JOINT HEARING MINUTES
SENATE COMMERCE AND LABOR COMMITTEE AND
ASSEMBLY AGRICULTURE COMMITTEE
FEBRUARY 24, 1977
7:00 p.m.

MEMBERS PRESENT:	Senator Wilson	Assemblyman Hickey
	Senator Blakemore	Assemblyman Price
	Senator Ashworth	Assemblyman Jeffrey
	Senator Bryan	Assemblyman Polish
	Senator Close	Assemblyman Serpa
	Senator Hernstadt	Assemblyman Jacobsen
		Assemblyman Rhoads

MEMBERS ABSENT: Senator Young

GUESTS: See attached Guest List

The joint hearing was called to order by Chairman Hickey for the purpose of hearing AB 61, 152, and SB 47. Mr. Hickey called for a brief statement from each of the bill sponsors and then stated that he would open the hearing to testimony from the floor.

AB 61, Abolishes the State Dairy Commission.

Sponsor of the bill, Assemblyman Mann, spoke in favor of it. He stated that he served on the interim committee that studied this problem and has been following it for two sessions. He went on to say that he feels that the Dairy Commission should be abolished as it has earned that right. He added that "if you look at the incompentent way it has handled most of the business over the last five or six years that without a doubt if there is any agency that deserves the Sunset concept it is the Dairy Commission." He stated that charges had to be dropped in Clark County against the retailers and distributors who had violated the law strictly because of a technicality. "They had sent a letter requesting permission to do those things which were illegal and in fact the Dairy Commission authorized that by not commenting in one way or another."

Mr. Mann went on to say that he felt that he did not have the votes to abolish the Dairy Commission in this session, however he stated that he "was a patient man". Mr. Mann concluded his testimony by stating that it was his hope that whatever was done, whether abolishment or revamping, "that you recognize the fact that in this industry, its so highly technical, that the structure under its present form has not worked." He stated that a minimum of revamping is needed. He advised the committee to take a long look at the recommendations of the interim committee and at least revamp the commission.

SB 47, Abolishes Dairy Commission and forbids milk price fixing.

Senator Hernstadt, sponsor of this bill, spoke in favor of it, stating that the public has gotten the idea that all food chains, grocery stores and milk producers are crooks. This has come about because of "an overzealous Attorney General" who so charged the industry.

The Senator added that the Dairy Commission within the last few weeks has forgiven hundreds of dollars in fines. He added "if these businesses were in fact crooked, then these fines should not have been dropped". However, if the law was wrong as the Senator contends, then dropping the fines was an admission that the Dairy Commission shouldn't exist.

Senator Hernstadt went on to state that the Dairy Commission only fixes prices as the State Health Department sets cleanliness and other standards. He added that the Dairy Commission is paid for by taxes on the consumers of the various milk products. If the Dairy Commission were to be abolished Senator Hernstadt stated that he believed the prices would be lowered. He added that there have been charges that there would be dumping, and that California producers and distributor would come and lower prices and wipe out the Nevada dairy producer. Mr. Hernstadt stated that he had spoke with Milton Friedman recently and Dr. Friedman stated that this would never happen. What really would happen is that there would be less dumping and more marketing and according to Senator Hernstadt, marketing is the key tool to free enterprise.

Hernstadt went on to state that when you set a floor, if all the product is not used it is dumped, however, if more marketing tools are used and the price is lowered more milk will be used. He added that he does not believe in subsidies but that it is more honest to let the product seek its own level and pay a subsidy. "The time has come when we must stop taking advantage of the consumer. People consider what happens to their pocketbooks and it is time to let the consumer get the advantage of the free market and the lowest price for their purchases."

AB 152, Changes various provisions relating to State Dairy Commission.

Assemblyman Jacobsen, sponsor of the bill, presented a statement on behalf of the bill. This statement is attached to this record as Exhibit A and herewith made a part of these minutes.

Mr. Jacobsen stated that this was no easy task for the sub-committee. Their recommendations were brought about by the complete agreement of those that attended their hearings and they were unanimous amongst them.

Senator Wilson asked whether AB 152 jurisdictionally retained regulatory control over all three levels of the industry. Mr. Jacobsen stated that it was all three and Senator Bryan added that it contained flexibility to lift controls if the Commission deems feasible.

Senator Wilson went on to ask if the committee considered and analyzed the implications of deregulating the retailer and distributor pricing levels. Mr. Jacobsen stated that they had some testimony on that regard and he thought there was a recommendation in the study but was not positive. He added that all this was taken into consideration and that they felt that the biggest problem arises with the Commission not doing their job over the years. Many times legal counsel was present and gave advice and the Commission did not adhere to it.

Senator Wilson stated that there was concern by the producer as to whether they could survive economically in the event that there is deregulation. He questioned whether it was feasible to allow the market to find its own level with respect to retailer and distributor prices and yet retain producer pricing. Mr. Jacobsen stated that by their recommendations of the three man panel its own level would be found because the industry would be guided by its present costs. In the past surveys were done and testimony taken in regards to what it cost to produce but many times the Commission did not react to that. They feel the three man independent board will react to these kind of factors and by that token it will find its own level.

Senator Wilson stated that if by regulation it will find its own level then he questioned whether you ought not to regulate at all, and by not regulating you would legitimize the discount.

Senator Hernstadt asked whether on page 4, lines 9 and 10, the 55% referred to was numerically 55% of the companies in the distribution business which also deliver 55% of the products or do both standards have to be interplayed before they ask the Commission to terminate the stabilization plan. Mr. Jacobsen stated that this determination would be left up to the panel. Mr. Bryan stated that this was the existing law and was not changed at all by the subcommittee.

At this time, Chairman Hickey opened the meeting to testimony from the general public.

Richard Young, legal counsel for the Dairy Commission, spoke in favor of retention of the Dairy Commission. He stated that he would present a few amendments to the statutues which have been prepared by him with the help of the Dairy Commission staff. Mr. Young stated that he felt there was a definite need to retain the Commission and for some regulation over the dairy industry. He stated that his function with the Dairy Commission has been one of enforcing the existing statutes and working with the technicalities that will be hopefully resolved and clarified. He went on to address himself to AB 152. He stated that regarding the technical aspects of this bill he found there was a defect in NRS 584.670. The bill overlooked what he feels to be a very important change. That change is in subsection 3, lines 17 of page 6. Subparagraph 3 contains the phrase "upon any person subject to any penalty under subsection 1 of this section." In his experience, this phrase is being used for two purposes which are not contemplated by the drafters of this section. It has been contended in litigation involving the Dairy Commission against various segments of the dairy industry that reference to subsection 1 eliminates any unlicensed individual from penalty. The retail segment of the dairy industry is not required to be licensed and therefore they have urged vigorously that they are not subject to any enforcement provisions of this subsection 3. Arguments have been that since they are not licensed they are not subject to civil fines.

This same language also was the basis for argument by the various segments of the dairy industry that in all cases under this provision we would be limited to a one year statute of limitation because of the reference to misdemeanor in subsection 1. Mr. Young urged that language be eliminated for that reason. Any action brought under NRS 584.670 subsection 3 would be a civil proceeding and one that should have a two year statute of limitations instead of one year. This became quite important when some of the offenses alleged were not uncovered until at least a year after they occurred.

Mr. Young then went through the proposed amendments briefly. These amendments are attached to these minutes as Exhibit B and herewith made a part of this record.

Senator Ashworth stated that these amendments referred to sections that would be repealed should these bills be passed. Mr. Young replied that the proposed amendments are all items that have not been covered by any of the proposed legislation. They would recommend that they be put into the existing statutes, and be adopted in some form.

Senator Hernstadt asked what the dollar amount of the fines taht were exonerated was. Mr. Young stated that there has been a presupposition of a violation of law which has not been determined. These all arose out of a practice in Southern Nevada discribed as shelf space rental leasing. Attorney General contended that this was a device used to circumvent the pricing. Mr. Young stated that he did not have these figures.

John Olsen, General Manager, Associated Nevada Dairymen, spoke on behalf of retention of the Dairy Commission. He stated that his organization has a membership of 34 active milk producers. They heartily support a dairy law in the State of Nevada at the producer level pertaining to producer pricing, producer contracts and producer payout. They believe the alternative to Nevada's law would not be in the best interests of the producers or consumers of the state.

Clarence Cassady, Executive Director, State Dairy Commission then presented a statement. Mr. Cassady's statement is attached as Exhibit C and herewith made a part of this record.

Mr. Price asked Mr. Cassady what would be shortest time frame that would be realistic to really assess the value of the Commission. Mr. Cassady replied that the Commission had come under investigation for the last two sessions and should have at least 4 years to truly assess it and possibly 6. He added that he felt that the present Commission was suffering for what has happened before it was changed.

Senator Hernstadt asked Mr. Cassady what the dollar amount was that was written off a few weeks ago when the charges were dropped in Southern Nevada. Mr. Cassady stated that he did not have these figures here and that he could get them. Chairman Hickey asked Mr. Cassady to please furnish these figures for the record for this committee.

Senator Hernstadt then referred to a copy of the Christian Scientist Monitor that he had distributed that contends that milk costs less as states drop controls. This article is attached to these minutes as Exhibit D and herewith made a part of this record. Mr. Cassady stated that if you were to look at this in the long range you would find that prices do go down at first but that within two years the prices will be higher then they originally were. He referred to the State of Georgia where this has happened. Mr. Cassady concluded that he felt Nevada has some of the cheapest milk on the West Coast.

Herb Witt, Chairman of the Nevada Dairy Producers Council, spoke on behalf of retention of the Commission. Mr. Witt gave a brief background on himself stating that he was a dairy farmer from Carson Valley with a herd of 160 cows on 600 acres and has been in business since 1924. Mr. Witt urged the committee to read Dr. Stein's report on the dairy industry. He added that there has been adefinite decline in the number of producers in Nevada. Years ago when legislature enacted this Commission there was a concern that this would legislate inefficiency. This has not been the case as shown in Dr. Stein's report. He stated that the dairymen of his group support continuation fo the dairy laws especially as they apply to the producer level. Mr. Witt gave a brief background of the problems that existed before enactment of the Dairy Commission. He stated that there was over production of milk and a cutthroat situation existed in the distribution of it. There were no contractural arrangements for the distribution. He stated that had this situation continued much longer at that time he would have been out of business.

Senator Hernstadt asked if the Commission was abolished wouldn't a federal marketing order protect the producer. Mr. Witt stated that it would if they could qualify for one as there were certain requirements necessary for it. Mr. Witt stated that they had thought of it as a possible option but that they did not really want to come under a federal marketing order.

Virgil Getto, former Assemblyman and dairy farmer, spoke in favor of the retention of the Dairy Commission. Mr. Getto stated that he was speaking for the Western Dairymen. He stated that they favor the Dairy Commission or a board to provide the stability to the production and marketing of milk to the extent that the consumer has an adequate amount of milk and at a reasonable price. He added that the Dairy Commission has not been all bad and that the consumers have not always been gouged. On a free open market, Mr. Getto stated, you have a large surplus and then people go out of business and your end up with shortages. If conditions get much worse here you will be seeing Nevada dairymen going out of business. In 1959 there were 115 dairymen in the western area and there are 49 today. Those that are surviving are surviving because of efficiency. The dairyman in Nevada today is producing almost twice as much milk per cow then they were in 1959 when the Dairy Commission started. Therefore the Dairy Commission does not promote inefficiency in the industry. The reason that there is a dairy regulation board is because milk is a necessity to the public.

Mr. Getto stated that what a dairyman gets for his milk is contingent upon what the distributor sells. Without the Dairy Commission the dairy farmer has no way to account for what his milk is sold for. This is originally why the Dairy Commission was instituted.

Mr. Getto went on to say that the average dairy is about 158 cows and an investment of between $275,000 to $300,000. There are 69 dairies left and so this is approximately an $19 million industry, which without the Commission could be drastically hurt.

Mr. Getto stated that he is favor of the state board rather than a federal marketing order. The federal marketing order does basically the same in setting a minimum price but you do not have the local control that you do with state board. He added that a 3 man board with good understanding of cost figures could serve well. He stated that they would however like to see an amendment to the bill which would make the board called a Dairy Milk Board as opposed to a Dairy Commission.

Mr. Getto added that the reason there has been so much turmoil in the industry is that they are so close to California. California has large distributors and producers and can produce and sell milk much cheaper. This applies to other commodities as well. He also added that speaking for the producers they would prefer to sell to Nevada distributors.

Senator Blakemore asked Mr. Getto to give a brief statement on how costs have gone up in recent years. Mr. Getto stated that should the present drought continued the industry will be in an serious situation as you could be looking at $100/ton hay costs.

Mr. Serpa inquired whether Mr. Getto felt there was a threat of California milk coming into Nevada as a loss leader. Mr. Getto replied that with a surplus in California this could be done and eventually you would break your local market and then could easily experience a shortage of the product.

Senator Hernstadt asked Mr. Getto what happens to excess milk durings periods of high production and low consumption. Mr. Getto stated that it then becomes Class 2 or 3 milk and can be used in dried milk production and go into cheese. He added that in the last year or so production of milk and utilization of milk has been stabilizing more with change in method of feeding cattle. They are now trying to produce to the market.

Senator Hernstadt then asked if there was any waste during these high production periods. Mr. Getto stated that the blend price to the dairyman is then reduced but there was no waste however his costs stay the same. Mr. Hernstadt then inquired if Mr. Getto felt that the California producers would be willing to produce at a loss in order to put Nevadans out of business. Mr. Getto stated that a large California producer can produce at a lesser cost then he can.

Senator Ashworth asked if Mr. Getto felt there should be some type of Advisory Board to this Commission since there might be some problems of the Commission not having the background in the industry. He questioned whether there was a good enough liasion between the industry and the board to get the necessary information to the members, so that the board could react to the problems of the industry. Mr. Getto stated that he would agree that an Advisory Board would be very helpful. The reasoning behind the 3 man board was to take the industry completely out of the board and thus remove any cause for criticism. Mr. Getto went on to say that because of bad publicity in the past the industry was willing to place confidence in a three member independent board and it would be the industry's responsibility to present the cost figures and information to that board.

Dr. Joe Stein then spoke on behalf of retention of a Commission. Dr. Stein's comments and the questions asked of him are attached in full to these minutes as Exhibit E and herewith made a part of this record. Also attached is a copy of Dr. Stein's report which is Exhibit F and herewith made a part of this report.

Phyllis Berkson, Chairlady of the Nevada Dairy Commission was the final speaker. She spoke on behalf of retention of the Dairy Commission. Her statement is attached as Exhibit G and herewith made a part of this record.

Senator Bryan asked Mrs. Berkson why she didn't feel AB 152 allowed for industry and public in-put. She stated that there was no provision for a public member on the Commission in AB 152. Senator Bryan continued by stating that some of the Commission's most important decisions are financial judgments and asked Mrs. Berkson if she didn't feel that AB 152 provided the necessary expertise for these matters. Mrs. Berkson stated that she did not agree with Senator Bryan for one reason that very little consumer testimony has ever been received by the Commission at public hearings. She added that with the addition of two accountants to the Dairy Commission staff, many problems faced by the Commission would be handled more successfully.

Senator Hernstadt asked Mrs. Berkson why she felt the retention of minimum retail prices was important. Mrs. Berkson answered by stating that only by control of out-of-store prices could the consumer be protected from large integrated operations which would eventually control prices if they are not controlled by the Commission.

She stated that she would be glad to discuss the matter at a later date with Senator Hernstadt.

Assemblyman Hickey adjourned the meeting at 9:40 pm.

Respectfully submitted,

Sandra Gagnier

SANDRA GAGNIER, Secretary

Also attached to these minutes as additional information:

1. Letter from John R. Crossley, Chief Deputy, Legislative Auditor, regarding amendment to AB 152;

2. Memo from Mary Love Cooper, Deputy Researcher, Legislative Counsel Bureau, re Retail Milk Prices and Milk Price Setting STructure in Nevada communities as well as adjoining states;

3. Summary of Federal Milk Marketing Orders;

4. Letter from Mary T. Van Kirk, Deputy Commissioner, Consumer Affairs Division, regarding cost to their Division if AB 152 is approved;

5. Letter from Chauncey T. K. Ching, Max C. Fleischmann College of Agriculture re impact of suspension of wholesale prices and evidence of "dumping" by California processors;

6. List of people and business notified of Joint Hearing held February 24, 1977.

GUEST LIST

Assemblyman Lloyd Mann;
Senator Bill Hernstadt;
Assemblyman Jacobsen;
Francis Hughes, Producer;
Glenn C. Todd
Charles Cameron, Lake Mead Milk Producers;
Melvin Hughes, Producer;
Max Hafen, Producer;
Lee Walker, Dairy Industry Political Action Assn.,
Richard Young, Dairy Commission counsel;
Mrs. Harold Curti, Producer
John Olsen, Associated Nevada Dairymen
Gene Curti, Producer;
Elbert Mills, All Jersey of Nevada;
Jim Ritter, All Jersey of Nevada;
Vernie Gonzales, All Jersey of Nevada;
Norman Caleff, Producer;
Donald Cliff, Producer
Clarence Cassady, Administrator, Nevada State Dairy Commisson;
Phyllis Berkson, Chairlady, Nevada State Dairy Commission;
Herb Witt, Nevada Producer's Council;
Debbie Sheltra, consumer
Virgil Getto
Joe Stein
John G. Miller, staff, Nevada State Dairy Commission;
Beale and Dorothy Cann, Creamland Dairy
John Crossley, Legislative Counsel Bureau, Audit
Lee Hanson, Legislative Counsel Bureau, Audit
Mary Van Kirk, Consumer's Affairs
Robert Rigsby
L. Dan Newburn
Andree Aldax
John Larague
Thomas Pflum
John Gomes
Walt Comstock, staff, Nevada State Dairy Commission;
Arthur Palmer, Legislative Counsel Bureau staff
Richard Thomas
Mary Lou Cooper, Legislative Counsel Bureau, staff

PROBLEMS CONFRONTING THE DAIRY INDUSTRY

AN OVERVIEW OF THE INTERIM SUBCOMMITTEE REPORT
AND OF A.B. 152

ASSEMBLY BILL 152 IS THE PRODUCT OF A YEAR LONG STUDY BY THE INTERIM LEGISLATIVE COMMITTEE APPOINTED TO CONSIDER THE PROBLEMS CONFRONTING THE DAIRY INDUSTRY IN NEVADA. MEMBERS OF THAT SUBCOMMITTEE WERE SENATORS SCHOFIELD AND BRYAN AND ASSEMBLYMEN GETTO, MANN AND PRICE. I SERVED AS CHAIRMAN.

THE SUBCOMMITTEE HELD PUBLIC MEETINGS IN CARSON CITY AND LAS VEGAS AND HEARD TESTIMONY FROM MILK PRODUCERS, DISTRIBUTORS, RETAILERS AND CONSUMERS. OF THOSE PERSONS ATTENDING THE MEETINGS, PRODUCERS APPEARED IN GREATER NUMBERS THAN ANY OTHER GROUP.

QUESTIONNAIRES ON THE MAJOR ISSUES COMING OUT OF THE SUB-COMMITTEE HEARINGS WERE SENT TO MEMBERS OF THE DAIRY INDUSTRY. THE SUBCOMMITTEE ALSO MET IN JOINT SESSION WITH MEMBERS AND STAFF OF THE DAIRY COMMISSION. AT VARIOUS TIMES IN THE INTERIM PERIOD, THE STAFF OF THE SUBCOMMITTEE AND MYSELF AS CHAIRMAN

ATTENDED HEARINGS HELD BY THE DAIRY COMMISSION.

IN OUR STUDY OF THE PROBLEMS CONFRONTING THE DAIRY INDUSTRY, THE SUBCOMMITTEE'S PRIORITIES WERE, IN THIS ORDER:

1. JUSTIFICATION FOR THE EXISTING DAIRY COMMISSION;
2. COMPOSITION OF THE DAIRY COMMISSION;
3. APPROPRIATE LEVELS OF PRICE CONTROL, IF ANY, ON MILK; AND
4. RELATIONSHIP OF FEDERAL MILK MARKETING ORDERS TO DAIRY COOPERATIVES.

OF MAJOR IMPORTANCE TO THE SUBCOMMITTEE'S DELIBERATIONS WERE THE ATTORNEY GENERAL'S 1975 "REPORT ON THE DAIRY COMMISSION" AND THE LEGISLATIVE AUDITOR'S REPORT ON THE DAIRY COMMISSION FOR THE FISCAL YEAR ENDING JUNE 30, 1975.

THE ATTORNEY GENERAL'S REPORT CAME OUT IN RESPONSE TO REPORTS OF ILLEGAL ACTIVITIES BY WHOLESALERS AND RETAILERS IN THE DAIRY INDUSTRY. THAT REPORT FOCUSED ON FAILURES OF THE STATE DAIRY COMMISSION TO CARRY OUT ITS DUTIES, ESPECIALLY WITH REGARD TO POLICING AN INDUSTRY ALLEGEDLY INVOLVED IN UNFAIR TRADE PRACTICES. THE LEGISLATIVE AUDIT'S COMPARISON OF THE DAIRY COMMISSION'S DUTIES WITH ITS FINANCIAL RESOURCES WAS ALSO VALUABLE TO THE SUBCOMMITTEE.

