

**CALIFORNIA AVOCADO COMMISSION
BOARD MEETING MINUTES
November 19, 2009**

A meeting of the California Avocado Commission (CAC) Board was held on Thursday, November 19, 2009 in the Commission boardroom in Irvine, California, with the following people present:

MEMBERS PRESENT

Scott Bauwens
Gene Carbone
Reuben Hofshi
Ben Holtz
Ohannes Karaoghlanian
Bob Lucy
Tom Markle
Bradley Miles
Doug O'Hara
Tom Pecht
Andria Pontello
Public Member
Don Reeder
Steve Taft
Charley Wolk
Gary Woodworth

MEMBERS ABSENT

CAC STAFF PRESENT

April Aymami
Zac Benedict
Tom Bellamore
Dave Cruz
Angela Fraser
Laurie Hill
Dave Howald
Aria Lukman
Anh Nguyen

ALTERNATES PRESENT

Ron Araiza
Ernie Arana
Andy Bailard
Laura Eggering
John Lamb
Ed McFadden
Bob Schaar
Rick Shade
Nick Stehly, Jr.
Donna Singmaster
San Vaccaro
Bob Witt

ALTERNATES ABSENT

Todd Elder
Shane Tucker

GUESTS PRESENT

Jennifer Baker –Assidao
Lauren Dougherty
Austin Gavin
Erik Glassen
Doug Koegeboehn
Marji Morrow
Peggy McCormick
Steven Muro
Jose Luis Obregón
Enola Price
Alva Snider
Jerome Stehly

OFFICIALLY PRESENT

Kathryn Beseau,
Macias, Gini & O'Connell
Michael Hurley,
Malcolm Pirnie
Lynne Netty,
Macias, Gini & O'Connell
Dennis Manderfield, CDFA

ITEM #1 CALL TO ORDER

Dennis Manderfield, representing the California Department of Food and Agriculture (CDFA), called the meeting to order at 9:05 a.m. and presided over the meeting until the chairperson was elected.

2009-10 CAC Board Election Results

Manderfield read the official results of the 2009-10 California Avocado Commission (CAC) Board of Directors election for two-year terms.

| <u>Producer</u> | <u>Member</u> | <u>Alternate</u> |
|-----------------|---------------|------------------|
| District 1 | Steve Taft | Nick Stehly, Jr. |

| | | |
|------------|--------------|------------------|
| District 2 | Charley Wolk | Donna Singmaster |
|------------|--------------|------------------|

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|------------|----------------|-------------|
| District 3 | Gary Woodworth | San Vaccaro |
|------------|----------------|-------------|

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|------------|-----------|-----------|
| District 4 | Tom Pecht | John Lamb |
|------------|-----------|-----------|

| | | |
|------------|-------------|---------------------|
| District 5 | Doug O'Hara | Rick Shade write-in |
|------------|-------------|---------------------|

| <u>Handler Member</u> | <u>Handler Alternate</u> |
|----------------------------------|------------------------------------|
| Bob Lucy (Del Rey Avocados) | Bob Witt (Cal Pacific) |
| Reuben Hofshi (Del Rey Avocados) | Ernie Arana (Harvest Time Produce) |

He congratulated all those who were elected and commended all who participated.

Roll Call

Mr. Manderfield called the roll and announced a quorum was present.

ITEM #2 FILL VACANT DISTRICT 1 PRODUCER ALTERNATE SEAT

Mr. Manderfield announced a vacancy for the alternate seat in District 1 and he noted that Shane Tucker was a declared candidate. He asked if there were any other candidates. With there being none, the following motion was made:

MOTION: *The CAC Board of Directors approves Shane Tucker as District 1 Producer Alternate Member for the term ending October 31, 2010. (Markle/Miles) MSC*

ITEM #3 FILL VACANT HANDLER MEMBER SEAT AND ALTERNATE SEAT

Mr. Manderfield explained the '30% rule' which allows for any handler to appoint a Handler Member and an Alternate Handler Member to hold a seat on the Board if that handler holds a minimum of 30 percent of the market. He noted that Calavo had previously exercised the 30 % rule but the company's market share fell below 30% in 2008-09, rendering the seated member and alternate ineligible under this provision. This led to mid-term vacancies for a handler member and a handler alternate. The vacated seats were previously held by Gene Carbone, Handler Member and Alva Snider, Handler Alternate. Mr. Manderfield stated that they had each wished to continue serving. The floor was open for nominations.

