

Pennsylvania Milk Marketing Board Fiscal Year Report 2003-2004

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ON THE COVER

East Malta Farms, Northumberland County, Central Pennsylvania, run by the Witmer family from 1935 - 1985. At its peak, it was the largest Guernsey bottling operation in the Commonwealth. Steve Witmer was a Field Supervisor for the Milk Marketing Board until his retirement in January 2004.

PENNSYLVANIA MILK MARKETING BOARD 2003 – 2004 FISCAL YEAR REPORT

MISSION STATEMENT

To ensure that Pennsylvania's dairy industry remains vital, the Milk Marketing Board provides a regulatory environment that facilitates a safe, adequate supply of wholesome milk by providing security for its dairy farmers and milk dealers, while providing an adequate supply of dairy products for our consumers.

Boyd E. Wolff, Chairman
Luke F. Brubaker, Member
Barbara A. Grumbine, Consumer Member
Keith Bierly, Secretary

July 2004

Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Room 225, Main Capitol
Harrisburg, PA 17120

Dear Governor Rendell:

I am pleased to present you with the Pennsylvania Milk Marketing Board's 2003 – 2004 Fiscal Year Report.

Agribusiness remains the number one industry in Pennsylvania, and dairy is the largest segment of that industry. In 2003, Pennsylvania's milk cows produced approximately 10.3 billion pounds of milk, representing 6.6% of the nation's milk supply and ranking Pennsylvania the fourth largest milk producing state in the nation; gross income from the marketing of milk accounted for approximately \$1.3 billion. Our dairy producers, processors, and distributors have a huge impact on the Commonwealth's economy. The Pennsylvania dairy industry provides over 77,000 direct and indirect jobs and more than \$49 million in property tax revenue. As such, the Milk Marketing Board has a tremendous responsibility regulating all aspects of the Pennsylvania milk industry—from the farm to the consumer.

My fellow Board members and I do not take this responsibility lightly. We are confident that Pennsylvania will remain among the nation's leading dairy states, due to our hard-working dairy farmers and the unparalleled number and diversity of our processors and manufacturers. Through the mandates set forth in the Milk Marketing Law, the Milk Marketing Board will continue its vital and stabilizing role, ensuring all segments of the industry receive an equitable price for milk, thus guaranteeing a continual supply of pure and wholesome milk to the citizens of Pennsylvania.

Respectfully submitted,

Boyd E. Wolff

BOYD E. WOLFF
CHAIRMAN



On April 23, 2003, the Pennsylvania Senate voted to confirm former Secretary of Agriculture Boyd Wolff's appointment to the Pennsylvania Milk Marketing Board. Governor Edward G. Rendell named Mr. Wolff Chairman of the Board on April 25, 2003.

Mr. Wolff brings a lifetime of dairy experience to the Pennsylvania Milk Marketing Board. He was born and raised on a dairy farm in Westmoreland County. After graduating from Penn State in 1953 with a B.S. Degree in Dairy Husbandry, Mr. Wolff returned to his home farm. Over the next 33 years, he expanded the farm from 110 acres to 410 acres and the herd from 30 to 100 cows. He received the "Master Farmer Award" in 1970 and in 1977 the Pennsylvania Farm Bureau's "Distinguished Service to Agriculture Award." During that time, Mr. Wolff was active in many agricultural and community organizations and his church.

As Pennsylvania Secretary of Agriculture from 1987 to 1995, Mr. Wolff continued his advocacy for agriculture by creating several new programs. These include Pennsylvania's Farm Land Preservation Program; the Animal Health Commission; and the Pennsylvania Diagnostic Laboratory System, which enables the Department, Penn State, and the University of Pennsylvania to share laboratory resources. As Secretary, Mr. Wolff also secured funding for the Department's new laboratory, spearheaded legislation allowing Pennsylvania's dairy and other commodity producers to work together to promote their products, and worked with dairy processors for regulations to extend the shelf life of milk. Mr. Wolff also served as a member of the State Ethics Commission from 1995 to 1998.

Mr. Wolff served on the Penn State Board of Trustees from 1984 to 2001 and received the "Distinguished Alumnus Award" in 2002. He continues to serve the University as an Emeritus Trustee.

Since 1996, he has completed 14 projects for the United States Agency for International Development (USAID). Four were in Russia; two each in Moldavia, Ukraine, and Zimbabwe; and one each in Poland, Venezuela, Macedonia, and Ethiopia. He helped farmers understand and develop cooperatives to secure supplies and market their products. In Ukraine he helped dairy processors form an organization similar to the Pennsylvania Association of Milk Dealers. Currently, Mr. Wolff serves on the Board of 10,000 Friends of Pennsylvania and the South Central Assembly for Effective Governance, where he chairs the Farm Land Preservation Committee.

Mr. Wolff resides in Harrisburg with his wife, the former Margaret A. Garvis. They have three daughters – Patricia, Corrine, and Margaret L., and two grandchildren. Mr. and Mrs. Wolff are members of the Harrisburg Pine Street Presbyterian Church where he serves as an elder.

LUKE F. BRUBAKER
MEMBER



Mr. Brubaker was first appointed to the Board by Governor Thomas J. Ridge in 1997; he was re-appointed by Governor Edward G. Rendell and unanimously confirmed by the State Senate in September 2003.

Mr. Brubaker is a dairy farmer with 30 years of experience in the Pennsylvania dairy industry. With his two sons, he manages a 1,000 acre dairy agri-business partnership. He has been Chairman of Lancaster Farm Service Agency since 1996 and a participating farmer in the Chesapeake Bay Program. Mr. Brubaker is also past president of the Lancaster County Farm and Home Foundation.

Mr. Brubaker was a member of the East Donegal Planning Commission from 1986 to 1992 and was Chairman of the East Donegal Board of Supervisors from 1993 to 1997. He is Chairman of Environmental Coordinators for Lancaster, Lebanon, York, Dauphin, and Berks Counties in conjunction with the Department of Environmental Protection and the Pennsylvania Farm Bureau, is on the Board of Trustees of the Lancaster County Farmland Trust and winner of the 2001 Pennsylvania Dairy Stakeholders Pacesetters Award. He has also been the recipient of the Dairy of Distinction Award. In 1999 Brubaker Farms was awarded the National Environmental Stewardship Award in recognition of production and practices and concern for community and in 2002 completed the Pennsylvania Environmental Agricultural Conservation Certification of Excellence (PEACCE) Program.