Ex. M

AFTER REVIEWING INFORMATION FROM PUBLIC HEARINGS, QUESTIONNAIRES AND REPORTS, THE SUBCOMMITTEE CONCLUDED THAT THE EXISTENCE OF THE STATE DAIRY COMMISSION IS JUSTIFIED TO PROTECT THE NEVADA DAIRY INDUSTRY AND THE PUBLIC INTEREST. ONE OF THE MAJOR FACTORS INFLUENCING THE SUBCOMMITTEE'S DECISION WAS THE DESIRE TO RETAIN STATE CONTROL OVER MILK MARKETING IN NEVADA.

IN LIGHT OF THE CONTROVERSY SURROUNDING THE COMMISSION AND RECENT REPORTS ON ITS PERFORMANCE, THE SUBCOMMITTEE MANDATED A COMPLETE REEVALUATION OF THE COMMISSION BY THE 1979 LEGISLATURE. IF THE AGENCY CANNOT JUSTIFY ITS EXISTENCE AT THAT TIME, THE SUBCOMMITTEE RECOMMENDED THAT IT BE ABOLISHED.

IN THE JUDGMENT OF THE SUBCOMMITTEE, MANY OF THE CURRENT PROBLEMS FACING THE NEVADA DAIRY INDUSTRY WOULD BE RESOLVED IF THE DAIRY COMMISSION WERE TO BE RESTRUCTURED AS A BOARD OF THREE MEMBERS WITH EXPERTISE IN AGRICULTURAL ECONOMICS, ACCOUNTING AND FINANCE. MEMBERS OF THE PROPOSED BOARD WOULD HAVE NO PRESENT CONNECTION WITH THE DAIRY INDUSTRY. THE SUBCOMMITTEE BELIEVED THAT THE DECISION ON WHETHER OR NOT

Ex. 11

TO SET MINIMUM MILK PRICES, AND IF SO AT WHAT LEVEL, SHOULD BE LEFT TO THE PROPOSED PANEL OF EXPERTS. THE OTHER MAJOR DECISIONS OF THE SUBCOMMITTEE WERE TO RECOMMEND THAT THE DAIRY COMMISSION'S FUNDING BE INCREASED BY ADDITIONAL ASSESSMENTS ON THE INDUSTRY AND THAT THE MAXIMUM PENALTY FOR VIOLATIONS BY THE INDUSTRY BE INCREASED.

IN SUMMARY, A.B. 152 REPRESENTS THE BEST JUDGMENT OF THE SUBCOMMITTEE AS TO HOW TO RESOLVE THE PROBLEMS CURRENTLY FACING THE DAIRY INDUSTRY IN NEVADA.

THANK YOU.

SUGGESTED AMENDMENTS TO STATUTES RELATING TO STATE DAIRY COMMISSION

Explanation - Matter in *italics* is new, matter in brackets [ ] is material to be omitted.

Section 1. NRS 584.380 is hereby amended to read as follows:

584.380 "Retail store" defined. "Retail store" means any person owning or operating a retail grocery store, restauraunt, confectionery, or other similar business, where fluid milk or fluid cream is sold to the general public. [for consumption off the premises.]

Section 2. NRS 584.480 is hereby amended to read as follows:

584.480 Classification of fluid milk: Class 1. Class 1 comprises any fluid milk or the cream therefrom that [is supplied to consumers as market milk or market cream or concentrated milk or any combination of market milk and market cream, or any market milk which is not packaged in hermetically sealed containers, or any other dairy product in which the use of market milk is required by the provisions of the laws of the State of Nevada, or any fluid milk or cream therefrom which is used in standardizing market milk.] *meets the definitions and standards of identity promulgated by the state board of health, division of health, bureau of consumer health protection services for grade A pasteurized milk or market milk, extra-rich or premium milk, breed milk, low fat milk, skim milk or non fat milk, table cream, light cream or coffee cream, half and half, concentrated milk, concentrated milk products, flavored milk, flavored milk products, acidophilus milk, and any new product which the commission after hearing, determines should be classified in Class 1. Class 1 shall also include all milk products used to standardize any Class 1 product.*

Section 3. NRS 584.590 is hereby amended to read as follows:

584.590 Classification of fluid milk: Class 3. Class 3 comprises such milk or the cream derived therefrom [as cream is defined in NRS 584.325 to 584.690, inclusive, as is used by distributors in the manufacture of butter and cheese other than cottage cheese.] *as is used in the manufacture or processing of butter, cheese other than cottage cheese, any milk product in dry form, evaporated or condensed*

EXHIBIT B

milk (plain or sweetened) in a consumer-type package, evaporated or condensed skim milk in a consumer-type package, and any new product which the Commission, after hearing, determines should be classified in Class 3.

Section 4. NRS 584.584 is hereby amended to read as follows:

584.584 Distributors may meet competitive prices in sales of butter, fresh dairy byproducts [;], *and fluid milk products; information to be filed with commission.*

1. Nothing in NRS 584.583 shall be construed as permitting or authorizing the development of conditions of monopoly in production or distribution of butter or fresh dairy byproducts, *or fluid milk products,* and a distributor who meets in good faith a lawful competitive price shall not be subject to any penalty provided in NRS 584.325 to 584.690, inclusive, if he files with the commission information detailing the circumstances surrounding the lawful competitive price within 5 days of such occurrence. Such information shall include the name and address of the distributor, the name and address of the customer involved, the competitive price met, the effective date of such price or condition, and the name and address of the competing distributor.

2. If such information is accompanied by a written statement, signed by the customer before a notary public or two competent witnesses, that such competitive price has been offered or made available to him, such statement shall constitute prima facie evidence that a distributor is meeting such competive price or condition in good faith.

Section 5. NRS 584.670 is hereby amended to read as follows:

584.670 Misdemeanors; revocation, suspension of license; civil penalties.

1. The violation of any provision of NRS 584.325 to 584.690, inclusive, or of any stabilization and marketing plan, including the price requirements of such plan, or of any of the unfair practice provisions set forth in such sections, is a misdemeanor, and also is ground for revocation or suspension of license in the manner set forth in NRS 584.325 to 584.690, inclusive.

2. Every distributor must pay for fluid milk or fluid cream delivered to him or it at the time and in the manner specified in the contract with the producer. Failure to make such payment is hereby declared to be ground for refusal, suspension or revocation of license in the manner set forth in NRS 584.325 to 584.690, inclusive.

3. In addition to, or in lieu of, any other penalty provided by NRS 584.325 to 584.690, inclusive, the commission may impose [, upon any person subject to any penalty under subsection 1 of this section,] a penalty of $500 for each violation, to be recovered by the commission in a civil action in a court of competent jurisdiction. All sums recovered under this subsection shall be paid into the state treasury to the credit of the dairy commission fund and shall be expended solely for the enforcement of NRS 584.325 to 584.690, inclusive.

Exhibit C

STATEMENT OF CLARENCE CASSADY, Administrator, Dairy Commission

I do not believe that the provisions requiring the expiration of the Dairy Commission statutes, effective July 1, 1979, is in the best interest of the State. Upon adoption of such a statute, a 24-month period would be too short a time in which to assess the validity of a completely redesigned Commission as contemplated throughout this report.

I have no objection to the general conception of Sunset Laws; however, the mandatory demise of dairy regulations may cause extreme hardship in an industry that may become victim of a 1979 legislature too preoccupied with other, more important programs to consider.

The dairy industry is one of long-term capital investment. Between the time a calf is born and the mature cow enters the milking herd some 2-1/2 to 3 years expires. This lead time is necessary and irreducible. The chances that the regulations governing dairy farmers could be removed automatically without review in a year or two would work a tremendous hardship on dairy farmers generally throughout the state.

The current Commission is composed of 8 members, some with industry background and some with consumer background. The proposals call for a 3-member Commission with no dairy industry background.

I believe that the Commission needs the expertise of industry members. Removing the conditions set out in the statutes for membership on the Commission as to consumer members would allow the Governor more latitude in his appointment of consumer members.

The Governor could then well appoint an agricultural economist, and an accountant and a finance or banking expert as contemplated in the proposed recommendations.

There has been considerable comment from time to time that the Commission asit now is comprised, has been a do-nothing Commission, because half of the members are consumer and half the members are industry oriented.

In actual fact, this has not been the case. The Commission has in each instance broken deadlocks between consumer representatives and industry people and have found pathways to resolve their differences.

AB 152 asks that the Dairy Commission use the services of the Attorney General rather than employ an independent legal counsel. It is my belief that little or no money could be saved by using the Attorney General's office in place of our independent legal counsel. We have a contract with our independent legal counsel, calling for $750.00 per month retainer. In the 6 months or so that we had used current counsel, I believe that the time he has spent on our legal work has ammounted to at least half time. We believe that the Attorney General shall charge us at least this much, so we do

Exhibit C

not believe that money is the issue. We have found over the years that the dairy industry and the laws relating to it are highly complex and difficult from a legal standpoint. The continuity of legal counsel is imperative if this agency is to operate in an expeditious and legal manner. This situation becomes more complicated with each passing year as additional laws and regulations covering all administrative and regulatory agencies come into being.

In general, I can agree with the overall tone of the recommendations as set out in the report. I would like to make one further comment, that is is imperative, in my belief, that the Dairy Commission remain an indepent entity and not be absorbed into some other agency. The dairy industry is a volatile industry where profits and losses are measured in minute amounts. Quick response to the needs of the industry is paramount. By placing another strata of governmental administration in their path, the industry could be strangled by delays.

EXHIBIT D

Milk costs less as states drop controls

By Ward Morehouse III
Staff writer of
The Christian Science Monitor

Boston

Milk – one of the two most frequently purchased items in U.S. stores – is coming down in price for millions of Americans.

The reason: A growing number of states are getting rid of minimum retail price controls on milk, which along with bread is tops on the nation's shopping list. For instance:

- In California when the Department of Food and Agriculture suspended minimum milk price controls, prices dropped 2 cents to 5 cents a half gallon. The California Citizen Action Group – which led the fight against controls – says consumers will save 5 to 9 cents a half gallon over the long run.
- In Alabama, where the minimum retail price for milk was also lifted in the last month, the price of a gallon of milk has been cut nearly in half by some stores – from $1.74 a gallon to 98 cents. Now the highest prices is $1.58 a gallon.
- In Massachusetts, the state Superior Court will soon decide the constitutionality of price controls on milk.

"In essence, the state Milk Control Commission is price fixing," says Leo Kahn, head of Purity Supreme, Inc., a New England supermarket chain. "The commission is forcing us to charge more than we have to for one of the most basic staple foods."

The Massachusetts Milk Control Commission has brought a complaint against Purity Supreme for selling milk below the minimum price allowed by state law.

Subsequently, the commission suspended the supermarket chain's license, but a state Superior Court judge granted a stay of enforcement of the suspension. Purity Supreme has filed with the state Superior Court an appeal which is based partially on the claim that the state's milk pricing law is unconstitutional.

Alan Barkin, director of the Milk Control Commission, says milk price controls are needed to ensure the continuous supply of milk as well as to protect small stores from cutthroat competition of some chains.

But Paula Gold, chief of the state attorney general's Consumer Protection Division, says: "There doesn't seem to be any need for state milk price controls ..., because you have a certain degree of federal milk price controls."

Milk price controls at both the federal and state levels date back to the great depression

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Christian Science Monitor, Friday, Jan. 28, 1977 front p.

From page 1

★Milk costs less without controls

when it was argued they were necessary to keep farmers from going bankrupt. The U.S. Department of Agriculture regulates the price farmers are paid for raw milk – and consumer protection advocates say this is all the regulation needed to protect farmers now.

"I think state milk price controls are absolutely ridiculous," declared Aileen Gorman, executive director of the National Consumers Congress in Washington, D.C.

At least eight states – including California, Alabama, Minnesota, Oklahoma, Georgia, South Carolina, Louisiana, and Virginia – have now abolished milk control prices at the retail level. California and Alabama took this action within the past month.

South Carolina dropped its minimum retail price regulation of milk last January. Since then, there have been "drops in prices – but not over a very wide area," says Charles Shell, director of the South Carolina Dairy Commission.

Clifford Ward, deputy director of the Georgia Department of Agriculture, says that since his state's milk commission was ruled unconstitutional, milk prices in Georgia have remained among the highest in the nation. But he adds that at least "some stores are now selling milk way below the top prices."

California Citizen Action Group spokesman Roy Alper says milk prices have gone down by 5 cents in many California stores since milk price controls were lifted Jan. 7. He forecasts that consumers will save $50 to $100 million a year on milk.

EXHIBIT D

Exhibit C

TESTIMONY OF DR. JOSEPH STEIN

Ladies and gentlemen: My name is Joe Stein; I recently retired as Associate Director of the Extension Service at the University of Nevada. Sometime in the past, the Governor O'Callaghan asked me if I would look at the dairy situation and particularly in regards to the Dairy Commission, its purposes and functions and I would provide him a report which I have done and I believe each of you have had an opportunity to receive a copy at a earlier date. With your permission, I would just like to review briefly some of the highlights of this particular report and answer any particular questions you may have about it.

First I think that it's essential that we all try to understand what is intended or what is the purpose of the Dairy Commission, at least here in Nevada and that is to provide some stability to the production and the orderly marketing of milk so that there's an adequate supply to consumers at a reasonable cost. Virgil Getto just referred to that and I believe that that was the original intent.

Assemblyman Price, I believe you asked a very pertinent question a few minutes ago and also I think Senator Ashworth referred to this. Really what was the status of the industry before the Dairy Commission came into being? What really promoted the idea that we needed a Dairy Commision in our state? Now I happened at that time, approximately twenty years ago or a little before, I happened to be here, worked very closely with the dairymen, in fact, at that time I was an extension dairyman at the University and got to know and learned quite a bit about the dairy situation here and basically here are some of the characteristics that existed at that time that brought in the Dairy Commission.

First, from the producer point of view: Milk was sold at different ways, that is, an individual producer may be selling his milk by the gallon, others were by butterfat. Here we are in a fluid milk market. That's all we have in Nevada, a fluid milk market, and here we were selling our product based on butterfat or on gallons. Secondly, as the demand ebbed and flowed, and this has been referred to earlier, a distributor would have to go out and seek additional milk from producers when his demand increased and we got into a cut-throat business where distributors would compete for various producers to get additional milk or often times, the milk supply by an individual distributor or the demand for an individual distributor would go down. Well, he had no recourse but to go back to the producer and knock him off. And this happens and it happened many times so that the individual producer never quite understood how much he could produce or there was no possibility as far as he could see of any economic future for him. Further, the producer at that time had converted into a much more expensive and higher investment business where because of more stringent health requirements he had to go into pipe-line milkings, bulk tanks, and etc. Many of them converted their barns at that time and it cost them thousands and thousands of dollars. So they had no real security as to their marketing. Now I don't blame the distributors for this. Obviously, the distributors here in our State, we had about 15, I believe, at that time, and they're small, EX. C

we only had a population of a little better than 200,000. Now you can see from that they're not going to process very much milk and we had government bases, Stead was operating at the time and Windmill Coop down here got the bid from Stead for dairy products. Fine, those producers could produce a little bit of milk. When they didn't, why they just had to cut back, obviously.

Further, the distributors at that time competed and it was a real battle for competition where they provided different incentives for their business. It may be bulk coolers or ice cream coolers, dispensers, etc., to get fluid milk business from a restaurant or a customer. Now, during all this, and I think that the situation was very caotic during this time. The consumer paid for milk about what the ongoing prices were in adjoining states. So under this, what you might call a total free enterprise system, it didn't result in any real benefit to the consumer. At least measured in the terms I'm talking about. And further, because of this situation, the dairyment, the producers, got together and prevailed on the legislators at that time to see and understand the problem which eventually resulted in the development of the necessary legislation to create the Dairy Commission.

Now since that time, what has happened? And I know that it may be rather simplistic, but I would like to just go over some of the major factors within the dairy industry itself, namely, the producers, the orderly production of milk, and secondly, the distributors, and thirdly, the consumers.

Now, as far as the producers are concerned: It has been stated and I have it here in my report, at the time that the hearings were conducted relative to the Dairy Commission, here in Carson City, and also out in the State, the question was raised many, many times: We cannot afford to set a price that will encourage inefficient production. And I think everybody would agree with that, including the producers. And since that time, we had about 232 producers and we now have about 70 or 72, somewhere around there. The numbers have gone down. The production, rather let's say the cow population, is 14,000 animals, producing milk to now supply the population here of perhaps 2 to 2-1/2 times over what it was in 1950. Same number of cows, 72 producers, the basic reason that we've been able to do this is because of the higher production per animal, per cow. It's jumped from a little better than 6,000 to over 12,000. Nevada produces perhaps they rank about within the top five states in the last each year for the last six, eight, ten years. The production level per cow.

So it didn't create any inefficiencies as far as the producer is concerned. In fact, it may have helped stimulate it in the fact that they had some security or some knowledge of where they're going and so that they could put in greater capital investments. Obviously this occurred because we didn't increase the herd size. And also your production level by getting it out of thin air. It required considerable amount of capital. Up to the point today that I suppose the average producer has about $250,000 to $300,000 invested with another $200,000 per year invested in his annual feed costs and operation costs. Certainly this is comparable to many, many small businesses which I consider the dairy producers to be.

Now, another factor that came in as far as the producers concerned with the advent of the Dairy Commission, and that is contracts. An individual producer had a contract with a distributor for so much milk. This gives him additional security as to where his market is to be and the approximate amounts. Another one was that we identified to the milk commission the use of that milk. Now, milk has another peculiarity and that is it's based on market usage. Most agriculture products aren't based that way, but milk is. Basically we had three classifications of milk: Class I which is the fluid milk; Class II which goes into ice cream and other processed products, cottage cheese and etc.; Class III which goes into cheese and dried skim, etc. Now, as a market, as the demand for fluid milk, becomes saturated in a market, the excess goes into other classes. It may fall into Class II or it may fall into Class III. Generally, there's quite a price differential between the different classes. More recently this has not been the case, but in the past it has been and presumably in the future, it will continue to be.

Now, the producer gets paid on a blend price. That is, how that milk that he has produced is used in the market. When the milk commission sets a minimum price for Class I, then that individual producer gets paid that amount for that volume of milk that's gone into Class I and the same thing for Classes II and III. The Commission has set Class II and III prices based on a formula on California, or rather Chicago manufactured milk. The minimum price for Class I milk has been set on cost of production, as you all are familiar with. One of the things then, I personally feel that with the Commission, it has tended to stabilize the milk production to meet the needs of Nevada citizens.

I might say that back in 1955, we produced about 87,000,000 pounds of milk. Today we're producing about 170,000,000 pounds of milk to meet our needs in Nevada. Now since the milk commission has come into being, we now have a Federal Marketing Order that exists in Southern and also in the Eastern areas of our State. Federal Marketing Orders set producer price in those areas. Now the Federal Marketing Order, their minimum price for Class I milk is based on Wisconsin-Minnesota manufacturing price in addition to some other transportation and other factors that come into play. This does differ from the State pricing system as the State price is based on cost of production figures, as I mentioned.

But I think, as far as the producer is concerned, I think they are fully capable of meeting any future needs for increased production that Nevada citizens may require. Now, as far as the distributors are concerned. Back in 1955, they, as I said, were very small and they're still very small today. We had 15 distributors in 1955 and now we have 8. Five are in this particular area, three are down South. We at one time had one over in the Eastern part of the State and it's no longer in business. Now, the milk commission was empowered to set wholesale prices and I, the information that we have looks as though it would be very difficult to truly set wholesale prices for this reason: First, because of the small number of distributors. The volume of milk handled by these particular distributors. The difference now in the distributors and the nature of their business. At one time home delivery was a rather large part of the business. That's no longer true. Much of the business now is in larger drop-offs to larger marketing areas brought about by, of course, our increased population and our developing economies. Another thought on trying to determine the average cost of processing and distributing milk here in the State was the wide disparity, not only in volume, the nature of their business, but also the wholesalers had different products. Some of them had ice cream, cottage cheese, others were primarily fluid milk. So while the Commission was empowered to try to set these, originally when it first came into being, I think it was much easier to do this than it is today. The nature of the business is much more complex. Now you can determine a good average price and then give a reasonable mark-up, I think would be extremely difficult.

And this I think is one of the problems, at least as far as kick-backs and many other things are concerned.

As far as the consumers are concerned, I'd just like to say this: That the average price per 1/2 gallon in Nevada over the last twenty years has been compared quite well with most of the markets in the United States. It isn't exceptionally high at all. The consumers, in looking over the consumption records, obviously if your milk is priced out of the range of the consumer, your consumption is going to go down. The consumption figures in Nevada does not show that. Now, I have to admit that they have gone down some, but not near as fast as the national trend. The national trend has been down for a number of years. But here in Nevada, our decrease in milk consumption has not been near as severe.

In the Western part of our state, the consumption was 288 pounds, which is considerably above the average. Based on this kind of information, it would appear to me that the milk commission, while it has certain inherent weaknesses due to many of the changes that have occurred within the last twenty years, has provided some stability to this Nevada dairy industry. I think it has been very beneficial to the producer, it certainly has been beneficial to the consumer. Now, it's unfortunate, at least I feel, that the Commission has been criticized for the kick-back situation. I don't think anybody would support this concept at all. But on the other hand, I don't think that because that exists to think that the concept of a good, strong regulatory agency should be abolished for that one particular reason because there have been many other good facets that have come out of this that I think we need to concern ourselves with. And so just let me summarize this by saying, I would suggest, 1) That the producer price, the minimum producer price, continue to be established here in our State and I recognize that both in the East and the South that that price is being established through the Federal Marketing Order and this is fine. I would suggest as a stand-by for State setting of minimum producer prices be set in a bill that would come into effect if that is ever in these other marketing areas where there are Federal Marketing Orders. I also feel that the wholesale price, because of some of the factors that I mentioned, are extremely difficult to come up with a reasonable figure, to set a reasonable price, and it is extremely difficult to enforce, as you know, that it be discontinued. I do think that retail price be established.