Nominations were opened for Handler Member and Don Reeder nominated Gene Carbone; seconded by Tom Markle.

MOTION: *The CAC Board of Directors approves Gene Carbone to fill the Handler Member seat for the term ending October 31, 2010. (Reeder/Markle) MSC*

There were two nominees for the open Alternate Handler seat. Bob Lucy nominated Todd Elder from Index Fresh. Mr. Elder was not in attendance, and Mr. Lucy noted that Mr. Elder has been in the industry for 20 years and 15 years at Index.

Mr. Markle nominated Mr. Snider. Mr. Snider addressed the Board, mentioning that he had served on the CAC Board for 30 years, noting that he was 93 and still very active in the industry.

A roll call vote was taken:

| <u>Member</u> | <u>Vote</u> |
|---------------|-------------|
| Markle | Snider |
| Taft | Elder |
| Wolk | Snider |
| Holtz | Elder |
| Woodworth | Elder |
| Karaoghlanian | Elder |
| Reeder | Snider |
| Pecht | Snider |
| Miles | Snider |
| O'Hara | Elder |
| Lucy | Elder |
| Bauwens | Elder |
| Hofshi | Elder |
| Carbone | Snider |
| Pontello | Elder |

9 to 6 in favor of Todd Elder. Mr. Elder will serve until October 31, 2010.

ITEM #4 ELECTION OF OFFICERS

Mr. Manderfield read the portion of the "election of officers" from the CAC Bylaws.

Election of the Chairperson

Nominations were opened for Chairperson and Mr. Miles nominated Don Reeder; seconded by Tom Pecht.

Steve Taft nominated Ohannes Karaoghlanian; seconded by Charley Wolk. Both nominees gave statements to the Board.

Mr. Karaoghlanian requested a written vote count. Mr. Markle made a motion that the roll call vote be taken openly.

Discussion ensued. Mr. Manderfield clarified that a vote conducted in writing followed by a voice pronouncement of how each member voted is not in violation of the Bylaws. The understanding was to obtain fair votes without bias.

Mr. Markle withdrew his motion.

A written vote was taken, collected and counted and Mr. Manderfield read the members' votes as follows:

| <u>Member</u> | <u>Vote</u> |
|---------------|---------------|
| Markle | Reeder |
| Taft | Karaoghlanian |
| Wolk | Karaoghlanian |
| Holtz | Reeder |
| Woodworth | Karaoghlanian |
| Karaoghlanian | Karaoghlanian |
| Reeder | Reeder |
| Pecht | Reeder |
| Miles | Reeder |
| O'Hara | Reeder |
| Lucy | Karaoghlanian |
| Bauwens | Reeder |
| Hofshi | Karaoghlanian |
| Carbone | Reeder |
| Pontello | Karaoghlanian |

Ballots were counted and Mr. Manderfield announced that the ballots were cast 8 to 7 in favor of Don Reeder as Chairman of the Board for the 2009-2010 season.

Mr. Manderfield congratulated Mr. Reeder and gave him the gavel to continue the meeting.

Chairman Reeder thanked the Board and presided over the remainder of the Board meeting. He also stated that there should be no division of the Board by northern and southern growers. Rather, the Board should be united with one goal: to serve the growers by successfully marketing avocados.

ITEM #5 CHAIRPERSON TAKES GAVEL AND PRESIDES

Election of the Vice-Chairperson

Nominations were opened for Vice-Chairperson and Mr. Pecht nominated Mr. Wolk, seconded by Mr. Miles. Mr. Wolk said he was honored, but declined the nomination.

Ben Holtz nominated Mr. Karaoghlanian; seconded by Reuben Hofshi. Mr. Markle nominated Mr. Miles; seconded by Mr. Pecht.

