 9.75	\$ 11.65	\$ 9.66	\$ 1.99	\$ 11.21	\$ 9.51	\$ 11.41	\$ 9.43	\$ 1.98
Average	\$ 11.92	\$ 10.22	\$ 12.16	\$ 10.13	\$ 2.03	\$ 11.63	\$ 9.93	\$ 11.96	\$ 9.81	\$ 2.15

Exhibit 7.2 Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas.

	Prices Using Historic Formulas					Prices Using Current Formulas				
	\$1.70 Spread		Variable Spread			\$1.70 Spread		Variable Spread		
	Quota	Overbase	Quota	Overbase	Spread	Quota	Overbase	Quota	Overbase	Spread
January 03	\$ 11.42	\$ 9.72	\$ 11.74	\$ 9.59	\$ 2.15	\$ 11.12	\$ 9.42	\$ 11.49	\$ 9.27	\$ 2.22
February	\$ 11.10	\$ 9.40	\$ 11.25	\$ 9.34	\$ 1.90	\$ 10.72	\$ 9.02	\$ 10.97	\$ 8.93	\$ 2.05
March	\$ 10.92	\$ 9.22	\$ 11.30	\$ 9.07	\$ 2.23	\$ 10.53	\$ 8.83	\$ 11.13	\$ 8.60	\$ 2.53
April	\$ 11.02	\$ 9.32	\$ 10.96	\$ 9.35	\$ 1.61	\$ 10.61	\$ 8.91	\$ 10.72	\$ 8.87	\$ 1.85
May	\$ 11.04	\$ 9.35	\$ 10.98	\$ 9.37	\$ 1.60	\$ 10.70	\$ 9.00	\$ 10.73	\$ 9.00	\$ 1.74
June	\$ 11.20	\$ 9.50	\$ 11.09	\$ 9.55	\$ 1.54	\$ 10.85	\$ 9.15	\$ 10.82	\$ 9.16	\$ 1.66
July	\$ 12.75	\$ 11.05	\$ 11.28	\$ 11.66	\$ (0.39)	\$ 12.40	\$ 10.70	\$ 11.01	\$ 11.28	\$ (0.28)
August	\$ 13.96	\$ 12.26	\$ 13.19	\$ 12.58	\$ 0.62	\$ 13.61	\$ 11.91	\$ 12.91	\$ 12.20	\$ 0.71
September	\$ 14.37	\$ 12.67	\$ 14.30	\$ 12.70	\$ 1.60	\$ 14.04	\$ 12.34	\$ 14.12	\$ 12.31	\$ 1.80
October	\$ 14.47	\$ 12.78	\$ 14.67	\$ 12.69	\$ 1.98	\$ 14.17	\$ 12.47	\$ 14.55	\$ 12.31	\$ 2.24
November	\$ 13.58	\$ 11.88	\$ 14.33	\$ 11.57	\$ 2.77	\$ 13.29	\$ 11.59	\$ 14.24	\$ 11.20	\$ 3.04
December	\$ 13.08	\$ 11.39	\$ 13.67	\$ 11.14	\$ 2.53	\$ 12.80	\$ 11.10	\$ 13.57	\$ 10.78	\$ 2.79
Average	\$ 12.41	\$ 10.71	\$ 12.40	\$ 10.72	\$ 1.68	\$ 12.07	\$ 10.37	\$ 12.19	\$ 10.33	\$ 1.86
January 04	\$ 12.69	\$ 10.99	\$ 12.73	\$ 10.97	\$ 1.76	\$ 12.40	\$ 10.70	\$ 12.63	\$ 10.60	\$ 2.03
February	\$ 13.29	\$ 11.59	\$ 12.75	\$ 11.80	\$ 0.95	\$ 12.98	\$ 11.28	\$ 12.61	\$ 11.42	\$ 1.19
March	\$ 15.44	\$ 13.74	\$ 12.70	\$ 14.80	\$ (2.10)	\$ 15.10	\$ 13.40	\$ 12.46	\$ 14.43	\$ (1.97)
April	\$ 18.23	\$ 16.53	\$ 14.82	\$ 17.66	\$ (2.84)	\$ 17.91	\$ 16.21	\$ 14.63	\$ 17.30	\$ (2.66)