Now, in regards to wholesale price, I'd strongly recommend some thought be given that distributors prepare a cost statement as to their exact cost within their plant and file this with the Commission or board so that it is not so below cost and that this price then can be used to compute a minimum retail price or, another alternative would be, take the wholesale price as determined by individual distributors and pass this on over to the retailer and that becomes then a minimum price that the retailer, whatever his cost may be, can take in his milk in serving the consumer, that this cost not be below the cost involved. And I say this because I think we need to consider that the retail price becomes a very important one regarding out-of-state milk. I don't think it's competition, but there is this thought of having well-financed, well-integrated operations come into our State regardless of where they come from and undersell to the point that Nevada milk, Nevada distributors, are gradually forced to retrench to the point that it seriously weakens our industry and once this has happend, obviously then we are at the mercy of others outside of our State for a good milk supply.

QUESTIONS OF DR. STEIN

Mr. Price: During the last two or three years, the Dairy Commission in setting prices, had numerous public hearing with in-put from the consumers, producers, etc. Will you agree that they all had ample opportunity to testify? (Witness answer yes, that they all had ample opportunity.) Now, if the Dairy Commission were abolished in Southern Nevada and Eastern Nevada, the milk price would be left to the Federal Marketing Order. Now, during your very thorough study, could you give an opinion on Southern Nevada and Eastern Nevada - what type of in-put and influence they would have on price setting if it were left entirely to the Federal Marketing Order? How would you compare it in regards to the Dairy Commission?

Dr. Stein: They wouldn't have any direct influence as to what price levels were to be set.

Mr. Price: If looking at Southern Nevada blend percentages over the years, in the Southern Nevada area the actual Class I blend milk that the producers have been paid for. The high was about 1970. They were being paid 92% of every hundredweight that they were selling was coming back to them in Class I pricing. It's now down to just under 56% so they're only getting 56¢ on the dollar. Now the blend price has been going down probably because the flow of milk has been coming into the co-op from out of state.

Is that a reasonable assumption?

Dr. Stein: Yes, it is.

Price: Now here's my question: If the Dairy Commission were abolished and our presumption is correct that we had an increased amount of fluid milk coming in from out-of-state and they put more fluid milk into the market here, how would this effect this already low percentage of Class I price that the Southern Nevada market is now being paid, if at all?

Dr. Stein: With the additional milk flow going into the market, obviously more milk is going to have to go into Class II and III and the percentage of Class I usage then would go down.

Price: So if we remove the Dairy Commission probably the producers in that area would get even lower....

Stein: Percentage-wise, it would be lower. Yes.

Price: So it's reasonable to assume that it's not going to help them. How about the consumer? How do you see the short-range, long-range benefits to the consumer if we remove the....

Dr. Stein: In my judgment, I would suspect that the consumer may have a certain advantage to begin with and that is that lower prices would prevail. But eventually once the supply here in our State started to dry up and we are totally dependent on outside sources, we'd have to pay whatever the traffic would bear.

Price: Do you have any feeling at all as to whether or not the changes we made during the last session, especially as to the consumer representation on the Board, assisted or helped or brought about the revelations of wrong-doing in the Commission. Do you think, for example, that what we did was of any benefit in bringing these out?

Dr. Stein: I don't think that I have enough information to say that it did or didn't.

Price: Along that same line, do you think that the two years with the existing make-up and existing law, do you think that that's long enough to make up a true evaluation of how well the Dairy Commission is operating and how it will operate over a long period of time? As Mr. Cassady said, the people on the Commission today are catching it for what the other Commission did before. Do you generally agree with that or do you have any feed-back at all?

Stein: I'd like to answer it this way, that any individuals who may be on the Board and particularly let's say outside of the dairy industry would require a considerable amount of time really to understand it due to its complexities and I would say that it would take more than two years really to thoroughly understand and implement certain regulations that would strengthen the industry here. It's going to take some time.

Ex. E

Mr. Hickey to Mary Lou Cooper, Legislative Counsel Bureau:

I'd like you to research other states as to the Class I, II, and III percentages returned to the producer where Dairy Commission controls have been dropped. Have there been any significant changes? Is there a relationship to the costs?

Hernstadt: In regard to Federal Orders, assuming the Dairy Commission were abolished totally, is your guess as a professional who has studied this industry very deeply whether or not there would be a Federal Marketing Order established for this Northern Nevada area?

Dr. Stein: It may or it may not because of this fact. Obviously, as the milk goes across the borders of the State, we'd have to get together or the producers in Western Nevada would have to join up with some of the producers in California to make this and to vote it in or to request that a Federal Marketing Order be brought into existance here and I doubt that this is going to happen. At least within the immediate future.

Hernstadt: Mr. Cassady testified that in California with the lifting of controls it was either 66¢ or 64¢ per half gallon and that the minimum in Las Vegas is 72¢ and in this area it's 74¢. You testified that before we had a Dairy Commission, prices were about the same as in neighboring states. Now what moral right does this industry have to force on the housewife a 10¢ premium per half gallon of milk?

Dr. Stein: Let me answer your question this way, if I fully understand it. Now there is a price differential between our price here, out-of-store price, and California. Perhaps the basic reason for that is, well, there's several: One, of course, is that the volume of business or the volume of milk handled by the milk plants over there are much greater and obviously it's much more efficient, cost per unit and processing and distributing. Secondly, you have a larger density of consumers or customers which makes it a lot easier and cuts down on your distribution costs in contrast to ours which are quite widely scattered as you know. And so, part of the reason that you're talking about here, at least I feel, is due to these factors. They're a little larger, that is the distributor, the milk plant and also their larger areas of consumer concentration and this accounts for the price differential.

Hernstadt: But my question is why should this 10¢ premium be forced on the housewife in the system that we have today?

Hernstadt agreed to discuss the matter later with Dr. Stein.

Wilson: What is a Federal Marketing Order so that we can all understand that? How does it operate? How does it differ from the regulations that we've had?

Dr. Stein: Well, I'd generalize on that and I see Mr. Cameron's here and he is very cognizant and very aware of marketing orders down in the south in view of his position with the co-op. But let me say it this way, the State can control or regulate, I should say, the prices within the State on dairy products, as we would pursue. Now as soon as you start going out of the state, like down south, you see 50% of the milk going into the Las Vegas milkshed is coming from Utah producers, unfortunately. Now we could have been producing that milk right along, but we didn't. So we're getting the milk from Utah. And we also have Nevada producers also shipping into that milkshed. Now those people down there chose to get into a Federal Marketing Order and the Federal Marketing Order then sets a producer price based on this Minnesota-Wisconsin manufacturing price.

Under a Federal Marketing Order they do not set wholesale or retail price within the State and so they only set the producer price. Now this is voted in by the producers likewise it can be voted out by producers. Now usually ... Federal Marketing Orders are associated with cooperatives. The dairy producers belong to a co-op and that co-op then is recognized then as the producer for that whole group.

Mr. Serpa: In your opinion, is there any other industry that has been able to hold down the prices as well as the price that is being paid to the producer considering the increase in their costs?

Dr. Stein: I would say there may be others in agriculture that have done that because of the increase in their productivity, but in general I would say "no", there has not been.

Ashworth: In view of the fact that the producers can elect a Federal Order in or out, assuming that we're going to keep the Dairy Commission, do you think that there, do you think there should be some producer or distributor on the Commission or an advisory commission? Do you think the Board is constituted sufficient to handle the problems or do you think there should be some from the industry on the Commisson?

Dr. Stein: In my recommendation, I go along with the legislative dairy bill in that we would not have any individual directly associated in the dairy industry on the Commission. Now, I indicate that perhaps we would have five members. Now your point was a good one, though, that is, where do we get the expertise? It would seem to me that having a staff, a knowledgeable staff, that we'd have to depend a great deal on those people to provide the information to this Commission to make the decisions. And further I'd like to point out that individuals who do become members of the Commission should have information and backgrounds that give them the necessary background so that they can start functioning and understanding some of the complexities and some of the problems that they're going to be faced with. But I do think that the expertise that you have alluded to can and should come from

Commission staff members or others that the Commission may wish to bring in to get this kind of information. Without representation, I think that this is a dangerous precedent. It would be difficult now.

Close: I find in your report in the Southern Nevada area an average Class I price and an average blend price. For example, I find for 1966, the average blend price, to 1969 the price was \$6.13. Then in 1970-1972, the price was \$6.48. And then in 1973 the Federal Marketing Order started in August of 1973 and the price of milk jumped almost 20% in one year. In 1974 it jumped almost \$1.50 and in 1975 it jumped almost \$.50. I understand that the price set here is not the price set by the Dairy Commission but set by the Federal Marketing Order which appears to be substantially higher than the prices set by the Dairy Commission. What do you attribute that accelleration of cost? It doesn't appear that the Federal Marketing Order is holding down prices as well as the Dairy Commission does.

Dr. Stein: No, I don't want to insinuate that they do. One of the things that has come into existance within the recent past is that the price differential between Class I, II, and III has been dimished. In fact, there have been times when Class II price has exceeded the Class I price.

Close: I'm looking at the average blend price in Southern Nevada. In 1975 I find that it was \$5.98 and in 1972 it was \$5.99 and in 1973 when they voted in the Federal Marketing Order, it went up to \$7.04, almost \$1.-- increase. And so it appears that the excess cost occurred in the Southern Nevada marketing area went into effect not only on Class I but also on the average blend price.

The second question that I have is that with taxes and transportation costs and things like that, in your opinion, if there were no Dairy Commission in Nevada and there were no Federal Marketing Orders do you think there would be a substantial probability of the influx of California milk being sold in Nevada?

Dr. Stein: Yes, I think that there would be. In fact, as you know, there's been a definite trend on the part of California distributors to come into the market. I see no reason for it to discontinue if we did not have a milk commission. In fact, I think it may be enhanced.

Close: Would they be selling Class I milk or blend? What would they be selling or would they have an option? Would the California market price fit into Class I milk, Class II milk, or Class III milk? What would be the most lucrative?

Dr. Stein: Class I milk would be the most lucrative market.

Close:And if they were able to undersell the farmer in Nevada, what would be the final results.

Dr. Stein: You're saying that the California processor shipping milk over here and if they were able to to sell it at a lower price over here, how would this effect the Nevada producer? Is that what you're saying? Well, what would happen there, is that the Nevada producer shipping his milk primarily to a Nevada distributor would gradually lose his Class I business to the point that the blend price paid to the Nevada producer would go down.

Close: Do you feel the California producer would be able to sell or be willing to sell into Nevada for a less price than what the Nevada producers are selling their milk for?

Dr. Stein: Well, if there's an economic or if there's some additional money involved, for instance, let's just say that they could send milk over here that ordinarily may go into Class III milk over in California. Now there's no difference in the quality of this milk, you understand, and so the Class III milk could be used in Class I sales over here and there may be a difference of, say, 50¢ a hundred. Obviously the California producer would be very interested in seeing that milk sent over here because he could pick up that additional amount of money for his milk.

Close: Well, if he can sell his Class III milk for a Class II price, he'll still be making more money than he would be in California?

Dr. Stein: Correct, correct.

Close: Do retailers and wholesalers have Federal Marketing Orders available to them? Or is it only producers?

Dr. Stein: Producers.

Mr. Hickey announced further hearings on the Dairy Commission bills.

Hernstadt: Dr. Friedman says that it will never happen that California will come in and dump and undersell our market here because they be selling at a loss. Can you postulate that California will sell their milk at a loss with transportation to take it over here several hundred miles?

Dr. Stein: Well, I was just saying that the California milk plant or processor, now I want to distinguish that from the producer, I want to talk about the plant, sending milk over here. Now, the producers shipping milk into that plant, if that plant can take milk that may go into Class II or III within their marketing area and can pick up Class I business over here in Nevada, obviously it will be to their economic advantage to do so and they will do it. This is done all the time. This would cut down on Nevada Class I sales.

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Exhibit F

LEGISLATIVE COUNSEL BUREAU

DAIRY

COMMISSION

REPORT

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INTRODUCTION

The purpose of this report is to examine the purpose and functions of the Nevada State Dairy Commission and its influence on the dairy industry in providing milk to Nevada consumers.

The marketing of milk is perennially beset with problems even though many of the current problems may not be the same as those when the Dairy Commission was initiated.

Much of the pro and con discussion of the need for passing new laws or abolishing old ones has been based too often on emotion or limited information to be valid for long-run public policy.

Specifically this report will deal with such concerns as:

1. What conditions existed that established the Dairy Commission in Nevada?
2. What is the purpose and functions of the Dairy Commission?
3. Has this agency affected efficiencies in milk production, milk distribution or has it perpetuated inefficiencies?
4. Has the Commission stabilized milk markets and stimulated adequate milk supplies for consumer needs at a fair price?
5. Recommendations and suggestions regarding improvements in regulating the dairy industry in Nevada.

WHY REGULATE MARKETS FOR MILK?

1. Some peculiarities of milk

The production and marketing of fluid milk has certain peculiarities that require special attention.

Price controls in the fluid milk industry are usually justified on the basis that conditions in the industry are such that, in the absence of price controls, the industry would be characterized by excessive price instability, causing both producers and consumers to be subjected to high risk and uncertainty.

Two important conditions, relate to the peculiar nature of the supply and the nature of the product itself. Milk moving off the dairy farms is coming from cows that must be milked twice a day. Thus there is a daily, unrelenting supply of milk which must be moved through marketing channels to the consumer's table. Further, milk is bulky and highly perishable. It cannot be stored for any period of time and because its production cannot easily be turned off and on to fit the demand, the marketing system frequently often runs into trouble with milk prices.

On the demand side, milk is considered an essential food by most families. Consumers spend more than $21 billion a year on milk and dairy products or about 13% of their total food budget. Consumer demand rises and falls from day to day and from season to season. Milk consumption increases in the fall and winter and decreases in the spring and summer. This demand is just the reverse of the high and low seasons for milk production. Such conditions are highly conducive to an unstable market which cause wide fluctuations in milk prices. The instability in the market works an unnecessary hardship on those who depend on milk for a living and those who depend on it for food.

Other conditions of the fluid milk industry that justify price control relate to the structure of the industry. There are, for example, a large number of milk producers compared to a relatively small number of large milk processing firms and supermarket chains which, in the absence of effective controls, could exploit their position in the market at the expense of the many small producers and consumers.

By reason of the above conditions, the U. S. dairy industry has a long history of price controls. Currently, about 80 percent of the fluid grade milk moving into processing plants is regulated by Federal Milk Marketing Orders. Nearly all of the remaining milk is regulated by one of the 18 State Marketing Orders. In some states such as Nevada, both the Federal Marketing Order and the Nevada State Dairy Commission function.

It must be noted the salient feature of any milk price control is to stabilize milk marketing. The ultimate objective is (a) provide a reasonable return to the producer in relation to prevailing economic conditions and, (b) assure consumers of an adequate supply of wholesome milk at reasonable prices.

It is well accepted by many that the use of price controls have contributed to these goals. But price controls improperly set or administered can also produce such negative effects in (a) stabilizing prices at levels higher than justified, (b) encouraging small and inefficient producers and processors to remain in business. While these are difficult to evaluate, hopefully this report may be helpful. Is there a need of some form of price control in Nevada - to assure a viable dairy industry in the state to supply wholesome milk at a reasonable price to Nevada consumers.

2. <u>Conditions within Nevada that brought about the Nevada State Dairy Commission</u>

The dairy industry in Nevada is essentially located in three distinct geographic areas. Each exist as an unrelated area to the others. All areas are and have been fluid milk markets. These geographic areas are:.

Western area - Reno milkshed with dairy farms principally located in Churchill, Douglas, Lyon and Washoe counties.

Southern area - Las Vegas milkshed with dairy farms located in eastern Clark County and Lincoln County.

Eastern area - Elko-Ely milkshed with a small number of dairy farms located in Lund, White Pine County.

One of the conditions that affects the dairy industry in Nevada is its size - its scale of operations within each area. In 1959, shortly after the Milk Commission began to set milk prices, the total annual yield of 110 million pounds of milk represents a fairly small market as compared with several of Nevada's adjoining state market areas. Further, only about 31,000 gallons of milk were sold per day as Class I milk which was processed and distributed by 15 different plants. By any measure a small industry, but important in that it supplied milk to the Nevada consumer and was an important economic asset to the rural counties in which milk was being produced.

The following table gives some information relative to size and characteristics in 1959 and 1976.

	Western Area		Southern Area		Eastern Area	
	1959	1976	1959	1976	1959	1976
No. Producers	113	49	37	13	14	7
No. Processors	10	5	4	3	1	0
Estimated Class I Sales (Gal/day)	14,000	21,250	15,500	30,000	1,170	2,115
Retail Price - 1/2 Gal. Homo.	.50	.72	.50	.72	.56	.79
Producer Price (Class I)	5.36	9.48	5.60	9.48	5.74	10.74

(Data obtained from Nevada Milk Commission)

In any milkshed there is always a large number of producers and a relative small number of processors. The pasteurization and bottling and distribution of milk are operations that require large investments in machinery and equipment. With fixed costs making up a large share of total costs, the economies of scale in these operations are significant ("Marketing Margins in Costs for Dairy Products," U.S.D.S. Technical Bulletin 936 1946).

In an "uncontrolled market" this degree of concentration provides milk processors certain advantages. Because they are few in number, they are able to set price to producers and hence have a bargaining advantage. The small volume market and the necessary plant volume of milk needed to offset high fixed plant costs served to intensify competition between processors. Under such conditions many processors provided rebates, discounts, or other incentives as a normal business method to obtain a greater share of the market. Retail business through stores and restaurants as well as supplying dairy products to schools, institutions and government bases were awarded to the processors providing the largest discount. As the volume of business of the individual processors business ebbed and flowed depending on their ability to undercut competition, so did the price of milk paid to the producer. Each processor regulated his supply of milk to meet demand by adding or dropping producers overnight.

Marketing conditions were very competitive and unstable. Producers had to accept the price offered or dump their milk. Supply and demand for fluid milk was out of balance and the producers who had recently been required to invest heavily in new dairy barns and equipment to meet more stringent Nevada State Health requirements, faced economic disaster. Processors under such conditions also found the business to be unsettled. Further the price of milk paid by the consumer was about twenty cents per quart which was comparable to other markets outside Nevada.

This was the general economic environment of the dairy industry in the fifties. A classic example of the need to provide some control to the milk market. The dairy producers, in order to achieve some stability, were instrumental in seeking the help of the State Legislature. As a result, legislation was passed in 1955 and amended and revised in 1957 (NRS 584.175 to 584.179 and 584.325 - 584.690 inclusive) to establish the Nevada State Dairy Commission. The historical basis for the Commission was to achieve among other objectives, the following:

(1) To insure an adequate supply of wholesome milk at competitive consumer prices.

(2) To maintain an economically sound dairy industry and maintain channels for orderly marketing.

The Legislature chose to recognize the business to be of public interest (NRS 584.395) and stated accordingly.

(1) Fluid milk and cream are necessary articles of food for human consumption.

(2) Production and maintenance of an adequate supply of healthful milk of proper chemical and physical content free from contamination and vital to health and welfare.

(3) Production, transportation, processing, storage, distribution or sale of fluid milk and cream in the State of Nevada is an industry affecting public health and welfare.

(4) It is the policy of this State to promote, foster and encourage intelligent production and orderly marketing of commodities necessary to its citizens including milk and to eliminate speculation, waste and improper marketing, unfair and destructive trade practices and improper accounting for milk purchased from producer.

The policy was to be accomplished by the Nevada State Dairy Commission, composed of nine members representing consumers, retailers, processors and producers. The Commission was empowered to develop methods and procedures to achieve the objectives. The basic tool used to accomplish the objectives is setting of prices - at the producer, processor and consumer level. Currently the presumption seems to be that the issue of price is the singular ultimate concern of the Dairy Commission rather than as a means to achieve an adequate supply of milk for consumers with a fair return to producers, processors and retailers.

The purpose of this report is to examine the dairy industry to determine - (1) does the Nevada State Dairy Commission serve the purpose for which it was established, (2) what functions should the Commission carry out, and (3) what recommendations or suggestions are to be made that would help a state regulatory agency to be more effective in Nevada.

SIZE AND EFFICIENCY OF NEVADA DAIRY FARMS

1. Dairy Producers and the Nevada State Dairy Commission

Milk must be produced before it can be consumed. It must be produced efficiently. It must be produced in sufficient supply to meet consumer demands. It must be produced so that it is wholesome and of high quality. It must bring sufficient economic returns to the producer. The production of an adequate supply of wholesome milk is basic to an efficient dairy industry and to help meet the nutrition needs of the general public.

It may be too simplistic to examine the production of milk as an independent element of the dairy industry. It is understood the strong interdependence of the producer, processor, retailer and consumer - what affects one has a resultant effect on the others. However, there are certain conditions and situations that directly affect the producers and only indirectly affect the other segments.