A vote was taken, and the vote result was as follows:

| <u>Member</u> | <u>Vote</u> |
|---------------|---------------|
| Markle | Miles |
| Taft | Karaoghlanian |
| Wolk | Karaoghlanian |
| Holtz | Karaoghlanian |

| | |
|---------------|---------------|
| Woodworth | Karaoghlanian |
| Karaoghlanian | Karaoghlanian |
| Reeder | abstain |
| Pecht | Miles |
| Miles | Miles |
| O'Hara | Miles |
| Lucy | Karaoghlanian |
| Bauwens | Miles |
| Hofshi | Karaoghlanian |
| Carbone | Karaoghlanian |
| Pontello | Karaoghlanian |

Votes were cast 9 to 5 in favor of Ohannes Karaoghlanian as Vice Chairman of the Board for the 2009-2010 season.

Election of the Treasurer

Nominations were opened for Treasurer and Mr. Miles nominated Mr. Holtz, seconded by Mr. Pecht.

Through a motion made by Bradley Miles, seconded by Tom Pecht, nominations were closed and a unanimous vote was cast for Ben Holtz as Treasurer of the Board for the 2009-2010 season.

Election of the Secretary

Nominations were opened for Secretary and Mr. Pecht nominated Mr. Miles seconded by Mr. Bauwens. Mr. Karaoghlanian nominated Gary Woodworth seconded by Ben Holtz.

A vote was taken, and the vote result was as follows:

| <u>Member</u> | <u>Vote</u> |
|---------------|-------------|
| Markle | Miles |
| Taft | Woodworth |
| Wolk | Woodworth |
| Holtz | Woodworth |
| Woodworth | Woodworth |
| Karaoghlanian | Woodworth |
| Reeder | Miles |
| Pecht | Miles |
| Miles | Miles |
| O'Hara | Miles |
| Lucy | Miles |
| Bauwens | Miles |
| Hofshi | Woodworth |
| Carbone | Miles |
| Pontello | Woodworth |

Votes were cast 8 to 7 in favor of Bradley Miles as Secretary of the Board for the 2009-2010 season.

Mr. Manderfield recognized outgoing Chairman Rick Shade and provided a special plaque from California Secretary of Agriculture A.G. Kawamura which offered a declaration of special achievement.

Mr. Markle stated that the Board also recognized and appreciated the rest of the outgoing executive committee: Carol Steed, Ken Roth and Tom Pecht.

Consider Approval of Board of Directors Minutes of October 15, 2009

The Chairman asked if there were any changes to the Minutes as offered on the Consent Calendar. It was noted for correction that Will Carleton's vote was for Mr. Schaar rather than abstaining. The following motion was presented:

MOTION: *The CAC Board of Directors approves the Consent Calendar, item 1-A) Approval of October 15, 2009 Board Meeting Minutes as corrected. (Karaoghlanian/Carbone) MSC*

Chairperson's opening remarks

Chairman Reeder thanked the Board for their vote of confidence and reiterated that he was going to work hard for a successful year.

Tentative 2009-10 Meeting Schedule

The Board discussed the meeting schedule for 2009-10. President Bellamore proposed combining the Annual Meetings and Planning Meetings into a series of field meetings across all districts, in an effort to connect more closely with the growers and receive their input on Commission activities. It was noted that last year, growers requested that the Annual Meetings be held after the Annual Report was released. After some discussion, there was consensus to hold two meetings up north and two meetings in the south in April. It was agreed that this would initially be sufficient and that no other roaming business meetings would be planned.

Site Update

Mr. Bellamore reported that the sublease on 38 Discovery, Suite 150 had been signed and the new tenants would move in on December 1st. Irvine Company consent for the sublease was expected at the end of the day. It was also reported that a new location had been secured for CAC headquarters. Specifics of the relocation were discussed:

- New location will be 12 Mauchly, Suite L, Irvine, CA 92618 effective November 25th
- New lease has a five-year term
- Board has option to purchase the property within the first year, if desired
- Board has first right of refusal if another offer comes in
- Downsizing from 10,648 to 5,842 square feet

- 3 months free rent up front
- 35 cents per square foot triple net

It was mentioned that the new building has not been built out yet. The build out could be an option for the Board's consideration after the January board meeting. It was also noted that the Hass Avocado Board (HAB) was nearby and had offered to host meetings at their location.