Internationally, as a member of an economic development team, Mr. Brubaker assisted in developing small businesses in Bolivia. In 1997, 1998, and 2001, he served as an ambassador to the Russian Republic and Ukraine for dairy management, nutrition, marketing, and overall expertise for the Citizens Network for Foreign Affairs.

Mr. Brubaker and his wife Barbara reside in Mount Joy, Lancaster County. They have three children – Cindy, Mike and Tony, and eight grandchildren. Mr. and Mrs. Brubaker are members of the Mount Joy Mennonite Church.

**BARBARA A. GRUMBINE
CONSUMER MEMBER**



Mrs. Grumbine was appointed to the Board by Governor Thomas J. Ridge and was unanimously confirmed by the Pennsylvania Senate on May 22, 2001.

A graduate of Lebanon Catholic High School, she attended West Chester State College and is a licensed realtor. Currently Mrs. Grumbine serves as Vice Chairman of the Lebanon County Committee of the United States Department of Agriculture's (USDA) Farm Service Agency. She served in the Bush Administration as Northeast Area Director for the Agriculture Stabilization and Conservation

Service, an agency of the USDA. Mrs. Grumbine was the first female area director ever appointed.

She is also an active member of the American and Pennsylvania Farm Bureau, a member of the Myerstown Women's Club, past President of the Lebanon County Society of Farm Women, past treasurer of Penn's Agri-women/American Agri-women, and past Finance Chairman of the Lebanon County 4-H Development Board. Mrs. Grumbine has also served as Jackson Township Assessor, a member of the Township Election Board, Voting Machine Inspector, and as Judge of Elections. As a member of Frieden's Lutheran Church, she currently serves as secretary on the Church Council and is Chairman of the Social Ministry Team.

Mrs. Grumbine and her husband Dennis reside in Myerstown, Lebanon County. They have two sons – Daryl L. and Darren L., and three grandchildren. With their sons, Mrs. Grumbine and her husband own and operate a cash crop farm as well as run a used farm equipment dealership.

**KEITH BIERLY
SECRETARY**



Keith Bierly was appointed Secretary of the Pennsylvania Milk Marketing Board on April 12, 2004. The Secretary of the Agency is appointed by the Board Members to administer the Milk Marketing Law. He is responsible for the efficient and effective operation of the agency's day-to-day activities. It is the Secretary's responsibility to keep the Board Members informed regarding any activity that could have an effect on the marketing of milk; he is the liaison between the Board Members and the dairy industry.

Mr. Bierly began his government service in 1975 when then Governor Milton Shapp appointed him as a Centre County District Justice. Mr. Bierly was later elected as a Centre County District Justice and served two six-year terms. In 1987, he was elected to the first of four terms as a Centre County Commissioner. In 2000, Mr. Bierly was elected as a Gore delegate to the Democratic National Convention.

Mr. Bierly received his B. A. Degree in Political Science in 1972 from Lock Haven State University where he was a member of the Phi Kappa Phi Honor Society; he was named a Distinguished Alumnus by his alma mater in 1992. In 1977 Mr. Bierly received his M. A. in Political Science/Constitutional Law from the Pennsylvania State University. He is also a graduate of the Pennsylvania Law Enforcement Academy, and he completed the Senior Executive Management Program at the John F. Kennedy School of Government at Harvard University in 2001. Mr. Bierly has received recognition at the local, state, and national levels for his speeches and opinions dealing with the United States Constitution, its adoption process, and its meaning in the 21st century.

Mr. Bierly is married to the former Kimberly Yarnell. They reside in Centre Hall, Pennsylvania, with their three Golden Retrievers – Brandeis, Stratton, and Teddy Bear. When not working, Mr. Bierly enjoys watching college football, college basketball, and he follows the LPGA.

Senior Staff: Front Row (L to R) Douglas Eberly, Secretary Bierly, Tracey Jackson. Top Row (L to R) David Weldon, Timothy Moyer, David DeSantis, John Howard.



INTRODUCTION

The first Milk Control Law was enacted January 2, 1934, amended April 30, 1935, and replaced April 28, 1937, when the Pennsylvania Milk Control Commission was established as a permanent state government agency. The creation of the Milk Control Commission was an outgrowth of the chaotic marketing conditions existing in the 1930s. During this time prices paid to milk producers fell to one dollar per hundredweight or lower. Home delivered milk was \$.10 per quart. Pricing wars and destructive competitive practices were prevalent in many markets.

Since the original legislation, several amendments and improvements have been made. These changes allow Pennsylvania to manage more effectively the marketing of milk and promote the interests of Pennsylvania consumers. One change occurred in 1966 when the Milk Control Law was amended to establish the Bureau of Consumer Affairs. This Bureau distributes information to the public and responds to consumer inquiries. In 1968 the Law was again amended and re-named the Milk Marketing Law.

In 1985 the General Assembly re-established the Milk Marketing Board (MMB) after conducting an extensive review of its functions pursuant to the Sunset Act. In conjunction with re-establishing the agency, the General Assembly once again made amendments to the Milk Marketing Law.

Today, the MMB is an independent administrative agency designated to create stability in the marketing of milk by giving dairy farmers a fair and equal opportunity to market their milk. Payment for Pennsylvania-produced milk is guaranteed through the bonding of milk dealers and the Milk Producers' Security Fund. The Fund was established by the Milk Producers' Security Act of July 6, 1984. This Act ensures prompt payment to Pennsylvania producers by requiring the establishment of a Security Fund and by requiring milk dealers who purchase Pennsylvania-produced milk to post security, in the form of bonds, with the MMB. Currently, there is more than \$3.9 million in the Security Fund and more than \$91 million in collateral or corporate surety bonds.

The Milk Marketing Law allows farmers and milk dealers a reasonable profit while ensuring Pennsylvania consumers adequate supplies of milk at reasonable prices. The MMB accomplishes this by establishing minimum prices to be paid Pennsylvania farmers for 100 pounds of milk (11.6 gallons), and by establishing minimum wholesale prices and minimum retail prices. Prices are based upon evidence presented by interested parties during public hearings. All factors affecting the production, processing, packaging, delivery, and in-store handling costs of milk are considered.

Introduction *continued* . . .