2. Efficiency of Producing Milk In Nevada

When the Dairy Commission was established it was clearly stated that the price paid to producers should not be set so high to encourage the inefficient producer to stay in business. Further, the method to determine production costs should be sound and appropriate and must be representative of sound dairy production management. If not, a higher price for milk will result which would be detrimental to the entire industry and result in a higher price to the consumer.

The gross efficiency of producing milk in Nevada can be measured by the effect on the number of producers, number of dairy cows, production of milk per cow and the total milk produced in Nevada during the past twenty-five years. This information is presented in Table I.

TABLE I

NEVADA MILK PRODUCTION DATA 1950-74

Year	Number Producers	No. Cows Milked	Lbs. Milk Per Cow	Milk Production (Million Lbs.)
1950	354 [1]	15,000	6,050	91.0
1955	232	14,000	6,240	87.0
1959	164 [1]	15,000	7,330	110.0
1963	134	14,600	8,360	122.0
1964	128 [1]	14,000	9,220	129.0
1965	120	13,900	9,640	134.0
1966	112	13,400	10,000	134.0
1967	104 [2]	13,500	9,930	134.0
1968	100	13,700	10,020	137.0
1969	96	13,800	10,072	139.0
1970	91	13,900	10,216	142.0
1971	86	13,900	10,144	141.0
1972	82 [2]	14,000	10,362	143.0
1973	78 [2]	13,900	10,435	144.0
1974	72	14,000	11,929	167.0

Source: Milk Production 1955-74, U.S. Department of Agriculture, Statistical Reporting Service

1) U. S. Census Data

2) Nevada State Dairy Commission Data

The number of producers in Nevada since 1950 show a dramatic decline from 354 to 72 producers in 1974. The information also indicates that the number of dairy cows has remained fairly constant (14,000-15,000) but the total milk produced by fewer producers shows an increase from a total of 91 million lbs. produced in 1950 to 167 million lbs. in 1974.

The increase in total milk produced in Nevada is due to higher production levels per cow. Improved management of dairy herds has resulted in milk production per cow jumping from 6,050 lbs. in 1950 to 11,929 lbs. in 1974. This production level is considerably above the 1974 national average production per cow of 10,286 lbs.

The information also discloses that a fourfold increase has occurred in the average size of the dairy herd, ten times more milk is being produced per Nevada farm, all of which implies that the total investment and operating costs have increased significantly. Most of the 72 dairy farms are family owned and operated. It is estimated that these family owned dairy farms have 20 million dollars invested in dairy cattle, facilities and equipment for the operation. A recent study by the University of Nevada (Table II) in 1976 shows that a typical western Nevada dairy operation requires over a quarter of a million dollars invested. In addition, this family operation requires an estimated annual operational budget of another $200,000.

Producing milk is a high investment business. The large capital outlay and the high operational costs offer little encouragement to an individual getting in or out of the business easily. Good dairy operations require sound management of all resources, any mistakes in the management of the herd or in marketing of the product are extremely costly.

TABLE II

TYPICAL WESTERN NEVADA DAIRY FARM INVESTMENT

Land ($1236.22 per acre) 5 acres	$ 6,231.10
Employee housing	18,000.00
Feed mill & feed storage	43,971.42
Milking parlor, equipment, holding pens	39,971.80
Livestock housing	10,664.28
Feed Bunks & Corrals	7,815.62
Vehicles and Farm Equipment	32,345.00
Culinary Water System	2,869.00
Livestock:	
Cows 158 @ $466.50	73,707.00
Heifers 82 @ $361.00	29,602.00
Bull 1 @ $1,537.50	1,537.50
Calves and yearlings 106 @ $80.40	8,522.40
Total	$275,237.12

Cost per cow (158 cows) 1,742.00

(Does not include quota or standby allowance)

College of Agriculture, University of Nevada Reno, 1976

This information indicates that the price received for milk produced as determined by the Dairy Commission was not at a level to encourage inefficient producers to remain in business as once feared. In fact, Nevada dairy farmers are ranked within the top five states in the country in milk produced per cow.

NEVADA DAIRY COMMISSION AND PRICE RECEIVED BY NEVADA PRODUCERS

There are two basic uses for milk in the market. Milk is classified according to this usage. Class I milk used to meet the fluid milk demands and usually commands the highest price. Milk in excess of Class I demands flows into Class II for use in cottage cheese, ice cream, etc., or into Class III for butter, cheese and dried milk. Nevada is primarily a fluid milk market with limited plant facilities to handle manufactured dairy products.

In conducting public hearings, the Nevada Dairy Commission, emphasizes setting minimum Class I price to the producer. This price, while important, is but one factor that determines what a producer receives for his milk. The price received for producer's milk is dependent on - the minimum price received for milk used in Class I, II and III, and the amount of milk marketed in each class. The most important price received is that price received for all milk marketed or the <u>blend price</u>. It is this price that determines the producer's financial position. The Class I price, the price the producer received for milk and the difference per cwt milk is shown in Table III.

The Nevada Dairy Commission has provided greater stability to the producer's position than ever before. It is generally agreed by Nevada distributors and producers alike, that regulated producer price serves to provide stability to the entire industry. Hence, the Dairy Commission in carrying out its function to encourage adequate and economical production of milk, must consider more carefully all factors that influence blend price received by the producer.

1. <u>Determining Class I, II and III Minimum Milk Price</u>

In 1957 the State Legislature empowered the Commission to set minimum milk prices for all classes of milk. The intent - provide a reasonable return to producers to assure an adequate supply of milk for Nevada consumers at a reasonable price.

Most milk markets in the country, either state or federal agencies set minimum prices for different uses of milk. Regulations exist at the federal level through Federal Marketing Orders and at the state level through State Boards or Commissions.

TABL[illegible]II

CLASS I PRICE AND BLEND PRICE PAID NEVADA PRODUCERS 1966-75

Western Nevada	Average Class I Price/Cwt	Average Blend Price Per Cwt (1)	Difference Per Cwt	Percent of Usage Class I	Class II	Class III
1966	$6.00	$5.22	$-0.78	79.4%	8.9%	11.7%
1967	6.00	5.52	-0.48	77.8%	5.3%	16.9%
1968	6.00	5.58	-0.42	77.8%	6.4%	15.8%
1969	6.00	5.90	-0.10	86.9%	6.8%	6.3%
1970	6.35	6.19	-0.16	86.0%	6.7%	7.3%
1971	6.35	6.07	-0.28	82.8%	6.9%	10.3%
1972	6.35	6.16	-0.19	85.3%	8.0%	6.7%
1973	7.27	7.08	-0.19	87.7%	8.3%	4.0%
1974	9.09	8.94	-0.15	85.4%	8.0%	6.6%
1975 (April,May,June)	9.46	9.10	-0.36	87.2%	7.7%	5.1%
Southern Nevada						
1966	$6.13	$5.57	$-0.56	88.3%	10.4%	1.3%
1967	6.13	5.65	-0.48	88.9%	9.2%	1.9%
1968	6.13	5.77	-0.36	92.9%	6.3%	0.8%
1969	6.13	5.80	-0.33	91.1%	7.7%	1.2%
1970	6.48	6.22	-0.26	92.6%	7.2%	0.2%
1971	6.48	5.98	-0.50	88.9%	9.3%	1.8%
1972	6.48	5.99	-0.49	85.1%	10.1%	4.8%
1973 (2)	8.06	7.04	-1.02	83.0%	9.7%	7.3%
1974	9.44	8.42	-1.02	63.1%	6.1%	30.8%
1975 (April,May,June)	10.03	8.28	-1.75	57.9%	5.3%	36.8%

(1) Blend price adjusted by Bf.

(2) Lake Mead Federal Marketing Order started 8/1/73

Data from Nevada State Dairy Commission

Ex. F

In some states both types of control exist. This is the case in Nevada - federal orders exist in both the eastern and southern marketing areas of the state. Under a federal order, the minimum Class I price is set according to the price of manufacturing grade milk in Minnesota and Wisconsin.

In contrast, State Dairy Commission commonly sets minimum Class I price based on cost of production of milk. In Nevada, the Commission, through its staff, conducts a survey of dairy producers to determine the cost of producing milk on a hundred weight basis. To this cost is added a reasonable return on investment and this figure becomes the possible Class I price. A public hearing is held by the Commission, testimony taken, and a Class I price promulgated.

The Commission sets the minimum price for Class II and III without public hearings. These prices are set by formulae based on certain manufactured dairy products in the Chicago market.

The most recent cost of production figures as determined by the College of Agriculture are shown in Table 4. The major cost inputs include feed costs, labor, hauling charges, interest and repairs. The information was obtained by interview and from farm records of ten dairy farmers out of 54 in the western marketing area.

Based on personal discussions with producers and distributors most agree that setting producer price should continue. However, there is lack of agreement on the part of producers whether this would be best accomplished by a state agency or Federal Marketing Order. In fact, the majority of Nevada producers in Clark and White Pine counties who are in the Lake Mead and Great Basin Federal Marketing Order, appear to favor a Federal Marketing Order.

Several major objections were raised concerning the Nevada Dairy Commission in setting producer price. This is particularly true in the western marketing area where the Commission is the singular agency. A common complaint was the slow response to change in costs, especially feed costs. The procedures that are legally followed by the Commission are cumbersome and time consuming. Conducting production cost surveys, scheduling public hearings and the time involved in promulgating a new price may take from four to six months.

TABLE IV

COST OF PRODUCING MILK PER COW ON TYPICAL WESTERN NEVADA DAIRY FARM - 1975 (1)

ITEM	NOVEMBER 1975		JANUARY 1976	
Feed:				
Hay (2)	$639.26		$780.18	
Grain (3)	241.38		248.88	
		$ 880.64 (62%)		$1,029.06 (66%)
Non Feed:				
Labor (4)	$261.28			
Hauling	55.92			
Interest	33.48			
Repairs	26.45			
Death Loss	25.11			
Taxes	24.39			
Fuel	18.91			
Utilities	17.96			
Pooling	13.60			
Veterinarian-Medicine	11.97			
Supplies	11.31			
Breeding Fees	10.80			
DHIA	9.59			
Insurance	8.83			
Accounting	3.45			
		$ 541.66		
Depreciation (Buildings, Equipment)	$ 59.49			
		$ 601.15		
Less Livestock Sales	$ 67.20			
		$ 533.95 (38%)		$ 533.95 (34%)
Total Cost/Cow/Year		$1,414.59		$1,563.01

(1) Average herd size, 158 cows producing 13,864 lbs. milk.

(2) Average total hay cost per year (1975 - $62.27/T; 1976 $76/T)

(3) Average total grain cost per year (1975 - $123.66/T; 1976 $127.50/T)

(4) Based on hired labor costs and estimate of family labor

Some cost factors shown in Table 4 are subjected to fairly rapid change including labor, fuel, utilities and especially feed costs. In view of the fact that feed costs usually make up over 50% of the total cost, any marked change in price would have an immediate effect on production cost. As an example, the information in Table 4 shows feed costs in November 1975 were 62% of the total costs and by January 1976 had increased to 66% of the costs.

There is considerable interest throughout the country in adopting a formula to price Class I milk. The National Milk Producers Federation has been a strong advocate for formula pricing. The Federation suggests that such a formula include three factors: (1) Minnesota-Wisconsin price weighted - 60%, (2) index of prices paid by formula - 20%, and (3) dairy feed costs weighted - 20%. The Board of Milk Control of Montana uses a formula for Class I price that includes alternative opportunities open to milk producers such as prices received by beef cattlemen and producers of alfalfa hay. These as well as other formulas should be carefully considered by the Commission as a means to set Class I price. Such a formula could be more objective and responsive to economic change up or down affecting the cost of producing milk in Nevada, and require less time.

Recommendation:

It is recommended that a flexible, economic formula to determine Class I price be established.

2. Market Usage of Milk

In addition to the price of milk as set by the Commission, the usage of milk going into the market is very important in determining the blend price received by the producer for his milk. For this reason it is necessary to understand the implications of market usage.

About sixty years ago, most milk produced on farms was for home and local consumption and the remaining milk was sold as sour cream or butter. As farm milk production gradually evolved into a dairy industry, the classified system for milk began. This started due to recognizing that higher quality standards were required for milk going direct for human consumption than milk to be shipped and used in dairy manufactured products. Producers that invested in improved barns and equipment to meet the higher quality standards provided the fluid milk to the market. They were called "Grade A Producers." Producers shipping milk and cream for manufacturing purposes had lower quality standards, less capital investments, and received a lower price. These producers were called "Grade B Producers."

The large supply of manufacturing grade milk in the country is rapidly declining as "Grade B Producers" go out of business or shift into Grade A production. In 1960, the milk produced by "Grade A Producers" was 67 percent of the total milk produced for all uses. In 1970 this percentage increased to 75 percent. As manufacturing grade milk producers, "Grade B," decline in number and supply of milk for manufactured products continues to decrease the milk needed for this purpose must come from "Grade A Producers" or Class I sources.

Nevada dairy producers invested heavily in new dairy barns, bulk tanks, milking machines to meet the higher quality standards as "Grade A Producers" (Class I suppliers) in the late 1940's. Most "Grade B Producers" disappeared at that time in Nevada. More of the nation's dairymen are now undergoing the same shift.

Nevada is primarily a fluid milk market. Some milk is used in Class II and at times in Class III. Usually the supply of milk for Class I sales exceeds fluid milk demands during the summer months. This serves to increase the supply of milk going into Class II and III usage at that time.

A common concern of Nevada producers is the lack of confidence in the usage of milk reported by distributors. The Commission requires the various distributors to report and account for all milk received in the plant including usage of the milk. Certain plants may manufacture ice cream, cottage cheese, etc., while other plants may ship milk to another plant, or separate milk and ship the butterfat out-of-state.

Plants may differ as to how milk in excess of Class I is used. There is a need to provide greater enforcement of auditing procedures to account for total milk usage. The lack of vigorous enforcement has been due in part to the high percentage of milk used in Class I and thus Class II and III volume not too important and the lack of staff time to conduct in-depth audit procedures on a regular basis.

Since the cost of producing milk is now less dependent on standards of quality and the use to which the milk finds in the market place, there is a need to consider one single price for producer milk. The cost of producing milk, especially in Nevada, is the same regardless if such milk is identified in the market as Class I, II or III. Further, a single price for all milk from "Grade A Producers" is justified as the traditional Class I and II price relationship begins to change. For example, in December 1975 the Class II price for milk as dictated by the Minnesota-Wisconsin supply and demand situation for manufactured milk was $9.52 per cwt which was higher than the Class I price of $9.46 set by the Nevada Dairy Commission. The difference in price due to the heavy market demand for butterfat and powder. A single price system could eliminate the establishment of three minimum producer prices for the various classes of milk, the need to keep accurate usage of all milk entering the plant, and the associated enforcement and auditing procedures.

Recommendations:

1. It is recommended that a uniform system be established to determine milk usage in all plants. More frequent and closer auditing procedures be enacted to determine the quantities of milk marketed in the various classes.

2. It is recommended that the College of Agriculture be requested to determine the practicability of establishing a single price for producer milk in Nevada in milk markets outside of the Federal Marketing Orders.

3. Milk Contracts Between Producer and Distributor

The Dairy Commission is required to have on file a contract between the individual producer (may be a producer corporation) and the distributor who purchases the milk

As stated in the regulations - Article IV - Producer Determinations, Section A, Usage, Item 2 - ---"Each distributor shall assign each producer from whom he receives milk a contract amount which shall be the minimum quantity of milk to be purchased from such producer each month for Class I and II usage. Such minimum quantity shall be known as contract base milk."

These contracts are useful and serve to keep the supply of milk in close balance with the demands of the market throughout the year. The contract provides stability to the producer in that he has a market for his milk and that the distributor has a dependable supply to meet market demands.

Recommendation:

1. All contracts be reviewed and revised where appropriate and kept current.

2. Henceforth, each year each distributor will be responsible to initiate a contractual agreement with each producer (may be an individual or a cooperative) stating the minimum quantity of milk to be purchased each month to meet the market demands of that particular distributor.

3. The Dairy Commission should determine that all producer-distributor contracts are current, up-dated, and on file by September 1 of each year.

4. Federal Milk Marketing Orders

Federal orders presently cover about 80% of the total fluid milk marketed in the country. A federal order can be established when dairy producers, through a cooperative association, petition the Secretary of Agriculture to undertake the regulation of producer milk prices in a local marketing area. To qualify for an order it must be shown (1) the handling of milk is in the channels of interstate commerce or where such handling obstructs, or affects interstate commerce in milk, and (2) marketing or price conditions are such that an order is necessary or feasible to correct such conditions.

Federal orders set the producer price of milk for Class I, II and III usage. A federal order does not set wholesale or retail milk prices. This is one reason that a number of states (including Nevada) have both State Dairy Commissions and federal orders involved in milk marketing.

5. Federal Milk Marketing Orders in Nevada

In our state, two federal marketing orders exist, the Great Basin Federal Order and the Lake Mead Federal Order. In the main, the producer price is determined by the federal orders while wholesale and retail price is under regulations of the Nevada State Dairy Commission.

The Great Basin Federal Order includes northern Utah and eastern Nevada. Most of the fluid milk comes from Utah producers.

A small amount of milk is produced by Nevada dairymen located in Lund. These producers ship their milk into Utah and the Utah dairy plants supply fluid milk to such markets as Elko, Ely, Carlin in eastern Nevada. Eastern Nevada producers are satisfied with the present situation and do not believe the Nevada Dairy Commission would be very helpful under the circumstances.

The Lake Mead Federal Marketing Order covers southern Nevada and Utah producers. The prime market is the Las Vegas area.

Over 50 percent of the milk entering the Las Vegas market is not produced in Nevada. While a state has legal authority to establish retail prices within its own borders, it has no authority to establish producer prices for milk imported from outside the state. Since the Anderson Dairy Plant provided the market for the Utah producers, it was able to set a price for such milk independent of state regulations. This gave Anderson a competitive advantage over other Nevada milk distributors. It also reduced the volume of milk of Nevada producers going into Class I sales.

A joint effort on the part of producers in both states (except Anderson producers) eventually resulted in the establishment of the Lake Mead Federal Marketing Order in August 1973. Utah dairy farmers shipping milk into Anderson were in a difficult financial bind inasmuch as they were receiving little more than manufacture milk price. While Nevada producers recognized that the greater the volume of Utah milk the less market for Nevada producers, this group of producers recognized they had little to lose and possibly much to gain if an order was established.

The Lake Mead Milk Producers Cooperative serves as the marketing association for all Utah producers and all southern Nevada producers shipping milk into the order except three Anderson producers and two Hiland producers. So far as the members of the cooperative are concerned, there is no real need to have a State Dairy Commission. They are confident that their cooperative and the federal order can provide framework through which they can maintain a stable marketing situation for producers.

6. <u>Producer Price, The Nevada Dairy Commission and the Lake Mead Federal Order</u>

Although a federal order exists in the Las Vegas milkshed, the Nevada Dairy Commission continues to have certain responsibilities to the Nevada producers as well as setting wholesale and retail milk price. Usually, the Class I price is set by the federal order.

The Dairy Commission may determine the Class I price for Nevada producers in the federal order when that price is below the producers cost of production costs as calculated by the Commission. In the summer of 1975 such a condition existed. Based on Nevada cost of production, the Commission set Class I milk at $9.33 per cwt. The following Class I price as set by the federal order was somewhat less:

June 1975	- $9.33/cwt
July 1975	- $8.53/cwt
August 1975	- $7.91 cwt
September 1975	- $7.89 cwt
October 1975	- $7.99 cwt

Under these conditions the state agency price of $9.33 prevailed and an "up-charge" was declared to compensate for the difference in price. This difference can be attributed to the difference in the method used by the Dairy Commission and the federal order in setting price. The "up-charge" did create some concern by dairy producers in that they felt there was unequal treatment. The full "up-charge" was paid to the three Nevada producers who are not members of the co-op, whereas, other Nevada producers who are members of the Lake Mead Producers Cooperative had to share the benefits of the "up-charge" with all members of the cooperative which included the Utah producers.

A cooperative within a federal order represents all its members and as such is looked upon as a unit producer. As a unit producer the co-op receives and distributes all milk receipts to the membership less deductions necessary for the business management and operations of the co-op. The disparity in Class I producer price due to "up-charge" was not related to any deliberate action taken by the Commission or the federal order, but to the legal procedures to be followed by each.

The average blend price received by producers in Nevada for the past ten years is shown in Table III was discussed earlier. The information indicates the price trends for Class I, blend price and difference between the two prices were somewhat comparable in both markets until the last few years. More recently a much wider price spread is developing between Class I and the blend price in southern Nevada.

It would appear that much of this difference is due to a marked decrease in the percentage of the total milk going into Class I use - from 85 to 90% to about 60%. And simultaneously a significant increase in Class III usage from less than 5% to around 30% has occurred.

