

SUPPLEMENTAL TESTIMONY OF STEVEN ZALMAN  
BEFORE THE PENNSYLVANIA MILK MARKETING BOARD  
COST REPLACEMENT HEARING – MILK MARKETING AREA 2  
May 1, 2019

My name is Steven Zalman. I am the Director of Accounting and Enforcement for the PA Milk Marketing Board. I would like to address the issues raised by the Board at the Area 2 post hearing conference about the process of proposing changes to the Area 2 cross-section.

In a phone conference with the Pennsylvania Association of Milk Dealers (PAMD) on November 20, 2018, Ron Mong made the suggestion to add three additional dealers to the Area 2 cross-section (Balford Farms, Pocono Mountain, and Valley Farms). To determine Board Staff's position with adding the additional dealers I took the following steps:

- I calculated the controlled sales by dealers for 2017, not only into Area 2, but for all areas.
- A percentage of sales into each area was calculated by taking the pounds sold per cross-section dealer divided by the total pounds sold into the area.
- Starting with the highest percentages, I selected dealers to be included in each of the areas. I continued selecting dealers by sales percentages to obtain a consistent volume threshold for selection in all areas.

We found that all areas but one could be more representative of dealer costs, and one area had a dealer that will need to be added in 2018 that is not currently a cross-section dealer. Using this method of selection eliminated any chance of choosing a dealer on a subjective basis, such as being a high cost dealer.

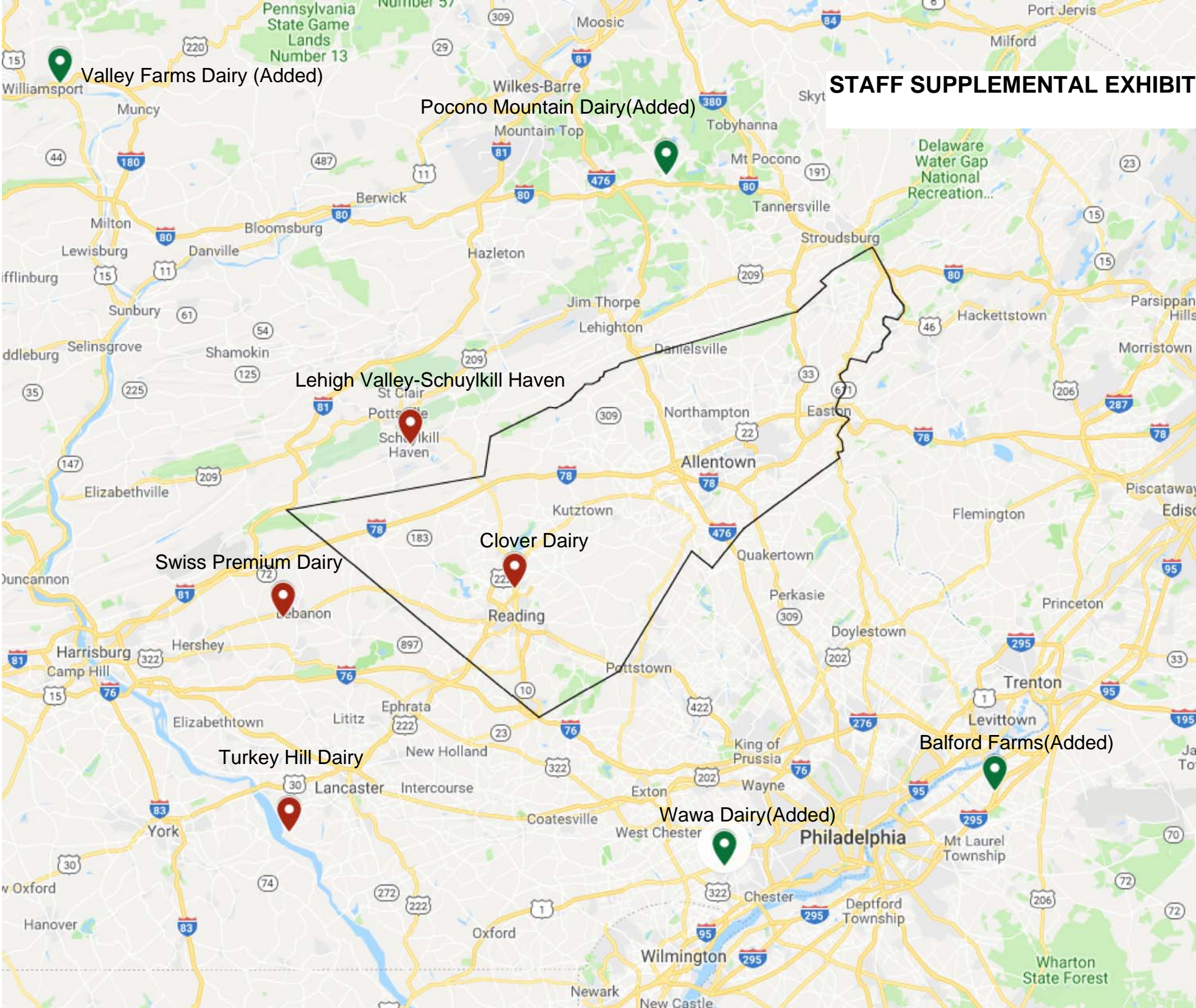
We communicated our position with the new cross-section selections to PAMD. To our knowledge, there were no plant specific issues at the time, nor would it have changed our selections. The sole reason for the change was to develop an objective cross-section that most represented costs of dealers.

