

**COOPERATIVE MILK PROCUREMENT COSTS**  
**NOVEMBER 5, 2018 HEARING**  
**BOARD STAFF TESTIMONY of GARY GOJSOVICH**

Hi there. My name is Gary Gojsovich. I am employed by the Pennsylvania Milk Marketing Board (PMMB) as an Audit Supervisor. I am here to give testimony on how Dealers could recover mandated cooperative (co-op) premiums paid through PMMB Resale minimum pricing. Were the Board to implement a mandated premium for the co-ops, Board Staff presents the following method for the Board to consider using for Dealers to recover mandated co-op premiums paid.

For Resale pricing for each PMMB Area the co-op premium mandated by the Board would be weighted by the percentage (%) of PA produced co-op pounds in relation to all producer pounds received. Receipts of the cross-section dealers used for Cost Replacement Hearing (CRH) purposes in each Area for the most recent full calendar year would be used for weighting; receipts would also be weighted for each Dealer based on their % of sales into the Area. Although the co-op premium would be weighted for Pricing purposes, co-ops would be paid at the full rate of the co-op premium.

To demonstrate this method, if the CRH cross-section dealers in an Area purchase 25% of their producer milk from co-op members located in PA, then only 25% of the mandated co-op premium would be added to the Skim and Butterfat (BF) rates used for setting Resale prices. In doing so, the co-op receives the correct amount of the mandated co-op premium and the PA Dealers recover an equitable amount of mandated co-op premium through their PA Class 1 sales.

This is different than how we calculate the Over Price Premium (OPP). The OPP is calculated by adding up all the voluntary PA Class 1 premiums paid by the cross-section Dealers in an Area in a month and dividing that by the total PA Class 1 pounds of those Dealers in that month. We add 100% of that amount to the minimum wholesale and retail prices in that Area.

The result is that a Dealer recovers whatever the OPP rate is in a PA Area for Class 1 milk they sell in that Area. Dealers typically sell much more milk in their home Areas than in other Areas. The amount Dealers receive may be more, less, or the same as the premiums they paid. Dealers who paid no voluntary premium get what you might call a windfall. Dealers who paid the largest premiums are not likely to recover what they paid out.

We recommend using the weighted percentage in each Area, rather than 100% of the premium, because we consider it more equitable. For example, in Area 1, about 97% of the milk is PA produced co-op milk. In Areas 5 and 6, it is only about 9% PA produced co-op milk. See PADDC Exhibit 8. If we do not weight the premium by areas, the Dealers in Areas 5 and 6, who buy little PA produced co-op milk, would benefit disproportionately. We sometimes refer

to this situation, where a dealer or retailer gets unintended benefit from a Board-established premium, as “stranded premium”.

The weighted co-op premium for each Area would be added to the Class 1 Skim and BF rates for the same Area. A separate column could be added on the Minimum Resale Price sheet for the co-op premium (similar to the one for Over Order Premium). The weighted co-op premiums should be rounded to 2 decimals using general rules for rounding. (i.e., round up if 5 or greater).

Whenever the Board holds hearings to update the mandated co-op premium, the weighting for each Area should be updated then using receipts and sales numbers for the most current completed calendar year available.

The Board may also elect to add the full amount of the mandated co-op premium to the SKIM and BF rates used for setting Resale prices. This could be implemented in the same manner the OOP is added on the Resale price sheet.

Board Staff recommends using the weighted co-op premium method as it results in less stranded premiums being created. Using any method, Board Staff would ensure the co-ops receive the full amount of the mandated co-op premium on all co-op milk which was produced in PA, processed in PA and sold Class 1 in PA.

Thank you.

Submitted September 20, 2018

**REDACTED**  
**SUBJECT TO PROTECTIVE ORDER DATED AUGUST 10, 2018**

**PENNSYLVANIA MILK MARKETING BOARD**  
**Calculation of Weighted Co-op Resale Premium by Area**  
**Year 2016**

	Weighted Method					
	1-0	2-0	3-0	4-0	5-0	6-0
Co-op Premium Rate (per CWT)	\$ 0.2678	\$ 0.2678	\$ 0.2678	\$ 0.2678	\$ 0.2678	\$ 0.2678
Weighted PA Co-op Receipts (LBs) of the Area CRH Cross-Section Dealers						
Weighted Total Receipts (LBs) of the Area CRH Cross-Section Dealers						
Weighted PA Co-op Receipts as a % of Weighted Total Receipts	91.23%	61.80%	57.75%	20.52%	9.30%	1.26%
Weighted Co-op Resale Premium Rate (per CWT)	\$ 0.2443	\$ 0.1655	\$ 0.1547	\$ 0.0550	\$ 0.0249	\$ 0.0034

Source: Receipts per PMMB-62 monthly reports.

**PENNSYLVANIA MILK MARKETING BOARD**  
**Estimated Co-op Premium Effect on Gallon Price of Milk**  
**Year 2016**

	100% Method	Weighted Method					
	All PA Areas	1-0	2-0	3-0	4-0	5-0	6-0
Co-op Resale Premium Rate (per CWT)	\$ 0.2678	\$ 0.2391	\$ 0.1553	\$ 0.1109	\$ 0.1361	\$ 0.0234	\$ 0.0023
Pounds per CWT	100	100	100	100	100	100	100
Co-op Resale Premium Rate (per Pound)	\$ 0.0027	\$ 0.0024	\$ 0.0016	\$ 0.0011	\$ 0.0014	\$ 0.0002	\$ 0.0000
Pounds per Gallon of Milk	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Price Effect on a Gallon of Milk	\$ 0.0230	\$ 0.0206	\$ 0.0134	\$ 0.0095	\$ 0.0117	\$ 0.0020	\$ 0.0002

**PENNSYLVANIA MILK MARKETING BOARD**  
**Estimated Co-op Premiums Received by Dealers**  
**Year 2016**

PMMB Milk Marketing Area					
1-0	2-0	3-0	4-0	5-0	6-0

**Weighted Co-op Premium Method:**

PA Class 1 Sales - All CRH Cross-Section Dealers Selling into [REDACTED]

Co-op Resale Premium Rate- Weighted (per CWT)	\$ 0.2391	\$ 0.1553	\$ 0.1109	\$ 0.1361	\$ 0.0234	\$ 0.0023
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Estimated Co-op Premiums Received by CRH Cross-Section Dealers [REDACTED]

Total \$ 1,984,718  
*Weighted*

**100% Co-op Premium Method:**

PA Class 1 Sales - All CRH Cross-Section Dealers selling into [REDACTED]

Co-op Resale Premium Rate - 100% (per CWT)	\$ 0.2678	\$ 0.2678	\$ 0.2678	\$ 0.2678	\$ 0.2678	\$ 0.2678
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Estimated Co-op Premiums Received by CRH Cross-Section Dealers \$ [REDACTED]

Total \$ 4,440,141  
*100%*

Difference \$ 2,455,423

Source: Sales per PMMB-62 monthly reports.