



**Pennsylvania Milk Marketing Board
Fiscal Year Report
2004-2005 2005-2006**

PENNSYLVANIA MILK MARKETING BOARD

2004 - 2005, 2005 - 2006

FISCAL 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



Governor Edward G. Rendell

On the cover:

Holstein cattle graze at the Brubaker Farms in Mount Joy, PA (farm pictured on back cover). Owner and Pennsylvania Milk Marketing Board Member Luke Brubaker has operated the family farm for over 35 years.

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Commonwealth of Pennsylvania
Milk Marketing Board

CHAIRMAN

2301 North Cameron Street
Harrisburg, Pennsylvania 17110-9408
717-787-4786

July 2006

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 Fiscal Year Reports for 2004-2005 and 2005-2006.

Agribusiness remains the number one industry in Pennsylvania, and dairy is the largest segment of that industry. In 2004 and 2005, Pennsylvania's milk cows produced approximately 10.5 billion pounds of milk, representing 5.95% 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 \$1.7 billion. Our dairy producers, processors, and distributors have a huge impact on the Commonwealth's economy. The Pennsylvania dairy industry provides over 40,000 direct and indirect jobs. 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,

A handwritten signature in black ink, appearing to read "Boyd E. Wolff".

Boyd E. Wolff

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.

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 398 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.



Pennsylvania Milk Marketing Board Members and office staff

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 overseas 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 three 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. Mr. Brubaker also received the Country Folks 2005 Keystone Farmer of the Year for the Mid-Atlantic States for Ag Production, leadership and community involvement.

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. Barb was reappointed to the Milk Marketing Board by Governor Edward G. Rendell in 2005.

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 PGA.



AGENCY STAFF

The Milk Marketing Board implements and enforces the Milk Marketing Law and the Milk Producers' Security Act. Additionally, the Board enforces the regulations it promulgates pursuant to statutory authority and the official general orders it issues. In his position as Chief Counsel, Mr. Eberly is responsible for advising the Board Members and staff on issues requiring the application of legal principles, the interpretation of statutes and other mandates, and the observance of proper procedures.



Douglas Eberly
Chief Counsel



Timothy Moyer
*Chief Support Services/
Staff Advisor to the Board*

Tim Moyer is responsible for Licensing and Bonding, Management Information Services (MIS), and Administrative Services. Support Services is also responsible for the administration of the Milk Producers' Security Fund. Additionally, Support Services is responsible for all personnel actions, information technology processing and enhancements, and all financial operations of the Board. As staff advisor to the Board, Mr. Moyer advises the Board on non-legal issues and represents the Board at industry meetings, legislative hearings, etc., and makes recommendations for Board action based upon information received at these meetings.

In his position as Director, Mr. DeSantis is responsible for directing the Milk Marketing Auditors and the Milk Marketing Examiners in enforcing all official general orders, policies of the Board, and compliance with the Milk Marketing Law and Board regulations. The Unit is also responsible for gathering, compiling, and interpreting financial and accounting information used by the Board in hearings and other administrative proceedings; for issuing price announcements, and responding to violations of the minimum retail, wholesale, and farm-level prices issued by the Board.



David DeSantis
Enforcement Director



John Howard
Staff Attorney

John advises Board Staff as to interpretations and implementations of the agency's laws and regulations; provides guidance to, and reviews prosecution referrals from the agency's Enforcement Unit; issues citations when appropriate, and prosecutes cases before the Board. He also represents Board Staff at price hearings held before the Board by preparing staff testimony, reviewing and distributing exhibits to interested parties, conducting direct and cross examination, and by preparing post-hearing briefs. John also reviews license applications for compatibility with legal requirements, including bonding requirements, and assists the Chief Counsel in providing advisory and administrative legal services necessary to the agency's operation, including drafting new or amended regulations.

Heidi is the Board’s legislative and media liaison. Her responsibilities include issuing press releases, interacting with the media and the state legislature, tracking legislation at the state and federal levels, and preparing exhibits to be displayed at the various agriculture fairs including Farm Show and Ag Progress Days.



Heidi Svonavec
Director of Consumer Affairs

Dave directs the Management Information Systems section of Support Services. He is responsible for all of the computer hardware and software installation and maintenance, and oversight of computer training. This section is also responsible for entering, maintaining, and securing all data regarding financial audits, monthly reports, and/or surveys for licensed dealers and haulers, as well as all licensing and bonding information contained in the “Milk Accounting and Regulatory System”—an Oracle based program. Dave is also responsible for establishing the security and software standards for the agency.



Dave Weldon
*Information Technology
Generalist Administrator*

Gary is responsible for the daily supervision and direction of Milk Marketing Auditors and Examiners in Milk Marketing Areas 1 (Southeastern Pennsylvania), 2 (East Central Pennsylvania), 3 (Northeastern Pennsylvania), and 4 (South Central Pennsylvania).



Gary Gojsovich
Audit Supervisor

Fred is responsible for the daily supervision and direction of Milk Marketing Auditors and Milk Marketing Examiners in Milk Marketing Areas 5 (Western Pennsylvania) and 6 (West Central Pennsylvania).

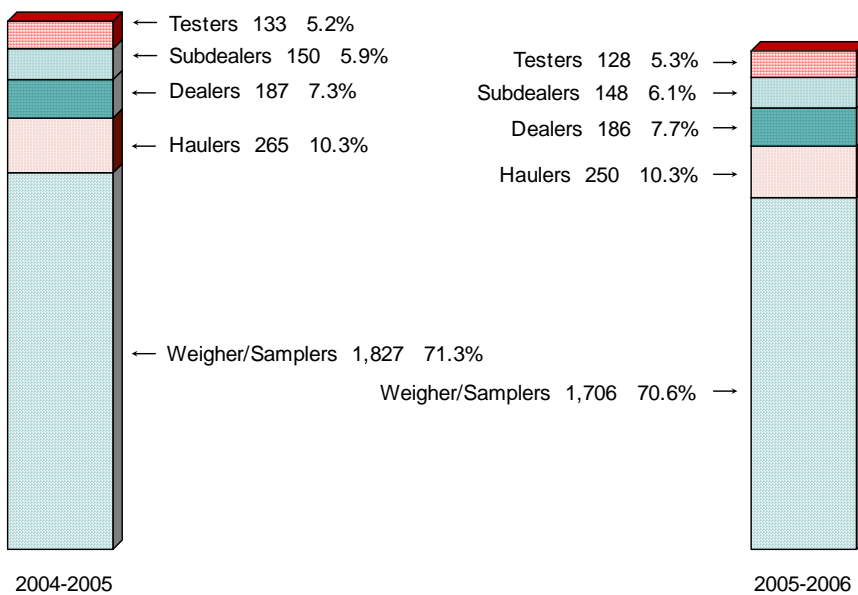


Fred Puchany
Audit Supervisor

FISCAL YEARS 2004-2005 AND 2005-2006 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