Pennsylvania is divided into six different milk marketing areas. Each area is regulated by a different official general order. Official general orders (OGOs) are issued by the Board after hearings are conducted at which evidence is presented concerning that particular area. OGOs establish the minimum prices to be paid to farmers for their milk, and establish the minimum wholesale price and minimum retail price in each area. Milk Marketing Areas 1 and 4 are also regulated under Federal Milk Marketing Order 1; Area 5 is regulated by Federal Milk Marketing Order 33; Milk Marketing Areas 2, 3, and 6 are not regulated by any Federal Milk Marketing Orders. However, some plants in Areas 2, 3, and 6 fall under federal regulations. Federal Milk Marketing Orders cover specific geographic areas and can cross state lines; these orders establish minimum prices for all classes of producer milk.

Both the federal government and the MMB monitor and enforce minimum payments to producers. Additionally, Pennsylvania enforces minimum wholesale and minimum retail out-of-store prices. Pennsylvania enforces a state-mandated premium over the announced state and federal minimum price paid to producers. The state-mandated premium is paid to Pennsylvania farmers for milk that is produced, processed, and used as Class I milk (fluid drinking milk) in Pennsylvania. The federal producer price does not consider production and marketing conditions peculiar to Pennsylvania milk marketing areas (severe weather, fuel shortages, etc.). Since its inception in September 1988, the state-mandated premium has resulted in over 335 million additional dollars being paid to Pennsylvania farmers. Pennsylvania Milk Marketing auditors enforce Pennsylvania minimum payments to farmers through monthly audits of the dealers' books. Minimum retail prices are enforced by the Milk Marketing auditors and examiners who conduct monthly store surveys.

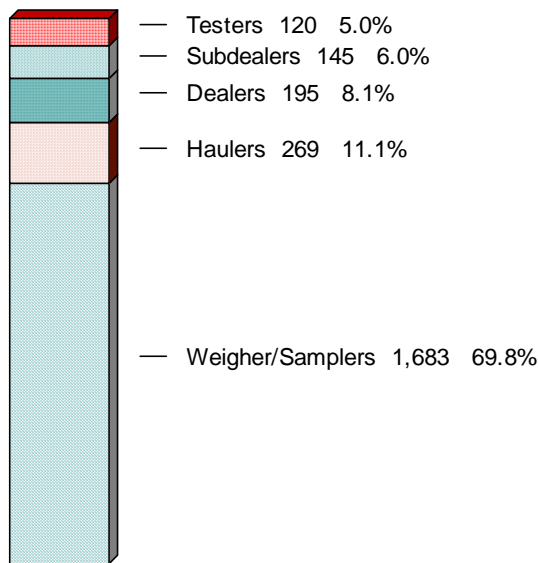
Milk dealers, subdealers, milk haulers, milk testers, and weigher/samplers operating in Pennsylvania are required to be licensed by the MMB. The Milk Marketing Fee Act of 1978 permits the MMB to establish fees for certain licenses and certificates relating to milk marketing. The revenue generated from these fees and from fines is the only funding source for the MMB.

The Pennsylvania Milk Marketing Board is as necessary now as it was in the 1930s. Agribusiness is the number one industry in the Commonwealth, and dairy is the largest segment of this industry.

FISCAL YEAR 2003-2004 IN REVIEW

The Milk Marketing Law is administered by a three-member Board. Each member is appointed by the Governor with the advice and consent of a majority of the State Senate. The Governor appoints one member as chairman, and another member to represent consumer interests. On April 23, 2003, Governor Rendell appointed Boyd E. Wolff to the Board, and on April 25, 2003, he named Mr. Wolff Chairman. The Board Members appoint a secretary who is responsible for the administration and daily operation of the Agency. On April 12, 2004, the Board Members appointed Keith Bierly as Secretary of the Milk Marketing Board; he replaced Lynda J. Bowman, who retired in December 2003.

LICENSES ISSUED



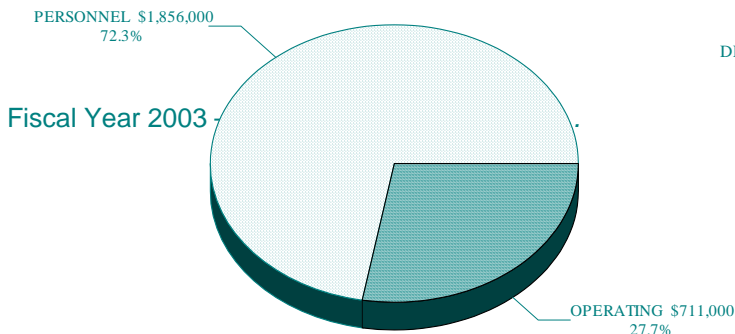
Funding for the Milk Marketing Board is derived from license fees and fines. No tax monies from the Commonwealth's General Fund are appropriated to the Milk Marketing Board.

During the 2003-2004 Fiscal Year, the Board issued 2,412 licenses. Weigher/samplers comprised the largest group of licenses with 1,683 (69.8%) certificates being issued. The remaining 30.2% were distributed among milk dealers, subdealers, testers, and haulers (see illustration at the left).

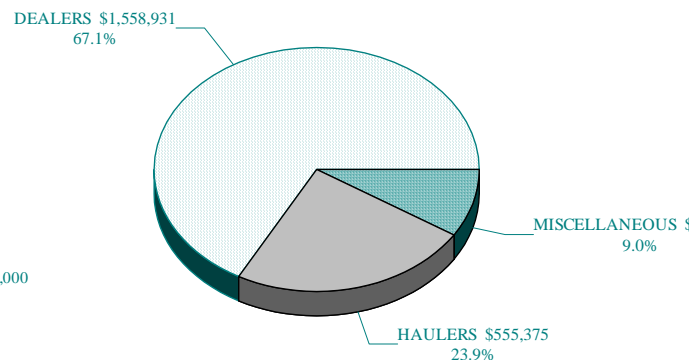
Dealer and hauler license fees accounted for 91% of the revenue received by the Board.

The remaining revenues were generated from tester and weigher/sampler certificates, fines, refunds, and interest payments. Seventy-two percent of the revenue was expended for personnel costs.

EXPENDITURES



REVENUE



FIELD STAFF ACTIVITIES

To insure that Pennsylvania dairy farmers are being paid promptly and properly, the Board's field staff was kept quite busy. In cooperation with the Pennsylvania Department of Agriculture, the Board conducts a Bulk Milk Tank Calibration program. The program provides an opportunity for Pennsylvania dairy farmers to determine if their bulk tanks are correctly calibrated. Incorrect calibrations result in incorrect payments to dairy farmers. A member of the Board's staff operates the bulk milk test unit and responds to requests from dairy farmers for calibration throughout the state. Priority is given to newly installed tanks; however, all requests are responded to. Two hundred twelve calibrations were completed from July 1, 2003 – June 30, 2004.