Last year's cross-section was representative, but the 2017 cross-section is more representative of dealer costs. The 2016 cross-section accounted for 63.7% of Class 1 sales. The 2017 cross-section accounted for 79.8% of controlled sales.

The 2016 Area 2 cross-section had four dealers, all located in Pennsylvania, one of them located in Area 2. The 2017 Area 2 cross-section has eight dealers, one located in Area 2, and one located in New Jersey. The 2017 cross-section is more geographically diverse (See Board Staff Supplemental Exhibit 1).

The 2017 cross-section sells milk in various container sizes like the 2016 cross-section did, with the addition of paper quarts. The cross-section sells all the common container sizes and we consider the 2017 cross-section representative in this respect.

Board Staff continues to believe that the proposed changes to the cross-section in Area 2 are appropriate, and accurately reflect dealer costs selling into the area.



Valley Farms Dairy (Added)

Pocono Mountain Dairy (Added)

Lehigh Valley-Schuylkill Haven

Swiss Premium Dairy

Clover Dairy

Turkey Hill Dairy

Wawa Dairy (Added)

Balford Farms (Added)

STAFF SUPPLEMENTAL TESTIMONY OF GARY GOJSOVICH  
BEFORE THE PENNSYLVANIA MILK MARKETING BOARD  
COST REPLACEMENT HEARING – MILK MARKETING AREA 2  
May 1, 2019

Staff Supplemental Exhibit 2 shows the factors that contributed to the increase in the price of standard (whole) milk in the various container sizes. The increase in the Area 2 wholesale price for a gallon of whole milk is approximately \$0.32 which is mostly attributable to the increase in processing costs per point. The proposed processing costs per point increased from Year 2016 by \$0.0631 per point (or \$0.2524 per gallon) as shown in Staff Supplemental Exhibit 3.

Four Dealers were added to the cross-section for Year 2017; two of which are processing Dealers (Valley Farms and Wawa) and two of which are non-processing Dealers (Balford and Pocono). This had the effect of increasing the Area 2 processing costs per point. The non-processing Dealers generally purchase large, tractor-trailer loads of packaged product from other Dealers and distribute this product. These non-processing Dealers then generally make smaller, more costly deliveries into the Area. The addition of non-processing Dealers would therefore be likely to lead to an increase in the Delivery processing costs per point.

Staff Supplemental Exhibit 2 shows that the processing costs per point increase from adding the four Dealers is \$0.2524 per whole milk gallon. The increase without adding them would have been \$0.0484 per gallon. Most of this increase is in the delivery cost center.

The Area 2 price increase is relatively large. However, with this increase, Area 2 would be within the range of the prices for all Areas. The retail prices for a 2% gallon in each of these areas, as proposed in these cost replacement hearings, are:

Area 1	\$3.79
<b>Area 2</b>	<b>\$3.58</b>
Area 3	\$3.40
Area 4	\$3.54
Area 5	\$3.60
Area 6	\$3.67

The average of these 2% gallon prices is \$3.60 which is only \$0.02 higher than the proposed Area 2 price,

Thank you. I'd be happy to answer any questions you may have.