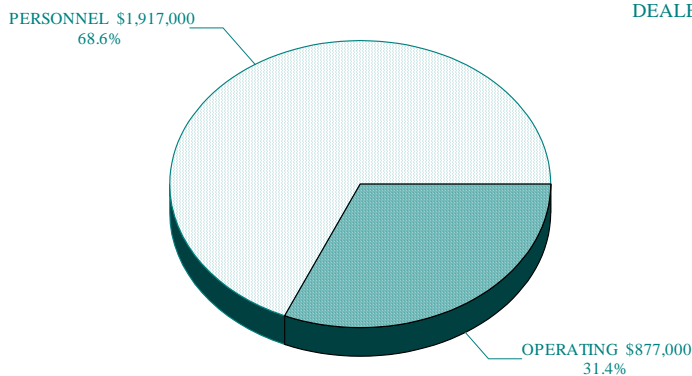


Funding for the Milk Marketing Board is derived from license fees and fines. No tax monies from the Commonwealth's General Fund are appropriated to the Milk Marketing Board.

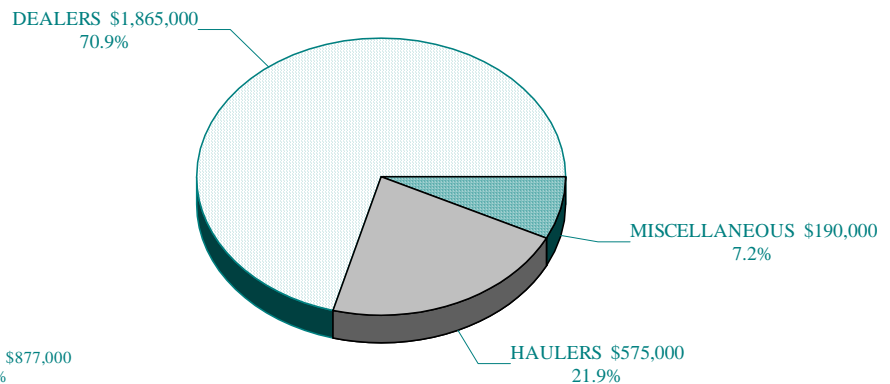
During the 2004-2005 and 2005-2006 Fiscal Years, the Board issued 4,980 licenses. Weigher/samplers comprised the largest group of licenses with 3,533 (71%) certificates being issued. The remaining 29% were distributed among milk dealers, subdealers, testers, and haulers (see illustration at the left).

Dealer and hauler license fees accounted for 70.9% of the 2004-2005 revenue and 69.1% of the 2005-2006 revenue received by the Board. The remaining revenues were generated from tester and weigher/sampler certificates, fines, refunds, and interest payments.

2004-2005 EXPENDITURES

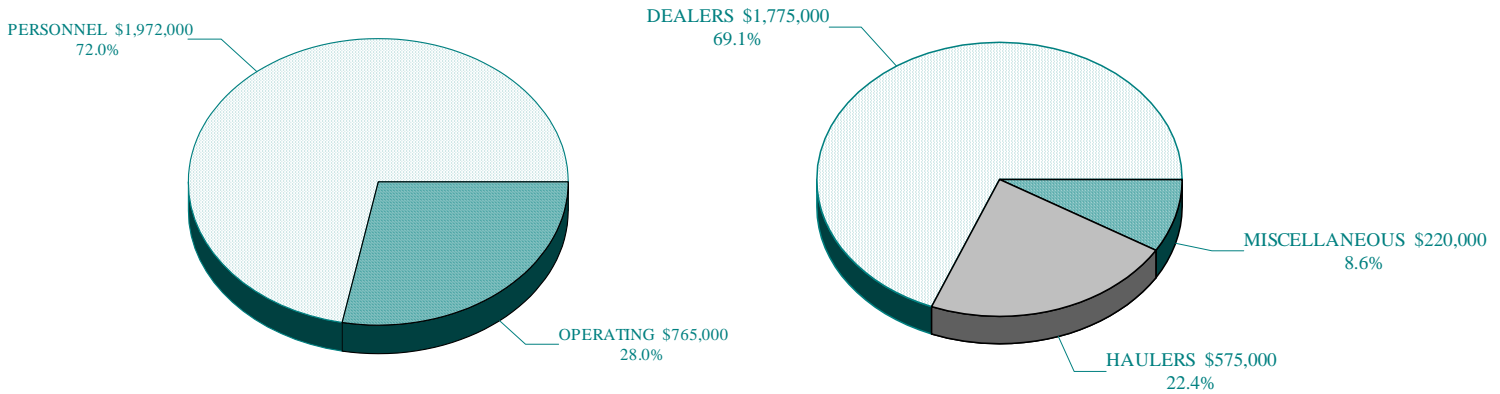


2004-2005 REVENUE



2005-2006 EXPENDITURES

2005-2006 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 twenty one calibrations were completed from July 1, 2004 – June 30, 2005. One hundred twenty calibrations were completed from July 1, 2005 – June 30, 2006.

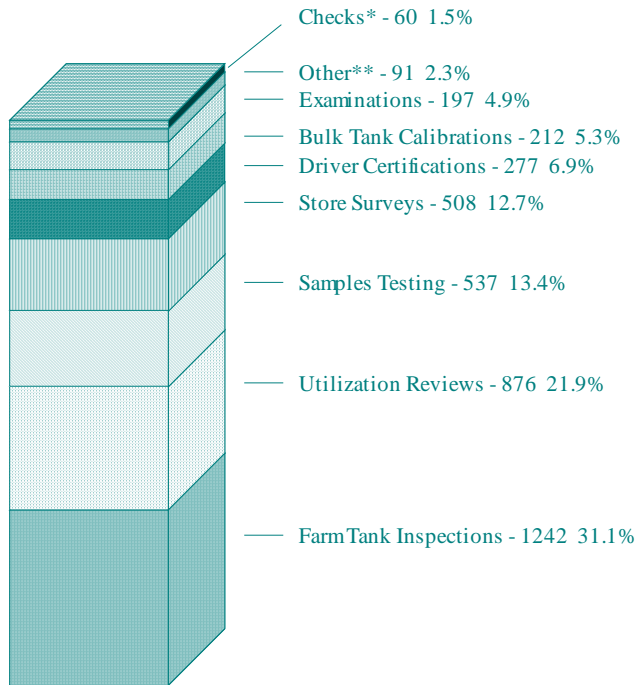
Payments to producers are based upon the components (fat, protein, and non-fat milk solids) in their milk. Milk samples are taken from bulk tanks at the time of milk pick-up. Board field staff monitors weigher/sampler pick-up procedures at the farm, and tests samples in the Board's offices in Harrisburg. 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.