Payments to producers are based upon the components (fat, protein, and non-fat milk solids) in their milk. Milk samples are taken from bulk tanks at the time of milk pick-up. Board field staff monitors weigher/sampler pick-up procedures at the farm, and tests samples in the Board's offices in Harrisburg. Proper procedures must be followed to insure that the milk is not contaminated and to assure that dairy farmers will be paid correctly.

The Board has electronic testing equipment to determine the component levels of milk. If a Pennsylvania dairy farmer is concerned about his fat, protein, or solids test results, the Board's *Milk-O-Scan* testing equipment is used to verify the sample tests. The Board's equipment is calibrated by using official samples received from the United States Department of Agriculture (USDA) laboratories. Periodically, the Board requires independent laboratories to test these USDA samples to insure that the industry testing outcome matches the official results.

Below Cliff Ackman checking milk prices at a supermarket

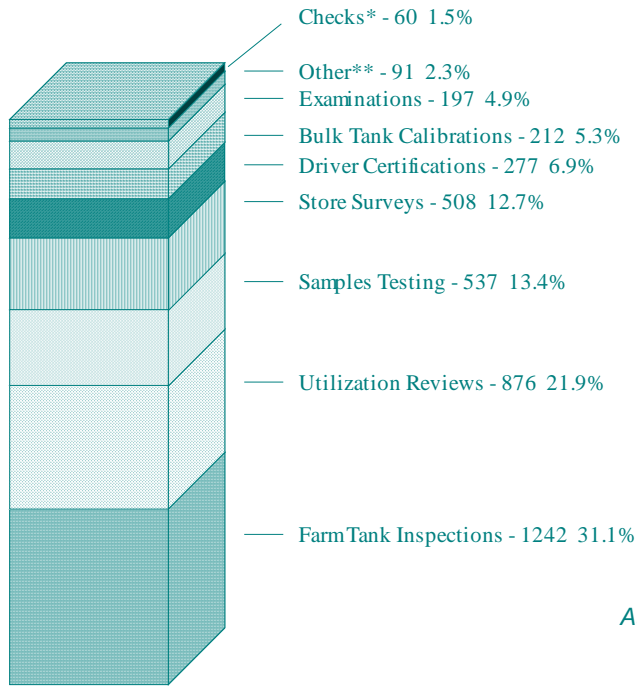


The Board's field staff is also responsible for conducting milk price surveys within the Commonwealth and in the bordering states of New York, New Jersey, and Maryland. Board staff conducted 508 price surveys during the fiscal year. These surveys show that Pennsylvania's regulated retail out-of-store milk prices are comparable to those in other states with no retail price regulations and no state-mandated producer premium.

Additionally, the field staff is responsible for

financial audits, wholesale audits, monthly utilization review, and several other activities (see illustration on next page) to make sure that all segments of the dairy industry remain vital. Some of the data collected are presented as evidence during public hearings. Hearings to set minimum prices are held on an annual basis for each of the six milk marketing areas.

FIELD ASSIGNMENTS COMPLETED



Auditor Duane Noll (L) and Audit Supervisor Fred Puchany audit a dealer's books

* Checks include bulk tank checks, bulk tank driver checks, and bill of lading checks.

** Other includes dealer & producer interviews, wholesale audits, financial audits, investigations, weighing & sampling reports, and calibration chart inspections.

