

Farmers Sales Service, Inc.

Mel Gadbut

LICENSED AND BONDED DAIRY BROKERS
DAIRIES - LIVESTOCK-MILK POOL QUOTAS
BUYING - SELLING - APPRAISING - FINANCING

August 22, 2017

CDFA Producer Review Board
Ms, Candace Gates
FMMO Coordinator
1220 N Street
Sacramento, California 95814

Re: Stand Alone Quota Program

Dear Ms. Gates and Producer Review Board Members,

My name is Mel Gadbut. I have been a California dairy broker for nearly forty-three years, selling pool quota, dairy cattle and dairy properties. I sell pool quota nearly every month.

As a person who has been actively engaged in the quota markets for many years, I would like to state my concerns regarding the five-year "re-approval" component to the Stand Alone Quota Program. I believe the quota program is unique and should not be considered to be in the same category as other programs assessed under the Food and Agriculture Code that are subject to review every five years. Dairymen who own quota are far different from other segments of agriculture who are assessed under the Food and Agriculture Code. The quota they own is an actual asset that is bought and sold like any other asset such as real estate or cattle. I'm not aware of any other ag related industry that operates under similar circumstances.

In my opinion as a broker, such a five year "re-approval" component could possibly diminish the value of quota, because it would create a permanent cloud over quota that could cause a dairyman interested in purchasing quota to question whether or not the quota program would remain in effect after he, or she, purchases quota. Dairymen purchasing quota want to be sure that they can recoup their investment. I believe a five-year "re-approval" component will add an element of risk to purchasing quota that in turn could have a negative effect on quota prices, and therefore to the value of quota owned by all dairymen. I think the negative effect could be even greater as the date for the five-year "re-approval" gets closer.

At the current price of \$540.00 per lb. of quota solids, and depending on a dairy's RQA, it takes approximately 7.5 years, (13.20% gross ROI) in Southern California, to 9 years, (11.11% gross ROI), in Fresno, Kings, and Tulare Counties for quota to pay for itself. These figures do not take into consideration the cost of borrowed funds. Therefore, a five-year "re-approval" of the Stand Alone Quota Program doesn't allow enough time for a prospective buyer to recover their investment even if the purchase is made at the beginning of the five year period.

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Any loss in the value of quota because of the cloud of a five-year "re-approval" component could potentially reduce every quota holder's quota asset value on their balance sheet. The quota markets already experience market price volatility due to supply and demand, and also to rumors that always seem to be circulating in the dairy industry. I have always compared the quota market to the stock market, in that even a minor rumor can influence the markets higher or lower. However, supply and demand issues and rumors in the quota markets come and go. I believe a five-year "re-approval" component would create a permanent cloud over the Stand Alone Quota Program.

If a "re-approval" component is desired, or required, then at the very least the "re-approval" component should be a minimum of ten years or more. However, the value of quota would still be impacted even if a longer term of ten or more years is imposed, because as I stated earlier, the value would be diminished as the "re-approval date draws near. Nevertheless, I fail to see why there is even a need to have a "re-approval" component at all, since the dairyman themselves, dairy cooperatives, or the three major dairy trade organizations, can petition the Secretary of Agriculture and/or the Producer Review Board at any time to request a review of the Stand Alone Quota Program.

In conclusion, I ask that you please carefully consider the possible effects of any "re-approval" component to the Stand Alone Quota Program. I urge you to let the dairy producers decide for themselves, if and when, there is a need for review or "re-approval" of the Stand Alone Quota Program. Thank you.

Very truly yours,
Farmers Sales Service, Inc.



Mel Gadbut