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 1361 price surveys over two fiscal years. 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 reviews, 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



Jon Dadigan, Special Investigator, demonstrates how to complete the Babcock milk testing procedures. Jon also uses the Electronic 133B tester to test PA milk to ensure accurate payments are being made to producers.

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

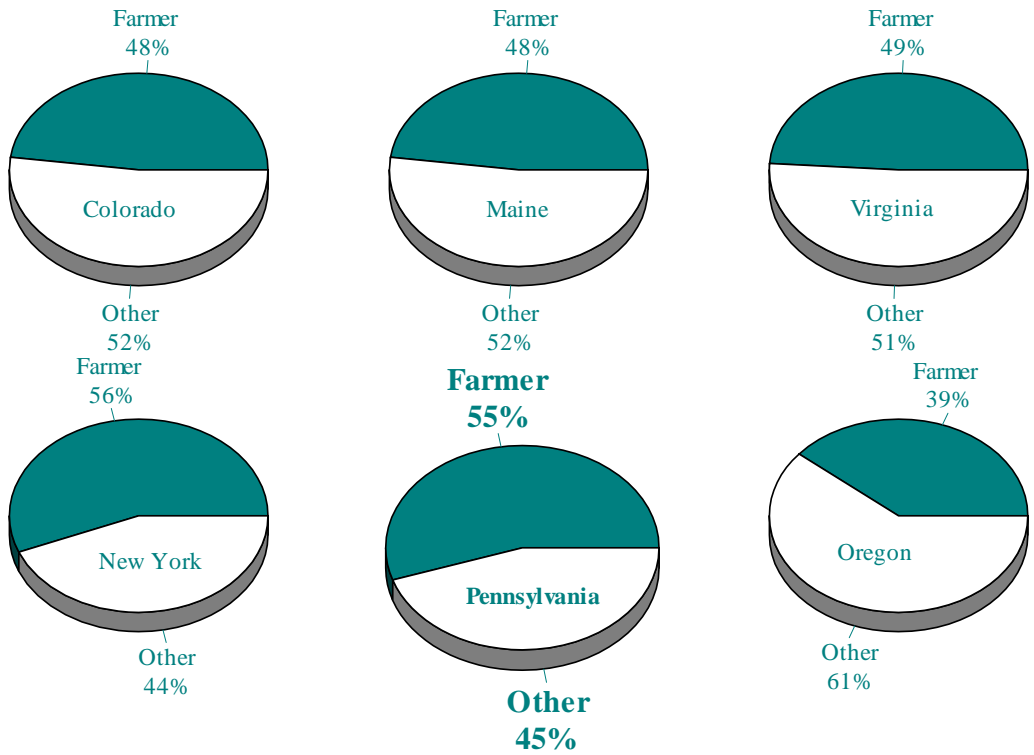
** Other includes dealer & producer interviews, wholesale audits, financial audits, investigations, weighing & sampling reports, and calibration chart inspections.

PENNSYLVANIA DAIRY FARMERS

Over the past two calendar years, Pennsylvania dairy farmers were able to increase production despite decreases in the number of dairy farms and number of cows. In 2004 Pennsylvania had 8,800 commercial dairy farms. By the end of 2005, the number of commercial dairy farms in Pennsylvania had decreased to 8,600. At the same time, Pennsylvania dairy farmers were able to increase production by achieving greater efficiency per cow. In 2004 Pennsylvania had 562,000 cows producing 17,904 pounds of milk per cow, for a total production of 10,062,000,000 pounds of milk. In 2005 the cow population in Pennsylvania decreased to 561,000, but cow efficiency increased to 18,722 pounds of milk per cow, for a total production of over 10.5 billion pounds of milk.

While milk production has increased, Class I prices have decreased over the past two fiscal years. The average Class I price for all areas in Pennsylvania for fiscal year 2004-2005 was \$19.29 per hundredweight. The average Class I price for all areas in Pennsylvania for fiscal year 2005-2006 decreased to \$17.70 per hundredweight. Increases in the Board-mandated over-order premium have offset some of the erosion in Class I prices. During the past two fiscal years, the base over-order premium increased from \$1.30 per hundredweight to \$1.55 per hundredweight. The Board also established an add-on to the base over-order premium to account for the increasing cost of fuel used by dairy farmers. The fuel adjustment, which started at \$0.10 per hundredweight, had increased to \$0.44 per hundredweight by June 2006. These two premium components combined returned over \$66 million to Pennsylvania dairy farmers.