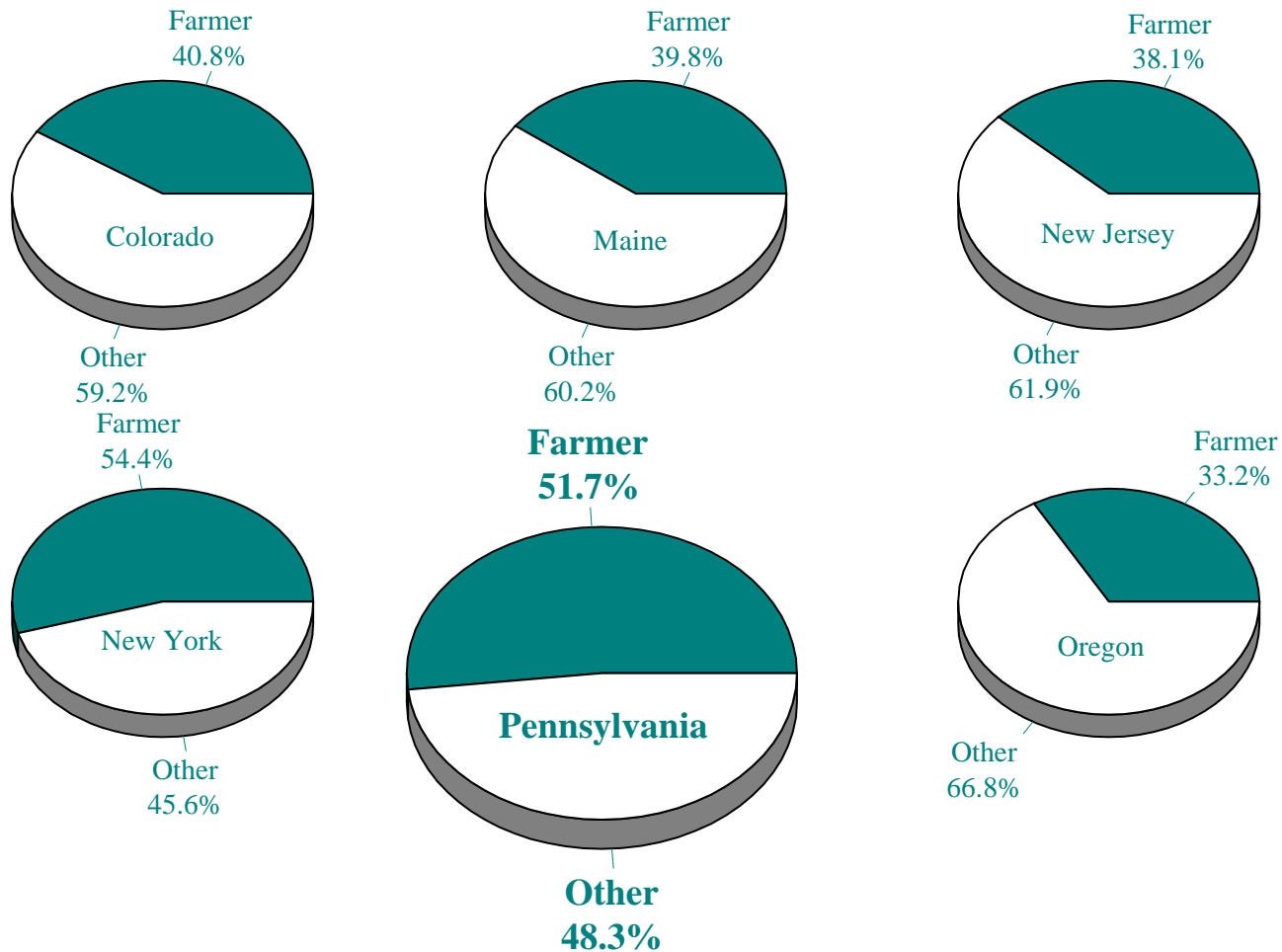
PENNSYLVANIA DAIRY FARMERS

Pennsylvania dairy farmers saw Class I milk prices hit record highs in May and June 2004. The average Class I price in Pennsylvania jumped 38%, from \$18.19 per one hundred pounds of milk in April to \$25.16 per one hundred pounds of milk in May. In June the average Class I price increased an additional \$.81 to \$25.97 per one hundred pounds of milk. However, most dairy farmers receive a blend price for their milk, based on how their milk is utilized (Class I, Class II, etc.), which is a few dollars per one hundred pounds of milk less than the announced Class I price. Although these price increases were welcomed by Pennsylvania dairy farmers, they are still playing “catch up” because of low Class I prices they have experienced over the last couple years. The Board responded to the lower prices by maintaining the level of the state-mandated over-order premium (that is paid to Pennsylvania dairy producers for their Class I milk that is produced, processed, and sold as drinking milk in Pennsylvania) at \$1.65 per one hundred pounds of milk. This resulted in an additional \$30.8 million in revenue for Pennsylvania dairy farmers from July 1, 2003 – June 30, 2004 (see Appendix 3 for complete data).

An average of 575,000 Pennsylvania milk cows produced approximately 10.3 billion pounds of milk on the 8,514 Pennsylvania dairy farms during the 2003 – 2004 Fiscal Year. Although this is a decrease from the 2002 – 2003 Fiscal Year, Pennsylvania retained its fourth place nationally in milk production by producing 6.6% of the nation’s milk. The top three states nationally in milk production were California, Wisconsin, and New York, respectively.

The Board's regulation of minimum producer, wholesale, and retail prices results in Pennsylvania dairy farmers receiving a much higher percentage of the retail price than dairy farmers in other states (see illustration below).

