

**CALIFORNIA AVOCADO COMMISSION
FINANCE COMMITTEE MINUTES
AUGUST 18, 2011**

A meeting of the Finance Committee of the California Avocado Commission (CAC) was held on Thursday, August 18, 2011 at 8:00 a.m. at CAC Conference Room in Irvine, California, with the following people present:

MEMBERS PRESENT

Ben Holtz, Chairman
Bob Schaar
Doug O'Hara
Gene Carbone
John Lamb
Ron Araiza

GOVERNMENT PRESENT

Dennis Manderfield
Veronica Douglas

STAFF PRESENT

Tom Bellamore
Jan DeLyser
April Aymami
Aria Lukman

MEMBERS ABSENT

Gary Woodworth
Keith Reeder

GUESTS PRESENT

CALL TO ORDER

Finance Committee Chairman Holtz called the meeting to order at 8:03 a.m. with a quorum present.

MINUTES

The Committee approved the following minutes:

MOTION: *The Finance Committee approves the June 16, 2011 Finance Committee Meeting Minutes as presented. (Carbone/Lamb) Unanimous*

2010-11 FINANCIAL UPDATES

Mr. Lukman reported that as of 7/31/2011 CAC held \$7.1 million of its cash and another \$980 thousand of Avocado Inspection Program's cash. Assets totaled \$12.3 million as of 7/31/2011. Based on handlers' assessment reports, 179 million pounds were harvested through June. Staff estimates another 60 million pounds were harvested in July, which brings the total through July to 239 million pounds. The estimated average price through July is \$1.50 a pound.

The Committee members discussed the total pounds harvested in the last quarter and the general consensus was that another 30-40 million pounds would be harvested in that period, which would bring the total crop size for the fiscal year to around 275 million pounds.

Mr. Carbone suggested that staff adjust the monthly distribution of expenditures budget to eliminate misleading year-to-date budget-vs.-actual variances. Ms. DeLyser confirmed that she would do that for the marketing budget going forward.

2011-12 Crop Size and Farmgate Projections, Preliminary Scenario Analysis Based on Current Financial and Crop Inputs, and Discussion of Reserve Reduction Options and 2011-12 Assessment Rate

Mr. Holtz opened the discussion on the topic and invited Mr. Lukman to present his Power Point slides on the topic. Mr. Lukman prefaced his presentation by stating that the calculations to be presented assumed that the 2010-11 total crop size was 268 million pounds. The presentation started with a 2010-11 financial forecast which showed additional revenues of \$1.7 million and unspent expenditures of \$0.4 million for a total surplus of \$2.1 million. Ending reserves are now forecasted at \$8.3 million.

Mr. Lukman stated that there seemed to be a general consensus on the 2011-12 crop size of 400 million pounds. There wasn't, however, a consensus on the 2011-12 price. In an attempt to project the 2011-12 price, staff looked into the relationship between aggregate supply and California price as well as California supply and price. The analysis suggests that, in the 10-year period between 2000 and 2010, there was a strong correlation between California supply and price but not between aggregate supply and price. The regression model that worked for 2000-2010 period, however, fails to accurately predict 2010-11 price.

Assuming that 2010-11 market equilibrium reflects a lasting and parallel upward shift of the demand curve for California avocados (and everything else stays the same), the new average price equilibrium for 2011-12 fiscal year is projected at \$1.34 per pound. Considering a margin of error of 11%, the adjusted price projection is \$1.19 per pound. Another idea assumes that the 2011-12 price is a one-time fluctuation and 2011-12 prices will go back to the regular equilibrium model. In this scenario, the projected price is \$0.88 per pound.

Staff also saw a relationship between marketing dollars spent per California avocado pound harvested versus California avocado prices. But, based on the analysis, more dollars don't always mean higher prices, probably due to a diminishing return on investment rule. At the conclusion of his presentation, Mr. Lukman showed an Excel spreadsheet for scenario analysis.

Mr. O'Hara stated his observation that the demand for California avocados was abundant and consumers should be able absorb a higher supply next year. Responding to Mr. O'Hara's question, Ms. DeLyser explained that there's a growing preference for California avocados but how Peru was going to impact the market was still yet to be seen. Ms. DeLyser stated that the response from the foodservice sector was great this year even with the prices being what they are and there's no shortage of opportunities for CAC to work with foodservice operators. On the retail side, she's predicting that the retailers were expected to be more aggressive on the prices given the higher volume. But, at the same time, she believes that retailers have a new perception of what California avocados can

sell for and therefore they would not expect the prices to go back to old referential levels. Ms. DeLyser also stated that the Commission would be looking at independent retailers and devising a plan to encourage them to look at the value of California avocados and not focus solely on price.

Mr. O'Hara stated his concern that the packers would lower their prices because of the volume. Mr. Araiza said that the global market was growing and handlers needed to understand that they could market their fruits overseas and not have to be stuck with lowering prices in order to move the volume.

Mr. Bellamore stated his view that, at this meeting, the Committee should focus on the reserves and budget rather than concentrating on the assessment rate. He showed placeholders for additional spending in Industry Affairs and Production Research areas, such as tree rebate program, demonstration grove, contract agronomists, first GAP certification, etc. There's an opportunity to do these one-time programs next year because the Commission is carrying higher reserves,

Mr. O'Hara asked if the Commission should avoid swings in CAC assessment rates from year to year. Mr. Holtz stated that it's important to look at both CAC and HAB assessment rates and attempt to ensure the stability of the combined rates. Mr. Lamb said that the combined rates were historically low. Mr. Bellamore agreed and added that the Commission's operating budgets currently were lower than a few years ago. Mr. Carbone reminded the Committee that with higher aggregate supply next year, the total marketing spending by all avocado marketing organizations would be higher too and there could be diminishing returns.

Mr. Holtz asked the Committee what an ideal level of reserves would be and the general consensus was between \$3 million - \$4 million.

Power Point Presentation on the topic and Excel Scenario Analysis are attached to the permanent copy of these Minutes and identified as Exhibit A.

REVIEW OF INVESTMENT ALTERNATIVES

Mr. Lukman reported that the Commission had received a few offers to raise the rate of return on its surplus funds. Committee discussed Commission's investment objectives and felt comfortable with the following priorities: safety of principle, liquidity and then return. Due to the time constraint, staff will bring the topic back at the next Committee meeting.

CONSIDER WHETHER TO CONDUCT JOINT HANDLER ASSESSMENT AUDIT WITH THE HASS AVOCADO BOARD

Mr. Lukman reported that, per the Committee's request, he had discussed the idea with HAB Managing Director. His response was that at the moment, HAB was not interested in conducting a joint handler assessment audit with the Commission.

CASH DISBURSEMENT AUDIT

Mr. Holtz announced to the Committee that a list of cash disbursements was attached to the Finance Committee handout and encouraged the Committee members to send their inquiries on any items on the list to staff.

PUBLIC COMMENT

None.

The Finance Committee handout is attached to the permanent copy of these Minutes and identified as Exhibit A.

ADJOURN

Chairman Holtz adjourned the meeting at 9:05 a.m.

Respectfully submitted,

Aria Lukman, Finance & Accounting Manager