STAFF TESTIMONY BEFORE THE PENNSYLVANIA MILK MARKETING BOARD
Small Delivery Cost Hearing

July 2, 2014

Good morning. My name is Dave DeSantis and I am the Chief of Enforcement & Accounting for the Pennsylvania Milk Marketing Board.

The purpose of this hearing is to present evidence that the Board may wish to use to adjust the small delivery amount that we use to calculate resale prices each month.

In general, resale prices are the sum of the prices paid to the dairy farmers including the Over-Order Premium and the amounts paid above the Board-mandated minimum price termed the Over-Price Premium. To this farm price, we add the dealer's average costs for processing, packaging and delivering the milk, along with ingredient and container costs. To these major cost components, we add several miscellaneous adjustments along with profit to arrive at the average delivered cost for each type of milk in each size and type of container regulated by the Board.

If all dealers delivered all their milk to exactly average customers, we could stop here. As we know not all customers receive the same amount of milk or the same level of service. It is far less expensive, on a per unit basis, to deliver milk to a large customer receiving thousands of quarts of milk, than to deliver milk to a small customer receiving less than a hundred quarts of milk per delivery.

One of the goals of our pricing system is to match the delivered cost with the resale price. It is for this reason that, after we calculate the average delivered cost, we subtract out the average delivery cost. This gives us a dock cost or an average cost without any delivery component. To this dock cost we add the cost of a small delivery. By adding the cost of a small delivery, we now have a price from which we can provide progressively deeper discounts to account for the greater efficiency and reduced costs of larger deliveries. A more detailed description of the price buildup process is included in each of the base pricing Orders.

We normally only do the detailed studies of small deliveries when we have general price hearings, which is when we address all aspects of an area resale pricing Order. The dealers have indicated that there is urgency to updating the small delivery cost in all Milk Marketing Areas. Board Staff were initially consulted about route selections but subsequently routes were chosen by PAMD. Board Staff do not concur about all of the route selections, and would require more time to review them thoroughly and where necessary to select and study other routes. Board Staff provided preliminary feedback to PAMD, but while that dialogue was still in process, we decided to propose an

alternative method. We are suggesting that existing small delivery costs can be updated using publications from the U.S. Bureau of Labor Statistics and the Board's own audited data. If the Board would like us to provide a thorough response to the PAMD route studies, we would respectfully ask for more time in which to do that.

Staff Exhibit 1

Staff Exhibit 1 is a summary of costs for all cross-section dealers throughout the state for delivery. We observe that there is considerable variability in the ratio of wages to total delivery costs among the cross-section dealers. By using a state-wide average *ratio* for wages as a percentage of all delivery costs, this variability is normalized. The average delivery *costs* in each area are the actual costs in that area. Our proposal is to normalize the *ratio* of wage-related costs to total delivery costs, not the costs themselves. Wage-related costs represent 47.44% of all delivery costs statewide.

Staff Exhibit 2

Staff Exhibit 2 allows us to identify when the current small delivery cost was first used and the period the small delivery studies were based on. The study year for small delivery costs will permit us to adjust labor costs based on statistics published by the US Bureau of Labor Statistics. We see that Areas 1, 2, 5 and 6 were based on small delivery studies conducted using 2007 data and Areas 3 and 4 were based on 2008 information. This exhibit also shows the change in average delivery from the base period to the most current average delivery from our latest cost replacement hearings. We believe that the change in average delivery costs is an acceptable metric to adjust non-wage related costs in small delivery.

Staff Exhibit 3

Now that we have identified the years that the small delivery studies were based on in Staff Exhibit 2, we can use the information supplied by the U.S. Bureau of Labor Statistics, Occupational Employment Statistics Division to update labor costs. We have selected the Truck Drivers, Grocery Hourly Mean Wage as the most representative index of wages for drivers transporting milk from processing dairies to retailers. To make sure this was the proper index, I contacted the Bureau of Labor Statistics and the Occupational Employment Statistics Division to learn exactly how their data is gathered and what information is included. This statistic uses the wages of all truck drivers for vendors that transport goods from food vendors to retailers. I was assured that milk truck drivers were a significant part of this data. Based on the BLS publications which are **Staff Exhibits 5, 6 and 7**, wages have increased 6.45% since 2008 and 10.27% since 2007. This is the national index because this job category is not available on the state or regional level.

