

LEGISLATIVE FISCAL ESTIMATE TO
SENATE, No. 2335
STATE OF NEW JERSEY

DATED: JANUARY 13, 1998

Bill Summary

Senate Bill No. 2335 of 1997 enacts the Northeast Interstate Dairy Compact, and enters New Jersey as a party state therein contingent upon the entry of the State of New York into the compact. This compact was formed on August 9, 1996 as a result of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 and after the United States Secretary of Agriculture found a "compelling public interest" in the northeast region for establishing such a regulatory body.

The Northeast Interstate Dairy Compact establishes an interstate commission with the authority to set a minimum price paid by dairy processors to dairy farmers in the New England region, at a level above the minimum price mandated by federal milk marketing orders. The compact will regulate the farm price of milk used only for fluid consumption in the compact region, regardless of where the milk originates. Milk used to produce manufactured dairy products (e.g., cheese, yogurt) cannot be regulated by the compact commission.

In addition to the New England States, the law allows six other states to join the compact - Delaware, Maryland, New Jersey, New York, Pennsylvania and Virginia. In order for any of these states to join, congressional approval is necessary and the state must be contiguous to a participating state.

Office of Legislative Services Comments

Milk pricing is determined by a complex interaction of federal and state price supports at the producer level, combined with market decisions made at the wholesale (processing) and retail levels. Therefore, it is difficult to translate a given fall or rise in prices paid to dairy farmers into an equivalent price change to consumers. However, based on recent experience, it is probably safe to conclude that an increase in costs to milk processors is more likely to be passed on to consumers -- in whole or in good part -- than is an equivalent decrease.

Based on an informal survey, the Office of Legislative Services (OLS) has determined that most milk purchased for state facilities, programs, and institutions is produced at farms operated by the New Jersey Department of Corrections and therefore would not be subject

to a price increase enacted by the Northeast Interstate Dairy Compact.

Depending on the milk sources, there could be a cost to counties and local governments for the milk supplied to institutions and facilities.

State Agencies

The Northeast Dairy Compact Commission has agreed to provide a 3.5 percent payment of the over-order amount to the region's Special Supplemental Nutrition Program for Women, Infants and Children (WIC program). This payment will ensure that the ability of the WIC program to purchase milk will not be affected.

Currently, the milk produced at the New Jersey Correctional facilities supplies all the needed milk for adult and juvenile correctional facilities in the State.

The Department of Human Services indicates that about 50 percent of the milk purchased for their facilities come from the Department of Correction farms. Depending on the price increase, the state cost for the other 50 percent could range annually from \$8,200 for a five cents per gallon increase to \$32,700 for a 20 cents per gallon increase.

School Districts

On January 16, 1998, the Northeast Dairy Commission will meet and vote on the proposed rule that would exempt from the regulation fluid milk for the contract year 1998-1999 under a competitive bid contract with School Food Authorities in New England for Child Nutrition Programs qualified for reimbursement under the National School Lunch Act of 1946 and the Child Nutrition Act of 1966. Presumably, this exemption would extend to any additional member states that join the compact.

Revenue

The compact would allow dairy farmers to receive a higher minimum price than the current federal minimum farm price in the region. This could result in enhanced production income for New Jersey farmers, resulting in enhanced income tax payments.

Commission Costs

Section 18 (b) of the bill holds the state harmless with any financial responsibility being absorbed by the commission. The financing of this compact, including its costs of commission administration and enforcement, are collected from an assessment on each processor who purchases milk from the producers within the region.

The five New Jersey delegates to the commission would be reimbursed by the State at a rate of three hundred dollars per diem for time actually devoted to commission business.

Additional Information

1. The congressional approval of the Northeast compact for the six New England states was granted by the 104th Congress upon enactment of the Federal Agriculture Improvement and Reform Act of 1996. This law allows only a limited life for the compact and would require the compact authority to expire at the same time as the adoption of the required consolidation of federal milk marketing orders, which is required by April 1999.

2. Pursuant to N.J.S.A.4:12A-22 and 23, the Director of the Division of Dairy and Commodity Regulation for the New Jersey Department of Agriculture may fix the price at which milk is to be bought, sold or distributed; regulate conditions and terms of sale and establish and require observation of fair trade practices. On December 16, 1997, an emergency order fixing a minimum price for milk produced on New Jersey dairy farms was signed by the Director of the Division of Dairy and Commodity Regulation for the State of New Jersey Department of Agriculture. This order increased the minimum price to \$16.89 for 100 pounds of milk, representing a \$1.48 increase for northern New Jersey farmers and an 81-cent increase for southern New Jersey farmers. This order is effective for a period of six months from the date of adoption unless extended or modified pursuant to the Administrative Procedure Act.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.