Such changes could be attributed to a marked decrease in the consumption of milk in southern Nevada or a greater supply of milk entering the market. An examination of Class I sales in southern Nevada shows the following:

TABLE V

FLUID MILK SALES IN SOUTHERN MARKETING AREA, BY FIRST QUARTERS 1973-197

Product (Gals.)	1st Quarter 1973	1st Quarter 1974	1st Quarter 1975	1st Quarter 1976
Homogenized	1,684,733	1,635,958	1,766,224	1,905,027
2%	752,892	689,889	588,028	650,149
Chocolate	104,192	133,909	143,878	173,498
Skim	84,294	78,118	80,762	98,274
Total Gallons	2,626,111	2,537,874	2,578,892	2,826,948

The demand, or use of Class I, in southern Nevada does not show a decrease for the period studied, in fact, an increase occurred. Based on this, it would appear that a larger volume of milk is entering the milkshed which accounts for a decrease in percentage of Class I usage and an increase in Class III milk with a resultant decrease in blend price paid to dairy farmers.

It would appear that additional milk may be entering the market through other co-ops operating in adjoining federal markets. The procurement of milk and marketing of milk is not restricted to an area within a single federal order, but on a regional basis to better balance the market. It is interesting to note that Mr. Vern Bingham, Manager of the Mountain Empire Dairymen's Association, a co-op, was quoted in the Western Dairy Journal, April 1976 - "The Las Vegas operation is now moving a lot of milk at Class I that we would otherwise only be realizing a manufacturing price---." He was referring to a distribution business recently started in Las Vegas by this cooperative that has members in Wyoming, Idaho, Nebraska and Colorado. A continued increase in the volume of milk from out-of-state sources will have an adverse effect on Nevada producers.

The present Secretary of Agriculture has indicated the milk marketing system needs a constant evaluation. Such factors as better ways of setting Class I and reserve milk prices in federal orders are needed according to the Secretary. There is an organized effort by Congress to get involved in milk marketing while the Department of Justice and Federal Trade look closely at the dairy co-ops. Undoubtedly in time certain improvements will be made.

Recommendation:

1. The State Dairy Commission continues to determine the production costs of producing milk by Nevada producers (on a formula basis) and when such production costs are out of line with price established by federal orders take appropriate action for needed adjustments.
2. Establish closer working relationships with the administrator and other staff members of the Lake Mead Federal Marketing Order on plant usage audits and other matters of common interest.
3. One additional staff member should be assigned to southern Nevada market plus a half-time secretary due to the size and importance. One individual staff member of the Dairy Commission is now located in Las Vegas.

WHOLESALE AND RETAIL MILK PRICING

1. Type and Extent of State Regulations

Wholesale and/or retail milk prices can only be set by state regulation. In 1962, 14 states set retail prices, and in 1971 this increased to 16 states. Nationally, the volume of milk under the control of state regulations (about 30 billion pounds), continues to be about the same as in 1968, despite the general increase in federal orders(1).

State regulations that set wholesale or retail price can be divided into two types:

(1) Laws which set minimum class prices at producer level and also either minimum or maximum prices at the wholesale and/or retail level, and,

(2) Laws which prohibit the selling of milk to wholesale and/or retail customers below actual cost.

Such laws were in effect in all but 20 states as of January, 1972. Four states establish prices only at the producer level, while 14 states have the power to set prices at the producer and wholesale or retail level. Ten states prohibit the sale of milk at the wholesale or retail level below costs(2). Some of these states prohibiting sales below costs will permit such sales, if made in good faith, to meet the legal prices of a competitor. Cost can be determined in several different ways. State regulatory agencies can require distributors to furnish schedules of actual product prices charged wholesalers and/or retailers and require the wholesaler and retailer to substantiate the marketing costs; or the agency may determine a definite percentage markup that is to be added to the cost of the product to cover the additional costs of merchandising.

(1) USDA 1971, "Changes in State Milk Control." The Dairy Situation DS 338, Nov. 1971.

(2) USDA, "Governments Role in Pricing Fluid Milk in the United States." ERS, AER No. 229, July 1972.

Various reasons have been advanced as to why minimum wholesale and retail milk prices were established in Nevada. At the time of establishing the Commission, it was recognized that Nevada distributors were essential to handle Nevada produced milk. It was reasoned that setting wholesale and retail prices would:

(1) Provide stability for the processing and distribution of milk and advance the growth of a state dairy industry.

(2) Provide a local market for Nevada produced milk.

(3) "Protect" Nevada distributors most of whom were small from "unfair out-of-state competition..

(4) Provide adequate fluid milk to meet Nevada consumer demands at the lowest reasonable price.

Perhaps one of the most important factors that influenced the setting of wholesale and retail milk price in Nevada was the fact that this was being done in California.

A number of studies have been undertaken to determine the influence of state milk regulations on the fluid milk industry. The results of the studies reveal that markets in which minimum and/or maximum prices were set by state authority had larger marketing margins than were markets not regulated. [1] [2]

(1) Is State Control of Consumer Milk Prices in the Public Interest? R. W. Bartlett, Bulletin 705, Agricultural Experiment Station, University of Illinois

(2) Impact of State Regulation on Market Performance in the Fluid Milk Industry, C. N. Shaw, Bulletin 803, Agricultural Experiment Station, Pennsylvania State University

Data presented in the following table is representative of such studies.

Table V. Average Fluid Milk Marketing Margins in Study Markets by Type of State Regulation (1)

Type of State Regulation	Number of Markets	Marketing Margin Cents/Half Gal.
None	41	25.80
Sales Below Cost Prohibited	17	25.08
Resale Prices Fixed	22	29.87

The data suggests resale-price control do have higher fluid milk margins than markets with no state price control. It is important to note, however, where sales of milk below cost are prohibited by state authority, that this method resulted in lower marketing margins as well.

Logical questions that concern state regulations of wholesale and retail prices are: Has the Nevada Dairy Commission encouraged efficiency in milk processing and distribution, or has price setting tended to perpetuate inefficiency? Has it provided milk to the consumer at a reasonable price? Have such regulations enhanced or been a barrier to per capita milk sales? Obviously state regulation cannot set wholesale price sufficiently high to permit inefficient distributors to remain in business. Nor can retail prices be set at a level that efficient distributors are prevented from offering the consumer the benefits of their efficiencies. Determining a fair wholesale and retail price for milk is difficult in Nevada for several reasons. One is the small number of distributors and the relatively small volume of milk handled per distributor.

(1) State Controlled Milk Markets, How Well Do They Perform? M. E. Hallberg, Farm Economics, November 1975 Issue, Pennsylvania State University

The large number of fluid milk products that are under price control by the Dairy Commission (over 90) presents a difficult problem in enforcement.

2. The Number and Size of Nevada Distributors

The number of Nevada distributors and the estimated average Class I milk sales in 1959 as compared to 1976 is shown below:

Table VI. Number and Size of Nevada Distributors

	Western Area		Southern Area		Eastern Area	
	1959	1976	1959	1976	1959	1976
No. of Distributors	10	5	4	3	1	0
Average Class I Sales (Estimated Gal./Day)	14,000	21,250	15,500	30,000	1,170	2,115

Source: Data from Milk Commission Records

The total number of distributors in Nevada is decreasing. The greatest change occurring in the Reno milkshed through mergers and drop-outs.

With a decrease in the number of distributors and an increasing population, the total volume of milk handled per distributor still remains small. The size of scale does influence the cost per unit and is a factor to be recognized. In a discussion with a Nevada distributor it was his opinion that a minimum of 20,000 gallons of milk per day is required to institute certain plant efficiences. Small volume family operated plants may survive by reason of convenience of plant location, local support for a local industry and labor returns.

The relative amount of milk handled by distributors also affects other innovations. At a public hearing of the Dairy Commission this spring, a representative of Safeway inferred that Nevada distributors under existing conditions were slow in adopting new practices. The point was made that consumer demand for milk marketed in plastic gallon jugs was increasing. In spite of this increased demand, no blow-mold machines used to manufacture plastic jugs were in Nevada. We then made direct contact with two companies that manufacture the blow-mold machine. Both companies reported that a minimum demand of 25,000 gallons of milk in plastic jugs per day was needed to support either leasing or the purchase of a machine of this type. Data as given in Table VI. show the average total volume of Class I milk handled per distributor per day to be less than this. It is necessary to recognize that Nevada distributors are comparatively small volume operators.

3. Minimum Wholesale Milk Price

Public hearings have been conducted by the Commission to set wholesale price until suspended by Governor O'Callaghan on October 23, 1975. Prior to this the Commission issued 16 orders for Western Nevada and 20 orders in Southern Nevada setting a minimum wholesale price. Cost studies were taken at these hearings. Some of the more important factors considered included, the cost of the raw milk, labor, utilities and service or delivery charge. All information used by the Commission to set wholesale price was not presented in the public hearings. Various other factors peculiar to a distributor's management or operations were provided in confidence to the Commission.

The result of these hearings and other information provided the Commission are then used to determine a representative distributor cost on which a wholesale price is set. The small number of distributors involved in each of the marketing areas raises a question whether a truly representative sample of the average distributor cost could be determined on which to set wholesale price. The ramifications of this is further felt in setting retail milk price. The wholesale milk price as determined by the Commission is an important factor in setting retail, or out-of-store, milk price.

Further, determining average distributor costs are complicated by the nature of their individual plant operations. Some plants are basically Class I fluid milk handlers, while others are involved in other dairy products such as cottage cheese and ice cream. Distributors are also becoming more "specialized" in the manner and type of customer served. The proportion of home delivery of milk has been drastically reduced while store distribution has increased. Some Nevada distributors have large supermarkets as customers, others have casinos and restaurants. The size of drop-off to the various customers and the type of service required by these customers from full-service to limited service delivery all influence distributors' costs. The following table gives evidence of this.

Table VII. Wholesale Sales of 1/2 Gallon Milk to Grocery Stores by Anderson, Reno

Homogenized Half Gallon	Unit Sales Prices: As Filed	Unit Sales Prices: Effective Price	Percent of Total Sales	Weighted Value
Sales per week				
$ 0 $100	0.72 net	0.72	1.7%	$.01224
100.01 - 500	0.72 less 8.35%	0.6598	33.0%	.21776
500.01 - 800	0.72 less 12.5%	0.63	9.4%	.05922
800.01 and over	0.72 less 16.5%	0.601	55.9%	.33607
			100%	$.62529

Determining distributor costs is complicated at best and further complicated in Nevada by other factors such as number of distributors, volume of milk handled etc. Determining costs on over 90 Class I fluid milk products and setting a wholesale price on these products exceeds the capacity of the present size of the Commission staff. Enforcement of such price regulations is impossible. Governor O'Callaghan's decision to suspend wholesale milk price in Nevada was sound.

In view of the limitations in setting wholesale price the following suggestions are made.

Recommendations:

1. Setting uniform minimum wholesale milk price by the Nevada Dairy Commission be terminated at the earliest date.
2. The Commission not permit individual distributors to sell products at below costs to retailers. Each distributor should file with the Commission a statement of processing and marketing costs with supporting proof of such costs.
3. Each distributor provide the Commission with a schedule of product prices charged retailers.

4. Minimum Retail Milk Price

State regulatory agencies now set retail prices in 16 states. While federal milk market orders are increasing, the need to augment such orders by state agencies setting retail milk price is well recognized and accepted. In our state, where two federal orders are operative and set producer price, the Dairy Commission does fix retail prices within the area served by the federal orders.

The ultimate yardstick used by a consumer to measure efficiency of any industry is the price of the product. This is true in the dairy industry as well. A high price for milk does not serve the public good. Studies have shown that the demand for milk is sensitive to milk price. When the price is above 20 cents per quart, the demand is elastic; that is for each 1 percent change in price, per capita consumption changes more than 1 percent in the opposite direction.(1) In assuming retail price reductions of 3, 5 and 7 cents per quart the potential increase in per capita milk sales in high-price markets would be:

Price Reduction	Potential Increase In Milk Sales(2)
3 cents	13.2 percent
5 cents	22.2 percent
7 cents	31.0 percent

(1) Potential Expansion of Sales of Fluid Milk as Related to Demand Elasticities, R. W. Bartlett, Agricultural Economics Bulletin 7, University of Illinois 1963

(2) Is State Control of Consumer Milk Prices in the Public Interest? R. W. Bartlett, Agricultural Experiment Station Bulletin 705, University of Illinois 1965

It is interesting to compare fluid milk sales before and after Governor O'Callaghan suspended wholesale pricing and declared a 10 percent decrease in the retail price of milk in October 1975. To determine if the reduction in the retail price affected fluid milk sales, information on the volume of such sales was obtained from the Commission for the first quarter of each year in 1973, 1974, 1975, and 1976. The first quarter periods of each year were used for comparative purposes with the first quarter of 1976 as this period was the first complete quarter on fluid milk sales following Governor O'Callaghan's order.

Table VIII. Fluid Milk Sales in Nevada for First Quarter of 1973-1976

Western Area

Product	1st Quarter 1973	1st Quarter 1974	1st Quarter 1975	1st Quarter 1976
Gallons - Homogenized	1,143,008	1,173,851	1,190,378	1,318,600
2%	606,555	564,285	574,504	631,782
Chocolate	39,395	34,343	32,286	41,741
Skim Milk	39,752	41,330	43,489	50,351
Total Gallons	1,828,710	1,813,809	1,840,657	2,042,474
% of 1973	100%	99.2%	100%	111.7%

Southern Area

Product	1st Quarter 1973	1st Quarter 1974	1st Quarter 1975	1st Quarter 1976
Gallon - Homogenized	1,684,733	1,635,958	1,766,224	1,905,027
2%	752,892	689,889	588,028	650,149
Chocolate	104,192	133,909	143,878	173,498
Skim Milk	84,294	78,178	80,762	98,274
Total Gallons	2,626,111	2,537,874	2,578,892	2,826,948
% of 1973	100%	96.6%	98,2%	107.7%

The information does show that Class I fluid milk sales increased significantly in the first quarter of 1976. It would appear reasonable to suspect that the decrease in price was a factor in increasing sales.

In Nevada the largest volume of milk purchased by the consumers is from retail store outlets. The Commission does not set a uniform retail price for all retail stores but rather sets a minimum price below which fluid milk is not to be sold. The smaller stores, the convenience stores, individuals who operate a retail truck route often charge more for milk than the set minimum price. However, this volume of sales is not large and for this reason in discussing retail price, we mean the minimum price set by the Commission.

Since its inception, the Dairy Commission has held 19 public hearings in Western Nevada and 22 hearings in Southern Nevada to set a retail price for milk. Unfortunately, the participation and input by retailers at these meetings has been meager. Under the conditions, the Commission has depended on information from trade journals, retail markup in other states and input from retailer representatives on the Commission for information. Considerable weight has been given by the Commission to the minimum wholesale price plus a reasonable retail markup in determining at what level the retail price of milk is to be set.

The main purpose of setting a minimum retail price for milk is to establish a price floor under which it is unlawful to sell milk to the consumer. This method prevents the possibility of using milk as a loss leader in retail stores. Most Nevada producers and distributors are concerned about "out-of-state" supermarket chains that process and distribute their own brand milk and dairy products. This concern is based on the fear that, if retail price regulations were discontinued, these well financed supermarkets could sell milk in Nevada markets at below costs to attract customers and eventually capture a large share of the milk market. This type of operation would work to the consumer's benefit on a short run basis, but in the long run, such market control would not be to the economic and public interest of Nevada. It is postulated that "out-of-state" milk sold at a loss in Nevada markets would serve to decrease Class I sales of Nevada milk and thus seriously reduce producer income or force producers out of business.

The loss of retail markets would also reduce the volume of milk handled by Nevada distributors and eventually create a situation that survival of the Nevada dairy industry would be in question. In the meantime "out-of-state" milk would have seriously curtailed competition of Nevada milk to the point that the price of milk could be set at level to whatever the market would or could bear.

Has the Dairy Commission in setting dairy prices established a high price market? How does the consumer price of milk compare with other markets? What effect has milk prices in Nevada had on the consumption of milk?

The following table compares the consumer milk price in Nevada with other regional retail milk prices.

Table IX. Consumer Price in Various Western Markets for Half Gallon Homogenized Milk.

Market	1974 August	1974 October	1974 November
Reno	$0.77	$0.79	$0.80
Las Vegas	0.75	0.80	0.79
San Francisco	0.72	0.72	0.71
Denver	0.78	0.78	0.80
Montana (statewide average)	0.84	0.84	0.84

Market	1975 March	1975 April	1975 May	1975 August
Reno	$0.80	$0.80	$0.80	$0.80
Las Vegas	0.80	0.80	0.80	0.80
San Francisco	0.71	0.71	0.71	0.78
Denver	0.80	0.80	0.82	0.86
Montana (statewide average)	0.85	0.86	0.85	0.83
Wyoming	0.80	0.86	0.83	-

Market	1976 January	1976 February	1976 March
Reno	$0.72	$0.72	$0.72
Las Vegas	0.72	0.72	0.72
San Francisco	0.69	0.69	0.69
Denver	0.83	0.82	0.80
Montana (statewide average)	0.88	0.89	0.88
Wyoming	-	-	0.89

A random selection of various western markets indicates consumer, or retail price, of milk in Nevada compares favorably with other markets.

Consumer price of milk in Nevada compares very favorably with most markets across the country. The data above is typical.

The information does indicate there is a difference in consumer price of milk between California and Nevada. California retail price is lower than Nevada price. Many Nevada consumers wonder why this should be. The inference being that the higher price of milk is indicative of a wider profit margin.

The California producer price for milk and the Nevada producer price is quite comparable. One of the major factors contributing to the difference in price is the scale of operations of the distributors. The volume of milk handled by some individual California distributors exceeds the combined total of Nevada distributors located either in the western or southern marketing areas. This volume of milk serves to reduce unit costs. Other factors such as the density of population and size and number of retail outlets further reduce distributor costs. The dairy industry in Nevada, in spite of its lack of scale, is fairly efficient in providing milk to the consumers as measured by comparative prices in other markets.

The public interest is best served by having an adequate supply of milk available at a price level which will insure an adequate supply and a consumption level that would enhance the health and well being of the public. One measure of the effectiveness of the Dairy Commission in providing an adequate supply of milk at a reasonable price to the consumer is the per capita consumption of milk. Earlier it was mentioned that the demand for milk is sensitive to milk price, as price goes up there is decrease in fluid milk sales. Has the consumer price of milk in Nevada depressed milk consumption?

Information was obtained to determine the Nevada milk consumption pattern. This is presented in Table X.

Table X. Fluid Milk Consumption Per Capita In Nevada by Marketing Area

Marketing Area	1966	1970	1975
Western Nevada			
Population(1)	164,688	175,234	229,087
Fluid Milk Sales (lbs.)(2)	54,131,448	55,614,808	66,042,232
Per Capita Consumption (lbs.)	329	317	288
Southern Nevada			
Population	243,509	282,073	340,473
Fluid Milk Sales (lbs.)	66,089,656	78,094,688	86,385,032
Per Capita Consumption (lbs.)	271	277	256
Eastern Nevada			
Population	31,494	31,331	35,424
Fluid Milk Sales (lbs.)	6,661,384	6,704,184	6,610,016
Per Capita Consumption (lbs.)	212	214	187
U. S. Average (lbs.)	297	264	-

(1) Population Data - Bureau of Business and Economic Research, UNR

(2) Fluid Milk Sales from all Sources - Nevada Dairy Commission Statistics

The national average per capita consumption of fluid milk in 1950 was 349 lbs. There has been a gradual national decrease in milk consumption each year and in 1973 the national average consumption had fallen to 259 lbs. The data in Table X shows this trend both at the national and state level. However, the per capita consumption of milk in Nevada in both the western and southern marketing areas is consistently higher than the national consumption figure. It is interesting to note that milk consumption per person in the western area of Nevada is consistently higher than the other two marketing areas. Based on the above information it appears reasonable that the consumer price of milk in Nevada was at level that did not reduce milk consumption when compared with national per capita consumption.

Ex. F-33

The Dairy Commission presently sets the retail price of milk based on the established wholesale price plus a reasonable retail markup. The limitations in Nevada in accurately determining distributors costs on which the wholesale price is based leaves much to be desired as mentioned earlier. Such a limitation must exert an influence in determining the retail or consumer price of milk. A recommendation has been made earlier that would change the present method of setting wholesale price by the Commission and eliminate some of the present limitations.

Further, the recommendation, if followed, would permit the more efficient distributors to establish wholesale milk price at a lower price than those less efficient. This lower wholesale price could result in a lower consumer price of milk by setting the minimum retail price of milk in accordance to the following recommendation:

Recommendation:

The Commission establish a reasonable retail markup. This markup would be added to the schedule of product prices charged the retailers by individual distributors as filed with the Commission. The resultant figure would then constitute the minimum retail price of milk.

WHOLESALE AND RETAIL GROSS MARGINS

This report has examined and discussed how the Dairy Commission has established minimum milk prices at the producer, distributor and retail level. In setting these minimum prices the Commission has in essence also established the gross margins for the distributor and retailer.

Studies have been published which compare margins between state regulated markets and non-regulated markets. These studies generally have shown that both narrow margins and wide margins exist in both regulated and non-regulated markets. It was also noted that regional differences in margins were much greater than differences between regulated and non-regulated markets.

More recent studies by C. N. Shaw, Pennsylvania State University, show margins in non-state-regulated markets were significantly lower than margins in markets in which minimum or maximum resale prices are set.

FLUID MILK MARKETING MARGINS BY SELECTED TYPES OF ECONOMIC REGULATION IN STUDY MARKETS, 1969(1)

Regulation	No. Markets	Marketing Margin For Milk Sold Through Stores (Cents/Half Gal.)
No state regulation	37	24.43
Sales below cost prohibited	17	24.03
Minimum producer price	4	24.88
Minimum or maximum resale	22	27.86

(1) Impact of State Regulation on Market Performance in Fluid Milk Industry, Pennsylvania State University, Agricultural Experiment Station Bulletin 803, 1975.