Staff Exhibit 4

Using the base order small delivery cost, Staff Exhibit 4 shows the calculation to adjust the small delivery cost.

Column A is the small delivery cost that is now part of the resale price calculation and was established at the last general pricing hearing.

Column B is the percentage of costs attributable to wages on a state-wide basis from Staff Exhibit 1.

Column C shows the wage-related delivery costs by simply multiplying Column A times Column B.

Column D provides the non-wage-related costs by subtracting the wage-related expenses in Column C from the total small delivery costs in Column A.

Column E shows the percentage of wage-related costs from Staff Exhibit 3.

Column F shows the percentage of non-wage-related costs from Staff Exhibit 2.

Column G calculates the wage-related cost increases by multiplying the wage-related costs in Column C by the percentage of wage-related cost increases in Column E.

Column H calculates the non-wage-related cost increases by multiplying the non-wage-related costs in Column D by the percentage of non-wage-related cost increases in Column F.

Column I simply adds Columns G and H to provide a total recommended adjustment to the small delivery cost in each milk marketing area on a per quart basis.

We also recommend as an integral part of this methodology that the average delivery cost in the wholesale price build up be updated by using the amounts stated in Column D of Staff Exhibit 2. Both should be updated simultaneously. If the small delivery cost is updated without updating the average delivery cost, the difference between them will be greater than it should be. These two costs can remain the same for several years, or they can be updated in tandem annually during the cost replacement process.

I also have a few general comments about the efficacy of updating the small delivery cost. As I stated earlier, one of the goals of our pricing system is to match the delivered cost with the resale price. By adjusting only the small delivery cost we only address sales that are not discounted. The discount structure has not been significantly adjusted for decades, other than the changes in Area 4. I began summarizing the discount structure on the monthly price announcements in 1990. Comparing that summary (**Staff Exhibit 8**) with the most recent summary (**Staff Exhibit 9**) shows that

most of the discount percentages and minimum quantities have not changed or have changed very little.

As prices rise, percentage discounts provide ever-larger discounts without regard to the actual cost of making the delivery. Official General Order A-972 was adopted by the Board to address the effects of percentage discounts on resale prices, but it has become increasingly ineffectual. If the Board adopts the recommended adjustment to small delivery costs, it will not resolve the percentage discount problem. In my view, the most comprehensive solution to this problem is to have general price hearings in each milk marketing area and do not only small delivery studies but also large delivery studies that will provide the Board with enough information to once again match the delivered cost for each discount category with the resale price.

I would add that the most effective discount methodology is the use of cents per quart. Unlike percentages that fluctuate with not only the overall cost of milk but also with the product delivered (a gallon of standard milk yields a higher discount using percentages than a gallon of skim milk even though they cost exactly the same to deliver), cents per quart discounts can be directly adjusted based on cost. At present, using the discount effect order (OGO A-972), undiscounted sales subsidize discounted sales.

In conclusion, we recommend the Board accept the adjustments to the small delivery cost provided in Staff Exhibit 4, and we encourage the Board to consider general price hearings to adjust the discount methodology.