The Board reviewed the total lease costs, sublease income and net lease amounts, and anticipated moving costs in detail. It was emphasized that expected savings were on the order of \$100,000 over 20 months.

Mr. Miles reported that he and Darrell Nelson met with Cal Poly University to discuss the Pine Tree Ranch property in Santa Paula, CA, with the idea of possibly leasing of the property for research. He said that Cal Poly has matching funds for field work for irrigation engineering studies and other research, and that they have a strong interest in renting the property to CAC. He stated that a letter proposal was being prepared for Board review.

ITEM #6 FINANCIAL UPDATE

2008-09 Financial Highlights

Mr. Bellamore reported that no finance meeting was held. CAC Finance & Accounting Manager, Aria Lukman, offered a few financial highlights. It was noted that the estimated crop value for 2008-09 was \$199.3 million (down \$21.3 million from the original estimate of \$220.6 million), and estimated volume was 174.3 million pounds (down 35.8 million pounds from the original estimate of 210.1 million pounds). Mr. Lukman provided revenue and expense updates, and said that the fiscal year had not yet been closed out. Final financial statements would be presented at the January 21, 2010 meeting. The 2008-09 fiscal year was projected to end with \$2.9 million in reserves.

Mr. Carbone suggested that the future financial reports should compare the actuals to the original budgets. This way, management's response to market changes such as variances in crop value and volume would be more apparent on the reports. Mr. Carbone used fiscal year 2008-09 as an example where the management responded to the unfavorable variance in revenues by cutting the expenditures by about the same amount, which showed prudent and timely financial management.

Consider Approval of Budget Amendment #1

Mr. Bellamore noted that this year's budget process was unusual since a new online agency was hired late in the year. Consequently, details of the online marketing budget could not be finalized before the October board meeting. Mr. Bellamore reported that the amendment provided more details regarding online marketing spending, sorted out the social media components, and shifted \$30,800 from Public Relations to the Online Marketing budget. Additionally, Budget Amendment #1 contained revisions related to CAC office move, Avocado Inspection

Program fees for services provided by CAC, and projected CAC beginning reserves.

MOTION: The CAC Board of Directors approves Budget Amendment #1 as presented. (Lucy/Holtz) MSC

CPA Firm Perspective on Board Financial Oversight

Mr. Lukman introduced Kathryn Beseau and Lynne Netty, Audit Engagement Director and Manager, respectively, from Macias, Gini and O'Connell (MGO), to present the auditors' perspective on the Board's responsibilities on finance and audit oversight.

Ms. Beseau started with a presentation on Statements on Auditing Standards (SAS) 114 which set the standard on auditors' communication with those charged with governance. She explained the purposes of the communication, as follows:

- Communicate the responsibilities of the auditor in relation to the financial statement audit (an overview of the scope and timing of the audit)
- Obtain information relevant to the audit
- Provide timely observations arising from the audit that are relevant to their responsibility in overseeing the financial reporting process
- Communicate in writing, significant findings

She then explained that ineffective oversight was an indicator of a control deficiency that should be regarded as significant and a strong indicator of material weakness in internal control. If the auditor believed that the two-way communication between the auditor and the Board was inadequate, he/she should consider one of the following:

- Modifying the auditor's opinion of the basis of a scope limitation
- Obtaining legal advice about the consequences of different courses of action
- Withdrawing from the engagement

Ms. Beseau also described the purpose of a Finance Committee, noting that it was a valuable tool for ensuring that all those responsible for financial reporting – management, independent auditors and the governing Board – fully meet their respective responsibilities. She noted that the Finance Committee represented the full Board and provided independent review and oversight of CAC's financial reporting processes, internal controls and independent audit procedures.

Additional discussions included goals of a Finance Committee, the financial reporting process, internal controls and assessment of the internal control framework.

Ms. Beseau stated that she would be in communication with the Finance Committee and the Internal Audit Subcommittee to review all audit findings and would provide all findings to the Board in final form.