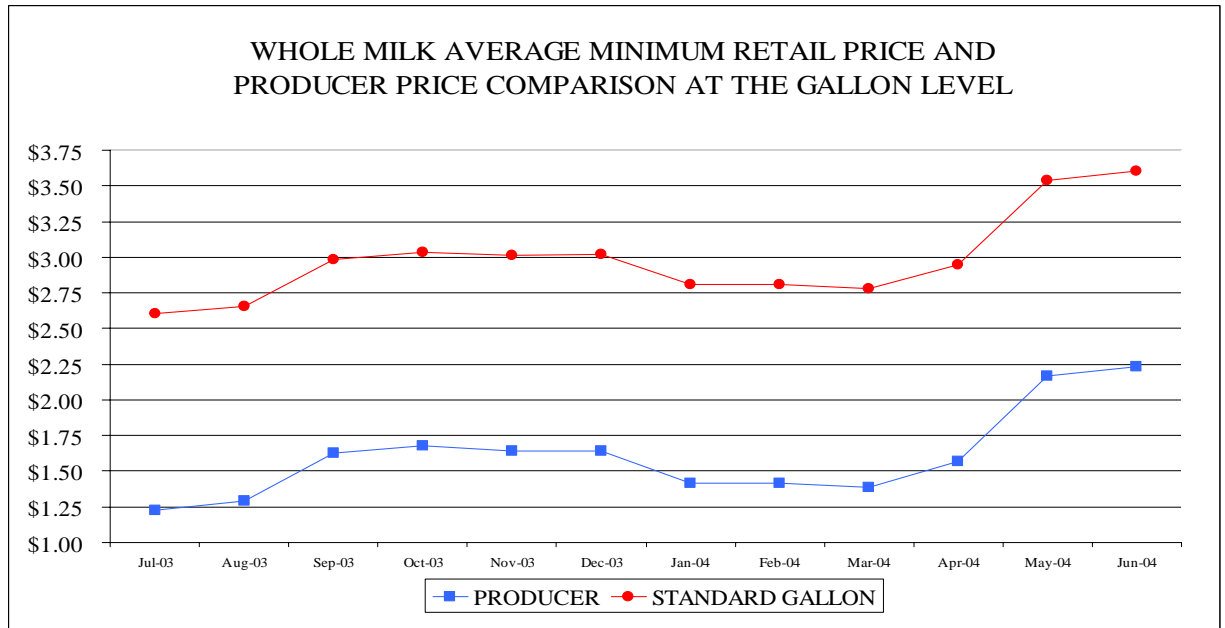
PERCENTAGE OF RETAIL PRICE RECEIVED BY FARMERS



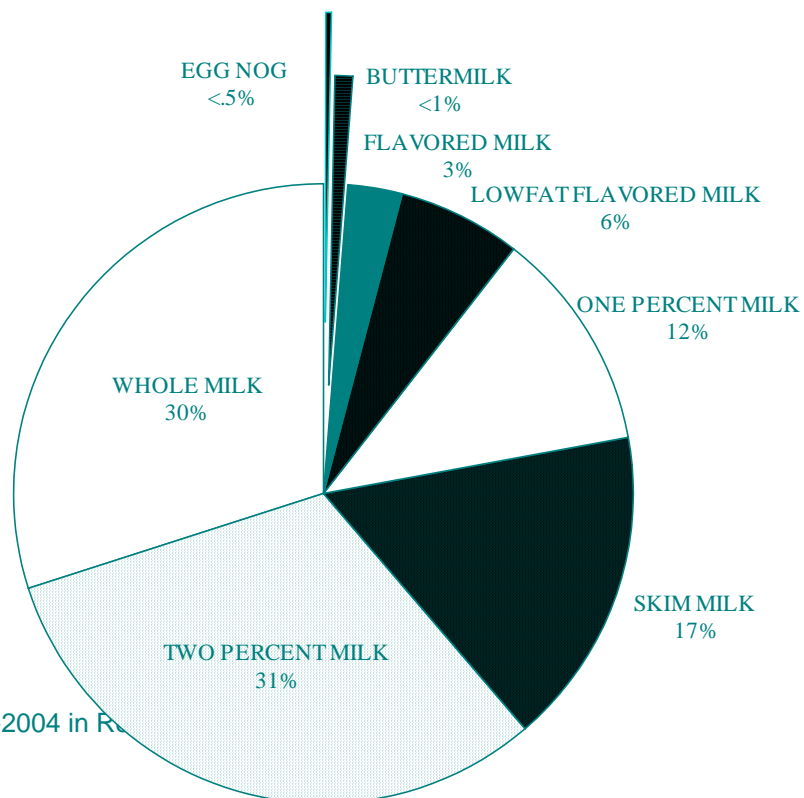
Source: International Association of Milk Control Agencies Retail Price Survey, February 2004.

Because the retail out-of-store price is based upon the price paid to the dairy farmer (including the state-mandated premium) there is a direct correlation between the producer price and the out-of-store price. When the producer price drops, the out-of-store price will be lower. When the farm price goes up, the retail-out-of store price increases (see illustration on the next page).

Fiscal Year 2003 -2004 in Review *continued.* . .



During the 2003 – 2004 Fiscal Year, whole milk accounted for 30% of Pennsylvanian's milk consumption; one percent milk, two percent milk, and skim milk combined accounted for 60%.



Fiscal Year 2003 -2004 in Review

LEGAL COUNSEL

The prosecutorial function of the Board was accomplished through the issuance of 34 citations alleging violations of the Milk Marketing Law, regulations, or official general orders. Ten citations were issued for sales below minimum wholesale prices, one for a late dealer report, 12 for late hauler reports, five for late payment to producers, three for violation of the Board's coupon policy, one for failure to pay monthly security fund and quarterly license fees, one for a bond claim against a subdealer for failure to pay a milk dealer, and one for a bond claim against a milk dealer for a default in payment to producers.

Nine citations were resolved by hearings, 14 were settled by consent orders, three were administratively dismissed, and eight citations were pending at the end of the Fiscal Year.

One of the hearings involved a bond claim against a subdealer for failure to account and make payment for milk purchased from a milk dealer and to consider whether to suspend or revoke that subdealer's license. The Board found insufficient evidence to suspend or revoke the subdealer's license or to claim on the subdealer's bond, but ordered the subdealer to continue to pay off the past balance due to the dealer in the manner provided in the Board's Regulations.

A claim was also made against the collateral bond of a cooperative milk dealer that defaulted in payment for milk purchased from another cooperative amounting to \$29,333.67. The dealer signed a consent order in lieu of a hearing, admitting the violation and allowing the Board to collect on its collateral bond in the amount of \$16,500.00. A check in that amount was received from the bank which had issued a letter of credit as collateral for the bond, and this amount was forwarded to the selling cooperative in partial satisfaction of the debt owed.

Twelve price hearings were held by the Board during the Fiscal Year and 13 official general orders were issued. Two of these hearings addressed the state-mandated over-order premium, and six were Cost Replacement Hearings. A summary of the hearings held and a listing of the official general orders that were issued appear in Appendices 1 and 2.

All Milk Marketing Board hearings are open to the public. Each is announced on the Milk Marketing Board web site (www.mmb.state.pa.us) under *Press Releases* and on the MMB calendar. The Milk Marketing Board Members are scheduled to meet publicly the first Wednesday of each month at 1:00 p. m. in Room 202 of the Agriculture Building, 2301 North Cameron Street, Harrisburg.

SUMMARY OF HEARINGS – FISCAL YEAR 2003-2004

July 2, 2003 – COST REPLACEMENT HEARING FOR MILK MARKETING AREA 4

- PURPOSE:** To receive evidence relative to updated costs for Milk Marketing Area 4 milk dealers and retailers.
- RESULT:** The Board issued a Cost Replacement Order for Milk Marketing Area 4.

July 2, 2003 – COST REPLACEMENT HEARING FOR MILK MARKETING AREA 6

- PURPOSE:** To receive evidence relative to updated costs for Milk Marketing Area 6 milk dealers and retailers.
- RESULT:** The Board issued a Cost Replacement Order for Milk Marketing Area 6.

October 1, 2003 – COST REPLACEMENT HEARING FOR MILK MARKETING AREA 1

- PURPOSE:** To receive evidence relative to updated costs for Milk Marketing Area 1 milk dealers and retailers.
- RESULT:** The Board issued a Cost Replacement Order for Milk Marketing Area 1.

October 1, 2003 – COST REPLACEMENT HEARING FOR MILK MARKETING AREA 5

- PURPOSE:** To receive evidence relative to updated costs for Milk Marketing Area 5 milk dealers and retailers.
- RESULT:** The Board issued a Cost Replacement Order for Milk Marketing Area 5.

November 5, 2003 – COST REPLACEMENT HEARING FOR MILK MARKETING AREA 2

- PURPOSE:** To receive evidence relative to updated costs for Milk Marketing Area 2 milk dealers and retailers.
- RESULT:** The Board issued a Cost Replacement Order for Milk Marketing Area 2.

November 5, 2003 – COST REPLACEMENT HEARING FOR MILK MARKETING AREA 5

- PURPOSE:** To receive evidence relative to updated costs for Milk Marketing Area 5 milk dealers and retailers.
- RESULT:** The Board issued a Cost Replacement Order for Milk Marketing Area 5.

Hearings *continued*. . .

December 3, 2003 – OVER-ORDER PREMIUM, ALL MILK MARKETING AREAS

- PURPOSE:** To receive testimony and exhibits concerning the level and duration of the over-order premium.
- RESULT:** The Board adopted an Order establishing the over-order premium at \$1.65 per hundredweight of milk for all milk marketing areas.