PENNSYLVANIA MILK MARKETING BOARD
Summary of Delivery Cost Centers
Cross-Section Dealers
2013 Data

Wages	84,820,499		
Wage Related Expenses	34,671,700		
Total Wage Related Expenses		119,492,200	
Repair & Maintenance	7,379,053		
Supplies	825,550		
Depreciation	6,607,673		
Utilities & Heating Fuel	630,839		
Insurance	1,432,471		
Taxes, Licenses & Permits	2,319,638		
Gasoline, Oil & Grease	24,744,124		
Tires & Tubes	1,071,506		
Rent	7,603,860		
Advertising	603,578		
All Other Delivery Expenses	21,227,572		
Direct Delivery Expenses		74,445,863	
Total Direct Delivery Expenses			193,938,063
Administrative & Other Service Expenses			57,919,394
Total Delivery Expenses			251,857,457
Percentage of Wage-Related Expenses to Total			**47.44%**

PENNSYLVANIA MILK MARKETING BOARD

Calculation of Average Delivery Cost Increases
Base Year to Present

	A	B	C	D	E
					(D - C) / C
Area	**Date Current Small Delivery First Used**	**Study Year for Small Delivery**	**Base Order Average Delivery Cost**	**Current Average Delivery Cost**	**Percentage of Increase Over Base***
1	June-08	2007	0.1161	0.1267	9.13%
2	July-08	2007	0.0772	0.0839	8.68%
3	March-07	2006	0.1071	0.1248	16.53%
4	February-08	2006	0.0927	0.1088	17.37%
5	October-08	2007	0.1166	0.1305	11.92%
6	December-07	2006	0.1219	0.1410	15.67%

* Used for Non-Wage-Related Costs

PENNSYLVANIA MILK MARKETING BOARD

Calculation of Hourly Rate Increases

Bureau of Labor Statistics

Occupational Employment Statisics	Mean Hourly Wage	Percentage of Increase Over Base Year
Truck Drivers, Grocery Hourly Mean Wage May 2013	$ 21.47	
Truck Drivers, Grocery Hourly Mean Wage May 2006	$ 18.65	15.12%
Truck Drivers, Grocery Hourly Mean Wage May 2007	$ 19.47	10.27%

Standard Occupational Classification #53-3032

PENNSLYLVANIA MILK MARKETING BOARD

Calculation of Increase in Small Delivery Costs

Area	A Base Order Small Delivery Cost	B (Staff Ex. 1) Percentage of Delivery Attributable to Wages	C (A X B) Wage Related Delivery Costs	D (A - C) Delivery Costs Not Related to Wages	E (Staff Ex. 3) Percentage of Increase for Wage-Related Costs	F (Staff Ex. 2) Percentage of Increase for Non-Wage-Related Costs	G (C X E) Wage-Related Increase in Costs	H (D X F) Non-Wage-Related Increase in Costs	I (G + H) Total Adjustment to Small Delivery
1	0.2341	47.44%	0.1111	0.1230	10.27%	9.13%	0.0114	0.0112	**0.0226**
2	0.2081	47.44%	0.0987	0.1094	10.27%	8.68%	0.0101	0.0095	**0.0196**
3	0.2000	47.44%	0.0949	0.1051	15.12%	16.53%	0.0143	0.0174	**0.0317**
4	0.2038	47.44%	0.0967	0.1071	15.12%	17.37%	0.0146	0.0186	**0.0332**
5	0.2134	47.44%	0.1012	0.1122	10.27%	11.92%	0.0104	0.0134	**0.0238**
6	0.2096	47.44%	0.0994	0.1102	15.12%	15.67%	0.0150	0.0173	**0.0323**

Occupational Employment Statistics

Occupational Employment and Wages, May 2013

53-3032 Heavy and Tractor-Trailer Truck Drivers

Drive a tractor-trailer combination or a truck with a capacity of at least 26,000 pounds Gross Vehicle Weight (GVW). May be required to unload truck. Requires commercial drivers' license.

National estimates for this occupation
Industry profile for this occupation
Geographic profile for this occupation

National estimates for this occupation: Top

Employment estimate and mean wage estimates for this occupation:

Employment (1)	Employment RSE (3)	Mean hourly wage	Mean annual wage (2)	Wage RSE (3)
1,585,300	0.6 %	$19.68	$40,940	0.3 %

Percentile wage estimates for this occupation:

Percentile	10%	25%	50% (Median)	75%	90%
Hourly Wage	$12.18	$15.03	$18.61	$23.24	$28.66
Annual Wage (2)	$25,330	$31,270	$38,700	$48,330	$59,620

Industry profile for this occupation: Top

Industries with the highest published employment and wages for this occupation are provided. For a list of all industries with employment in this occupation, see the Create Customized Tables function.