There was a discussion about the materiality level that MGO would adopt when auditing CAC's financial statements. Ms. Netty explained that the materiality level would be set according to the auditors' judgment on what amount would be material to a reasonable reader of the financial statements. The limit, therefore, could vary from one area to another. She also noted that if MGO detected a fraud, it would investigate and report to the Board regardless of the amount.

ITEM #7 PRODUCTION RESEARCH REPORT

Mr. Bellamore introduced non-marketing topics for discussion. He spoke about the Mediterranean fruit fly detections in Fallbrook, and how the resulting quarantine zone abuts the expanded zone recently established as a result of the Escondido quarantine. Maps of the quarantine zones are posted on the CDFA Web site. At the request of CDFA, CAC and the Citrus Research Board arranged a meeting location where regulators could provide citrus and avocado growers with the latest quarantine information. Concern was expressed that the maps on the CDFA Web site were of limited utility and the Board inquired whether CAC could improve upon the mapping using its own GIS database. Mr. Bellamore responded that he would speak with Gwen Peterson about doing so, but the results were uncertain. It is estimated that there are just over 2,000 acres of avocados in the Fallbrook quarantine area, which could affect up to 1,100 growers.

Some members inquired whether the U.S. Department of Agriculture's (USDA) position on the host status of avocados to Mediterranean fruit fly was supported by science. Mr. Bellamore said that in the past, USDA was willing to consider extrapolating scientific data from one fly species to another. A clear demarcation point occurred within the last decade, however, when the Department abruptly stopped doing so, likely in response to concerns raised by international trading partners. In order to definitively conclude that avocados were not a host for Medfly, USDA would require additional research, similar to the field work conducted in Mexico for Mexican fruit fly by the Mexican avocado industry. Unfortunately, field research of this type cannot be conducted within a Medfly-free area because of the possibility of fly escapes into the surrounding environment. Instead, the research would have to be under laboratory conditions (a less than ideal solution) or conducted in a country where Medfly was endemic. It was suggested Guatemala, Peru or Israel might be possible research sites. There was general consensus that the Production Research Committee should investigate the possibility of conducting such a project.

Another item of discussion was CAC's production research program. Mr. Bellamore stated that management has been working since August on a plan to address the gap in program coordination. After considerable discussion, CAC was able to arrange for Dr. Jonathan Dixon from New Zealand to come to the U.S. for a period of at least one year on sabbatical to work for CAC. Dr. Dixon's credentials were discussed and it was generally agreed that he would bring a fresh perspective to the research program, with an applied research orientation and emphasis on grower communications. Dr. Dixon is expected to start in February 2010 and compensation for the position has already been provided for in the 2009-10 budget.

It was noted that there will be strong communication between the Production Research Committee Chairperson and Dr. Dixon. Discussion ensued. There was consensus that Dr. Dixon would likely be a tremendous asset in the review and implementation of CAC's Production Research Program.

Another issue for consideration was a request from Dr. Bruce Schaffer, Professor of Plant Physiology, University of Florida, who is editing the next edition of *The Avocado, Botany, Production, and Uses* along with Nigel Wolstenholme and Tony Whiley. Dr. Schaffer inquired about whether CAC would be willing to contribute between \$1,000 and \$2,000 towards color photos of important cultivars, diseases, insects, and the effects of nutritional deficiencies. The publisher, CAB International Press, does not cover the cost of color plates, and all members of the international avocado community have been approached about contributions. Ms. Eggering said that Dr. Schaffer contacted the California Avocado Society with a similar request. Mr. Markle suggested asking for a courtesy copy of the final publication if CAC decides to make a contribution.

MOTION: *The CAC Board of Directors agrees to provide a contribution of \$1,000 towards color plates for the CABI publication. (Holtz/Pecht) MSC 2 opposed (Karaoghlanian, Woodworth)*

Lastly, Mr. Bellamore reported that he received an e-mail from Antony Allen, CEO of Avocados Australia, regarding initial discussions about a multi-country research effort to address alternate bearing of avocado trees. Discussion ensued and several suggestions were offered:

- The concept was worthy of further investigation
- Researchers should provide concept papers
- Drs. Lovatt and Thorpe are already engaged in research on this topic
- Consider the most favorable research location and geographical differences and limitations
- Support for international cooperation of this type
- PRC should review and bring a recommendation to the Board

ITEM #9 HASS AVOCADO BOARD REPORT

Due to time constraints, the Chairman asked that the discussions on the Water Program be presented after lunch.