The results of the above study indicates the marketing margins for milk sold through stores ranged from a low of 24.03 cents per half gallon in markets which prohibit sales below cost to a high of 27.86 cents in markets which set resale prices. It is to be noted that a recommendation has been made that wholesale sales below costs be prohibited in Nevada rather than the present procedure of cost determination plus a reasonable return.

the margins in Nevada, are they changing and, if so, where and how portion of the consumer price of milk is now accounted for by the retail margins?

ins for milk marketing were determined and analyzed on one-half gallon lk for the period 1957-1974. The wholesale gross margin as determined nce between the farm price paid producers for the 4.3 lbs. of milk in milk and the wholesale price of milk set by the Commission. The r margin, is what is available to the distributor to pay all plant costs h the processing, packaging, storing, transportation of milk as well as n investment and profit or loss. The retail gross margin, as determined, rence between the minimum wholesale price and the retail, or consumer . This margin provides for all store costs associated with the move- through retail stores as well as profit or loss.

rgins are shown for the Western Marketing Area in Table XI and for ada in Table XII. The wholesale and retail margins show a slow but increase from 1957 to 1974. In western Nevada the wholesale margin 9 cents during this period, with over half of this increase occurring The retail margin per half gallon of milk increased from 6 cents to 8.5 73, and in 1974 decreased slightly to 8.3 cents.

n Nevada shows the same general trend. The wholesale margin increased by rom 1957-74 with most of the increase occurring since 1972. The retail ased from 6 cents in 1957 to 9.8 cents per half gallon of milk in 1974. me differences between the two marketing areas that should be noted - the argin is slightly higher in the western area while the retail margin is he southern area. This difference in retail margin may be due to the type provided by the distributor - full service or limited service in the two eas.

TABLE XI

MILK PRICE: WHOLESALE AND RETAIL GROSS MARGINS PER HALF GALLON HOMOGENIZED MILK 1957-1974[1]

Year	Equivalent Producer Price/1/2 Gal.[2]	Western Nevada Area: Wholesale Margin	Wholesale Price[2]	Retail Margin	Retail Price[2]
1957	$0.23	$0.21	$0.44	$0.06	$0.50
1958	0.23	0.21	0.44	0.06	0.50
1959	0.23	0.21	0.44	0.066	0.506
1960	0.237	0.224	0.461	0.07	0.527
1961	0.241	0.229	0.47	0.07	0.54
1962	0.241	0.229	0.47	0.07	0.54
1963	0.241	0.229	0.47	0.07	0.54
1964	0.241	0.229	0.47	0.07	0.54
1965	0.242	0.228	0.47	0.071	0.54
1966	0.246	0.231	0.477	0.075	0.548
1967	0.258	0.237	0.495	0.075	0.57
1968	0.258	0.237	0.495	0.075	0.57
1969	0.258	0.237	0.495	0.075	0.57
1970	0.27	0.248	0.518	0.082	0.60
1971	0.273	0.252	0.525	0.085	0.61
1972	0.273	0.252	0.525	0.085	0.61
1973	0.314	0.264	0.578	0.085	0.663
1974	0.405	0.300	0.705	0.083	0.788
	-	-	Suspended 10-23-75	-	-

Source: Nevada Dairy Commission Raw Data

(1) Since orders setting the level of prices are often set at different dates of the year, the above prices are weighted average prices for the year - the weights based on the number of months of a particular year an order price prevailed.

(2) Minimum producer, wholesale and retail price as set by Nevada Dairy Commission.

TABLE XII

MILK PRICE: WHOLESALE AND RETAIL GROSS MARGING PER HALF GALLON HOMOGENIZED MILK 1957-1974(1)

Year	Equivalent Producer Price/1/2 Gal.(2)	Southern Nevada Area			
		Wholesale Margin	Wholesale Price(2)	Retail Margin	Retail Price(2)
1957	$0.241	$0.199	$0.44	$0.06	$0.50
1958	0.241	0.199	0.44	0.06	0.50
1959	0.241	0.199	0.44	0.06	0.50
1960(1)	0.246	0.215	0.461	0.066	0.527
1961	0.248	0.222	0.47	0.07	0.54
1962	0.248	0.222	0.47	0.07	0.54
1963	0.248	0.222	0.47	0.07	0.54
1964	0.248	0.222	0.47	0.07	0.54
1965	0.248	0.222	0.47	0.07	0.54
1966	0.256	0.229	0.485	0.075	0.56
1967	0.263	0.237	0.50	0.08	0.58
1968	0.263	0.237	0.50	0.08	0.58
1969	0.263	0.237	0.50	0.08	0.58
1970(1)	0.275	0.246	0.521	0.082	0.603
1971	0.279	0.251	0.53	0.09	0.62
1972	0.279	0.251	0.53	0.09	0.62
1973(1)	0.313	0.261	0.574	0.095	0.669
1974(1)	0.400	0.287	0.687	0.098	0.785
1975		-	Suspended 10-23-75	-	-

Source: Nevada Dairy Commission Raw Data

(1) Since orders setting the level of prices are often set at different dates of the year, the above prices are weighted average prices for the year - the weights based on the number of months of a particular year an order price prevailed.

(2) Minimum producer, wholesale and retail price as set by Nevada Dairy Commission.

Analysis of the margins in western Nevada indicate that the wholesale margin has increased at the rate of 1.5 percent per year while retail margins increased at the rate of 2.1 percent per year. In the southern region wholesale margins increased at the rate of 1.8 percent per year while the retail margin increased about 2.9 percent per year.

It is difficult to draw any strong conclusions about these results. They do show wholesale and retail margins increasing with the retail margin showing a higher annual rate of increase. A half gallon of milk in the western marketing area increased 28.8 cents in price since 1957. This was due to an increase of 9 cents and 2.3 cents in the wholesale and retail margin and 17.5 cents in the price of milk paid the producer. On the same basis southern Nevada consumers paid 28.5 cents more for a half gallon of milk. An 8.8 cent and a 3.5 cent increase in the wholesale and retail margin and a 15.9 cent increase in the producer price of milk accounted for the total price increase.

In determining and discussing wholesale and retail margins the question of rebates or kick-backs immediately came to mind. Are these margins sufficiently wide to permit kick-backs or rebates - are the wholesale and retail prices realistic or artificial as established by past commissions? As we discussed earlier in this report, on setting wholesale prices, the present information and procedure followed by the Commission to determine actual distributor costs on which to establish a fair and representative wholesale price is difficult if not impossible. Proper and accurate pricing is fundamental to state regulation and control.

State control of wholesale and retail prices can create a situation in which efficient distributors are prevented from offering the consumer the benefit of this efficiency through lower retail prices. Under such conditions, some distributors increase their sales by offering services or discounts to retailers that are considered illegal. Other distributors must offer kick-backs or rebates to be competitive and enforcement of wholesale pricing is for all practical purposes, non existent. Further, such hidden costs can then become unidentified cost factors that serve to inflate the actual or true costs of plant operation. The situation is such that the consumer continues to pay a higher price for milk than what the market actually demands.

If the recommendation in this report regarding wholesale pricing procedures is adopted, the efficiencies of the distributors will be passed on to the consumer and minimize rebates and discounts as presently practiced.

1. Analysis of Producer, Wholesaler and Retailer Share of Consumer Price

The purpose of the analysis was to determine if there has been any significant changes from 1957 to 1974 in the percent of producers', distributors' and retailers' share of the consumer price of a half gallon of milk.

The percent of producer, distributor and retailer's share of the consumer's price in the Western Marketing Area is presented in Table XIII and for the Southern Area in Table XIV.

Ex. F- 42

TABLE XIII

PERCENT OF PRODUCER, DISTRIBUTOR AND RETAILERS SHARE OF THE CONSUMER PRICE OF HALF GALLON OF HOMOGENIZED MILK 1957-1974

Western Marketing Area

Year	Consumer Price	Producer %	Distributor %	Retailer %
1957	$0.50	46.0	42.0	12
1958	0.50	46.0	42.0	12
1959	0.506	45.4	41.5	13
1960	0.527	44.9	42.5	13.2
1961	0.540	44.6	42.4	13
1962	0.540	44.6	42.4	13
1963	0.540	44.6	42.4	13
1964	0.540	44.6	42.4	13
1965	0.540	44.8	42.4	13
1966	0.548	44.8	42.1	13.6
1967	0.570	45.2	41.5	13.1
1968	0.570	45.2	41.5	13.1
1969	0.570	45.2	41.5	13.1
1970	0.600	45.0	41.3	13.7
1971	0.610	44.7	41.3	13.9
1972	0.610	44.7	41.3	13.9
1973	0.663	47.3	39.8	12.8
1974	0.788	51.3	38.1	10.5

Data obtained from producer price, distributor and retailer gross margins and consumer price presented in Table XI.

Western area analysis of the data indicates that the percent of the producers share in the consumer price has increased at a faster rate than the wholesale portion. The producer share had increased to about 51.3% of the consumer price of milk by 1974. Whereas, the wholesaler's share has shown a decrease to 38.1% of the consumer price of milk. The producer's and the retailer's percentage share of the consumer price have increased, while the distributor's percentage compared with the producer and retailer percentage share has decreased with time in western Nevada.

TABLE XIV

PERCENT OF PRODUCER, DISTRIBUTOR AND RETAILERS SHARE OF THE CONSUMER PRICE OF HALF GALLON OF HOMOGENIZED MILK 1957-1974

Southern Marketing Area

Year	Consumer Price	Producer %	Distributor %	Retailer %
1957	$0.50	48.2	39.8	12
1958	0.50	48.2	39.8	12
1959	0.50	48.2	39.8	12
1960	0,527	46.6	40.7	12.5
1961	0.54	45.9	41.1	12.9
1962	0.54	45.9	41.1	12.9
1963	0.54	45.9	41.1	12.9
1964	0.54	45.9	41.1	12.9
1965	0.54	45.9	41.1	12.9
1966	0.56	45.7	40.8	13.3
1967	0.58	45.3	40.8	13.7
1968	0.58	45.3	40.8	13.7
1969	0.58	45.3	40.8	13.7
1970	0.603	45.6	40.7	13.5
1971	0.62	45	40.4	14.5
1972	0.62	45	40.4	14.5
1973	0.669	46.7	39	14.2
1974	0.785	50.9	36.5	12.4

Southern area - The analysis of the percentages show that the producer's share of the consumer price relative to the retailer's share did not significantly change over time. Hence the relative percentage of the producer and wholesaler share of the consumer price remained fairly constant. There was a significant change in the relative portions of the wholesaler and retailer share of the consumer price. The retailer share tended to show an increase while the wholesaler remained constant.

In general, the percentage of the producer share of the consumer price has increased in relation to the distributor share. Producers now receive slightly better than 50 percent of the consumer price. The retailer's percentage share of the consumer price has over the period of 1957 to 1974, tended to increase in relation to percent of distributor share.

Whether such changes have real significance in milk pricing remains a moot question. It is clear that the largest portion of the consumer price now goes to the producer.

NEVADA DAIRY COMMISSION AND STAFF

The State Legislature has vested the Dairy Commission with broad authority to insure the production and orderly marketing of milk at fair and reasonable prices. The promulgation of regulations and enforcement of such regulations is the direct responsibility of the Commission. In fact, the effectiveness of state regulations on the dairy industry and the general public is dependent on the actions taken by the Dairy Commission.

The member representation on the commission has undergone several changes since its inception. The original 9 member commission was composed of 5 representatives of the dairy industry, 2 retailers and 2 consumer representatives. The majority of members have been representatives of the dairy industry. The current representative members have now been changed from a predominant dairy industry commission to a commission more consumer oriented. The current commission is composed of 8 members - 4 consumer representatives, 3 from the dairy industry and 1 retail representative.

The very composition of the commission has raised many questions concerning its ability to be objective and aggressive in performing its functions. A common question is why have dairy representatives serve on a commission charged with the responsibility of regulating, policing and determining prices for that very industry. The justification given is that the complexities of the dairy industry are such that industry representatives are needed to provide the information required by the commission to carry out its mission. Today most dairy industry people do not feel they need be represented on the commission. Their only concern is that the members of the commission be knowledgeable of the industry and objective in their decisions.

No one can deny that the Dairy Commission has by its actions, provided stability to the production and marketing of Nevada milk. It has also been apathetic in pursuing violations of its own regulations, ineffective in obtaining cost information from distributors and retailers on which to base a realistic price, and not providing guidance and direction to the staff in such matters as conducting required audits, and conducting public hearings. Too frequently in the past the responsibilities of the Commission and the role of the staff have not been clearly recognized. The Dairy Commission has at times delegated to the Executive Director certain responsibilities that should remain a responsibility of the Commission.

It would appear desirable to consider further changes in the composition of the Commission, clarify the functions of the staff to the Commission, and provide information and training to Commission members regarding the dairy industry in Nevada and the responsibilities of Commission members in determining and enforcing state milk regulations.

The following are suggested recommendations:

1. The Nevada Dairy Commission be a five member commission.
2. Membership be on a geographical basis, two each from the western and southern marketing area and one from the eastern marketing area.
3. One member from each marketing area be a respected member of the financial or business community and not directly involved in the dairy industry.
4. All members be appointed by the Governor including the chairman.
5. Provide information and data to all new members regarding their responsibilities as Commission members as well as information on the dairy industry in Nevada.

1. <u>Nevada Dairy Commission Staff</u>

Two major requirements for enforcing state control of milk prices are: (1) an adequate staff of accountants to assist the Commission in determining minimum milk prices, and (2) an adequate legal staff for enforcing state regulations.

In Nevada, control of prices for those handling milk has broken down because of lack of solid informational input by distributors and retailers and lack of adequate personnel to enforce the law.

Regular and in-depth audits of plant operations do not exist. Sound audits are essential to determine accurate costs on which to base pricing. In this report it has been recommended that distributors be held responsible to provide the commission accurate plant cost data using a prescribed form and procedure. The information supplied by the distributor must be accompanied by supporting evidence of proof. Hence the distributor is now held directly responsible for the information rather than the commission staff. This information will be used to establish a wholesale price at not below costs and will be subject to audit by the commission staff. By following this process, the burden of proof no longer is on the commission staff but rather on the distributors. Further, we have as many as 80 or more items on which wholesale and retail prices are established. With the limited number of personnel available, it is virtually impossible to determine what the price margins should be on each of the items at any particular time. It is to be remembered that a recommendation made earlier would reduce the number of items on which wholesale and retail prices are to be established. Such a reduction would be helpful in enforcing the price regulations as established by the commission and enforced by the staff.

The present number of staff personnel has been decreased to: 3 accountants in the Reno office, 2 office secretaries, and 1 area supervisor in the Las Vegas office, all under the direct supervision of the Executive Director. The decrease in staff is due to a problem in available funds.

The State Dairy Commission is financially supported by assessments collected from the dairy industry. At present no money from the general fund is used to support the commission. The assessment comes from the following sources: Milk 39.8%, ice cream 39.6%, cottage cheese 5.6%, butter 12.7% and other 2.3%. The total assessment available in 1975 was $185,000. The rate of assessment has remained the same although the total dollar revenue has increased. The increase in dollars has not been sufficient to offset the increases in salaries and operational costs, thus the reason for a decrease in commission staff.

There is some feeling on the part of the dairy industry that the Commission is supported by assessments contributed by the industry. The cost is actually paid by the consumer. The possibility of obtaining money from the general fund for the support of the Commission has been raised in the past. It is apparent that there is a need to increase staff to effectively carry out the state control milk regulations. The additional revenue may come from several sources. This would include the increase in the rate of assessment on some or all dairy products, obtaining a part or all funds from the general fund, and having a legal staff member appointed from the Attorney General's office rather than have the Commission employ an attorney.

Recommendation:

1. The legal counsel for the Commission be appointed from the Attorney General's office.
2. That the rate of assessment be increased on such items as ice cream and butter.

Ex. F

SUMMARY AND RECOMMENDATIONS

Twenty years ago the Nevada Legislature passed legislation which provided for State milk control regulations. This action was dictated by the chaotic economic and marketing conditions that existed at that time in the dairy industry. The Legislature created a Nevada Dairy Commission and vested in it broad authority to insure the production and orderly marketing of milk at fair and reasonable prices.

This report is an attempt to examine the impact of the Dairy Commission on the performance of the dairy industry.

Dairy Producers, Milk Supply and Producer Price

The number of dairy producers has decreased sharply in the past twenty years. The number of dairy cows has remained fairly constant. Milk production per cow has steadily increased to one of the highest in the nation. The total volume of milk coming off Nevada dairy farms has increased significantly. Nevada dairy farms, while fewer, are larger, requiring greater capital investment. Using this information as evidence,it would appear that the production of milk has steadily improved in efficien and State milk control regulations have not impeded such growth but has been helpful.

Many producers and distributors feel that State regulations have provided marketing stability to the flow of milk moving off farms. This stability has provided confidence to the producer to expand his operations.

The price received by a producer for his milk is not directly set by the Commissi Rather, the Commission establishes a price to be paid for Class I, II and III milk. These classes identify the market usage of milk with Class I, or fluid milk, the premium. Each distributor must account for all milk received in his plant, and the amount of milk marketed in the various classes. The producer is paid a blend price fo his milk which depends on the volume of milk his distributor markets in each class and the price of milk established by the Commission for each class. In the main, Nevada markets can be classified primarily as a fluid milk or Class I market.

Most people in the industry, producers and distributors, feel a need to continue to establish producer milk prices. All do not agree on how - many producers in eastern and southern Nevada,now under Federal milk marketing orders, are content whereas, others feel State milk regulations is the better method.

The following recommendations are suggested to improve State milk regulations that apply to producers:

1. A flexible, economic formula be developed and used to determine Class I milk prices to be paid producers, rather than repeated cost of production studies and public hearings.

II. Request the College of Agriculture to determine the practicability of establishing one single price for all milk produced, rather than different prices for different milk uses, which would be paid producers who are outside Federal marketing orders.

III. The Commission develop and enforce a uniform auditing process to be used in all plants to accurately determine the quantities of milk utilized in the various classes of milk.

IV. All marketing contracts between the producer (may be on individual or a cooperative) and the individual distributors, be reviewed and revised where appropriate and kept current.

V. Each year, each distributor will be held responsible by the Commission to initiate a contractural agreement with each of his producers (individual or cooperative) stating the minimum quantity of milk to be purchased each month to meet the demands of that particular distributor.

VI. The State Dairy Commission continue to determine the production costs of producing milk by all Nevada producers (on a formula basis) and when such costs are higher than the Class I price established for producers under Federal marketing orders, take appropriate action for needed adjustments.

VII. Recommend that closer working relationships be established with the administrator and staff members of the Lake Mead Federal Marketing Order on plant usage audits and other matters of common interest.

Wholesale and Retail Milk Pricing

Minimum wholesale and retail milk prices can only be set by State regulations. Some states that operate under a federal milk marketing order use state regulations to establish wholesale and/or retail prices. Nevada is one of these states.

Wholesale and retail minimum price is set by the Dairy Commission based on both public and confidential testimony. Wholesale price is based on distributor costs plus a reasonable return.

Determining a representative distributor cost on which to determine a fair and reasonable wholesale price is difficult. With but 5 distributors in western Nevada and 3 in southern Nevada, the small number makes it difficult, if not impossible, to obtain a truly representative cost figure. In addition, the fixing of wholesale prices on the large number of fluid milk prices (over 90) and the enforcement of such regulations on these products further compounds the difficulty.

The importance of establishing a fair minimum wholesale price to the consumer price is easily appreciated. This is especially true when it is recognized that the Commission gives considerable weight to the wholesale price plus a reasonable retail markup in establishing the retail, or consumer price. In view of rebates and kick-backs between distributors and retailers and the knowledge that wholesale milk price was established on a weak foundation, Governor O'Callaghan suspended wholesale prices and reduced retail prices by 10 percent on October 23, 1975.

Where both wholesale and retail prices are fixed by State control, the more efficient distributors cannot pass on any benefits to the consumer. To this extent it may result in a higher retail price for milk.

It is widely agreed within the industry that setting wholesale price is not

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essential for market stability. In fact, it may encourage the opposite.

In spite of these limitations, the retail price of milk has compared favorably with other Western retail milk prices, with the exception of California. Consumer price of milk has not been so high as to seriously reduce consumption of milk. The per capita consumption in Nevada has been consistently higher than the national average.

The advantage of setting a minimum retail price for milk is to prevent the possibility of using milk as a loss-leader in retail stores. Most Nevada producers and distributors are concerned about "out-of-state" supermarket chains that process and distribute their own brand milk and dairy products. This concern is based on the fear that, if retail price regulations, were discontinued, these well-financed companies could sell milk in Nevada markets at below actual costs to attract customers and eventually capture a large share of the market. The loss of markets would reduce the volume of milk handled by Nevada distributors and reduce milk production on farms to a point that would cause serious economic adjustments within the industry.

The limitation in establishing a supportable minimum wholesale price for all distributors and the use of a questionable wholesale price to determine a fair consumer price suggests certain recommendations:

I. Setting uniform minimum wholesale milk prices by the Nevada Dairy Commission be discontinued.

II. The Commission enact regulations that would not permit individual distributors to sell products below actual costs to retailers. Each distributor be responsible to file with the Commission an audit report, as determined by the Commission, of the processing and marketing costs with supporting evidence of such costs.