Industries with the highest levels of employment in this occupation:

Industry	Employment (1)	Percent of industry employment	Hourly mean wage	Annual mean wage (2)
General Freight Trucking	577,090	61.49	$20.32	$42,260
Specialized Freight Trucking	227,590	53.04	$19.80	$41,170
Grocery and Related Product Merchant Wholesalers	65,860	9.00	$21.47	$44,660
Cement and Concrete Product Manufacturing	50,710	29.54	$18.44	$38,360
Other Specialty Trade Contractors	36,540	6.60	$18.29	$38,040

Industries with the highest concentration of employment in this occupation:

Industry	Employment (1)	Percent of industry employment	Hourly mean wage	Annual mean wage (2)
General Freight Trucking	577,090	61.49	$20.32	$42,260
Specialized Freight Trucking	227,590	53.04	$19.80	$41,170
Support Activities for Road Transportation	33,920	39.08	$16.07	$33,420
Cement and Concrete Product Manufacturing	50,710	29.54	$18.44	$38,360
Petroleum and Petroleum Products Merchant Wholesalers	22,800	23.90	$19.93	$41,460

Top paying industries for this occupation:

Industry	Employment (1)	Percent of industry employment	Hourly mean wage	Annual mean wage (2)
Other Electrical Equipment and Component Manufacturing	230	0.18	$32.30	$67,190

Staff Exhibit 5

Occupational Employment Statistics

Occupational Employment and Wages, May 2007

53-3032 Truck Drivers, Heavy and Tractor-Trailer

Drive a tractor-trailer combination or a truck with a capacity of at least 26,000 GVW, to transport and deliver goods, livestock, or materials in liquid, loose, or packaged form. May be required to unload truck. May require use of automated routing equipment. Requires commercial drivers' license.

National estimates for this occupation
Industry profile for this occupation
State profile for this occupation
Metropolitan area profile for this occupation

National estimates for this occupation: Top

Employment estimate and mean wage estimates for this occupation:

Employment (1)	Employment RSE (3)	Mean hourly wage	Mean annual wage (2)	Wage RSE (3)
1,693,590	0.6 %	$18.06	$37,560	0.2 %

Percentile wage estimates for this occupation:

Percentile	10%	25%	50% (Median)	75%	90%
Hourly Wage	$11.24	$13.79	$17.41	$21.81	$26.24
Annual Wage (2)	$23,380	$28,690	$36,220	$45,370	$54,570

Industry profile for this occupation: Top

Industries with the highest published employment and wages for this occupation are provided. For a list of all industries with employment in this occupation, see the Create Customized Tables function.

Industries with the highest levels of employment in this occupation:

Industry	Employment	Hourly mean wage	Annual mean wage
General Freight Trucking	602,170	$19.12	$39,760
Specialized Freight Trucking	220,450	$17.78	$36,980
Cement and Concrete Product Manufacturing	77,850	$16.67	$34,670
Grocery and Related Product Wholesalers	63,730	$19.47	$40,500
Other Specialty Trade Contractors	47,770	$16.80	$34,940

Top paying industries for this occupation:

Industry	Employment	Hourly mean wage	Annual mean wage
Motion Picture and Video Industries	(8)	$25.10	$52,200
Motor Vehicle Manufacturing	720	$24.03	$49,980
Other Transportation Equipment Manufacturing	240	$23.99	$49,900
Computer Systems Design and Related Services	30	$23.79	$49,480

Staff Exhibit 6

Occupational Employment Statistics

Occupational Employment and Wages, May 2008

53-3032 Truck Drivers, Heavy and Tractor-Trailer

Drive a tractor-trailer combination or a truck with a capacity of at least 26,000 GVW, to transport and deliver goods, livestock, or materials in liquid, loose, or packaged form. May be required to unload truck. May require use of automated routing equipment. Requires commercial drivers' license.