2004-2005 PERCENTAGE OF RETAIL PRICE RECEIVED BY PRODUCERS

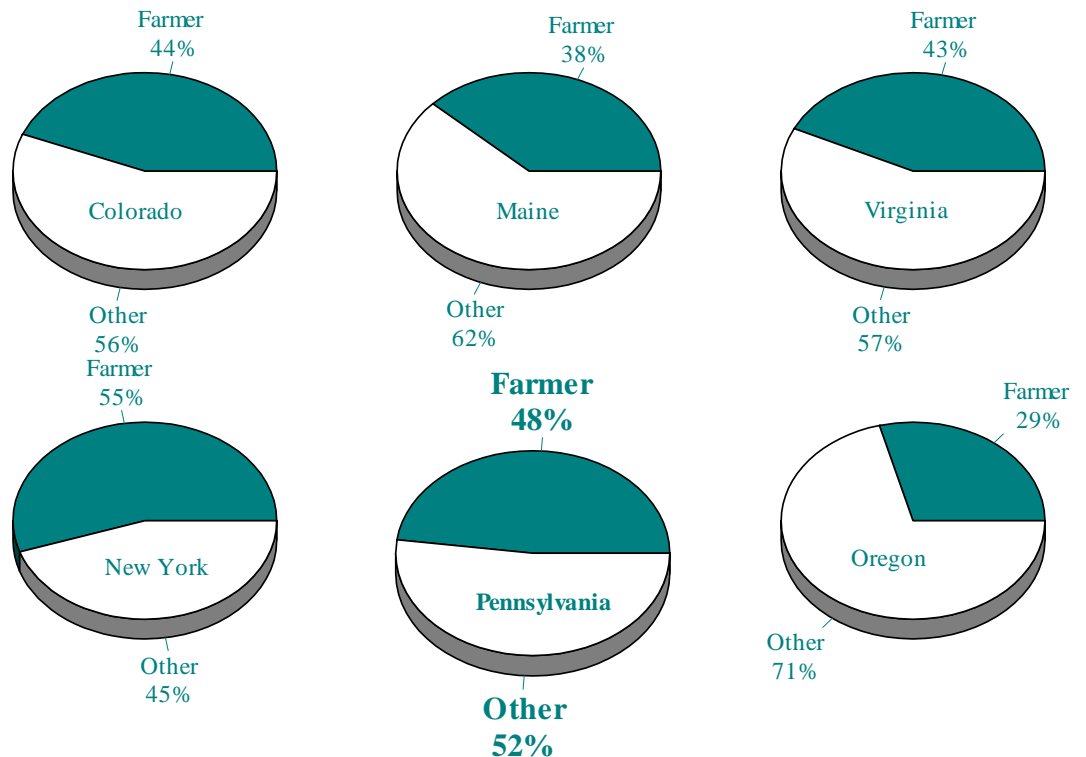


The Board's regulation of minimum producer, wholesale, and retail prices results in Pennsylvania dairy farmers receiving a much higher percentage of the retail price than dairy farmers in other states (see illustration below).

Source: International Association of Milk Control Agencies Retail Price Survey, April 2005.

2005-2006 PERCENTAGE OF RETAIL PRICE RECEIVED BY PRODUCERS

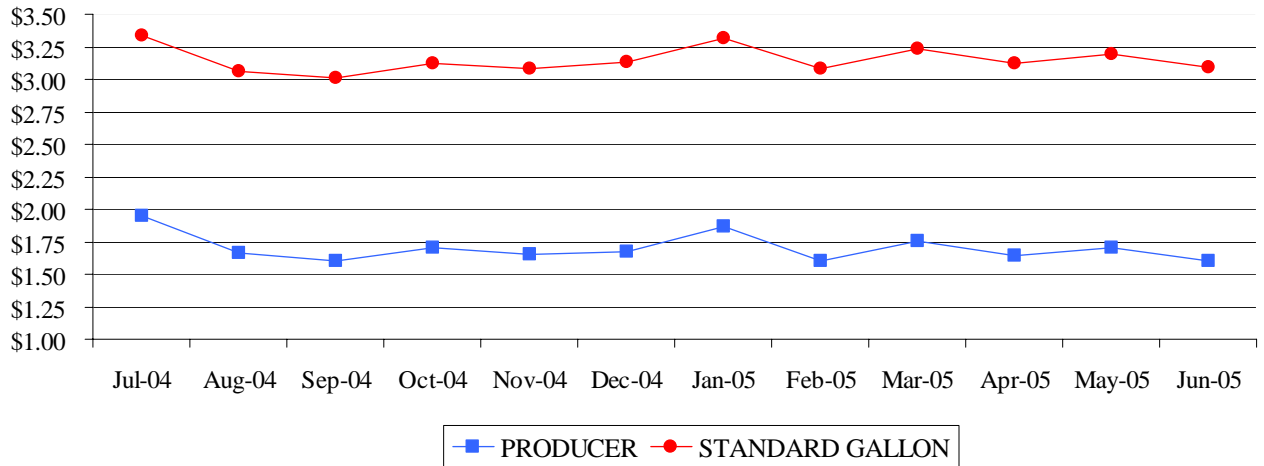
Because the retail out-of-store price is based upon the price paid to the dairy farmer (including the state-mandated premium) there is a direct correlation between the producer price and the out-of-store price. When the producer price drops, the out-of-store price will be lower. When the farm price goes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



Source: International Association of Milk Control Agencies Retail Price Survey, April 2006.

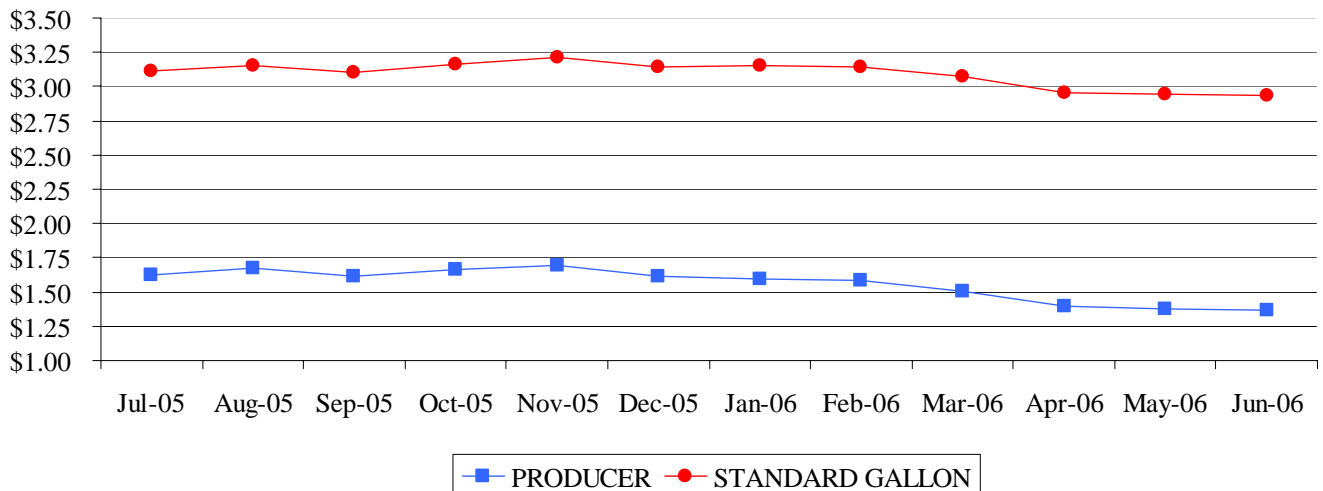
**2004-2005 WHOLE MILK AVERAGE MINIMUM RETAIL PRICE AND
PRODUCER PRICE COMPARISON AT THE GALLON LEVEL**

