

PENNSYLVANIA FOOD MERCHANTS ASSOCIATION

AREA 1 REBUTTAL EXHIBITS

COST REPLACEMENT HEARING

JANUARY 3, 2018

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INTRODUCTION

The Pennsylvania Food Merchants Association (hereafter “PFMA”) conducted an analysis of in-store handling costs related to fluid milk in 2007. The study was conducted utilizing stores located in the Pennsylvania Milk Marketing Board (hereafter “PMMB”) Area 1 being studied. Raw data was obtained by PMMB and PFMA. PFMA has analyzed the raw data. The Cost Replacement Hearing exhibits data has been supervised by Thomas J. Price, CPA.

DEFINITIONS

In-store handling costs – In-store handling costs are defined as costs incurred from the time store personnel receive milk deliveries until the milk product is purchased and checked out at the check-out counter.

The total in-store handling cost is comprised of four cost categories, which are personnel costs, building costs, equipment costs, and other operating costs.

Personnel costs – Costs are relative to personnel, including salaries, wages, payroll taxes, fringe benefits and group insurance.

Building costs – Costs are comprised of rent, depreciation, and repairs of building.

Equipment costs – Costs are comprised of rent, depreciation, and repairs of equipment.

Other operating costs – Costs are comprised of utilities, telephone, insurance, advertising, bags, supplies, vehicle expense, business taxes, license fees, professional services, bad checks, cash loss, inventory and cash adjustments, G&A allocated from central headquarters, and miscellaneous expenses.

CROSS-SECTION

Stores included in the study are the same stores utilized by the PMMB in its cross-section (see Table 1).

SCOPE OF WORK

September 2007 financial information was accumulated for each store in the cross-section and prepared in accordance with Generally Accepted Accounting Principles. The month of September is considered to be a representative month for the industry. Table 2 presents the worksheet used to collect store data and Table 3 presents the formula used to calculate the in-store handling cost for the entire cross-section of surveyed stores.

METHOD OF CALCULATION

Financial information was collected and analyzed on a store-by-store basis. The total milk handling expense per quart was calculated to be the Total Milk Expense (which is calculated by multiplying the total store expenses by the ratio of adjusted milk sales to adjusted total sales) divided by total quarts (see Table 3 and Table 4).

Due to the recent high levels in the state minimum retail price of milk, milk sales have been indexed to a level considered more normal relative to store sales. The calculation of this index is presented in Table 6. Additionally, milk sales in the cross-section stores selling above the state minimum retail price have been restated to the minimum retail price based on the actual volume and packages sold by the stores. Both the indexing to the normal selling price and the restatement to the minimum retail price are considered necessary to avoid capturing costs due to the recent high retail prices.

CURRENT COST BASED ON CONSUMER PRICE INDEX

The cost of handling milk in retail outlets is constantly changing as the personnel, building, equipment and other costs are all subject to change over time. The changes in costs are both a normal and ongoing part of doing business as a retail outlet. We have used the Consumer Price Index for All Urban Consumers (CPI-U) to calculate the change in costs over time and recommend that the CPI-U be used to adjust the in-store handling cost on a monthly basis. We have presented this calculation for the period from April 2017 to October 2017 (see Table 5). The CPI is the most widely used measure of price change. It is both a timely and reliable source of price change data.

The CPI is released monthly about two (2) weeks after the end of the month. Therefore, it should be updated monthly to provide a current and accurate calculation of the cost of handling milk. In Area 1, the PMMB has adopted a policy to adjust the cost using a two (2) month delay. This means that the index for October 2017 would be used to calculate the December 2017 cost. The delay is acceptable to allow for timely, accurate calculations each month by the staff of the PMMB.

DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK

The graph (see Table 7) presents the gross margin by department of a variety of retail stores ranging from single store companies to multi-store companies for the 2016 reporting period representing a geographical area covering a majority of states and territories in the U.S. and Canada. Data was taken from the 2017 “Independent Grocers Financial Survey” report compiled by the National Grocers Association. Information from the study is presented with the gross margins realized by Area 1 retailers purchasing and selling at the minimum wholesale and retail prices.