May	\$ 18.69	\$ 17.00	\$ 18.14	\$ 17.18	\$ 0.96	\$ 18.42	\$ 16.72	\$ 18.14	\$ 16.82	\$ 1.32
June	\$ 17.37	\$ 15.67	\$ 19.10	\$ 15.08	\$ 4.02	\$ 17.14	\$ 15.44	\$ 19.22	\$ 14.73	\$ 4.49
July	\$ 15.03	\$ 13.33	\$ 16.67	\$ 12.76	\$ 3.92	\$ 14.81	\$ 13.11	\$ 16.85	\$ 12.39	\$ 4.46
August	\$ 14.74	\$ 13.05	\$ 14.32	\$ 13.19	\$ 1.13	\$ 14.40	\$ 12.70	\$ 14.06	\$ 12.83	\$ 1.24
September	\$ 15.22	\$ 13.52	\$ 15.21	\$ 13.52	\$ 1.69	\$ 14.95	\$ 13.25	\$ 15.25	\$ 13.15	\$ 2.10
October	\$ 14.82	\$ 13.12	\$ 14.70	\$ 13.16	\$ 1.54	\$ 14.54	\$ 12.84	\$ 14.69	\$ 12.79	\$ 1.90
November	\$ 15.74	\$ 14.05	\$ 14.65	\$ 14.42	\$ 0.23	\$ 15.48	\$ 13.78	\$ 14.69	\$ 14.04	\$ 0.64
December	\$ 15.74	\$ 14.04	\$ 15.21	\$ 14.22	\$ 0.99	\$ 15.48	\$ 13.78	\$ 15.26	\$ 13.85	\$ 1.41
Average	\$ 15.58	\$ 13.89	\$ 15.08	\$ 14.06	\$ 1.02	\$ 15.30	\$ 13.60	\$ 15.04	\$ 13.70	\$ 1.35
January 05	\$ 15.50	\$ 13.80	\$ 16.06	\$ 13.62	\$ 2.44	\$ 15.25	\$ 13.55	\$ 16.19	\$ 13.24	\$ 2.95
February	\$ 14.94	\$ 13.24	\$ 14.48	\$ 13.39	\$ 1.09	\$ 14.70	\$ 13.00	\$ 14.64	\$ 13.02	\$ 1.63
March	\$ 14.98	\$ 13.29	\$ 14.94	\$ 13.30	\$ 1.64	\$ 14.74	\$ 13.04	\$ 15.11	\$ 12.93	\$ 2.19
April	\$ 15.06	\$ 13.36	\$ 14.59	\$ 13.51	\$ 1.08	\$ 14.90	\$ 13.20	\$ 14.80	\$ 13.24	\$ 1.56
May	\$ 14.59	\$ 12.89	\$ 14.90	\$ 12.79	\$ 2.11	\$ 14.44	\$ 12.74	\$ 15.14	\$ 12.51	\$ 2.62
June	\$ 14.54	\$ 12.84	\$ 13.90	\$ 13.05	\$ 0.85	\$ 14.41	\$ 12.71	\$ 14.21	\$ 12.77	\$ 1.44
July	\$ 14.97	\$ 13.27	\$ 14.06	\$ 13.59	\$ 0.47	\$ 14.84	\$ 13.14	\$ 14.37	\$ 13.31	\$ 1.06
August	\$ 14.65	\$ 12.95	\$ 14.48	\$ 13.01	\$ 1.47	\$ 14.54	\$ 12.84	\$ 14.89	\$ 12.72	\$ 2.17
September	\$ 15.26	\$ 13.56	\$ 14.25	\$ 13.90	\$ 0.34	\$ 15.02	\$ 13.32	\$ 14.11	\$ 13.63	\$ 0.47
October	\$ 15.08	\$ 13.38	\$ 14.63	\$ 13.54	\$ 1.09	\$ 14.95	\$ 13.25	\$ 14.94	\$ 13.26	\$ 1.68
November	\$ 14.36	\$ 12.66	\$ 14.50	\$ 12.62	\$ 1.88	\$ 14.28	\$ 12.58	\$ 15.00	\$ 12.35	\$ 2.66
December	\$ 14.39	\$ 12.69	\$ 14.06	\$ 12.81	\$ 1.26	\$ 14.18	\$ 12.48	\$ 14.01	\$ 12.54	\$ 1.46
Average	\$ 14.86	\$ 13.16	\$ 14.57	\$ 13.26	\$ 1.31	\$ 14.69	\$ 12.99	\$ 14.78	\$ 12.96	\$ 1.83