**WHOLE MILK AVERAGE MINIMUM RETAIL PRICE AND
PRODUCER PRICE COMPARISON AT THE GALLON LEVEL**



**2005-2006 WHOLE MILK AVERAGE MINIMUM RETAIL PRICE AND
PRODUCER PRICE COMPARISON AT THE GALLON LEVEL**

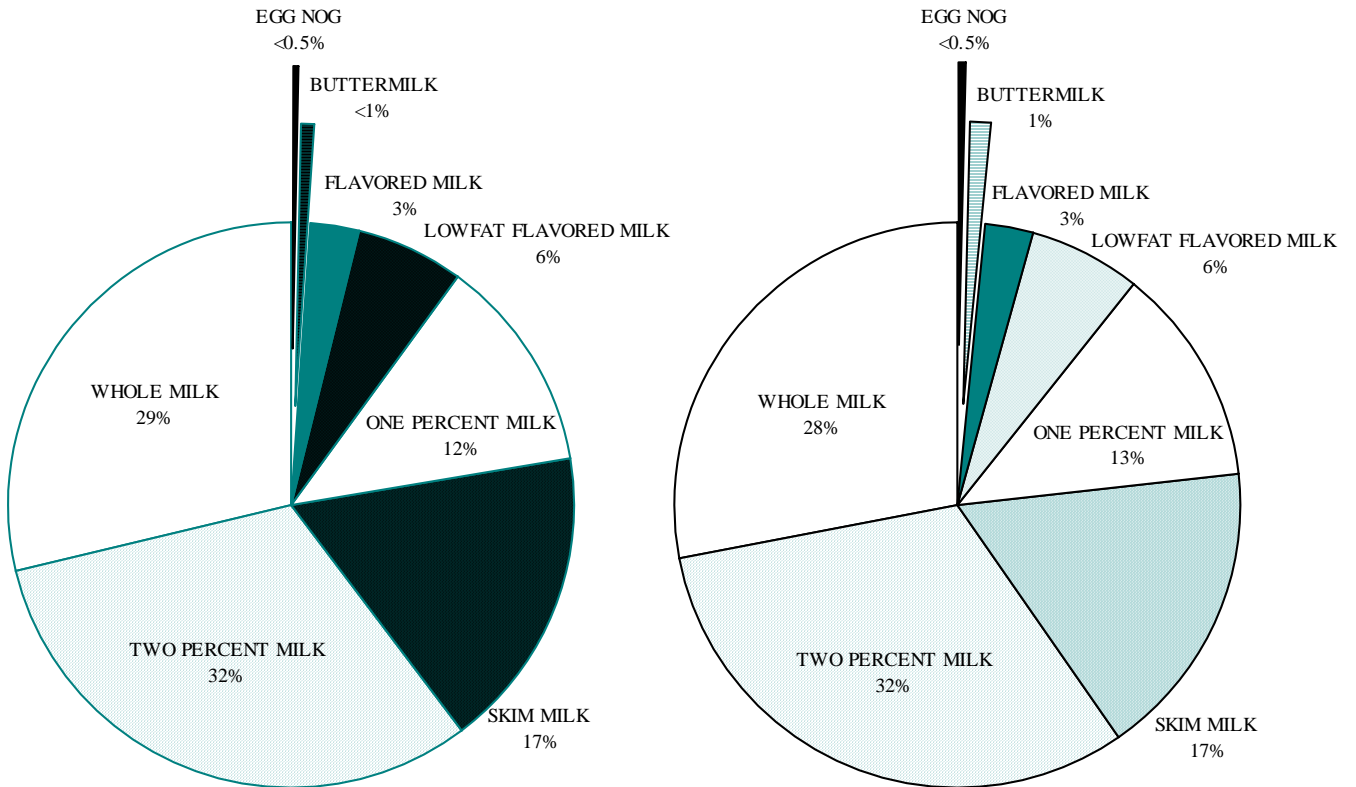
**WHOLE MILK AVERAGE MINIMUM RETAIL PRICE AND
PRODUCER PRICE COMPARISON AT THE GALLON LEVEL**





During the 2005 – 2006 Fiscal Year, whole milk accounted for 28% of Pennsylvanians’ milk consumption; one percent milk, two percent milk, and skim milk combined accounted for 61%. During the 2005 – 2006 Fiscal Year, whole milk accounted for 28% of Pennsylvanians’ milk consumption; one percent milk, two percent milk, and skim milk combined accounted for 62%.

CONSUMPTION OF MILK BREAKDOWN



LEGAL COUNSEL

When violations of the Milk Marketing Law are alleged, a legal referral is prepared and delivered through the Chief of Enforcement and Accounting to the Staff Attorney. The Staff Attorney independently reviews the evidence contained in the legal referral and determines whether the evidence is sufficient to warrant the issuance of a legal citation. During the 2004-2005 and 2005-2006 fiscal years, a total of 126 citations were issued.

The majority of the citations were settled by a consent order in which the defendant admitted the violation and agreed to pay a monetary penalty. Several citations each year were eventually administratively dismissed following further investigation, and a few were the subject of hearings before the Board. Three were still pending at the end of the 2005-2006 fiscal year.

The breakdown of the number and types of citations and their eventual disposition by fiscal year is as follows:

Total number of citations issued:

July 1, 2004 through June 30, 2005: 58

July 1, 2005 through June 30, 2006: 68

Breakdown by type:

	<u>2004-2005</u>	<u>2005-2006</u>	<u>Total</u>
Late filing of milk hauler's monthly report	5	9	14
Hauling milk without renewing license	30	17	47
Sales below minimum wholesale	15	6	21
Late filing of milk dealer's monthly report	1	4	5
Bond claim against subdealer for failure to pay dealer	1	4	5
Late payment to producers	2		2
Improperly operating as subdealer	1		1
Dealer giving credit for non-defective product	1		1
Licensed dealer/retailer asking for slotting fee	1		1
Licensed dealer/retailer sales below minimum retail	1		1
Providing free refrigeration equipment to customer		22	22
Failure to file bond by license renewal deadline		2	2
Failure to allow Board access to books and records		2	2
Failure to renew dealer's license by deadline		1	1
Failure to properly test producers' milk for payment		1	1
Totals:	<u>58</u>	<u>68</u>	<u>126</u>

Disposition:

Settled by consent order	50	50	100
Hearings before the Board	1	6	7
Administratively dismissed	7	9	16
Pending as of June 30, 2006		3	3
Totals:	<u>58</u>	<u>68</u>	<u>126</u>

Results of hearings before the Board:

Citations were issued to two licensed milk dealers under common ownership who failed to file a bond by the deadline for license renewal. A consolidated hearing on both citations was held before the Board, resulting in a Board order imposing a 15 day license suspension for each licensee. The Board allowed the licensees to pay \$150.00 for each day of license suspension as a penalty in lieu of the imposed suspensions.