National estimates for this occupation
Industry profile for this occupation
State profile for this occupation
Metropolitan area profile for this occupation

National estimates for this occupation: Top

Employment estimate and mean wage estimates for this occupation:

Employment (1)	Employment RSE (3)	Mean hourly wage	Mean annual wage (2)	Wage RSE (3)
1,672,580	0.6 %	$18.62	$38,720	0.2 %

Percentile wage estimates for this occupation:

Percentile	10%	25%	50% (Median)	75%	90%
Hourly Wage	$11.63	$14.21	$17.92	$22.56	$27.07
Annual Wage (2)	$24,190	$29,560	$37,270	$46,920	$56,300

Industry profile for this occupation: Top

Industries with the highest published employment and wages for this occupation are provided. For a list of all industries with employment in this occupation, see the Create Customized Tables function.

Industries with the highest levels of employment in this occupation:

Industry	Employment	Hourly mean wage	Annual mean wage
General Freight Trucking	598,320	$19.55	$40,660
Specialized Freight Trucking	217,440	$18.28	$38,030
Cement and Concrete Product Manufacturing	72,580	$17.20	$35,770
Grocery and Related Product Merchant Wholesalers	67,590	$20.17	$41,950
Other Specialty Trade Contractors	45,890	$17.51	$36,420

Top paying industries for this occupation:

Industry	Employment	Hourly mean wage	Annual mean wage
Motor Vehicle Manufacturing	280	$26.69	$55,520

Staff Exhibit 7

RESALE PRICES (1)
DECEMBER 1990

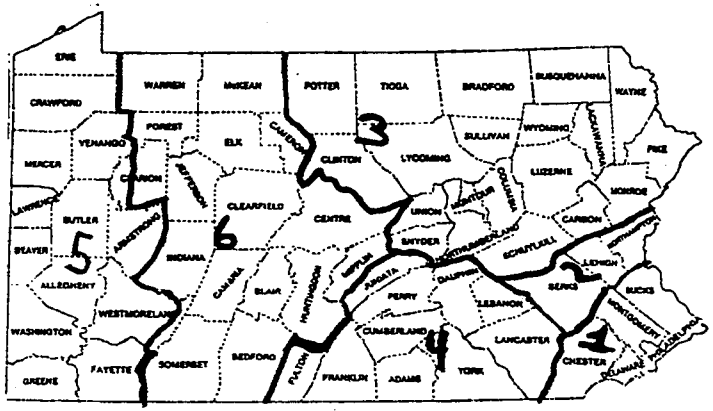
AREA	SCH	CONTAINER	WHOLESALE HOMO 4% & UNDER	WHOLESALE 2% & UNDER 3.25%	WHOLESALE .5% & UNDER 2%	WHOLESALE PLAIN SKIM	RETAIL OUT OF STORE HOMO 4% & UNDER	RETAIL OUT OF STORE 2% & UNDER 3.25%	RETAIL OUT OF STORE .5% & UNDER 2%	RETAIL OUT OF STORE PLAIN SKIM
1	LX	GALLON	2.0724	2.0108	1.9111	1.6968	2.10	2.04	1.94	1.73
		HALF GAL	1.0501	1.0195	0.9886	0.8813	1.07	1.03	1.00	0.90
	11	QUART	0.5401	0.5247	0.5090	0.4555	0.55	0.53	0.52	0.46
2	MI	GALLON	2.1388	2.0743	1.9719	1.8267	2.17	2.10	2.00	1.86
		HALF GAL	1.0866	1.0543	1.0032	0.9305	1.10	1.07	1.02	0.95
	11	QUART	0.5594	0.5433	0.5176	0.4814	0.57	0.55	0.53	0.49
3	MS	GALLON	2.1900	2.1348	2.0344	1.8692	2.21	2.17	2.11	1.97
		HALF GAL	1.0902	1.0705	1.0625	0.9291	1.11	1.10	1.07	1.00
	10	QUART	0.5540	0.5435	0.5415	0.4728	0.59	0.58	0.56	0.53
4	MM	GALLON	2.2129	2.1574	2.1032	1.9349	2.25	2.20	2.14	1.97
		HALF GAL	1.0992	1.0715	1.0444	0.9602	1.12	1.09	1.06	0.98
	10	QUART	0.5624	0.5486	0.5350	0.4929	0.57	0.56	0.55	0.50
5	MO	GALLON	2.1007	2.0492	1.9480	1.8228	2.20	2.15	2.05	1.92
		HALF GAL	1.0824	1.0566	1.0060	0.9434	1.13	1.11	1.06	0.99
	10	QUART	0.5551	0.5423	0.5170	0.4857	0.58	0.57	0.54	0.51
6	MN	GALLON	2.1466	2.0916	1.9913	1.8667	2.25	2.19	2.09	1.97
		HALF GAL	1.1052	1.0777	1.0276	0.9652	1.16	1.13	1.08	1.02
	10	QUART	0.5686	0.5549	0.5298	0.4986	0.59	0.58	0.55	0.52

