

Testimony of Jeff Gooch

For Use in Public Hearing

Docket No. AMS-DA-07-0059; AO-388-A22; DA-07-03

Tampa, Florida

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My name is Jeff Gooch and I am the Assistant Market Administrator for the Appalachian Federal Order, Federal Order No. 5. I have worked for the Federal milk order program for nearly 23 years, and have been the Assistant Market Administrator for the Appalachian Federal Order, Federal Order No. 5 since January 2006. Prior to being appointed Assistant Market Administrator, I was an Assistant to the Market Administrator for eleven years. I am here today to testify in support of Proposal No. 4.

Proposal No. 4 would increase the maximum administrative assessment rate for the Appalachian Federal Order, Federal Order No. 5, provided for in §1005.85, from 5 cents per hundredweight to 8 cents per hundredweight. Currently, the administrative assessment for the Appalachian Order is provided for in §1000.85. The administrative assessment language in §1005.85 simply points to §1000.85. Proposal No. 4 would amend §1005.85 to provide all of the administrative assessment language pertinent to this order, and discontinue the reference to §1000.85. Under Proposal No. 4, the administrative assessment would continue to apply to the same milk as in the past. It should be noted that, if Proposal No. 4 were adopted, the 8-cent per hundredweight rate would be the maximum rate allowable, not necessarily the actual rate assessed. The actual rate assessed would only be as high as needed, as determined by the

Market Administrator with approval by the Deputy Administrator for Dairy Programs, Agricultural Marketing Service, U.S. Department of Agriculture.

The increase in the maximum administrative assessment rate is necessary to ensure that the Market Administrator has sufficient funds to carry out the responsibilities for administration of the Federal order. Administering order functions include administrative, accounting, human resource, economic, pooling and auditing staffs. In addition, the Market Administrator is required to maintain a specified level of operating reserves. The level of the required operating reserve is determined by a formula set forth in MA Instruction 207 issued by the Deputy Administrator for Dairy Programs. The purpose of the operating reserve is to cover the necessary costs of closing out an order (completing pools and audits, paying severance pay to employees, terminating leases, etc.) in the event that the order is terminated.

The Market Administrator is primarily dependent on revenue from administrative assessments to fund the operations of the order. The administrative assessment, provided for in §1005.85 (through reference to §1000.85), is collected each month on pooled producer milk. The assessment is also collected on certain types of other source receipts assigned to Class I and certain route disposition in the marketing area by partially regulated distributing plants. The vast majority of the administrative assessment revenue is from pooled producer milk. The current administrative assessment rate is 4 cents per hundredweight of milk with a maximum cap of 5 cents per hundredweight. This administrative assessment rate has remained unchanged since January 2000.

For the years ending 2000, 2001 & 2002, producer milk pooled on the order averaged about 547 million pounds monthly. At the 4 cents per hundredweight assessment rate in effect throughout this period, these volumes of producer milk generated sufficient revenue to fund the Appalachian Order operations and maintain the mandated operating reserve. For the years ending, 2003, 2004 & 2005, producer milk pooled on the order, averaged 525 million pounds

monthly. For the year ending 2006, producer milk pooled on the order, averaged 520 million pounds monthly. When comparing the first four months of 2007 to the first four months of 2006, producer milk pooled on the Appalachian Order is down 3.45%. The Southeastern United States, continues to experience losses in milk production. This situation of declining volumes of milk pooled, and the difficulty in predicting producer milk volumes in the future, endangers the Market Administrator's ability to carry out order operations while maintaining a legally mandated operating reserve. The Appalachian Federal Order was in an operating deficit position in 2003, 2004 and 2006. In 2005, the order had a balanced budget. At the 4-cent per hundredweight assessment rate in effect throughout this period (2003-2006), these volumes of producer milk did not generate sufficient revenue to fund the Appalachian Order operations, thus lowering the level of the mandated operating reserve.

It should be also noted that an interim final rule effective December 1, 2006, established a zero diversion limit standard on eligible Class I milk receiving transportation credits in the Appalachian Order. Specifically, that decision limits the amount of milk that may be pooled on the Appalachian Order, thus reducing the amount of the administrative assessment revenue throughout the period of July thru December on these volumes of producer milk generated. If Proposal No. 1 is adopted, the transportation credit payout months would include January and February further reducing the amount of milk that may be pooled on the Appalachian Order. Proposal No. 1 would also reduce the volume of milk which may be pooled by diversion on the Appalachian Order. This action would further reduce the amount of the administrative assessment revenue.

The proposed tightening of the pooling provisions on the Appalachian Order impacts the amount of producer milk pooled on the order. While the Market Administrator's office strives to control costs and become more efficient in carrying out its work, the efficiency gains cannot compensate for further reducing the amount of revenue derived from reducing milk volumes

pooled on the market. The Market Administrator's office makes every effort to improve the operating efficiency and effectiveness of the order. Actions taken to control expenses include reducing the size of the office staff by 29 percent through attrition since January 2003, contracting with outside computer services, negotiating a telecommunications contract, consolidating a field office and reducing travel to conferences and meetings. Advancements in information technology systems are allowing the exchange of handler information, thus reducing travel and mail expenses. About \$215,000 in administrative assessment income is needed per month to cover basic operating expenses. At a 4 cent per hundredweight assessment rate, this equates to about 538 million pounds of producer milk needed monthly to cover expenses.

This hearing offers an opportunity to increase the maximum assessment rate to 8 cents per hundredweight to assist the Market Administrator in administering order functions and maintaining required operating reserves. Again, it should be emphasized that the 8 cents per hundredweight rate would be the maximum rate allowable, not necessarily the rate assessed. As always, the actual rate assessed would only be as high as needed, as determined by the Market Administrator with approval by the Deputy Administrator for Dairy Programs, Agricultural Marketing Service, USDA.

This concludes my testimony.

Jeff Gooch

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Appalachian Order