February 4, 2004 – TIMING OF THE INCLUSION OF THE OVER-PRICE PREMIUM IN MINIMUM RESALE PRICES FOR ALL MILK MARKETING AREAS

- PURPOSE:** To receive testimony and exhibits concerning the timing of the inclusion of the over-price premium in minimum resale prices. Much of the dairy industry advocated a methodology that would provide for more timely recouping of the over-price premium in minimum resale prices.
- RESULT:** The Board adopted an order providing for quicker recapture of the over-price premium in minimum resale prices.

April 7, 2004 – COORDINATION OF PRICE ANNOUNCEMENTS BETWEEN THE UNITED STATES DEPARTMENT OF AGRICULTURE AND THE MILK MARKETING BOARD

- PURPOSE:** To receive testimony and exhibits concerning changing Board price announcement dates to match those of the United States Department of Agriculture. This change was requested by the Pennsylvania Association of Milk Dealers.
- RESULT:** The Board adopted an order providing for Board price announcement to fall on the same dates as United States Department of Agriculture price announcement dates. This change results in a more orderly milk marketing environment.

May 5, 2004 – DIESEL FUEL COST INCREASES

- PURPOSE:** To receive testimony and exhibits regarding the effect of diesel fuel cost increases on milk dealers and milk producers.
- RESULT:** The Board adopted an order providing for an indexing system to adjust minimum resale prices based on changes in diesel fuel prices; as fuel prices increase or decrease, minimum resale prices will increase or decrease to account for the changes in fuel prices on milk processors. The order also provides for an indexed add-on to the over-order premium; as fuel prices increase or decrease, the add-on to the over-order premium increases or decreases to account for the effect of changes in fuel prices on dairy farmers.

Hearings *continued.* . .

May 20, 2004 – WHOLESALE DISCOUNTS AND MINIMUM RETAIL PRICING IN MILK MARKETING AREAS 2, 3, 5, AND 6

PURPOSE: To receive testimony and exhibits concerning the calculation of wholesale discounts in Milk Marketing Areas 2, 3, 5, and 6, and the application of those discounts when calculating minimum retail prices.

RESULT: The Board adopted an order increasing the retail rate of return from 2.5% to 2.6% in Milk Marketing Area 3. No other changes were made to the retail rates of return or wholesale discount structures in Milk Marketing Areas 2, 5, and 6.

May 20, 2004 - OVER-ORDER PREMIUM, ALL MILK MARKETING AREAS

PURPOSE: To receive testimony and exhibits concerning the level and duration of the over-order premium.

RESULT: The Board adopted an Order establishing an over-order premium of \$1.30 per hundredweight of milk for all milk marketing areas effective July 1, 2004..



Chief Counsel Douglas Eberly advises the Board Members and the Secretary during a hearing.

OFFICIAL GENERAL ORDERS (OGO) – FISCAL YEAR 2003-2004

1. **June 5, 2003** – OGO A-923 Over-Order Premium, establishing an over-order premium of \$1.65 per hundredweight of milk, was adopted by the Board, effective July 1, 2003.
2. **October 1, 2003** – OGO A-900 (CRO 5) Cost Replacement Order for the South Central Milk Marketing Area (Area 4), was adopted by the Board, effective November 1, 2003.
3. **October 1, 2003** – OGO A-907 (CRO 4) Cost Replacement Order for the Central Milk Marketing Area (Area 6), was adopted by the Board, effective November 1, 2003.
4. **November 5, 2003** – OGO A-890 (CRO 8), Cost Replacement Order for the Southeastern Milk Marketing Area (Area 1), was adopted by the Board, effective December 1, 2003.
5. **November 5, 2003** – OGO A-887 (CRO 8), Cost Replacement Order for the Western Milk Marketing Area (Area 5), was adopted by the Board, effective December 1, 2003.
6. **December 3, 2003** – OGO A-911 (CRO 3), Cost Replacement Order for the East Central Milk Marketing Area (Area 2), was adopted by the Board, effective January 1, 2004.
7. **December 3, 2003** – OGO A-910 (CRO 3), Cost Replacement Order for the Northeastern Milk Marketing Area (Area 3), was adopted by the Board, effective January 1, 2004.
8. **December 11, 2003** – OGO A-924, Over-Order Premium, establishing an over-order premium of \$1.65 per hundredweight of milk, was adopted by the Board, effective January 1, 2004.
9. **March 3, 2004** – OGO A-925, An Order Regarding Timing and Inclusion of the Over-Price Premium in Minimum Resale Prices for All Milk Marketing Areas, was adopted by the Board, effective March 25, 2004.
10. **April 23, 2004** – OGO A-926, An Order Regarding the Timing and Manner of Price Announcements for All Milk Marketing Areas, was adopted by the Board, effective May 1, 2004.

11. **June 16, 2004** – OGO A-927, An Order Establishing Diesel Fuel Add-Ons to Wholesale Prices and the Over-Order Premium and Establishing a Methodology to Adjust Those Add-Ons, was adopted by the Board, effective July 1, 2004.
12. **June 16, 2004** – OGO A-928, An Order Regarding Wholesale Discounts and Minimum Retail Pricing in Milk Marketing Areas 2, 3, 5, and 6, was adopted by the Board, effective July 1, 2004.
13. **June 16, 2004** – OGO A-929, Over-Order Premium, establishing an over-order premium of \$1.30 per hundredweight of milk, was adopted by the Board, effective July 1, 2004.