MAJOR WHOLESALE DISCOUNTS AVAILABLE (2)

1	400 - 699 qts/del 4% 700 - 1,199 qts/del 7% 1,200 qts/del & over 13%	Qualified multi-store entities may receive: 1% on deliveries of 10,000 qts/wk 2% on deliveries of 100,000 qts/wk
2	200 - 499 qts/del 4% 500 - 999 qts/del 8% 1,000 - 2,499 qts/del 13%	2,500 qts/del & over 16% Qualified multi-store entities may receive: 2% on deliveries of 100,000 qts/wk
3	100 - 249 qts/del 4% 250 qts/del & over 14.6%	Wholesale customers picking up at the dock: 800 - 1,999 qts/pickup 18% 2,000 qts/pickup & over 20%
4	200 - 999 qts/del 15% 1,000 qts/del & over 18%	Wholesale customers picking up at the dock: 200 - 999 qts/pickup 20% 1,000 qts/pickup & over 23%
5	400 qts/del & over 4% 700 - 1,399 qts/del 7% 1,400 qts/del & over 10%	Qualified multi-store entities may receive: 2% on deliveries of 100,000 qts/wk.
6	200 - 499 qts/del 4% 500 qts/del & OVER 7.5% 1,000 qts/del & over 10.5%	Qualified multi-store entities may receive: 2% on deliveries of 25,000 qts/wk