HAB Managing Director Jose Luis Obregon addressed the Board, announcing that HAB moved into their new offices on November 13, 2009 located at 230 Commerce Drive, Suite 190 in Irvine. He said that their office has a boardroom that can accommodate up to 60 people with video conferencing functionality and is available at no cost to the other boards and associations. He welcomed CAC to use the new facility.

Mr. Obregon stated that HAB's budget was approved on October 25th by USDA, and the organization is currently working on Super Bowl ramp-ups. He mentioned that HAB's next Board meeting is January 28th.

ADJOURN FOR LUNCH

The Chairman adjourned the Board for lunch at 11:45 p.m. and the Board reconvened at 12:30 p.m.

Mr. Bellamore stated that it was confirmed for the record that Mr. Carleton's vote at the October Board meeting was for Bob Schaar.

ITEM #8 WATER PROGRAM

Mr. Bellamore stated that when the 2009-10 budget was approved in October, details on the water program had yet to be defined. An overview of CAC's involvement in water issues, including the role of the Southern California Agricultural Water Team (SCAWT), was presented which highlighted past successes and current challenges, to set the context for discussions about what level of program activity was desired in the upcoming year. Potential activities on the following list were reviewed and discussed in detail, along with proposed budget amounts for each:

- Metropolitan Water District (MWD) Agricultural Conservation Program - \$19,000
- MWD Integrated Resources Plan / Blue Ribbon Task Force - \$ 23,000
- MWD Long Range Finance Plan and Cost of Service Updates- \$21,000
- San Diego County Water Authority Special Agricultural Water Rate - \$12,600
- CAC Strategic Planning Process on Future Water Supplies - \$15,000
- Proposition 50 ET Controller Study and U.S. Bureau of Reclamation ET Controller Study - \$15,000
- SCAWT Meetings - \$18,000

A variety of comments emerged during the discussion phase on this topic. Incentives for growers to upgrade irrigation systems were mentioned but there was disagreement about the value of an agronomist to assist growers with becoming more water efficient. Mr. Hofshi discussed water quality and salinity tolerant rootstocks being utilized by other avocado industries. Mr. Witt offered that CAC's main focus should remain on marketing. Ms. Eggering inquired about the formation of a monitoring group to comply with regulations regarding agricultural discharges in Riverside County, and Mr. Bellamore responded that the topic had been vetted several times before the Board without much interest.

Mr. Holtz asked for further discussion on CAC's engagement with MWD (Project #2). Chairman Reeder expressed the need for CAC to stay connected with the Metropolitan Water District, a position echoed by Mr. Wolk. There was general consensus for this idea. Mr. Woodworth underscored the need for deliverables.

MOTION: *The CAC Board of Directors agrees that continuation of the ET controller projects should be left to management's discretion.*

(Holtz/Pecht) MSC

It was further agreed that management would reframe the water program proposals and bring them back to the Board at the next meeting.

ITEM #10 OPPORTUNITY FOR PUBLIC COMMENT

No public comments were received.

Copies of the November 19, 2009 Board Packet handouts are attached to the permanent copy of these Minutes and identified as EXHIBIT A.

A copy of the Macias, Gini and O'Connell's presentation is attached to the permanent copy of these Minutes and identified as EXHIBIT B.

A copy of the E-mail from Dr. Jonathan Dixon is attached to the permanent copy of these Minutes and identified as EXHIBIT C.

A copy of the Water Presentation is attached to the permanent copy of these Minutes and identified as EXHIBIT D.

ADJOURN MEETING

With no further business, Chairman Reeder adjourned the meeting at 2:45 p.m. The next Board meeting will be held January 21, 2010.

Respectfully submitted,

Laurie Hill, CAC Staff

I certify that the above is a true statement of the Minutes of November 19, 2009 approved by the CAC Board of Directors on January 21, 2010.

Bradley Miles, CAC Board Secretary