TABLE 1

**STORES INCLUDED IN THE AREA 1 SURVEY
FOR IN-STORE HANDLING COSTS**

CVS #2951	Rite Aid, Philadelphia
K-Mart, Willow Grove	Wawa #255
A Plus Sunoco, West Chester	Wawa #293
Wawa #8013	Giant, Harleysville
Giant, Souderton	CVS, Philadelphia

TABLE 2

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
MILK MARKETING AREA 1**

**IN-STORE HANDLING COST SURVEY, AREA 1,
STORE INFORMATION WORKSHEET**

Labor:

 Wages: _____

 Payroll Tax: _____

 Insurance: _____

 Benefits: _____

Total Labor: _____

Equipment:

 Rental: _____

 Repairs: _____

 Depreciation: _____

Total Equipment: _____

Buildings:

 Rental: _____

 Repairs: _____

 Depreciation: _____

Total Buildings: _____

Other Expense:

 Utilities: _____

 Telephone: _____

 Insurance: _____

 Advertising: _____

 Trash Removal: _____

 Bags & Supplies: _____

 Vehicle & Travel Expense: _____

 Business Taxes (Not Income): _____

 License Fees: _____

 Professional Services: _____

 Inventory & Cash Adjustments: _____

 Miscellaneous (Laundry, Dues): _____

 Administration: _____

 Home Office: _____

Total Other Expense: _____

Grand Total: _____

Milk Sales in Dollars: _____

Total Sales in Dollars: _____

Quart Equivalents: _____

Store Name and Number: _____

Manager: _____

Address: _____

Telephone #: _____

TABLE 3

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
MILK MARKETING AREA 1**

**CALCULATION OF TOTAL IN-STORE MILK
HANDLING EXPENSE PER QUART**

Personnel Costs	\$ xx,xxx
Building Costs	\$ xx,xxx
Equipment Costs	\$ xx,xxx
Other Operating Costs	<u>\$ xx,xxx</u>
TOTAL EXPENSES:	<u><u>\$ xxx,xxx</u></u>
September 2007 Actual Milk Sales	\$ xxx,xxx
Less: Adjustment to September 2007 minimum price	<u>(\$ xxx,xxx)</u>
September 2007 Milk Sales at minimum price	\$ xxx,xxx
MULTIPLIED BY:	
Index to restate sales at normal levels	<u>xx.x%</u>
ADJUSTED MILK SALES	\$ xxx,xxx
DIVIDED BY:	
September 2007 Adjusted Total Sales	<u>\$ x,xxx,xxx</u>
MILK REVENUE RATIO:	<u><u>xx.x%</u></u>
TOTAL EXPENSES	\$ xxx,xxx
MULTIPLIED BY:	
MILK REVENUE RATIO	<u>xx.x%</u>
TOTAL MILK HANDLING EXPENSE:	\$ xxx,xxx
DIVIDED BY:	
September 2007 Quarts Sold	<u>xxx,xxx</u>
IN-STORE MILK HANDLING EXPENSE (PER QUART):	<u><u>\$.xxxx</u></u>

TABLE 4
PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
MILK MARKETING AREA 1
COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE MONTH OF SEPTEMBER 2007

	Milk Revenue		Total Revenue
Cross-Section Totals	\$ 146,751		\$ 12,952,693
Reduction to minimum price	(10,380)		(10,380)
Sales at minimum price	136,371		\$ 12,942,313
		Adjusted Milk Revenue	\$ 105,006
		Less: Sales at minimum price	136,371
Index to normal level (table 6)	77.0%	Normal level adjustment	\$ (31,365)
Adjusted Milk Revenue:	\$ 105,006	Adjusted Total Revenue:	\$ 12,910,948

Adjusted Milk Revenue: \$ 105,006
 Divided by _____ = 0.81% **Milk Revenue Ratio**

Adjusted Total Revenue: 12,910,948

Milk Revenue Ratio 0.81%

Expenses:	
Personnel Expenses	\$ 1,142,791
Building Expenses	375,544
Equipment Expenses	46,434
Other Expenses	761,001

Total Expenses: X \$ 2,325,770

Total Milk Handling Expense: = \$ 18,838.74

Divided by _____

Total Quarts 145,492

In-Store Milk Handling Expense (per quart) = \$ 0.1295 **Official General Order No. A-951, effective June 1, 2008**

TABLE 5

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
PENNSYLVANIA MILK MARKETING BOARD AREA 1**

**COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE SIX MONTHS ENDED OCTOBER 2017**

	<u>Month</u>	<u>CPI Index</u>	<u>Per OGO No. A-951</u>
Milk expense per quart per last cost replacement hearing:	April 2017	244.524	\$ 0.1519
Divided by CPI-U Index:			
Multiplied by CPI-U Index:	May 2017	244.733 =	\$ 0.1520
	June 2017	244.955 =	\$ 0.1521
	July 2017	244.786 =	\$ 0.1520
	August 2017	245.519 =	\$ 0.1525
	September 2017	246.819 =	\$ 0.1533
	October 2017	246.663 =	\$ 0.1532

TABLE 6

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
MILK MARKETING AREA 1**

**INDEXING OF SEPTEMBER 2007 MINIMUM
RETAIL PRICES TO NORMAL LEVELS**

<u>Month</u>	<u>Whole</u>	<u>2%</u>	<u>1%</u>	<u>Nonfat</u>	<u>12mo 2% avg</u>	<u>5yr 2% avg</u>	<u>CPI Index</u>	<u>5yr 2% CPI</u>
Sep-02	2.61	2.49	2.40	2.33	2.58		181.00	2.49
Oct-02	2.58	2.47	2.39	2.32	2.56		181.30	2.49
Nov-02	2.65	2.54	2.46	2.39	2.53		181.30	2.49
Dec-02	2.70	2.59	2.50	2.42	2.53		180.90	2.49
Jan-03	2.67	2.55	2.45	2.37	2.53		181.70	2.50
Feb-03	2.61	2.48	2.38	2.29	2.52		183.10	2.52
Mar-03	2.58	2.46	2.37	2.29	2.51		184.20	2.53
Apr-03	2.59	2.47	2.38	2.30	2.51		183.80	2.53
May-03	2.61	2.49	2.40	2.32	2.50	2.52	183.50	2.52
Jun-03	2.63	2.51	2.41	2.33	2.50	2.52	183.70	2.53
Jul-03	2.60	2.48	2.39	2.30	2.50	2.53	183.90	2.53
Aug-03	2.66	2.54	2.44	2.36	2.51	2.54	184.60	2.54
Sep-03	3.00	2.87	2.77	2.68	2.54	2.54	185.20	2.55
Oct-03	3.06	2.94	2.84	2.76	2.58	2.55	185.00	2.55
Nov-03	3.02	2.90	2.80	2.71	2.61	2.56	184.50	2.54
Dec-03	3.02	2.90	2.79	2.70	2.63	2.57	184.30	2.54
Jan-04	2.79	2.65	2.55	2.45	2.64	2.57	185.20	2.55
Feb-04	2.79	2.64	2.52	2.41	2.65	2.56	186.20	2.56
Mar-04	2.76	2.58	2.44	2.31	2.66	2.56	187.40	2.58
Apr-04	2.93	2.71	2.54	2.38	2.68	2.57	188.00	2.59
May-04	3.55	3.29	3.09	2.91	2.75	2.58	189.10	2.60
Jun-04	3.62	3.36	3.16	2.98	2.82	2.60	189.70	2.61
Jul-04	3.33	3.11	2.94	2.78	2.87	2.61	189.40	2.61
Aug-04	3.40	2.81	2.64	2.48	2.90	2.62	189.50	2.61
Sep-04	2.99	2.80	2.65	2.52	2.89	2.62	189.90	2.61
Oct-04	3.10	2.91	2.75	2.61	2.89	2.63	190.90	2.63
Nov-04	3.05	2.84	2.97	2.54	2.88	2.63	191.00	2.63
Dec-04	3.10	2.90	2.74	2.60	2.88	2.64	190.30	2.62
Jan-05	3.30	3.05	2.86	2.70	2.92	2.65	190.70	2.62
Feb-05	3.05	2.88	2.75	2.64	2.94	2.66	191.80	2.64
Mar-05	3.20	3.01	2.87	2.74	2.97	2.67	193.30	2.66
Apr-05	3.09	2.90	2.76	2.63	2.99	2.68	194.60	2.68
May-05	3.16	2.98	2.83	2.71	2.96	2.69	194.40	2.67
Jun-05	3.06	2.90	2.77	2.66	2.92	2.69	194.50	2.68
Jul-05	3.08	2.92	2.79	2.68	2.91	2.70	195.40	2.69
Aug-05	3.12	2.92	2.77	2.64	2.92	2.71	196.40	2.70
Sep-05	3.06	2.87	2.72	2.59	2.92	2.72	198.80	2.73
Oct-05	3.13	2.92	2.76	2.63	2.92	2.72	199.20	2.74
Nov-05	3.18	2.99	2.83	2.70	2.94	2.73	197.60	2.72
Dec-05	3.10	2.93	2.79	2.67	2.94	2.74	196.80	2.71
Jan-06	3.16	3.01	2.88	2.77	2.94	2.74	198.30	2.73
Feb-06	3.16	3.00	2.88	2.78	2.95	2.75	198.70	2.73
Mar-06	3.08	2.93	2.82	2.72	2.94	2.76	199.80	2.75