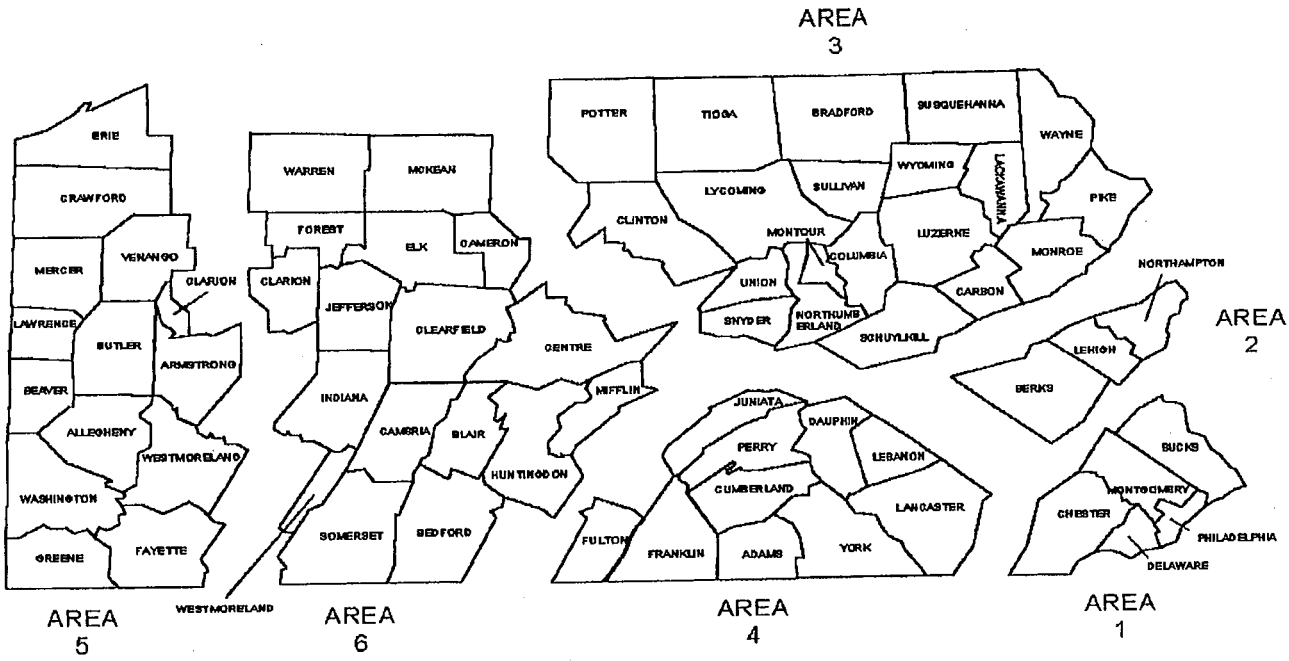
(1) ALL GALLON PRICES ARE IN NONRETURNABLE PLAS C, HALF GALLONS & QUARTS ARE IN PER.
(2) SEE OFFICIAL GENERAL ORDERS FOR COMPLETE DE ILS AND QUALIFICATIONS FOR EACH EA AND DISCOUNT.

MILK MARKETING AREAS



Staff Exhibit 8

COMMONWEALTH OF PENNSYLVANIA
MILK MARKETING BOARD
PENNSYLVANIA MILK MARKETING AREAS



MAJOR WHOLESALE DISCOUNTS AVAILABLE /1/

	Wholesale		Multi-Store	Dock Pickup by Stores	
1	min 400 qts/delivery	4%	Multi-store groups take an additional:	min 4,000 qts/pickup	21%
	min 700 qts/delivery	7%	min 10,000 qts/wk 1%		
	min 1,200 qts/delivery	13%	min 100,000 qts/wk 2%		
2	min 200 qts/delivery	3.5%	Multi-store groups take an additional:	min 800 qts/pickup	18%
	min 500 qts/delivery	6.5%	min 100,000 qts/wk 2%	min 2,500 qts/pickup	20%
	min 700 qts/delivery	9.5%		min 4,000 qts/pickup	21%
	min 1,000 qts/delivery	11.5%			
3	min 200 qts/delivery	4%	Multi-store groups take an additional:	min 2,000 qts/pickup	20.5%
	min 400 qts/delivery	9%	min 25,000 qts/wk 2%		
	min 600 qts/delivery	13%			
4	min 200 qts/delivery	$0.0223/qt	Multi-store groups take an additional:	min 1,000 qts/pickup	20%
	min 500 qts/delivery	$0.0764/qt	min 200,000 qts/wk 1%	min 2,000 qts/pickup	23%
	min 1,000 qts/delivery	$0.1010/qt			
5	min 400 qts/delivery	4%	Multi-store groups take an additional:	min 1,700 qts/pickup	15%
	min 700 qts/delivery	7%	min 30,000 qts/wk 2%	min 4,000 qts/pickup	18%
	min 1,400 qts/delivery	10%			
6	min 200 qts/delivery	4%	Multi-store groups take an additional:	min 1,000 qts/pickup	15%
	min 500 qts/delivery	7.5%	min 25,000 qts/wk 2%	min 2,000 qts/pickup	18%
	min 1,000 qts/delivery	10.5%			

/1/ See Official General Orders for complete details and qualifications for each Milk Marketing Area and discount catagory. www.mmb.state.pa.us (Use the "Legal" tab to access Official General Orders)

Staff Exhibit 9