## PENNSYLVANIA MILK MARKETING BOARD MILK MARKETING AREA 2

### Explanation of Wholesale Increases/(Decreases) Year 2017

		<i>EXH. 11</i>	Variance between Proposed and Existing				
		Wholesale Increase (Decrease)	Container Efficiency Adjustment	Processing Cost	Cost Update Adjustment	Bulk Profit / (Loss)	TOTAL
<b>STANDARD (WHOLE) MILK</b>	GALLON	\$ 0.3223	\$ 0.0189	\$ 0.2524	\$ 0.0192	\$ 0.0224	\$ 0.3129
	1/2 GALLON	\$ 0.1537	\$ 0.0055	\$ 0.1262	\$ 0.0096	\$ 0.0112	\$ 0.1525
	QUART	\$ 0.0855	\$ 0.0061	\$ 0.0631	\$ 0.0048	\$ 0.0056	\$ 0.0796
	PINT	\$ 0.0343	\$ (0.0023)	\$ 0.0316	\$ 0.0024	\$ 0.0028	\$ 0.0345
	12 OUNCE	\$ (0.0052)	\$ (0.0323)	\$ 0.0237	\$ 0.0018	\$ 0.0021	\$ (0.0047)
	10 OUNCE	\$ (0.0088)	\$ (0.0311)	\$ 0.0197	\$ 0.0015	\$ 0.0017	\$ (0.0082)
	1/2 PINT	\$ 0.0124	\$ (0.0068)	\$ 0.0158	\$ 0.0012	\$ 0.0014	\$ 0.0116
	4 OUNCE	\$ (0.0007)	\$ (0.0108)	\$ 0.0079	\$ 0.0006	\$ 0.0007	\$ (0.0016)
	Bulk per Quart	\$ 0.1383	\$ 0.0576	\$ 0.0631	\$ 0.0048	\$ 0.0056	\$ 0.1311

## PENNSYLVANIA MILK MARKETING BOARD MILK MARKETING AREA 2

### Comparison of Processing Costs per Point

Cost Center	Year 2016 <sup>(1)</sup>	Year 2017 <sup>(1)</sup>		Year 2017 <sup>(2)</sup>	
	Processing Costs per Point	Processing Costs per Point	Variance (2017 vs. 2016)	Processing Costs per Point	Variance (2017 vs. 2016)
Receiving, Lab & Field	\$ 0.0104	\$ 0.0145	\$ 0.0041	\$ 0.0135	\$ 0.0031
Stand. & Past	\$ 0.0208	\$ 0.0228	\$ 0.0020	\$ 0.0232	\$ 0.0024
Bottling	\$ 0.0318	\$ 0.0347	\$ 0.0029	\$ 0.0361	\$ 0.0043
Cold Room	\$ 0.0311	\$ 0.0298	\$ (0.0013)	\$ 0.0392	\$ 0.0081
Delivery	\$ 0.0804	\$ 0.0832	\$ 0.0028	\$ 0.1213	\$ 0.0409
Selling	\$ 0.0167	\$ 0.0183	\$ 0.0016	\$ 0.0210	\$ 0.0043
TOTAL	\$ 0.1912	\$ 0.2033	\$ 0.0121	\$ 0.2543	\$ 0.0631

Quarts per Gallon	x 4	x 4
Gallon Effect	\$ 0.0484	\$ 0.2524

**Footnotes:**

1. cross-section includes:
  - \* Clover Farms
  - \* LVD - Schuylkill Haven
  - \* Swiss Premium
  - \* Turkey Hill
  
2. cross-section includes:
  - \* Balford Farms <sup>(addition)</sup>
  - \* Clover Farms
  - \* LVD - Schuylkill Haven
  - \* Pocono Mountain <sup>(addition)</sup>
  - \* Swiss Premium
  - \* Turkey Hill
  - \* Valley Farms <sup>(addition)</sup>
  - \* Wawa <sup>(addition)</sup>

**PENNSYLVANIA MILK MARKETING BOARD STAFF  
AREA 2 COST REPLACEMENT HEARING  
MAY 1, 2019  
LIST OF WITNESSES**

The following individuals will testify at the Milk Marketing Area 2 Cost Replacement Hearing on May 1, 2019 on behalf of the Milk Marketing Board Staff. Copies of their curriculum vitae will be available upon request at the hearing.

**Steven Zalman**, Milk Marketing Board Director of Enforcement and Accounting, will testify as an expert on milk industry cost accounting and regulation. His testimony will address the subjects included in his presubmitted testimony, but it is not necessarily limited to the presubmitted testimony.

**Gary Gojsovich**, Milk Marketing Board Audit Supervisor, will testify as an expert on milk industry cost accounting and regulation. His testimony will address the subjects included in his presubmitted testimony, but it is not necessarily limited to the presubmitted testimony.

Date: April 26, 2019

Respectfully submitted,

***Andrew L. Saylor***

Staff Attorney  
Pennsylvania Milk Marketing Board

**AREA 2 COST REPLACEMENT HEARING  
MAY 1, 2019  
CERTIFICATE OF SERVICE**

I hereby certify that on April 26, 2019, I have served true and correct copies of the foregoing by email on behalf of the Milk Marketing Board Staff to the following (all of whom will accept service by email):

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