PENNSYLVANIA MILK MARKETING BOARD
OVER-ORDER PREMIUM EFFECT
SEPTEMBER 1988 THROUGH JUNE 2004

Appendix 3

OGO	HEARING CALL	PERIOD	MONTHS	RATE	AMOUNT
A-856	DROUGHT	09/01/88 THROUGH 02/28/89	6	\$1.05	\$10,080,000
A-857	DROUGHT	03/01/89 THROUGH 08/31/89	6	\$1.05	\$10,080,000
A-861	DROUGHT	09/01/89 THROUGH 04/30/90	8	\$1.05	\$13,440,000
A-865	DROUGHT	05/01/90 THROUGH 06/30/91	14	\$1.05	\$23,520,000
A-867	FUEL COST	12/01/90 THROUGH 06/30/91	7	\$0.30	\$3,360,000
A-868	DROUGHT	07/01/91 THROUGH 06/30/92	12	\$1.05	\$20,160,000
A-869	FUEL COST	02/01/92 THROUGH 06/30/92	5	\$0.25	\$2,000,000
A-872	MARKET CONDITIONS	07/01/92 THROUGH 06/30/93	12	\$0.80	\$15,360,000
A-877	MARKET CONDITIONS	07/01/93 THROUGH 07/31/95	25	\$0.80	\$32,000,000
A-889	MARKET CONDITIONS	08/01/95 THROUGH 08/31/95	1	\$0.70	\$1,120,000
A-889	MARKET CONDITIONS	09/01/95 THROUGH 12/31/95	4	\$0.60	\$3,840,000
A-892	MARKET CONDITIONS	01/01/96 THROUGH 10/31/96	10	\$0.50	\$8,000,000
A-893	PRODUCTION COST	11/01/96 THROUGH 10/31/97	12	\$0.80	\$15,360,000
A-895	PRODUCTION COST	11/01/97 THROUGH 04/30/98	6	\$1.20	\$11,520,000
A-897	PRODUCTION COST	05/01/98 THROUGH 10/31/98	6	\$0.80	\$7,680,000
A-898	PRODUCTION COST	11/01/98 THROUGH 04/30/99	6	\$0.50	\$5,446,760
A-901	PRODUCTION COST	05/01/99 THROUGH 05/31/99	1	\$1.45	\$2,408,440
A-901	PRODUCTION COST	06/01/99 THROUGH 06/30/99	1	\$1.26	\$1,950,895
A-901	PRODUCTION COST	07/01/99 THROUGH 07/31/99	1	\$1.81	\$2,978,083
A-901	PRODUCTION COST	08/01/99 THROUGH 08/31/99	1	\$1.65	\$2,693,176
A-904	PRODUCTION COST	09/01/99 THROUGH 09/30/99	1	\$0.40	\$674,101
A-905	PRODUCTION COST	10/01/99 THROUGH 12/31/99	3	\$0.40	\$2,123,243
A-906	PRODUCTION COST	01/01/00 THROUGH 06/30/00	6	\$1.20	\$12,496,328
A-909	PRODUCTION COST	07/01/00 THROUGH 10/31/00	4	\$1.00	\$6,998,585
A-908	FUEL COST	04/01/00 THROUGH 01/31/02	22	\$0.25	\$9,593,287
A-909	PRODUCTION COSTS	11/01/00 THROUGH 12/31/00	2	\$1.20	\$4,359,048
A-912	PRODUCTION COSTS	01/01/01 THROUGH 06/30/01	6	\$1.40	\$14,320,611
A-914	PRODUCTION COSTS	07/01/01 THROUGH 10/31/01	4	\$1.10	\$7,714,654
A-914	PRODUCTION COSTS	11/01/01 THROUGH 01/31/02	3	\$1.40	\$7,581,603
A-915	ADVERSE CONDITIONS	02/01/02 THROUGH 06/30/02	5	\$1.65	\$13,624,951
A-916	ADVERSE CONDITIONS	07/01/02 THROUGH 08/31/02	2	\$1.65	\$5,412,514
A-917	ADVERSE CONDITIONS	09/01/02 THROUGH 12/31/02	4	\$1.65	\$11,370,389
A-918	ADVERSE CONDITIONS	01/01/03 THROUGH 02/28/03	2	\$1.50	\$5,183,941
A-920	ADVERSE CONDITIONS	03/01/03 THROUGH 06/30/03	4	\$1.40	\$9,313,280
A-922	INCREASED FUEL COSTS	04/01/03 THROUGH 06/30/03	3	\$0.15	\$732,169
A-923	MARKET CONDITIONS	07/01/03 THROUGH 12/31/03	6	\$1.65	\$16,019,092
A-924	MARKET CONDITIONS	01/01/04 THROUGH 06/30/04	6	\$1.65	\$14,813,704

TOTAL \$335,328,855

Pennsylvania Data by County 2003

Appendix 4

County	MMB Area	Commercial Dairy Farms	Dairy Plants	Haulers	Weigher/Samplers
Adams	4	54	0	0	22
Allegheny	5	4	6	1	1
Armstrong	5	57	0	3	15
Beaver	5	34	0	1	2
Bedford	6	205	0	3	82
Berks	2	289	6	4	46
Blair	6	125	1	1	26
Bradford	3	361	2	9	120
Bucks	1	25	0	0	6
Butler	5	65	1	7	9
Cambria	6	38	2	2	20
Cameron	6	1	0	0	1
Carbon	3	6	0	0	1
Centre	6	193	1	1	37
Chester	1	303	2	3	31
Clarion	5&6	71	0	2	10
Clearfield	6	35	1	0	0
Clinton	3	109	0	3	19
Columbia	3	47	0	2	19
Crawford	5	232	1	7	36
Cumberland	4	221	2	8	78
Dauphin	4	91	3	2	21
Delaware	1	0	1	0	1
Elk	6	11	0	0	0
Erie	5	130	1	9	26
Fayette	5	51	2	2	12
Forest	6	5	0	0	0
Franklin	4	418	1	2	51
Fulton	4	54	0	3	43
Greene	5	7	0	0	0
Huntingdon	6	115	0	0	10
Indiana	6	132	1	5	20
Jefferson	6	50	0	1	4
Juniata	4	142	0	0	5
Lackawanna	3	28	0	0	2
Lancaster	4	1,928	5	13	266
Lawrence	5	107	1	2	25
Lebanon	4	265	1	2	41
Lehigh	2	12	2	1	3
Luzerne	3	27	2	0	3
Lycoming	3	133	2	3	14
McKean	6	22	0	0	1
Mercer	5	181	2	10	37
Mifflin	6	253	1	5	52
Monroe	3	3	0	0	0
Montgomery	1	21	5	1	9
Montour	3	45	0	1	14
Northampton	2	33	1	0	3
Northumberland	3	68	4	0	3
Perry	4	108	0	0	14
Philadelphia	1	1	2	0	0

Pike	3	1	0	0	0
Potter	3	51	0	1	4
Schuylkill	3	41	4	2	13
Snyder	3	134	1	0	9
Somerset	6	260	1	10	54
Sullivan	3	28	0	0	4
Susquehanna	3	168	0	2	13
Tioga	3	197	1	1	21
Union	3	153	1	1	16
Venango	5	36	1	2	6
Warren	6	72	0	0	2
Washington	5	63	0	3	10
Wayne	3	119	0	5	36
Westmoreland	5&6	95	2	6	32
Wyoming	3	52	0	0	5
York	4	128	1	3	36
Pennsylvania		8,514	74	155	1,522