TABLE 6
PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
MILK MARKETING AREA 1

INDEXING OF SEPTEMBER 2007 MINIMUM
RETAIL PRICES TO NORMAL LEVELS

Month	Whole	2%	1%	Nonfat	12mo 2% avg	5yr 2% avg	CPI Index	5yr 2% CPI
Apr-06	2.96	2.83	2.72	2.63	2.93	2.76	201.50	2.77
May-06	2.94	2.82	2.71	2.63	2.92	2.76	202.50	2.79
Jun-06	2.93	2.80	2.70	2.61	2.91	2.76	202.90	2.79
Jul-06	2.99	2.86	2.75	2.67	2.91	2.76	203.50	2.80
Aug-06	2.95	2.83	2.73	2.64	2.90	2.76	203.90	2.81
Sep-06	2.94	2.81	2.71	2.62	2.89	2.77	202.90	2.79
Oct-06	3.09	2.94	2.82	2.72	2.90	2.77	201.80	2.78
Nov-06	3.08	2.93	2.81	2.72	2.89	2.77	201.50	2.77
Dec-06	3.07	2.93	2.82	2.72	2.89	2.78	201.80	2.78
Jan-07	3.18	3.04	2.93	2.84	2.89	2.78	202.416	2.78
Feb-07	3.17	3.03	2.93	2.84	2.90	2.79	203.499	2.80
Mar-07	3.24	3.10	3.00	2.91	2.91	2.80	205.352	2.83
Apr-07	3.29	3.14	3.03	2.93	2.94	2.81	206.686	2.84
May-07	3.41	3.26	3.14	3.04	2.97	2.82	207.949	2.86
Jun-07	3.57	3.41	3.28	3.18	3.02	2.84	208.352	2.87
Jul-07	3.82	3.65	3.52	3.41	3.09	2.86	208.299	2.87
Aug-07	3.91	3.75	3.62	3.52	3.17	2.88	207.917	2.86
Sep-07	3.93	3.77	3.64	3.53	3.25	2.90	208.490	2.87
Oct-07	3.90	3.75	3.63	3.53	3.31	2.92	208.936	2.87
Nov-07	3.89	3.75	3.64	3.55	3.38	2.94	210.177	2.89
Dec-07	3.82	3.68	3.58	3.48	3.44	2.96	210.036	2.89

$$\frac{\text{Sep-07 5 yr. avg. } 2.90}{\text{Sep-07 Current price } 3.77} = \underline{\underline{77.0\%}} \text{ Index used in Table 4}$$