Exhibit 7.2 Adjusted Pool Prices Using Historic Class Prices And Recomputed Using Current Class Price Formulas.

	Prices Using Historic Formulas					Prices Using Current Formulas				
	\$1.70 Spread		Variable Spread			\$1.70 Spread		Variable Spread		
	Quota	Overbase	Quota	Overbase	Spread	Quota	Overbase	Quota	Overbase	Spread
January 06	\$ 13.92	\$ 12.23	\$ 13.87	\$ 12.25	\$ 1.62	\$ 13.85	\$ 12.15	\$ 14.42	\$ 11.98	\$ 2.44
February	\$ 12.75	\$ 11.05	\$ 13.16	\$ 10.93	\$ 2.23	\$ 12.60	\$ 10.90	\$ 13.41	\$ 10.66	\$ 2.75
March	\$ 12.21	\$ 10.51	\$ 12.69	\$ 10.37	\$ 2.31	\$ 12.07	\$ 10.37	\$ 12.99	\$ 10.10	\$ 2.89
April	\$ 11.89	\$ 10.20	\$ 11.62	\$ 10.28	\$ 1.33	\$ 11.68	\$ 9.98	\$ 11.60	\$ 10.01	\$ 1.59
May	\$ 11.90	\$ 10.21	\$ 11.62	\$ 10.29	\$ 1.33	\$ 11.75	\$ 10.05	\$ 11.88	\$ 10.02	\$ 1.87
June	\$ 11.90	\$ 10.21	\$ 11.45	\$ 10.35	\$ 1.10	\$ 11.72	\$ 10.02	\$ 11.56	\$ 10.08	\$ 1.49
July	\$ 11.71	\$ 10.01	\$ 11.38	\$ 10.13	\$ 1.25	\$ 11.58	\$ 9.88	\$ 11.70	\$ 9.84	\$ 1.86
August	\$ 12.13	\$ 10.43	\$ 11.31	\$ 10.70	\$ 0.61	\$ 11.99	\$ 10.29	\$ 11.66	\$ 10.41	\$ 1.25
September	\$ 12.81	\$ 11.11	\$ 11.58	\$ 11.51	\$ 0.06	\$ 12.61	\$ 10.91	\$ 11.67	\$ 11.23	\$ 0.44
October	\$ 12.87	\$ 11.18	\$ 12.54	\$ 11.27	\$ 1.27	\$ 12.78	\$ 11.08	\$ 13.04	\$ 10.99	\$ 2.05
November	\$ 13.31	\$ 11.61	\$ 12.22	\$ 11.97	\$ 0.25	\$ 13.39	\$ 11.69	\$ 12.55	\$ 11.97	\$ 0.59
December	\$ 13.50	\$ 11.80	\$ 12.56	\$ 12.10	\$ 0.46	\$ 13.68	\$ 11.98	\$ 13.29	\$ 12.10	\$ 1.19
Average	\$ 12.58	\$ 10.88	\$ 12.17	\$ 11.01	\$ 1.15	\$ 12.48	\$ 10.78	\$ 12.48	\$ 10.78	\$ 1.70
January 07	\$ 13.70	\$ 12.00	\$ 12.83	\$ 12.27	\$ 0.56	\$ 13.91	\$ 12.21	\$ 13.73	\$ 12.27	\$ 1.46
February	\$ 14.46	\$ 12.76	\$ 14.05	\$ 12.89	\$ 1.16	\$ 14.46	\$ 12.76	\$ 14.04	\$ 12.89	\$ 1.16
March	\$ 15.29	\$ 13.59	\$ 14.51	\$ 13.82	\$ 0.69	\$ 15.29	\$ 13.59	\$ 14.51	\$ 13.82	\$ 0.69
April	\$ 16.34	\$ 14.64	\$ 15.28	\$ 14.95	\$ 0.34	\$ 16.34	\$ 14.64	\$ 15.28	\$ 14.95	\$ 0.34
Average	\$ 14.95	\$ 13.25	\$ 14.17	\$ 13.48	\$ 0.69	\$ 15.00	\$ 13.30	\$ 14.39	\$ 13.48	\$ 0.91
Average All	\$ 13.73	\$ 12.03	\$ 13.85	\$ 11.96	\$ 1.89	\$ 13.45	\$ 11.75	\$ 13.62	\$ 11.66	\$ 1.96

Exhibit 7.3 Overbase Price Increase with Uniform Blend Price vs. Fixed Differential

As mentioned in the previous paragraph, as production and RQA revenue increases, the difference between the overbase price and a uniform blend price decreases. This in turn reduces the percent of milk one needs to have covered by quota to be as well off with the current \$1.70 differential as they would be under a uniform blend price payout.

This spreadsheet shows how much overbase would benefit per CWT using a uniform blend price, compared to the current \$1.70 differential. For the base period production the average daily production for the 6 months from November 2006 through April 2007 was multiplied by 30 days. The CWT impact has been calculated assuming 2%, or 3% or 4% annual production increases, along with varying RQA contributions ranging from \$1,060,000 up to \$1,250,000.

The actual RQA deductions for January (a 31 day month) for the years 2002 through 2007 are shown at the bottom for reference.

This shows that while the overbase price would benefit \$0.3554 at the current base production, and an RQA contribution of \$1,060,000; it also shows that if production increased at 3% per year for 7 years and that RQA revenue increased to \$1,250,000 the benefit would be \$0.2840 per cwt.

At \$0.2840, a farm would only need 17% of their milk covered by quota to be as well off under the \$1.70 system as it would be under a uniform blend. With that in mind, one could reference back to the prior spreadsheet and see that with a 10% increase in production, and looking at the 20% range, 60% of producers and 60% of the milk would benefit from a uniform blend.