Hearings were also held for two milk dealers who were cited for providing refrigeration equipment to wholesale customers free of charge without written sales or lease agreements. The Board issued an order imposing license suspensions of eight days in one case and ten days in the other. The Board allowed the licensees to pay \$150.00 for each day of license suspension as a penalty in lieu of the imposed suspensions.

Bond Claims:

One subdealer was cited during the 2004-2005 fiscal year, and four subdealers were cited during the 2005-2006 fiscal year, for failure to make payment for milk purchased from dealers. One was later dismissed because the full amount owed had been subsequently paid and the subdealer was no longer in business. Hearings were held in three other cases to determine whether to suspend or revoke the subdealers' licenses, and whether to claim on the subdealers' bonds. The Board ordered license revocations in each case, and ordered claims on the subdealers' bonds in amounts of \$10,000.00, \$12,500.00, and \$10,909.33. The fifth case was still pending as of the end of the 2005-2006 fiscal year.

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.



Keith Bierly, Barbara Grumbine, Luke Brubaker, Boyd Wolff and Doug Eberly conduct a Sunshine Meeting.

SUMMARY OF HEARINGS – FISCAL YEARS 2004 AND 2005

July 7, 2004 – School Milk in Eight Ounce Plastic Containers

Purpose: To receive evidence concerning costs associated with selling milk to schools in eight ounce plastic containers.

Result: The Board issued an order establishing a new price for wholesale sales of milk to schools in eight ounce plastic containers.

August 4, 2004 – Cost Replacement for Milk Marketing Area 2

Purpose: To receive evidence relating 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.

August 4, 2004 – Cost Replacement for Milk Marketing Area 3

Purpose: To receive evidence relating to updated costs for Milk Marketing Area 3 milk dealers and retailers.

Result: The Board issued a cost replacement order for Milk Marketing Area 3.

August 4, 2004 – Cost Replacement for Milk Marketing Area 4

Purpose: To receive evidence relating 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.

September 1, 2004 – Over-Order Premium

Purpose: To receive evidence concerning the level and duration of the Class I over-order premium.

Result: The Board issued an order establishing the Class I over-order premium at \$1.55 per hundredweight from October 1, 2004, through December 31, 2004.

October 6, 2004 – Cost Replacement for Milk Marketing Area 1

Purpose: To receive evidence relating 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 6, 2004 – Cost Replacement for Milk Marketing Area 5

Purpose: To receive evidence relating 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.

October 6, 2004 – Cost Replacement for Milk Marketing Area 6

Purpose: To receive evidence relating 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.

December 1, 2004 – Over-Order Premium

Purpose: To receive evidence concerning the level and duration of the Class I over-order premium.

Result: The Board issued an order establishing the Class I over-order premium at \$1.55 per hundredweight from January 1, 2005, through June 30, 2005.

February 2, 2005 – One Time Adjustment to the Over-Price Premium

Purpose: To receive evidence concerning a one time adjustment to minimum wholesale and retail prices based on over-price premiums paid by milk dealers to producers during the months of February 2004 – June 2004.

Result: Following the hearing, the Board allowed the petitioning Pennsylvania Association of Milk Dealers to withdraw its petition. No order was issued.

May 19, 2005 – Over-Order Premium

Purpose: To receive evidence concerning the level and duration of the Class I over-order premium.

Result: The Board issued an order establishing the Class I over-order premium at \$1.55 per hundredweight from July 1, 2005, through December 31, 2005.

September 7, 2005 – Cost Replacement for Milk Marketing Area 5

Purpose: To receive evidence relating 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.

September 7, 2005 – Cost Replacement for Milk Marketing Area 6

Purpose: To receive evidence relating 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.

September 7, 2005 – Eight Ounce Plastic Containers

Purpose: To receive evidence concerning how the introduction of eight ounce plastic containers in the several milk marketing areas should affect minimum wholesale and retail prices when the containers are introduced to the market while a cost replacement order is in effect.

Result: The Board established, in cost replacement orders issued for each of the milk marketing areas, a methodology to account for the cost of eight ounce plastic containers when new containers are introduced while a cost replacement order is in effect.

September 8, 2005 – Calculation and Distribution of the Over-Order Premium

Purpose: To receive evidence concerning the calculation and distribution of the Class I over-order premium.

Result: The Board issued an order providing for no change to the calculation and distribution of the Class I over-order premium.

October 5, 2005 – Cost Replacement for Milk Marketing Area 3

Purpose: To receive evidence relating to updated costs for Milk Marketing Area 3 milk dealers and retailers.

Result: The Board issued a cost replacement order for Milk Marketing Area 3.

October 5, 2005 – Cost Replacement for Milk Marketing Area 4

Purpose: To receive evidence relating 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.

November 2, 2005 – Cost Replacement for Milk Marketing Area 1

Purpose: To receive evidence relating 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.

November 2, 2005 – Cost Replacement for Milk Marketing Area 2

Purpose: To receive evidence relating 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.

December 7, 2005 – Petroleum-Based Products and Paper Containers

Purpose: To receive evidence concerning the effect of increased costs for petroleum-based products, such as plastic milk cases, on milk dealer costs and to receive evidence concerning increases in paper container costs.

Result: The Board issued an order adjusting minimum wholesale and retail prices to account for increased milk dealer costs due to increased costs for plastic milk cases and paper containers.

December 7, 2005 – Over-Order Premium

Purpose: To receive evidence concerning the level and duration of the Class I over-order premium.

Result: The Board issued an order establishing the Class I over-order premium at \$1.55 per hundredweight from January 1, 2006, through June 30, 2006.

January 4, 2006 – Milk Marketing Area 6 Dock Pick-Up Discount

Purpose: To receive evidence relating to the establishment of a dock pick-up discount for Milk Marketing Area 6.

Result: Following the hearing, the Board allowed the petitioning Pennsylvania Association of Milk Dealers to withdraw its petition. No order was issued.

March 1, 2006 – Natural Gas Costs, Heating Oil Costs, Sweetener Costs

Purpose: To receive evidence concerning the effects on milk dealer costs of increases in natural gas costs, heating oil costs, and sweetener costs.

Result: The Board issued an order providing for monthly adjustments to minimum wholesale and retail prices based on an index designed to account for changes in milk dealer costs caused by changes in natural gas costs. The order also made an adjustment to minimum wholesale and retail prices based on increases in sweetener costs.



June 7, 2006 – Over-Order Premium

Purpose: To receive evidence concerning the level and duration of the Class I over-order premium.

Result: The Board issued an order establishing the Class I over-order premium at \$1.60 per hundredweight from July 1, 2006, through December 31, 2006.