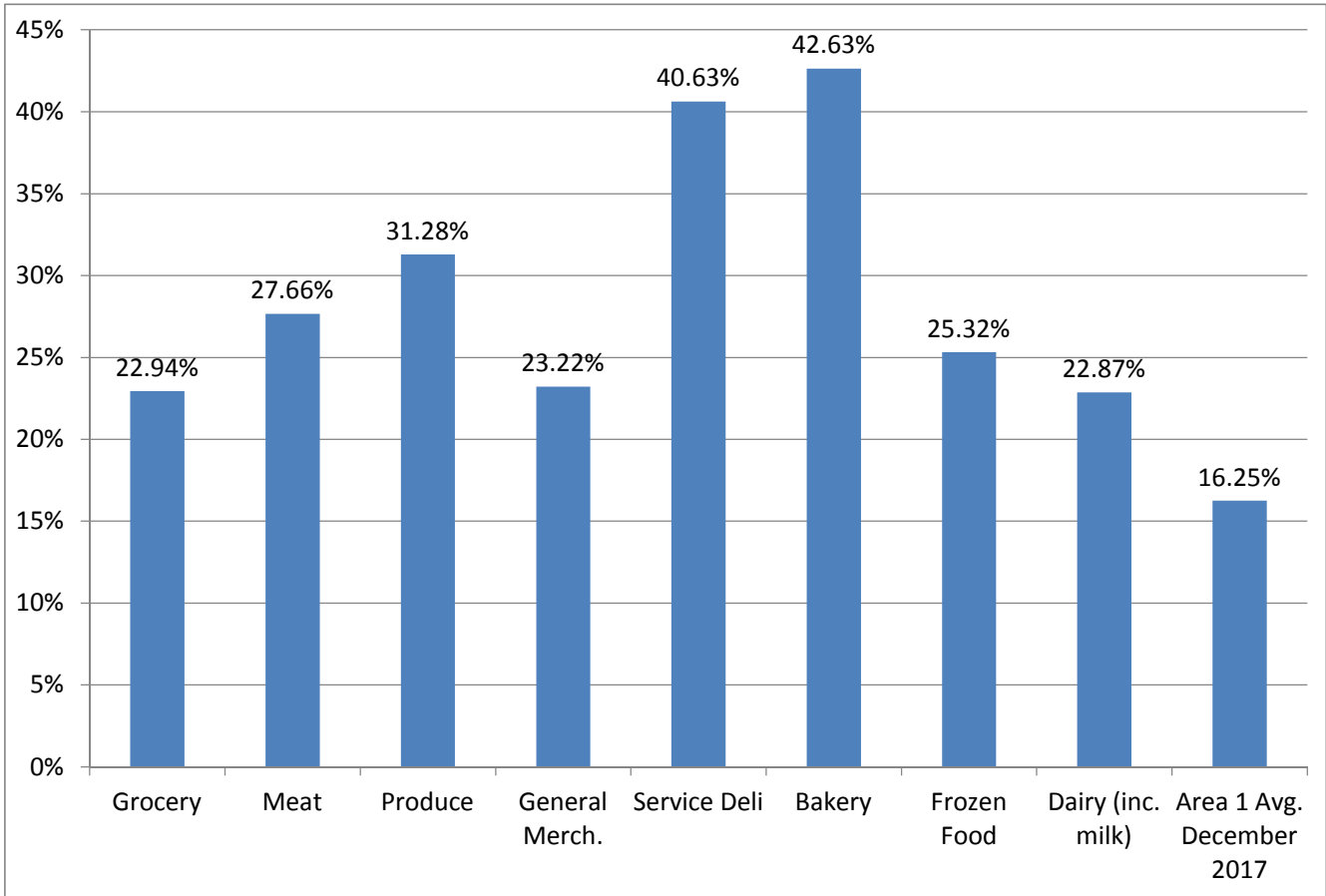
$$\frac{\text{Sep-06 12 mo. Avg. } 2.89}{\text{Sep-07 Current price } 3.77} = \underline{\underline{77.0\%}}$$

TABLE 7

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 1**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK
DECEMBER 2017**

DEPARTMENTS OF INDEPENDENT RETAILERS



Calculation for "Area 1 Avg. December 2017"

Current Wholesale Price (per quart)	1.0641		
Deepest Discount (15%)	<u>(0.1596)</u>		
Current Cost Less Discount	0.9045	Current Retail Price	1.0800
			<u>(0.9045)</u>
		Gross Profit	0.1755
		Gross Profit %	16.25%

TABLE 8

Thomas J. Price, CPA
Curriculum Vitae

EDUCATION

Bloomsburg University – B.S. Degree in Accounting (1981)

EMPLOYMENT

Herbein + Company, Inc.

October 1994 to Present:

Partner

July 1989 to December 1991:

Manager of Accounting and Auditing Department

July 1986 to July 1989:

Supervisor of Accounting and Auditing Department

July 1984 to June 1986:

Senior of Accounting and Auditing Department

December 1982 to July 1984:

In-Charge of Accounting and Auditing Department

June 1981 to December 1982:

Staff Accountant

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania (February 1984)

Member – American Institute of Certified Public Accountants

Member – Pennsylvania Institute of Certified Public Accountants

Member – Reading Chapter of Certified Public Accountants

Finance Chairman – Frieden's Lutheran Church

Board Member – Oley Valley Education Foundation

SPECIFIC RELATED EMPLOYMENT EXPERIENCE

Assisted in the original development of the methodology of analyzing in-store handling costs.

Supervised in-store handling cost studies for Pennsylvania Food Merchants for the period 1987 to 1998.

I have spent over 37 years providing various accounting and tax services for retail manufacturing and service businesses including food industry manufacturers and distributors.