With that in mind, and the discussion on referendums, it indicates that even as production increases, it would be difficult to get a super majority vote to eliminate pooling.

Exhibit 7.3 Overbase Price Increase with Uniform Blend Price vs. Fixed Differential

Gross \$1.70 Deduction /1 \$ 12,192,852

	Various RQA Contributions				
RQA Contribution	\$ 1,060,000	\$ 1,100,000	\$ 1,150,000	\$ 1,200,000	\$ 1,250,000
Net \$1.70 deduction	\$ 11,132,852	\$ 11,092,852	\$ 11,042,852	\$ 10,992,852	\$ 10,942,852

		Production				
Base /2	3,132,786,281	\$ 0.3554	\$ 0.3541	\$ 0.3525	\$ 0.3509	\$ 0.3493
Growth Rate	2%					
YEAR 1	3,195,442,007	\$ 0.3484	\$ 0.3471	\$ 0.3456	\$ 0.3440	\$ 0.3425
2	3,259,350,847	\$ 0.3416	\$ 0.3403	\$ 0.3388	\$ 0.3373	\$ 0.3357
3	3,324,537,864	\$ 0.3349	\$ 0.3337	\$ 0.3322	\$ 0.3307	\$ 0.3292
4	3,391,028,621	\$ 0.3283	\$ 0.3271	\$ 0.3256	\$ 0.3242	\$ 0.3227
5	3,458,849,194	\$ 0.3219	\$ 0.3207	\$ 0.3193	\$ 0.3178	\$ 0.3164
6	3,528,026,178	\$ 0.3156	\$ 0.3144	\$ 0.3130	\$ 0.3116	\$ 0.3102
7	3,598,586,701	\$ 0.3094	\$ 0.3083	\$ 0.3069	\$ 0.3055	\$ 0.3041
Growth Rate	3%					
YEAR 1	3,226,769,870	\$ 0.3450	\$ 0.3438	\$ 0.3422	\$ 0.3407	\$ 0.3391
2	3,323,572,966	\$ 0.3350	\$ 0.3338	\$ 0.3323	\$ 0.3308	\$ 0.3292
3	3,423,280,155	\$ 0.3252	\$ 0.3240	\$ 0.3226	\$ 0.3211	\$ 0.3197
4	3,525,978,559	\$ 0.3157	\$ 0.3146	\$ 0.3132	\$ 0.3118	\$ 0.3103
5	3,631,757,916	\$ 0.3065	\$ 0.3054	\$ 0.3041	\$ 0.3027	\$ 0.3013
6	3,740,710,654	\$ 0.2976	\$ 0.2965	\$ 0.2952	\$ 0.2939	\$ 0.2925
7	3,852,931,973	\$ 0.2889	\$ 0.2879	\$ 0.2866	\$ 0.2853	\$ 0.2840
Growth Rate	4%					
YEAR 1	3,258,097,733	\$ 0.3417	\$ 0.3405	\$ 0.3389	\$ 0.3374	\$ 0.3359
2	3,388,421,642	\$ 0.3286	\$ 0.3274	\$ 0.3259	\$ 0.3244	\$ 0.3229
3	3,523,958,507	\$ 0.3159	\$ 0.3148	\$ 0.3134	\$ 0.3119	\$ 0.3105
4	3,664,916,848	\$ 0.3038	\$ 0.3027	\$ 0.3013	\$ 0.2999	\$ 0.2986
5	3,811,513,522	\$ 0.2921	\$ 0.2910	\$ 0.2897	\$ 0.2884	\$ 0.2871
6	3,963,974,063	\$ 0.2809	\$ 0.2798	\$ 0.2786	\$ 0.2773	\$ 0.2761
7	4,122,533,025	\$ 0.2700	\$ 0.2691	\$ 0.2679	\$ 0.2667	\$ 0.2654

/1 Computed using current quota holdings for a 30 day month.

/2 Production based on a 30 day month using weighted average daily production for the 6 months of November 2006 through April 2007.

RQA Deduction For Various Month

	2002	2003	2004	2005	2006	2007
January	\$ 951,959	\$ 966,158	\$ 1,011,430	\$ 1,052,299	\$ 1,102,341	\$ 1,135,605

***Exhibit 7.4* Impact to the Pool for every CWT of Class 1 sales lost to out-of-state shippers**

The question was asked regarding the impact to the pool for every Cwt. of Class 1 sales lost to out-of-state suppliers. Assuming that that the sales displaced milk that would have been processed in Southern California, and that the California milk would have been converted into butter and powder, an estimated impact was computed by simply taking the difference between the Southern California Class 1 Cwt. price and the Class 4a price. The impact was computed using the current class price formulas.