The Pennsylvania Milk Marketing Board will make reasonable accommodations for persons with disabilities who visit the Milk Marketing Board. Please contact the Board at least two weeks before you visit so accommodations can be made.

If you have any comments or questions concerning this report, please contact the Bureau of Consumer Affairs, Room 110 Agriculture Building, 2301 North Cameron Street, Harrisburg, Pennsylvania 17110. This report is also available on the PA Milk Marketing Board website, www.mmb.state.pa.us.

Telephone (717) 787-4194

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Visit our web site www.mmb.state.pa.us

If you require this report in an alternative format, please contact the Board at (717) 787-4194 or 1-800-654-5984 (Pennsylvania relay service for TTD users).

PENNSYLVANIA MILK MARKETING BOARD

OVER-ORDER PREMIUM EFFECT

SEPTEMBER 1988 THROUGH MAY 2006

OGO	HEARING CALL	PERIOD	MONTHS	AVE. MONTHLY		
				RATE	POUNDS	AMOUNT
		09/01/88 THROUGH 12/31/99				\$195,794,699

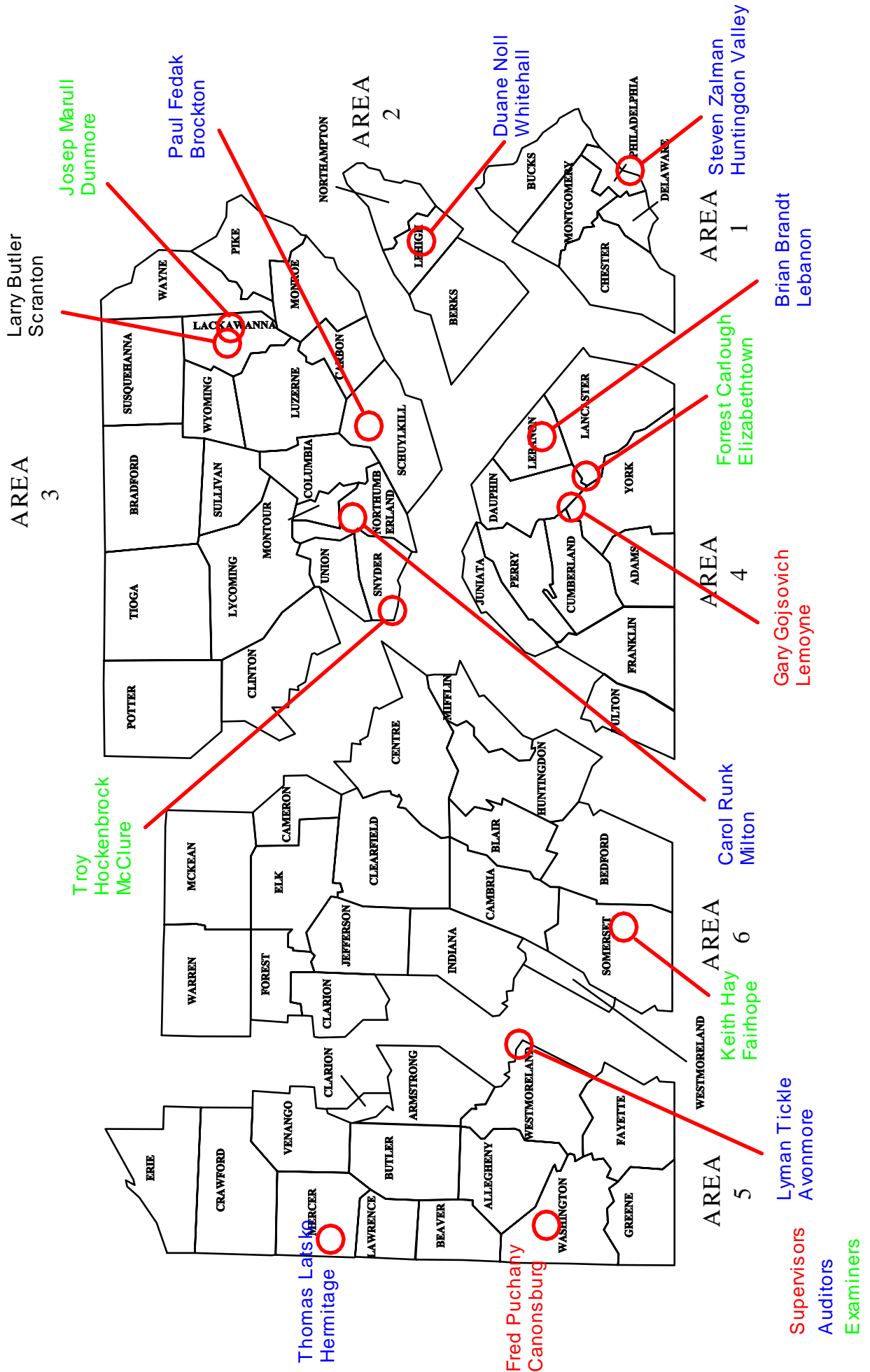
FOR SPECIFIC INFORMATION ON YEARS PRIOR TO 2000, PLEASE CONTACT THE BOARD

A-906	PRODUCTION COST	01/01/00 THROUGH 06/30/00	6	\$1.20	173,560,111	\$12,496,328
A-909	PRODUCTION COST	07/01/00 THROUGH 10/31/00	4	\$1.00	174,964,635	\$6,998,585
A-908	FUEL COST	04/01/00 THROUGH 01/31/02	22	\$0.25	174,419,142	\$9,593,053
A-909	PRODUCTION COSTS	11/01/00 THROUGH 12/31/00	2	\$1.20	181,626,987	\$4,359,048
A-912	PRODUCTION COSTS	01/01/01 THROUGH 06/30/01	6	\$1.40	170,483,462	\$14,320,611
A-914	PRODUCTION COSTS	07/01/01 THROUGH 10/31/01	4	\$1.10	175,333,050	\$7,714,654
A-914	PRODUCTION COSTS	11/01/01 THROUGH 01/31/02	3	\$1.40	180,483,137	\$7,580,292
A-915	ADVERSE CONDITIONS	02/01/02 THROUGH 06/30/02	5	\$1.65	165,150,922	\$13,624,951
A-916	ADVERSE CONDITIONS	07/01/02 THROUGH 08/31/02	2	\$1.65	164,015,586	\$5,412,514
A-917	ADVERSE CONDITIONS	09/01/02 THROUGH 12/31/02	4	\$1.65	171,459,516	\$11,316,328
A-918	ADVERSE CONDITIONS	01/01/03 THROUGH 02/28/03	2	\$1.50	167,875,179	\$5,036,255
A-920	ADVERSE CONDITIONS	03/01/03 THROUGH 06/30/03	4	\$1.40	151,566,101	\$8,487,702
A-922	INCREASED FUEL COSTS	04/01/03 THROUGH 06/30/03	3	\$0.15	151,288,829	\$680,800
A-923	MARKET CONDITIONS	07/01/03 THROUGH 12/31/03	6	\$1.65	152,619,505	\$15,109,331
A-924	MARKET CONDITIONS	01/01/04 THROUGH 06/30/04	6	\$1.65	148,655,323	\$14,716,877
A-927	INCREASED FUEL COSTS	07/01/04 THROUGH 08/31/04	2	\$0.10	150,009,021	\$300,018
A-927	INCREASED FUEL COSTS	09/01/04 THROUGH 09/30/04	1	\$0.14	150,004,722	\$210,007
A-929	MARKET CONDITIONS	07/01/04 THROUGH 09/30/04	3	\$1.30	150,884,037	\$5,884,477
A-927	INCREASED FUEL COSTS	10/01/04 THROUGH 11/30/04	2	\$0.17	159,546,245	\$542,457
A-927	INCREASED FUEL COSTS	12/01/04 THROUGH 01/31/05	2	\$0.26	162,224,724	\$843,569
A-927	INCREASED FUEL COSTS	02/01/05 THROUGH 04/30/05	3	\$0.23	151,914,626	\$1,048,211
A-927	INCREASED FUEL COSTS	05/01/05 THROUGH 07/31/05	3	\$0.29	145,733,666	\$1,267,883
A-927	INCREASED FUEL COSTS	08/01/05 THROUGH 08/31/05	1	\$0.32	151,219,476	\$483,902
A-927	INCREASED FUEL COSTS	09/01/05 THROUGH 10/31/05	2	\$0.35	161,179,960	\$1,128,260
A-927	INCREASED FUEL COSTS	11/01/05 THROUGH 12/31/05	2	\$0.47	164,697,635	\$1,548,158
A-927	INCREASED FUEL COSTS	01/01/06 THROUGH 01/31/06	1	\$0.38	166,788,012	\$633,794
A-927	INCREASED FUEL COSTS	02/01/06 THROUGH 02/28/06	1	\$0.35	149,911,530	\$524,690
A-927	INCREASED FUEL COSTS	03/01/06 THROUGH 03/31/06	1	\$0.38	167,887,798	\$637,974
A-927	INCREASED FUEL COSTS	04/01/06 THROUGH 04/30/06	1	\$0.35	145,964,965	\$510,877
A-927	INCREASED FUEL COSTS	05/01/06 THROUGH 05/31/06	1	\$0.38	164,171,891	\$623,853
A-931	MARKET CONDITIONS	10/01/04 THROUGH 12/31/04	3	\$1.55	161,246,434	\$7,497,959