III. Each distributor file with the Commission a schedule of product prices to be charged retailers.

IV. The Commission establish a reasonable minimum retail markup. This markup would be added to the schedule of prices charged the retailers by individual distributors as filed with the Commission. The resultant figure would constitute the minimum retail price of milk.

Nevada Dairy Commission and Staff

The promulgation of State milk control regulations and the enforcement of such regulations is the direct responsibility of the Commission.

The member representation on the Commission has undergone several changes. In the main, the majority of members have been representatives of the dairy industry. The current Commission membership is consumer oriented.

With a majority of members representing the dairy industry, the Commission has been suspect as to its ability to be objective and free of self-interest in determining and enforcing milk regulations. By its actions, it has provided stability to the production and marketing of Nevada milk. It has also shown a reluctance to vigorously pursue violations of State regulations on members of the dairy industry.

It would appear desirable to consider further changes in the Commission to remove any possible self-interest membership and provide more objectivity in developing State regulations and their proper and full enforcement. The following are suggested recommendations to aid in this accomplishment.

I. The Nevada Dairy Commission be a five-member Commission.

II. Membership be on a geographical basis, two each from the western and southern marketing areas and one from the eastern marketing area.

III. One member from each marketing area be a member of the financial or business community and not directly involved in the dairy industry.

IV. All members be appointed by the Governor including the Chairman.

V. Provide information and data to all new members regarding their responsibilitie as Commission members as well as information on the dairy industry in Nevada.

Nevada Dairy Commission Staff

The State Dairy Commission is financially supported by assessments collected on fluid milk and other dairy products. The rate of assessment on each item has remained the same although the total dollar revenue has increased. This increase has not been sufficient to offset the increase in salaries and operational costs, which has necessitated a decrease in staff. At present, no money from the general fund is used to support the Commission and its staff.

The present staff consists of 3 accountants and two secretaries in the Reno Office and 1 area supervisor in the Las Vegas Office all under the direct supervision of the Executive Director. The Commission also employs its own legal counsel.

Two major requirements for enforcing State control of milk prices are: 1) an adequate staff of accountants to assist the Commission in determining minimum milk prices and conducting necessary audits, and 2) an adequate legal staff for enforcing State regulations.

The dispersion of retailers in Nevada, the variance in milk plant operations, the number of dairy products under State regulations, and necessary audits to be conducted suggests that the size of the present Commission staff be increased.

Funds for additional staff members could come from either increasing the present rate of assessment on all or some dairy products and/or the general fund. Additional funds could be made available by having a legal staff member appointed from the Attorney-General's Office.

Recommended Suggestions to Augment Present Staff

I. Rate of assessment be increased on ice cream and butter.

II. Legal counsel for the Commission be appointed from Attorney-General's Office.

III. An additional accountant be employed in the Las Vegas Office.

IV. Consideration be given to employing an accountant for the eastern marketing area.

REMARKS OF PHYLLIS BERKSON BEFORE LEGISLATIVE COMMITTEES REGARDING DAIRY COMMISSION LEGISLATION

Thursday, February 24, 1977

* * *

I speak tonight for myself as a member of the Dairy Commission for 18 years next May and its present Chairlady.

The thrust of my testimony is to stress to this body the fact that the present Dairy Commission is operating in an efficient and productive manner. Since the appointment of the present Commission in July and October of 1975, it has met 14 times. Though the two meetings concerning price increases in Western Nevada resulted in a 4-4 deadlock, with compromise and diligent effort, equitable decisions were reached.

The clouds which hung over the former Commission no longer shadow the present Commission. For clarification, with the exception of Mr. Hunt and myself, there are six new people serving on the present Commission, all of whom were appointed less than two years ago! As differentiated from the former Commission, the present Commission is meeting its statuatory obligations in a completely responsible manner. The former Commission, to my thinking, precipitated the present bills to abolish the Commission.

The present Commission has, in fact, had to start from scratch. After less than two years of operation, there is absolutely no basis upon which to abolish it. In AB 152, Section 19 on page 8, subsection 2, it suggests an automatic abolishment of the Commission in June of 1979. A more appropriate action would be to review the present Commission at the end of the next biennium.

Regarding the three person composition as suggested in AB 152 on page 2, Section 5, subsection 2, I feel it imperative that there should

Ex. 6.

be direct public and industry input in any policies established or decisions rendered by the Commission. This cannot be accomplished by three professional people. With additional staff, including two more senior accountants as requested in the Dairy Commission budget and approved by the Governor, and more direction, problems encountered by the present Commission regarding analysis of costs will be resolved.

In AB 152 at the top of page 5, the mandatory requirement that the Commission set prices is removed. Minimum retail prices are necessary if stabilization in the market is to be maintained. The Nevada dairy industry as we know it probably could not survive any extended price competition from large multi-state chain stores such as Safeway, Lucky and Albertson's. California produces as much milk in 5-1/2 days as Nevada produces in a year.

The Commission is taking positive steps to serve the people and industry in Nevada and must be given more time for its full value to the State to be recognized.

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
CAPITOL COMPLEX
CARSON CITY, NEVADA 89710

ARTHUR J. PALMER, *Director*
(702) 885-5627

LEGISLATIVE COMMISSION (702) 885-5627
JAMES I. GIBSON, *Senator, Chairman*
Arthur J. Palmer, *Director, Secretary*

INTERIM FINANCE COMMITTEE (702) 885-5640
DONALD R. MELLO, *Assemblyman, Chairman*
Ronald W. Sparks, *Senate Fiscal Analyst*
John F. Dolan, *Assembly Fiscal Analyst*

FRANK W. DAYKIN, *Legislative Counsel* (702) 885-5627
EARL T. OLIVER, *Legislative Auditor* (702) 885-5620
ANDREW P. GROSE, *Research Director* (702) 885-5637

February 16, 1977

The Honorable Thomas J. Hickey
Chairman
Assembly Agriculture
Legislative Building
Carson City, Nevada 89710

Dear Assemblyman Hickey:

AB 152 is currently before your committee. Section 16 of the bill abolishes the Dairy Commission Fund as of July 1, 1979. The bill, however, does not provide for the disposition of the assets of the fund.

Accordingly, we would like to suggest the following amendment to AB 152:

> "Within six months after the effective date of section 16 of this act, all money of the State Dairy Commission shall be deposited in the State Treasury to the credit of the General Fund. All equipment or other property of the board shall be transferred to the Department of General Services."

We are available to discuss this with you at your convenience.

Sincerely yours,

EARL T. OLIVER, C.P.A.
LEGISLATIVE AUDITOR

By [signature]
John R. Crossley, C.P.A.
Chief Deputy Legislative Auditor

ETO:JRC:mr
cc: Senator Thomas R.C. Wilson
Assemblyman Lawrence E. Jacobsen
Frank Daykin

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
CAPITOL COMPLEX
CARSON CITY, NEVADA 89710

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ANDREW P. GROSE, *Research Director* (702) 885-5637

February 24, 1977

M E M O R A N D U M

TO: Assemblyman Thomas J. Hickey

FROM: Mary Love Cooper, Deputy Researcher

SUBJECT: Retail Milk Prices and Milk Price Setting Structure

First of all you inquired about retail milk prices in Nevada communities. The chart below was compiled on the basis of phone calls to grocery stores on February 23, 1977.

City	Store	Out-Of-Store Price 1/2 Gallon Whole Milk	Minimum Retailed by Order
Carson City	Warehouse Market	76 cents	74 cents
	Safeway	76 cents	
Elko	Albertson's	92 and 88	75 cents
	Mayfair-Sewells	92 and 86	
Ely	Anderson's IGA Foodliner	85 cents	75 cents
	Standard Market, Inc.	86 cents	
Lake Tahoe	Raleys, Stateline,	73 cents	74 cents[1]
	Safeway, Incline Village	73 cents	
Las Vegas	Safeway	72 cents	72 cents
	Smith's Food King	72 cents	
Winnemucca	Mayfair-Sewells	79 and 81	76 cents
	Kirk's Market	81 cents	

1. But may retail at prices competitive with California.

Secondly, you asked for a comparison of retail pricing structures of California, Arizona and Utah, as well as the prevailing retail prices in each state.

California: The milk pricing responsibility rests with the Department of Food and Agriculture. Currently, minimum prices are set only at the producer level. The department set minimum wholesale prices until 1975 and retail prices until January 1977. It is still illegal to sell milk below cost and audits are preformed to e inforce this provision. Prevailing prices for a half gallon of whole milk are as follows:

Sacramento:	67 cents
San Francisco:	70.5 cents
Los Angeles:	68.9 cents
San Diego:	69.4 cents

Utah: There are no state minimum milk prices in Utah. Utah is governed by a federal market order which only sets minimum prices at the producer level. Prevailing prices in Salt Lake City for a half gallon of whole milk currently range from 74 cents to 77 cents.

Arizona is also governed by a federal order which means milk prices are set only at the producer level. There is no state control over milk prices. The retail price of milk in Phoenix ranged from 69 cents to 73 cents as of January, 1977.

MLC/mb

FEDERAL MILK MARKETING ORDERS

A Summary

Federal milk marketing orders are established when two-thirds of the producers in an area vote in favor of an order. To abolish a federal order, at least 51 percent of producers producing at least 51 percent of the milk for the market in question must vote to dissolve the order.

Federal milk marketing orders set minimum milk prices at the producer level only, whereas state dairy commissions may set minimum milk prices at any or all levels. In addition, federal orders set minimum milk prices known as "blend" prices based on the various usages of milk in one area (fluid milk, cheese etc). State orders also set prices for the various classes of milk, but the "blend" price is determined on an individual contract basis, rather than on an areawide usage basis. Minimum milk prices set by federal order are based on Minnesota-Wisconsin milk prices plus an amount computed to take into account the distance of the particular order from the Minnesota-Wisconsin milkshed. On the other hand, state orders set minimum milk prices based on the cost of producing, distributing and retailing milk. Federal milk marketing orders usually cover more than one state, while state orders pertain only to milk produced or sold in the state.

In Nevada we have both federal orders and state milk pricing orders. Clark County is covered by the Lake Mead Federal Order and Elko and White Pine counties are covered by the Great Basin federal order. These federal orders tie Nevada producers in with Utah and Idaho producers, insofar as minimum prices to producers are concerned. There are three state orders in Nevada which cover producers in western, eastern and southern Nevada. State retail orders are also in effect in western, eastern and southern Nevada. In the situation where both a federal order and a state order set minimum producer milk prices, the higher price prevails.

The following list of advantages and disadvantages of federal milk marketing orders is certainly not exhaustive.

Furthermore, advantages and disadvantages will vary depending on the vantage point. If you are a producer belonging to a cooperative which controls to a certain extend the federal order due to the coop's voting strength, you would be more likely to favor a federal order than would an independent dairyman.

ADVANTAGES OF FEDERAL MILK ORDERS

1. Protection to producers shipping in an interstate market.

2. Protection from distributors' arbitrary pricing to producers.

3. Equalization of bargaining power of producers with distributors.

4. Development nationwide of statistical information on milk markets, supplies, prices, movement and usage.

5. Uniform treatment of all producers shipping to a market area.

6. Defining a market with minimum producer prices.

DISADVANTAGES OF FEDERAL MILK ORDERS

1. Federal orders allow cooperatives to block vote their membership in establishing or amending federal orders. Thus, 51 percent may vote for federal policy which 49% of the coop disapproves. Coops also outweigh Nevada independents in voting on federal orders due to out-of-state coop members.

2. In most instances, voting on federal orders or amendments may not be done piecemeal; the whole order or amendment must be voted up or down as proposed.

3. Federal orders may artificially enhance the power of large coops. For example, independent dairymen in Southern Nevada feel that the federal order has expanded the market more than before. This expansion enables excess milk to be shipped in by coops for the sole purpose of lowering blend prices in an attempt to drive out independent dairy farmers (in the independents' opinion, anyway).

4. In testimony before the Assembly Agriculture committee during the 1975 session and before the interim subcommittee studying problems of the dairy industry, Northern Nevada dairymen (a majority of whom belong to a coop, incidentally) state their preference for state price control rather than federal. There is a feeling among many producers that state officials are more answerable to their needs than federal officials.

5. Once in a federal order, which is usually interstate, it may be difficult to get out, since 51% of producers are required for dissolving an order.

4

STATE OF NEVADA
CONSUMER AFFAIRS DIVISION
NYE BUILDING
201 SOUTH FALL STREET
CARSON CITY, NEVADA 89710
(702) 885-4340

[MI]KE O'CALLAGHAN
GOVERNOR

REX W. LUNDBERG
COMMISSIONER
LAS VEGAS

MARY T. VAN KIRK
DEPUTY COMMISSIONER
CARSON CITY

February 25, 1977

Assemblyman Thomas J. Hickey
Chairman, Committee on Agriculture
Legislative Building
Carson City, NV 89710

Dear Mr. Hickey:

I do want you to know that I was present to testify at the February 24, 1977, 7 p.m. hearings on AB152. There must have been a mixup on the sign-in sheets. I printed my name and division on the yellow pad that was provided at the door.

Attached is an excerpt of my February 18 letter to you.

I would be pleased to testify on this subject matter and please do not hesitate to call me if I can be of any assistance.

Sincerely,

Mary T. Van Kirk

MARY T. VAN KIRK
Deputy Commissioner

Enclosure

Assembly Bill No. 152, Section 3, provides for the participation of the Consumer Affairs Division in Dairy Commission hearings.

There is no fiscal note for the bill and we feel there would be need for a fiscal note if we were involved.

In order for the Consumer Affairs Division to provide evidence at hearings, it would be necessary for us to maintain separate files on consumer-related dairy problems. These files would have to contain records of verbal discussion as well as written documentation. The presence of Consumer Affairs Division personnel would be required at hearings, and more than likely we would have follow-up work on hearing results, etc.

Additionally, there would be a need for a great deal of research on the part of our Division to familiarize ourselves with the past and present problems in the dairy industry.

Our budget request for Fiscal Year 1978-1980 called for additional Consumer Affairs Division positions. These positions were not approved, and as a result, our Division is now re-assessing and consolidating major portions of our functions. We are charged with enforcement of NRS 598.410, and must concentrate in that area. Any expansion of our responsibilities at this time would be a problem, considering the current size of our staff coupled with our already increased work load.

Sincerely,

Mary T. Van Kirk

MARY T. VAN KIRK
Deputy Commissioner

MVK/ps

STATE OF NEVADA
CONSUMER AFFAIRS DIVISION
NYE BUILDING
201 SOUTH FALL STREET
CARSON CITY, NEVADA 89710
(702) 885-4340

KE O'CALLAGHAN
GOVERNOR

REX W. LUNDBERG
COMMISSIONER
LAS VEGAS

MARY T. VAN KIRK
DEPUTY COMMISSIONER
CARSON CITY

February 18, 1977

Assemblyman Thomas J. Hickey
Chairman, Committee on Agriculture
Legislative Building
Carson City, Nevada 89710

Dear Mr. Hickey:

Assembly Bill No. 152, Section 3, provides for the participation of the Consumer Affairs Division in Dairy Commission hearings.

There is no fiscal note for the bill and we feel there would be need for a fiscal note if we were involved.

In order for the Consumer Affairs Division to provide evidence at hearings, it would be necessary for us to maintain separate files on consumer-related dairy problems. These files would have to contain records of verbal discussion as well as written documentation. The presence of Consumer Affairs Division personnel would be required at hearings, and more than likely we would have follow-up work on hearing results, etc.

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You did speak to Rex Lundberg, Commissioner of the Consumer Affairs Division, and myself relative to attending the hearings on AB 152. I have been told a hearing is scheduled for February 24, 1977 at 7:00 p.m., in Carson City.

a division of the Department of Commerce
Michael L. Melner, Director

Assemblyman Thomas J. Hickey
February 18, 1977
Page two

Would you please let me know if you would like me to attend and testify on the subject this letter covers?

Sincerely,

Mary T. Van Kirk

MARY T. VAN KIRK
Deputy Commissioner

MVK:ba

cc: Assemblyman Lawrence E. Jacobsen, Committee on Agriculture
Rex Lundberg, Commissioner, Consumer Affairs Division, Las Vegas
Mike Melner, Director, Commerce Department

MAX C. FLEISCHMANN COLLEGE OF AGRICULTURE
UNIVERSITY OF NEVADA, RENO 89507
DIVISION OF AGRICULTURAL & RESOURCE ECONOMICS

RESIDENT INSTRUCTION
COOPERATIVE EXTENSION SERVICE
AGRICULTURAL EXPERIMENT STATION

Copy to Hom Las Vegas
1/12/77

January 11, 1977

COL
JAN 11 1977
AGRICULTURE

Honorable Carl Dodge
Post Office Drawer 31
Fallon, Nevada 89406

Dear Senator Dodge:

Mr. Don Rhodes has indicated that you desire information on the following two questions: First, what impact has the suspension of minimum wholesale prices and the lowering of minimum retail prices had on processors and retailers in Nevada? Second, has there been any evidence of "dumping" by California processors?

In regard to the first question, the impact of suspending minimum wholesale prices and lower minimum retail prices may be addressed in at least two ways. First, have processors, since October 1975, gone out of business at a faster rate than in the past? Second, have margins for processors and retailers changed drastically or significantly since October 1975? Regarding processors going out of business, I contacted the Nevada State Dairy Commission and asked them whether any processors have gone out of business since October 1975. They indicated that no processors have gone out of business since that time.

Regarding margins, we collected information from Dairy Commission records on margins for the calendar years 1975 and 1976 (Tables 1 and 2). These margins were for processors and retailers. Specifically, the margin for the processors is defined as the difference between the wholesale price and the producer price; and, the margin for the retailer is the difference between retail price and the wholesale price. These margins can be compared with margins historically (see excerpt from the Stein report - Tables 3 and 4).

Generally, Tables 1 and 2 show that margins for processors have declined relative to the period prior to October 1975. And margins for retailers have been more stable. However, there are some differences between the southern area and these are described.

In the western area, wholesale margins have declined about 12 cents since October 1975. Retail margins over the same period have increased by about 6 cents. On the surface, it appears that processors have borne the brunt of the changed milk marketing pricing policy. However, it should be noted that these changes in margins exaggerate what actually may have happened. Specifically, I refer to the alleged "under the table" discounts by wholesalers. These discounts, to the extent they existed, are not reflected in the pre-October 1975 wholesale prices. If such discounts were as high as 15 percent of wholesale, approximately 11 cents of the wholesaler's pre-October 1975 margin found its way to the retailer. Therefore, the decline in the wholesaler's margin in the western area may be exaggerated. Of course, if discounts were much less than 15 percent, processor margins exhibit sizable declines.

By the same token, increases in retail margins in the western area should be compared with retail margins prior to October 1975 plus whatever "discount" existed. If discounts were as high as 11 cents (15 percent), current retail margins of about 14 cents should be contrasted with pre-October 1975 margins of 7.6 cents plus 11 cents or 18.6 cents.

In the southern area, wholesaler discounts to retailers have been taken into account for the 24 months reported (Table 2). In this table, wholesale prices are based on the filings of one processor (Knudson). Margins for wholesales show declines of about 7 cents while those of retailers show declines of about 3 cents. Processors have experiences a slightly larger percentage decrease in margins relative to retailers.

Please note that changes in margins reflect only the revenue side of the processing business. We have no evidence, and cannot secure any evidence, on the cost structure of processing. Mr. Walter Comstock of the Dairy Commission informs me that he has recently completed a study of the processors in Nevada and perhaps he can give you some additional information on the cost structure. However, it does appear that processor margins have declined. Since it is likely that processing costs have increased, it appears that the economic viability of processors is more tenuous now than prior to October 1975. The relevant question now is how long can this continue? I don't know, but I note that in the western area processors are attempting to recover a portion of the increased retail price (Table 1, January 1977). We will have to wait to see what happens.

Regarding the dumping question, I think it helpful to define what we mean by dumping. We would say that a California processor is dumping in Nevada if it sells milk to retailers in Nevada at a price lower than what it sells to retailers in California plus the cost of transportation and handling. In other words, we say there is dumping if California processors are selling milk to retailers in Nevada at a price lower than what it sells to retailers in California - ignoring transportation and handling charges. Unfortunately, we have no information as to whether dumping is occurring or not occurring in Nevada. We would expect, however, that if dumping were occurring it would be exceedingly difficult to detect since it would require a careful audit of out-of-state processors. A check with the Dairy Commission (specifically Mr. Walter Comstock) suggests that there is no evidence of dumping in Nevada by California processors.

I regret that I cannot be more substantive in answering the two questions that were posed to me by Mr. Don Rhodes. Primarily, this is due to the very limited factual dairy marketing information in Nevada. Until such information becomes available, it is most difficult to adequately answer the questions that you pose. If you wish clarification on any of the comments that I have offered to you above, please contact me.