Exhibit 7.4 Impact to the Pool for every CWT of Class 1 sales lost to out-of-state shippers

	Southern Ca		Loss to Ca Pool
	Class 1	Class 4a	
January 2002	\$ 13.94	\$ 11.43	\$ 2.51
February	\$ 13.65	\$ 11.01	\$ 2.65
March	\$ 13.23	\$ 10.97	\$ 2.26
April	\$ 13.22	\$ 10.70	\$ 2.52
May	\$ 12.98	\$ 10.19	\$ 2.78
June	\$ 12.58	\$ 10.10	\$ 2.48
July	\$ 12.42	\$ 10.02	\$ 2.40
August	\$ 12.23	\$ 9.92	\$ 2.31
September	\$ 12.23	\$ 9.76	\$ 2.47
October	\$ 11.88	\$ 10.06	\$ 1.82
November	\$ 13.29	\$ 10.16	\$ 3.13
December	\$ 12.24	\$ 10.04	\$ 2.20
Average	\$ 12.82	\$ 10.36	\$ 2.46
January 2003	\$ 12.56	\$ 9.56	\$ 3.00
February	\$ 11.91	\$ 9.27	\$ 2.64
March	\$ 11.91	\$ 9.41	\$ 2.49
April	\$ 11.54	\$ 9.45	\$ 2.09
May	\$ 11.63	\$ 9.42	\$ 2.21
June	\$ 11.64	\$ 9.53	\$ 2.11
July	\$ 11.66	\$ 9.84	\$ 1.82
August	\$ 14.34	\$ 9.83	\$ 4.51
September	\$ 16.15	\$ 9.77	\$ 6.38
October	\$ 16.29	\$ 9.86	\$ 6.44
November	\$ 16.37	\$ 9.96	\$ 6.41
December	\$ 15.30	\$ 10.33	\$ 4.97
Average	\$ 13.44	\$ 9.69	\$ 3.76
January 2004	\$ 14.05	\$ 10.63	\$ 3.41
February	\$ 13.40	\$ 11.82	\$ 1.58
March	\$ 13.66	\$ 13.81	\$ (0.15)
April	\$ 15.77	\$ 14.21	\$ 1.56
May	\$ 21.58	\$ 13.83	\$ 7.74
June	\$ 22.59	\$ 13.18	\$ 9.41
July	\$ 19.01	\$ 12.64	\$ 6.37
August	\$ 15.23	\$ 11.79	\$ 3.44
September	\$ 15.97	\$ 12.53	\$ 3.44
October	\$ 16.30	\$ 12.34	\$ 3.96
November	\$ 16.02	\$ 13.05	\$ 2.96
December	\$ 16.53	\$ 12.86	\$ 3.68
Average	\$ 16.68	\$ 12.72	\$ 3.95

	Southern Ca		Loss to Ca Pool
	Class 1	Class 4a	
January 2005	\$ 18.93	\$ 12.14	\$ 6.79
February	\$ 15.77	\$ 12.34	\$ 3.42
March	\$ 16.65	\$ 12.19	\$ 4.45
April	\$ 16.35	\$ 12.09	\$ 4.26
May	\$ 17.03	\$ 11.70	\$ 5.33
June	\$ 15.46	\$ 12.02	\$ 3.44
July	\$ 15.95	\$ 12.78	\$ 3.17
August	\$ 16.65	\$ 13.04	\$ 3.61
September	\$ 15.21	\$ 13.33	\$ 1.88
October	\$ 16.20	\$ 13.20	\$ 2.99
November	\$ 16.45	\$ 12.49	\$ 3.96
December	\$ 15.15	\$ 12.09	\$ 3.06
Average	\$ 16.32	\$ 12.45	\$ 3.86
January 2006	\$ 15.50	\$ 11.72	\$ 3.78
February	\$ 15.05	\$ 10.56	\$ 4.49
March	\$ 13.81	\$ 10.17	\$ 3.64
April	\$ 12.71	\$ 10.02	\$ 2.69
May	\$ 12.92	\$ 9.93	\$ 2.98
June	\$ 12.73	\$ 9.81	\$ 2.92
July	\$ 13.11	\$ 9.81	\$ 3.30
August	\$ 12.72	\$ 10.48	\$ 2.24
September	\$ 12.94	\$ 10.77	\$ 2.17
October	\$ 14.49	\$ 11.00	\$ 3.49
November	\$ 13.78	\$ 11.33	\$ 2.46
December	\$ 14.68	\$ 11.65	\$ 3.03
Average	\$ 13.70	\$ 10.60	\$ 3.10
January 2007	\$ 15.22	\$ 11.92	\$ 3.31
February	\$ 15.37	\$ 12.34	\$ 3.03
March	\$ 16.02	\$ 13.24	\$ 2.78
Average	\$ 15.54	\$ 12.50	\$ 3.04

Computed using formulas in place for April 2007.

Exhibit 7.5 Change in Percent Production covered by Quota due to 10% increase in production.