A-932	MARKET CONDITIONS	01/01/05 THROUGH 06/30/05	6	\$1.55	151,356,916	\$14,076,193
A-933	MARKET CONDITIONS	07/01/05 THROUGH 12/31/05	6	\$1.55	157,930,113	\$14,687,501
A-935	MARKET CONDITIONS	01/01/06 THROUGH 05/31/06	5	\$1.55	158,944,839	\$12,318,225

TOTAL

\$398,010,036

PMMB FIELD STAFF LOCATION



2004 EMPLOYEE OF THE YEAR KEITH HAY



Keith Hay has been employed by the Commonwealth of Pennsylvania for 8 years. Keith began his career with the Milk Marketing Board in 1998 as a Milk Marketing Examiner. Keith primarily examines, trains and certifies milk haulers and weigher/samplers in Southwestern Pennsylvania. Keith's responsibilities also require him to audit small scale dealers in his area.

Keith is a 1990 graduate of Berlin Brothersvalley High School where he was very active in the FFA chapter. The various offices he held in the FFA led to him being chosen State FFA President in 1990-91. He grew up on a dairy farm in Somerset County, and developed his love of the industry through experience. He is currently a volunteer fireman and active in numerous organizations in the community. He serves on the Agricultural Advisory Board at the Berlin Brothersvalley High School.

Keith and his wife Vicki are the parents of three children: Geordan, age 7, Cannon, age 5, and Carlyn, age 3. They both love spending time with their families, and friends. They are active in the Berlin Brethren Church.

2005 EMPLOYEE OF THE YEAR TOM LATSKO



Tom Latsko has been employed by the Commonwealth of Pennsylvania for 13 years. Tom started his career with the Milk Marketing Board in 1994 as a Milk Marketing Board Examiner. In 1999, he was reclassified as an auditor. Tom primarily audits milk dealers in Western Pennsylvania, Ohio and New York.

A graduate of Conneaut Lake High School, Crawford County, Mr. Latsko holds Associate Degrees in Business Administration from Rose State College, Midwest City, Oklahoma, and Administrative Management from the Community College of the Air Force. Tom also holds a Bachelor of Science Degree in Business Administration from Robert Morris University, Pittsburgh, Pennsylvania.

Mr. Latsko is a Captain in the United States Air Force Reserve assigned as an Operations Officer, 910th Services Squadron, Youngstown Air Reserve Station, Vienna, Ohio. Tom has served over 22 years in the Air Force. Recently, he was selected as 910th Airlift Wing Jr. Officer of the Quarter (1st Qtr, 2006).

Mr. Latsko and his wife, Debbie, reside in Hermitage, Mercer County. They have two daughters – Jennifer and Rachel. Tom enjoys hunting, fishing and playing softball and basketball. Tom and his family actively attend the First Assembly of God Church of Hermitage.

Follow the Milk

The Pennsylvania Milk Marketing Board is proud to present *Follow the Milk*, an educational video that follows milk from the cow pasture to the ice cream cone. Produced by C-Net, the Centre County Government and Educational Access Channel, the video focuses on the path of milk and narrates the duties of the Pennsylvania Milk Marketing Board. *Follow the Milk* is geared towards all ages, children and adults alike. The 13 minute video is available through the Pennsylvania Milk Marketing Board and includes correlating lesson plans for grades K-12. This venture was sponsored by the Centre County Commissioners to educate the public about the dairy industry in Pennsylvania.

The video can be viewed on the Pennsylvania Milk Marketing Board website, www.mmb.state.pa.us, or on the Pennsylvania Department of Agriculture's www.marketplaceforthemind.com.

Enjoy your copy of the video and feel free to share it with others. Contact Heidi Svonavec at 717-787-4194 or hsvonavec@state.pa.us with any questions or concerns.