Sincerely,

Chauncey T.K. Ching,
Chairman

CTKC:vc
cc: Dean Dale W. Bohmont
Mr. Don Rhodes

Table 1. Milk Price and Margins (cents) for Half-Gallon Homogenized Milk - Western Area

[illegible]	Class I Milk Producer Price	Wholesale Margin	Wholesale Price	Retail Margin	Retail Price
Jan 1975	40.67¢	31.73¢	72.4¢ 1/	7.6¢	80¢
Feb	40.67	31.73	72.4	7.6	80
Mar	40.67	31.73	72.4	7.6	80
April	40.67	31.73	72.4	7.6	80
May	40.67	31.73	72.4	7.6	80
June	40.67	31.73	72.4	7.6	80
July	40.67	31.73	72.4	7.6	80
Aug	40.67	31.73	72.4	7.6	80
Sept	40.67	31.73	72.4	7.6	80
Oct	40.67	22.53	63.20	8.80	72
Nov	40.67	22.53	63.20	8.80	72
Dec	40.67	22.53	63.20	8.80	72
Jan 1976	40.67	22.53	63.20	8.80	72
Feb	40.67	22.53	63.20	8.80	72
Mar	40.67	19.45	60.12	11.88	72
April	40.67	19.45	60.12	11.88	72
May	40.67	19.45	60.12	11.88	72
June	42.14	17.98	60.12	13.88	74
July	42.14	17.98	60.12	13.88	74
Aug	42.14	17.98	60.12	13.88	74
Sept	42.14	17.98	60.12	13.88	74
Oct	42.14	17.80	59.94	14.06	74
Nov	42.14	17.80	59.94	14.06	74
Dec	42.14	17.80	59.94	14.06	74 2/
Jan 1977	42.14	19.42	61.56 3/	14.44	76

Source: Nevada Dairy Commission

1/ 72.4 cents is official state price - retailers may have received up to 15 percent in hidden discounting up through September 1975.

2/ During the final 10 days of December 1976, retailers raised out-of-store prices 2 cents above minimum retail price. (Up to 76¢)

3/ Effective January 3, 1977, wholesalers filed price increases to recover a portion of the 2 cents in retail price.

3.

Table 2. Milk Price and Margins (cents) for Half-Gallon

Homogenized Milk - Southern Area

Year	Class I Milk Producer Price	Wholesale Margin	Wholesale Price[3/]	Retail Margin	Retail Price
Jan 1975	40.678¢	25.282¢	65.96¢	14.04	80
Feb	40.678	25.282	65.96	14.04	80
Mar	40.678	25.282	65.96	14.04	80
April	40.678	25.282	65.96	14.04	80
May	40.678[1/]	25.282	65.96	14.04	80
June	40.678	25.282	65.96	14.04	80
July	40.678	25.282	65.96	14.04	80
Aug	40.678	25.282	65.96	14.04	80
Sept	40.678	24.662	65.34	14.66	80
Oct	40.678	24.662	65.34	6.66	72
Nov	42.441[2/]	17.419	59.86	12.14	72
Dec	43.86	16.0	59.86	12.14	72
Jan 1976	44.89	14.97	59.86	12.14	72
Feb	45.92	13.94	59.86	12.14	72
Mar	45.15	14.71	59.86	12.14	72
April	42.35	17.51	59.86	12.14	72
May	43.86	16.0	59.86	12.14	72
June	43.17	16.69	59.86	12.14	72
July	42.57	17.29	59.86	12.14	72
Aug	42.65	17.21	59.86	12.14	72
Sept	44.33	17.22	61.55	10.45	72
Oct	45.53	15.52	61.05	10.95	72
Nov	43.25	17.80	61.05	10.95	72
Dec	42.25	18.80	61.05	10.95	72

Source: Nevada Dairy Commission

1/ A state order minimum of 9.46 cwt. forced processors to pay premiums to producers above the Federal order minimum price.

2/ Federal order producer price drifted above state minimum price.

3/ Wholesale prices were estimated according to Knudson price filing based on a minimum 5% dividend to retailers by year end.

Source: Dr. Joseph F. Stein's Dairy Commission Report

Table 3. Western Nevada Prices and Margins

MILK PRICE: WHOLESALE AND RETAIL GROSS MARGINS PER HALF GALLON HOMOGENIZED MILK 1957-1974 (1)

Year	Equivalent Producer Price/1/2 Gal. (2)	Western Nevada Area: Wholesale Margin	Wholesale Price (2)	Retail Margin	Retail Price (2)
1957	$0.23	$0.21	$0.44	$0.06	$0.50
1958	0.23	0.21	0.44	0.06	0.50
1959	0.23	0.21	0.44	0.066	0.506
1960	0.237	0.224	0.461	0.07	0.527
1961	0.241	0.229	0.47	0.07	0.54
1962	0.241	0.229	0.47	0.07	0.54
1963	0.241	0.229	0.47	0.07	0.54
1964	0.241	0.229	0.47	0.07	0.54
1965	0.242	0.228	0.47	0.071	0.54
1966	0.246	0.231	0.477	0.075	0.548
1967	0.258	0.237	0.495	0.075	0.57
1968	0.258	0.237	0.495	0.075	0.57
1969	0.258	0.237	0.495	0.075	0.57
1970	0.27	0.248	0.518	0.082	0.60
1971	0.273	0.252	0.525	0.085	0.61
1972	0.273	0.252	0.525	0.085	0.61
1973	0.314	0.264	0.578	0.085	0.663
1974	0.405	0.300	0.705	0.083	0.788
	-	-	Suspended 10-23-75	-	-

Source: Nevada Dairy Commission Raw Data

(1) Since orders setting the level of prices are often set at different dates of the year, the above prices are weighted average prices for the year - the weights based on the number of months of a particular year an order price prevailed.

(2) Minimum producer, wholesale and retail price as set by Nevada Dairy Commission.

Source: Dr. Joseph F. Stein's Dairy Commission Report

Table 4. Southern Nevada Prices and Margina

MILK PRICE: WHOLESALE AND RETAIL GROSS MARGINS PER HALF GALLON HOMOGENIZED MILK 1957-1974(1)

Year	Equivalent Producer Price/1/2 Gal.(2)	Southern Nevada Area			
		Wholesale Margin	Wholesale Price(2)	Retail Margin	Retail Price(2)
1957	$0.241	$0.199	$0.44	$0.06	$0.50
1958	0.241	0.199	0.44	0.06	0.50
1959	0.241	0.199	0.44	0.06	0.50
1960(1)	0.246	0.215	0.461	0.066	0.527
1961	0.248	0.222	0.47	0.07	0.54
1962	0.248	0.222	0.47	0.07	0.54
1963	0.248	0.222	0.47	0.07	0.54
1964	0.248	0.222	0.47	0.07	0.54
1965	0.248	0.222	0.47	0.07	0.54
1966	0.256	0.229	0.485	0.075	0.56
1967	0.263	0.237	0.50	0.08	0.58
1968	0.263	0.237	0.50	0.08	0.58
1969	0.263	0.237	0.50	0.08	0.58
1970(1)	0.275	0.246	0.521	0.082	0.603
1971	0.279	0.251	0.53	0.09	0.62
1972	0.279	0.251	0.53	0.09	0.62
1973(1)	0.313	0.261	0.574	0.095	0.669
1974(1)	0.400	0.287	0.687	0.098	0.785
1975		-	Suspended 10-23-75	-	-

Source: Nevada Dairy Commission Raw Data

(1) Since orders setting the level of prices are often set at different dates of the year, the above prices are weighted average prices for the year - the weights based on the number of months of a particular year an order price prevailed.

(2) Minimum producer, wholesale and retail price as set by Nevada Dairy Commission

PRODUCERS

WESTERN NEVADA

ASSOCIATED NEVADA DAIRYMEN, John Olsen, Mgr., 900 Glendale Road,
Sparks, NV 89431

MEMBERS

*Aldax, Andre
Minden, NV 89423

Capurro Farms
6560 Longley Lane
Reno, NV 89502

Cliff Brothers
Star Route #1, Box 625
Carson City, NV 89701

Curti, George & Sons
13355 Old Virginia Road
Reno, NV 89502

Curti, Harold
14355 Miraloma Road
Reno, NV 89502

*Dreyer, Roland
Minden, NV 89423

Fagundes, Manuel, Jr.,
5155 Reno Highway
Fallon, NV 89406

Getto, Robert
1200 Lovelock Hwy.
Fallon, NV 89406

Getto, Virgil
1400 Lovelock Hwy.
Fallon, NV 89406

*Godecke, Roy
Gardnerville, NV 89410

Guazzini, Louie A. Jr.
3855 Austin Hwy
Fallon, NV 89406

*Hellwinkel, Elmer
Gardnerville, NV 89410

*Henningsen, John
Gardnerville, NV 89410

Iratcabal, Gracian
2710 Spanish Springs Road
Sparks, NV 89431

Jernigan, Earl
P O Box 81
Fallon, NV 89406

Anderson, Peter
Silverland Farms
Box 124
Fernley, NV 89408

Gomes, John
3025 Allen Road
Fallon, NV 89406

Peccetti, Elmer & Alvin
11550 Thomas Creek Road
Reno, NV 89502

Olsen, Pete
Route 1, Box 253
Fallon, NV 89406

Perazzo Brothers
1050 Perazzo Lane
Fallon, NV 89406

Picetti, J.B. & Sons
Fernley, NV 89408

Pflum, Tom
Rt. 1, Box 206
Fallon, NV 89406

Schank, L.C.
Rt. 2, Box 183
Fallon, NV 89406

Settlemeyer, Frank & Sons
Minden, NV 89423

Southfield, Dennis
Rt. #1, Box 220
Fallon, NV 89406

Sorensen, Dennis O.
Rt. 1, Box 270
Fallon, NV 89406

Sorensen, John
Rt. 1, Box 256
Fallon, NV 89406

*Storke, Roy H.
Rt. 1, Box 249
Gardnerville, NV 89410

Travis, Mrs. Ray
West Star Route
1950 Wade Lane
Fallon, NV 89406

University Dairy Farm
Mill Street Road
Reno, NV 89502

*White, John
Gardnerville, NV 89410

*Witt, Herb
Milky Way Farms
Minden, NV 89423

Bendickson, Del
Triangle F Farms
Rt. 1, Box 257
Fallon, NV 89406

* Former members of Minden Milk Producers

P R O D U C E R S (cont'd)

WESTERN NEVADA

ALL JERSEY OF NEVADA, Fred Weaver, Mgr., 695 Kleppe Lane #11, Sparks, NV 89431

MEMBERS

Anderson, Martin
1750 Strasdin Lane
Fallon, NV 89406

Medlock, E.
Rt. 1, Box 344
Fernley, NV 89408

Mills, Elbert
5251 Candee Lane
Fallon, NV 89406

Mills, Newell
4675 Sheckler Road
Fallon, NV 89406

Ritter & Gonzales
5550 Alcorn Road
Fallon, NV 89406

Steneri, Donald
Hazen, NV 89417

INDEPENDENT DAIRYMEN

WESTERN NEVADA

Fricke, Gordon
Rt. 3, Box 62
Gardnerville, NV 89410

Frade, A. J. (Valley Dairy)
Box 72
Yerington, NV 89447

Lommori, Dante
L Bar L Ranch
Box 492
Yerington, NV 89447

Joe Pedro Ranch
5715 Schurz Highway
Fallon, NV 89406

Manha, Joseph
Box 206
Yerington, NV 89447

River Road Ranch
Roger Lightenburg, Mgr.
1700 Flying K Ranch Road
Fallon, NV 89406

Van Dyke, John
Hollandia Dairy
340 N. Harmon Road
Fallon, NV 89406

Van Vliet, Louie
Gardnerville, NV 89410

EASTERN NEVADA

LUND DAIRY CORPORATION

MEMBERS

Gardner, Mike
Lund, NV 89317

Gardner, Milton D.
Lund, NV 89317

Irvins, Ronald
Lund, NV 89317

Scow, Gardner
Lund, NV 89317

Whipple, Dean
Lund, NV 89317

Reid, Shelden
Lund, NV 89317

Reid, Max
Lund, NV 89317

INDEPENDENT DAIRYMEN

Gardner, Milton
Lund, NV 89317

McKenzie, Rod
Lund, NV 89317

McKenzie, Vance
Lund, NV 89317

Oxborrow, Robert
Lund, NV 89317

EASTERN NEVADA

PROCESSING DISTRIBUTORS

BEATRICE FOODS COMPANY
1030 South Main Street
Salt Lake City, Utah 84101

SAFEWAY STORES, INC
1875 West 15th South Street
Salt Lake City, Utah 84104

SAFEWAY STORES, INC.,
145 West Crystal Ave.,
South Salt Lake City, Utah 84115

PEDDLER-DISTRIBUTORS

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Elko, Nevada

NORTHERN NEVADA DISTRIBUTING
Ely, Nevada

- -

WESTERN NEVADA

PROCESSING DISTRIBUTORS

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P O Box 20
Boise, Idaho 83707

CARNATION CO.,
P O Box 13
Oakland, Calif 94604

CRESCENT DAIRY, INC., dba
ANDERSON DAIRY
P O Box 3017
Reno, NV 89505

BEATRICE FOODS CO., dba
MEADOW GOLD DAIRIES OF NEVADA
P O Box 10102
Reno, NV 89510

SAFEWAY STORES, INC.,
P O Box 12095
Oakland, Calif 94604
ATTN: Neil Holbrook

KNUDSEN CORP.,
Attn: David Cole
231 E. 23rd Street
Los Angeles, Calif 90051

AVOSET FOOD CORP (see pg. 4

CREAMLAND DAIRY
500 Harrigan Road
Fallon, NV 89406

CRYSTAL CREAM & BUTTER CO.
P O Box 1313
Sacramento, Calif 95814

MODEL DAIRY
P O Box 477
Reno, NV 89504

SONOMA MISSION CREAMER, INC.,
465 Cabot Road
So. San Francisco, CA 94080

VALLEY DAIRY (see page 2)

- -

WESTERN NEVADA

PEDDLER-DISTRIBUTORS

ASSOCIATED FOOD STORES, INC.
P O Box 2430
Salt Lake City, Utah 84110

BIAGGI, ALDO
Minden, Nevada 89423

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2600 Mill St.,
Reno, NV 89502

CHAFFEE, EDWARD F.
1144 LaVia Way
Sparks, NV 89431

CHRISTIANSEN, EDWARD R.
P O Box 7121
Reno, NV 89502

FOOD PRODUCTS, INC.,
1000 Marietta Way
Sparks, NV 89431

HANSEN, D.E.
4751 N. Virginia St.,
Reno, NV 89502

HAWTHORNE SUPPLY & NEVADA DAIRY
P O Box 941
Hawthorne, NV 89415

LANGSTON, HAROLD LEE
4549 St. Clair Rd.,
Fallon, NV 89406

MARKS, WESLEY E.
3075 Windemere Dr., Sparks, NV
89431

P R O D U C E R S

SOUTHERN NEVADA

LAKE MEAD COOPERATIVE (Nev. members), Charles Cameron, Mgr., P O Box 2203,
Grand Junction, Colorado 81501

*Hafen Dairy
Mesquite, NV 89024

*Hughes Brothers
Mesquite, NV 89024

*Bunker, Merrill
Bunkerville, NV 89007

Williams, Earl
Alamo, NV 89001

*Hardy, Walter
Bunkerville, NV 89007

*Jones, A. Lee
Bunkerville, NV 89007

*LDS Church
6206 Monson Road
Las Vegas, NV 89122

Schofield, Wm. U., Jr.
Hiko, NV 89017

*formerly Clark County Dairymen

WESTERN GENERAL DAIRYMEN, INC., (Nev. members), Manager, 195 W. 7200 So.,
Midvale, Utah 84047

Fetherston, John
Overton, NV 89040

Robison, Ray
Overton, NV 89040

INDEPENDENT DAIRYMEN

Biasi, Bruno
Bunkerville, NV 89007

Bishop, Brant L.
Logandale, NV 89021

Hunt, Dale
Bunkerville, NV 89007

Agman Dairy
Attn: Gary Dinesdale
2633 W. Spruce
Fresno, California

- -

PROCESSING DISTRIBUTORS - SOUTHERN NEVADA

ANDERSON DAIRY
P O Box 560
Las Vegas, NV 89101

ARDEN-MAYFAIR, INC., dba
ARDEN FARMS
1900 Slauson Ave.,
Los Angeles, Calif 90047

ARDEN-MAYFAIR, INC., dba
ARDEN FARMS
1000 N. Main St.,
Las Vegas, NV 89101

AVOSET FOOD CORP
80 Grand Ave.,
Oakland, Calif. 94612

LUCKY STORES, INC.
6565 Knott Ave.,
Buena Park, Calif 90620

SAFEWAY STORES, INC.,
3327 South Boxford Ave.,
Los Angeles, Calif 90040

NEVADA DAIRY DIST.
2960 Westwood, Office #2
Las Vegas, NV 89109

WESTERN GENERAL DAIRYMENS
CO-OP, INC.
1500 Searles Ave.,
Las Vegas, NV 89101

ARDEN-MAYFAIR, INC., dba
ARDEN FARMS
2101 S. Los Angeles St.,
Los Angeles, Calif 90011

WESTERN NEVADA (cont'd.)

PEDDLER-DISTRIBUTORS

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CRYSTAL DAIRY FOODS
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South Lake Tahoe, Calif 95705

DEE'S DISTRIBUTING COMPANY
562 Melarkey Street
Winnemucca, NV 89445

EMPIRE DISTRIBUTING CO., INC.,
P O Box 146
Empire, NV 89405

FOOD PRODUCTS, INC., (see pg 3)

PERRY, JOE
825 DeLucchi, Apt. 55
Reno, NV 89502

HAMBY, LARRY S.
865 Casazza Dr.,
Reno, NV 89502

VARGAS WHOLESALE
5th and Hanson St.,
Winnemucca, NV 89445

BURNSIDE, RONALD R.
517 Sonoma St.,
Carson City, NV 89701

ECKMEYER, ROBERT G.
16745 Pinion Road
Reno, NV 89502

UNITED GROCERS, LTD., dba
Bert McDowell Co.,
8301 Fruitridge
Sacramento, CAlif 95826

PETERPOSTEN, BILL
1055 Wilkinson Ave.,
Reno, NV 89502

O. H.'s Home Delivery
LANGSTON, ORAN H. (see pg. 3)

OLD HOME MILK COMPANY
P O Box 7606
Reno, Nevada 89502

SIERRA FOODS, INC.,
914 Glendale Rd.,
Sparks, NV 89431

STORY DISTRIBUTING COMPANY
P O Box 738
Lovelock, NV 89419

TAHOE CREAMERY, INC.,
P O Box 8917
South Lake Tahoe, Calif 94705

CURTIS, DENNIS L.
P O Box 477
Reno, NV 89504

KAMA, WILLIAM K. Jr.
4110 Neil Rd., #4
Reno, NV 89502

WESTMORELAND WHOLESALE
Box F
Winnemucca, NV 89445

HANSEN, ROY P.
1601 Oxford Ave.,
Sparks, NV 89431

MONDINI, STEVE
P O Box 236
Fernley, NV 89502

WANDLER, CLETUS F.
888 E. Corbett St.,
Carson City, NV 89701

JERSEY CROWN DAIRY, INC.,
P O Box 743
Manteca, Calif 95336

HI-GRADE DISTRIBUTING CO.,
P O Box 383
Winnemucca, NV 89445

WESTERN NEVADA

RETAILERS

RALEY'S
1500 S. Wells
Reno, NV 89502

ALBERTSON'S (see pg. 3)

SOUTHLAND CORP. (7-11 stores)
(see pg. 6)

WAREHOUSE MARKETS
Box 6478
Reno, NV 89513

MAYFAIR (see pg. 4)

NEVADA RETAIL ASSOCIATION
200 N. Fall
Carson City, NV 89701

SOUTHERN NEVADA

RETAILERS

PANORAMA MARKET
Attn: Burt Genstel
4101 West Charleston
Las Vegas, NV.

SKAGG'S FAMILY STORE
Attn: Rex G. Roylance
1150 Desert Inn Road
Las Vegas, NV

SOUTHLAND CORPORATION
4045 S. Eastern
Las Vegas, NV

VEGAS VILLAGE CORPORATION
Attn: Lee O. Jackson
1501 Las Vegas Boulevard North
Las Vegas, NV

FOODLAND MARKET
Attn: Pete Tasios
1500 Fremont
Las Vegas, NV

STEWART & BROTHERS MARKET
Attn: Joe Vranesh
2021 E. Stewart
Las Vegas, NV

SMITH MANAGEMENT CORPORATION
Attn: Dee Smith
1150 So. Redwood Road
Salt Lake City, Utah 84104

BOULEVARD MARKET
Attn: Paul Moore
3770 S. Maryland Parkway
Las Vegas, NV

MISCELLANEOUS

WALKER, LEE, Attorney at Law
309 S. Third St.,
Las Vegas, NV

REID, RALPH
Knudsen Co.
231 E. 23rd St.,
Los Angeles, Calif 90051

YOUNG, RICHARD, Attorney at Law
321 South Arlington Ave.,
Reno, NV 89501

CONSUMER'S LEAGUE OF SOUTHERN NEVADA
Mr. Geoffrey Stormson, President
Planning Department
City of Las Vegas
400 E. Stewart
Las Vegas, NV 89101

JONES, MERLIN, CPA
714 S. Fourth St.,
Las Vegas, NV

SPENGLER, DANIEL S.
Knudsen Co.
972 Calvados
Sacramento, Calif 95813

CONSUMER AFFAIRS DIVISION
Department of Commerce
201 S. Fall
Carson City, NV 89701