Several members were interested in looking at how many farms would have their pool prices increase if there were a switch to a uniform blend price (one pool price for all pool producers), with no payment out of the pool to finance quota retirement. The number of producers, and the volume of milk they produce, broken down by percent of milk covered by quota addresses this issue.

Depending on what RQA area a producers farm is located in, the percent of quota they would need to own to be better off under the current payout will vary. But on average given today production volume, RQA contribution to the pool, the average is about 22%. This table would show that for April 2007, 62% percent of farms, and 63% of the milk would be better off using a uniform blend price.

It was speculated that as production increases, the number of farms and the percentage of milk that would be better off would increase. To show the change in farms and milk by percentage bracket, quota ownership was held constant on existing farms. Production on those farms was increased 10% and a new breakdown by bracket was generated. The new data set shows that due to the increase in production, 65% of farms and 66% of the milk would have less than 25% of their milk covered by quota. It was suggested that as those percentages increased, the ability to maintain quota would be increasingly difficult.

What was not considered when making the latter statement was that as production increases, the \$1.70 premium is spread over more milk. The result is that you would not need to have as high a percentage of your milk covered by quota to be as well off with the \$1.70 differential as compared to a uniform blend price. Further, as quota moves from Southern California to other areas of the State, the RQA's contribute more to financing the \$1.70 spread. The impact of the both is shown in the following spreadsheet.

Exhibit 7.5 Change in Percent Production covered by Quota due to 10% increase in production.

QUOTA SNF PERCENT	April 2007 Production and Quota Holdings						Production increased 10% from April 2007					
	NO OF RANCHES	/1	POUNDS PRODUCTION	/1	POUNDS SNF	POUNDS QUOTA SNF	NO OF RANCHES	/1	POUNDS PRODUCTION	/1	POUNDS SNF	POUNDS QUOTA SNF
101+	29	100%	19,193,547	100%	1,680,245	1,956,844	18	100%	10,462,029	100%	912,844	1,077,917
96 - 100	10	98%	11,637,511	99%	2,629,789	1,001,264	2	99%	1,780,151	100%	157,388	158,728
91 - 95	18	98%	16,847,551	99%	1,477,661	1,368,194	9	99%	8,870,722	100%	2,277,640	720,199
86 - 90	26	97%	26,663,693	99%	2,343,612	2,052,207	16	98%	16,073,001	99%	1,410,666	1,249,852
81 - 85	32	95%	50,261,097	98%	4,394,010	3,636,890	18	97%	21,450,439	99%	1,882,770	1,562,937
75 - 80	25	94%	36,146,623	96%	3,174,318	2,474,482	34	96%	41,426,271	98%	3,641,732	2,834,556
71 - 75	37	92%	50,312,354	95%	4,419,653	3,206,088	30	95%	58,153,477	97%	5,088,485	3,750,390
66 - 70	39	90%	70,511,425	94%	6,181,289	4,210,692	32	93%	45,855,740	96%	4,022,767	2,744,972
61 - 65	36	88%	53,634,924	91%	4,720,605	2,962,786	46	91%	84,794,442	94%	7,447,333	4,713,770
56 - 60	48	86%	87,794,529	90%	7,711,671	4,468,936	41	89%	76,106,682	92%	6,680,454	3,873,026
51 - 55	60	83%	121,614,913	87%	10,703,926	5,639,499	51	86%	98,052,770	90%	8,613,547	4,550,956
46 - 50	46	80%	79,878,215	83%	7,016,135	3,336,990	62	83%	136,897,682	87%	12,048,132	5,774,315
41 - 45	67	77%	134,533,675	81%	11,822,589	5,066,021	53	80%	113,132,810	83%	9,931,644	4,236,656
36 - 40	58	74%	105,168,437	77%	9,244,112	3,525,092	79	77%	158,875,560	80%	13,979,902	5,303,504
31 - 35	66	70%	152,939,411	74%	13,402,794	4,417,992	64	73%	130,875,227	76%	11,503,775	3,800,254
26 - 30	85	67%	197,692,253	69%	17,376,003	4,854,511	79	69%	217,340,658	72%	19,058,630	5,344,569
21 - 25	68	62%	154,882,430	63%	13,584,713	3,086,157	86	65%	213,384,637	66%	18,754,225	4,329,686
16 - 20	85	58%	193,503,391	58%	16,973,897	3,053,265	89	60%	224,995,682	60%	19,718,544	3,513,046
11 - 15	93	53%	180,272,981	52%	15,853,390	2,011,311	94	55%	214,729,879	54%	18,862,301	2,397,294
6 - 10	107	48%	199,970,289	47%	17,592,099	1,456,535	121	50%	244,241,985	48%	21,473,830	1,753,461
1 - 5	106	42%	258,772,929	41%	22,864,374	627,395	116	43%	302,895,976	41%	26,763,410	722,160
0 -	651	36%	1,072,888,224	33%	94,649,368	2,250	652	36%	1,182,236,625	33%	104,297,609	3,152
Totals	1792		3,275,120,402		289,816,253	64,415,399	1792		3,602,632,442		318,527,626	64,415,399

/1 Percentages show what percent by number or volume are at or below the range listed.

There are two Chapters of the Food and Agriculture Code that are specific to Milk Pooling. They are Chapters 3 and 3.5 of Division 21 Part 3. Chapter 3 (Gonsalves Milk Pooling Act) allows the pooling of milk revenue, while Chapter 3.5 allows for the fixed \$1.70 differential between quota and overbase prices. Both of these chapters have their own referendum provisions. Those provisions are discussed below.

Chapter 3.5 (3.5) allows for, but does not require (62756.a) If the continued operation of this chapter is not approved, the secretary shall continue in operation the pooling plan in effect on December 31, 1993.) the \$1.70 spread between quota and overbase prices (\$1.70 per cwt / 8.7 lbs SNF per cwt = \$0.195 per pound of SNF) (62750(d) After taking into consideration the effect of the regional quota adjusters, the solids not fat announced quota price for those areas in which there is no regional quota adjuster shall be nineteen and one-half cents (\$0.195) per pound greater than the announced solids not fat price for all milk produced in excess of pool quota. Any referendum in 3.5 would be preceded by a public hearing. A hearing could be called by the Secretary on his own motion, or at the request of any individual. A hearing must be called if the secretary received a petition signed by at least 25% of the grade A producers in the State who produced as a groups at least 25% of the grade A milk. (62752. The secretary may hold a public hearing at any time to consider whether this chapter shall be suspended, and shall hold a public hearing to review a petition requesting the suspension of this chapter signed by not less than 25 percent of the producers who produced not less than 25 percent of the total amount of fluid milk produced in this state during the preceding calendar month.) The referendum allowed for in 3.5 is for one purpose, that is to terminate the \$1.70 spread, and return to the variable spread that was in place prior to 1994. It would not allow for the changing of the \$1.70 to any other number. The referendum would allow each producer to vote individually (no block voting) on the question "Shall Chapter 3.5 continue to be in effect?" If 51% of eligible producers voted, and 51% or more of those voting said no, and those 51% saying no produced at least 51% of the milk produced by those voting, then we would revert back to Chapter 3.0 (variable spread). 62754.(a) Each producer shall have one vote and the vote shall be individually cast in order to prevent block voting. The secretary shall prepare a ballot. The ballot form shall be substantially as follows: Ballot Shall Chapter 3.5 (commencing with Section 62750) of Part 3 of Division 21 of the Food and Agricultural Code be continued in effect? Yes No (b) In addition, the ballot shall include a statement of the voter's total production during the calendar month next preceding the month of the commencement of the referendum period, where and to whom that production was sold or otherwise disposed, and the producer's name and address and pooling numbers.

62755. (a) The secretary shall find that producers have assented to the continued operation of this chapter if the secretary finds on a statewide basis that not less than 51 percent of the total number of eligible producers in the state have voted in the referendum and that 51 percent or more of the total number of eligible producers who voted in the referendum and who produced 51 percent or more of the total amount of fluid milk produced in the state during the calendar month next preceding the month of the commencement of the referendum period by all producers who voted in the referendum, approve the continued operation of this chapter. (b) If the secretary finds that a vote favorable to the continued operation of this chapter has not been given, the secretary shall so certify to the Secretary of State and shall declare this chapter in operative. (c) The secretary may reveal the names of producers whose votes have been received to both proponents and opponents of the continued operation of this chapter. However, whether individual producers voted for or against the continued operation of this chapter shall be kept confidential. Chapter 3.0 (3.0) allows for referendums to approve substantive amendments to the Pool Plan, or to terminate the Pool Plan. Amendments can only be made after a public hearing has been held. Termination on the other hand can happen with or without a hearing. Public hearings for amending the Pool Plan may be called by the Secretary on his own motion or at the request of any individual. However, the secretary can only make non-substantive amendments on his own motion. Any substantive amendments can only be made if they are passed by a referendum. (62717. After the hearing, the director, upon his own motion, may make non substantive amendments to the plan. The director may make substantive amendments to the plan only if producers assent to the proposed amendments at a referendum conducted in the same manner and in the same number as provided for the referendum approving the pooling plan.) A hearing to can be held to discuss terminating Pool Plan. Such a hearing may be called by the secretary either on his own motion, or at the request of someone else. A termination hearing must be held if the secretary receives a petition signed by 25% of Grade A producers, who produce as a group at least 25% of the Grade A milk in the state. If the secretary finds the Pool Plan is not in conformity with or achieving the purpose of the Gonsalves Milk Pooling Act, he must put it to producers for a referendum for the producers to decide if the Pool Plan should be terminated. (62717. The director may terminate the plan on a statewide basis after notice and public hearing has been given in the same manner as is provided in Chapter 2 (commencing with Section 61801) for stabilization and marketing plans, if he finds that the plan is no longer in conformity with the standards described in, or will not tend to effectuate the purposes of, this chapter. The hearing may be held upon

the motion of the director, and shall be held upon receipt of a petition signed by producers representing not less than 25 percent of the total number of all producers and not less than 25 percent of the total production of all producers.) Producers can by-pass the hearing process and force a termination referendum if 25% of all producers, who as a group produce more than 25% of the Grade A milk submit a petition requesting the referendum. (62717 shall submit the plan for termination upon receipt of a petition requesting termination signed by producers representing not less than 25 percent of the total number of all producers and not less than 25 percent of the total production of all producers.) The percentages for approving substantive changes, or terminating the Pool Plan are the same. (62717. The director shall find that producers have assented to the plan if he finds on a statewide basis that not less than 51 percent of the total number of eligible producers in the state shall have voted in the referendum and finds one of the following: (a) Sixty-five percent or more of the total number of eligible producers who voted in the referendum who produced 51 percent or more of the total amount of fluid milk produced in the state during the calendar month next preceding the month of the commencement of the referendum period by all producers who voted in the referendum approve the plan. (b) Fifty-one percent or more of the total number of eligible producers who voted in the referendum who produced 65 percent or more of the total amount of fluid milk produced in the state during the calendar month next preceding the month of the commencement of the referendum period by all producers who voted in the referendum, approve the plan.)

Exhibit 7.7 Amendments or Termination of the Milk Pooling Plan

Amendments to Regional Quota Adjuster (RQA)	Amendments to Pool Plan – Chapter 3.0 of FAC	\$1.70 CWT- Chapter 3.5 of FAC	Termination of the Pool Plan – Chapter of 3.0 FAC
Sec 910.1 Pool Plan	Sec. 62717(b)	Sec. 62751- 62756	Sec 62717(b)
A public hearing must be held.	Notice for a hearing called by the Secretary on <u>his own</u> motion or by the request of a petitioner.	Changes to a portion or all provisions of Chap. 3.5 require legislative action. The Secretary can hold a hearing at anytime to consider suspension of this Chapter.	A) Secretary may terminate the plan after Notice and hearing finds plan no longer in conformity or effectuate the purpose of this Chapter.
A referendum is not necessary if record from the public hearing “clearly shows producer support”. Opposition must be less than 5 % or less. Opposition of more than 5 %, a referendum must be held.	After the hearing the Secretary may make non-substantive amendments to the plan. Substantive amendments must be approved via referendum not less than 51% of the eligible must have voted.	The Secretary shall hold a hearing if petition received is signed by not less than 25 % of all producers who produced not less than 25% of the total amount of fluid milk produced during the preceding calendar month.	The hearing maybe held on Secretary’s own motion or receipt of petition signed by producers representing not less than 25% of the total number of all producers and not less than 25% of the total production of all producers. OR
	Substantive amendments must be approved via referendum ether: 1) 65 % of eligible producers voted who produce 51% or more of the total amount of fluid milk produced, approve or, 2) 51 % or more of the total eligible producers who voted who produced 65 % or more of the total amount of fluid milk produced, approve. If plan is not approved , the Secretary may resubmit the plan, or submit a new plan, after 6 months the Secretary announced the plan was not approved.	A referendum must be held and the Secretary has 60 days to do so. An additional 30 days may be taken and prescribe additional procedures. The <u>ballot</u> should reveal the voter’s total production, where and to whom the production was sold and disposed, and producers name address, and pooling numbers. The measure has been assented if Not less than 51 % or the total number of eligible producers in the state voted and that 51 % or more of the total number of eligible producers who produced 51 % or more of the total amount of fluid milk produced in the state approve the <u>continued</u> operation of this chapter. The Secretary may reveal the names of the producers who <u>voted</u> . How they voted should remain confidential. The Chapter shall remain operative until the Secretary certifies to the Secretary of State that the vote was not favorable to continue.	B) After notice and public hearing and the Secretary finds that a substantial question exits as to whether or not producers desire the plan to continue, the Secretary will submit the termination plan in a referendum conducted in the same manner as provided for initial approval of the plan. OR C) Receipt of petition requesting termination signed by producers representing not less that than 25 % of the total number of all producers and not less than 25 % or the total production of all producers. The plan shall be terminated if termination is favored by the same percentage of producers producing the same amount of fluid milk required to initiate the plan. The Secretary shall terminate any Pooling Plan in any Marketing Area without notice or hearing at anytime there ceases to be a Stabilization and Marketing plan (Calif. milk pricing system) for that Marketing Area.
		If the continued operation of the Chapter is not approved, the Secretary shall continue operations with the Pool Plan in effect on Dec 31, 1993.	