

INDIANA STATE EGG BOARD



ANNUAL REPORT 2009-2010

**Indiana State Egg Board
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A MESSAGE FROM THE EXECUTIVE ADMINISTRATOR

Mark Straw

In 2009, the egg law (IC 16-42-11) was modified. The primary modification to the law was the creation of language which gave the Indiana State Egg Board (ISEB) the authority to establish fees through the administrative rule process. As a result, we started the process of modifying our administrative rule (370 IAC) in October of 2009. Due to some unforeseen circumstances the rule was not published as of July 1, 2010. It has been scheduled for a public hearing on August 04, 2010, which would make a potential effective date in September of 2010.

The rule making process has taken considerably longer than initially anticipated. As a result, a new fee structure was not established prior to issuing the 2010 - 11 licenses, which placed the ISEB finances with limited operating funds. Fortunately, the ISEB received additional work under the USDA/AMS Country of Origin Labeling (COOL) program to help offset the loss in new fee revenue. We were assigned an additional 167 COOL audits. The resulting revenue allowed the program to continue in the black for the year. Additionally, the funding allowed us to hire Mr. Robert Andrew Mears in February of 2010. His primary responsibility was to the COOL program while training with Yogi in the Northeast territory and earning his USDA certification to grade eggs.

The Indiana Shell Egg Industry continues to change. We are seeing a consolidation in the retail and distribution segments; consumers are being offered an increased number of products with production and/or nutritional claims. At the same time we are observing an increase in the number of small flocks marketing to retail or farmers markets. Each of these causes us to continually re-evaluate our licensing and inspection activities and could warrant some modification in our operating procedures.

The goal of the Indiana State Egg Board is to maintain a safe and wholesome shell egg product for the consumer and do it as efficiently as possible. This annual report is designed to share information relative to the activities of the ISEB and its staff. We hope that the information serves to enlighten the reader in regard to the activities of the ISEB.

I would like to take this opportunity to thank the board members for their support and dedication to the shell egg industry, the Indiana State Egg Board, and to me personally.

Program Overview:

From its establishment nearly 70 years ago, the mission of the Indiana State Egg Board (ISEB) has remained the same: provide consumers in Indiana a safe, wholesome shell egg. Shell eggs are monitored by our field staff from the site of production to the retail store, assuring Indiana's citizens of the highest quality protein product possible.

The Egg Board has oversight by nine directors appointed by the Governor. These directors represent the various segments of the shell egg industry and include the consumer, restaurant industry, retail/grocers, wholesalers, processors and producers. The board meets quarterly to offer guidance to staff, develop policy, and approve expenditures.

All eggs produced and marketed in Indiana must meet all federal standards established for shell eggs. The U. S. Standards, Grades, and Weight Classes for shell eggs, established by the U. S. Department of Agriculture, have been adopted by the Indiana State Egg Board. They are enforced by the field staff through their daily inspection activities at Indiana shell egg processing plants, distribution warehouses, and retail stores.

Anyone who wishes to distribute eggs in the state of Indiana must register with the ISEB. Additionally, anyone who wishes to sell shell eggs directly to the consumer at a location that is not on the farm of production must register. All registrations are renewed on an annual basis. In addition to the annual registration fee, all wholesale registrants must report the volumes of product distributed in Indiana and pay a \$.06 per case (30 Doz.) fee to offset the cost of inspection activities and program administration.

The program not only protects the consumer but also supports the shell egg industry. The establishment and enforcement of standards for everyone in the shell egg business maintains a level playing field. Indiana is the third largest egg producing state, with approximately 23 million laying hens. The more than six billion eggs produced are marketed in all parts of the country. (Additional information on the Shell Egg Industry can be found in Appendix 1: Egg Industry Fact Sheet.)

Registration Activities:

One of the primary responsibilities of the Indiana State Egg Board staff is to annually register every wholesaler distributing eggs to a retailer, hotel, restaurant, hospital, nursing home, school, state or federal institution in the state of Indiana. Additionally, we register every retailer who desires to sell shell eggs to the consumer. During the 2009-2010 fiscal year, the ISEB licensed 4992 retailers and 254 wholesalers. Table 1 indicates a decade of growth of over 100 new retail registrants per year.

Table 1: Annual Retail Registration

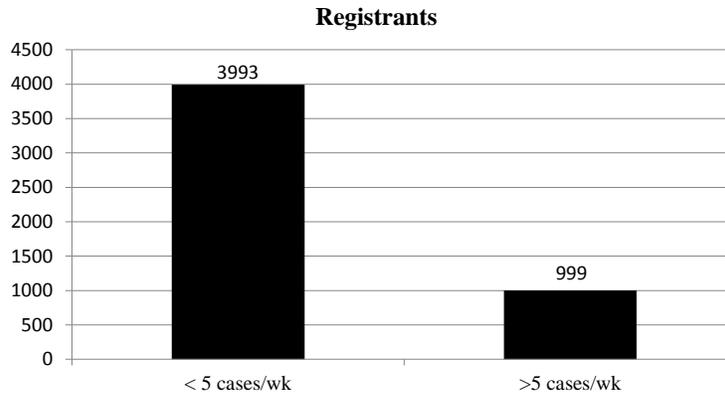


Retail Permits:

The retail registration is broken down into two categories, which are sales volume based. Anyone selling less than 5 cases a week pays a \$20 annual license fee while those selling more than 5 cases per week pay a \$25 annual fee.

Table 2: Sales by Category

2009-2010 Retail License Distribution



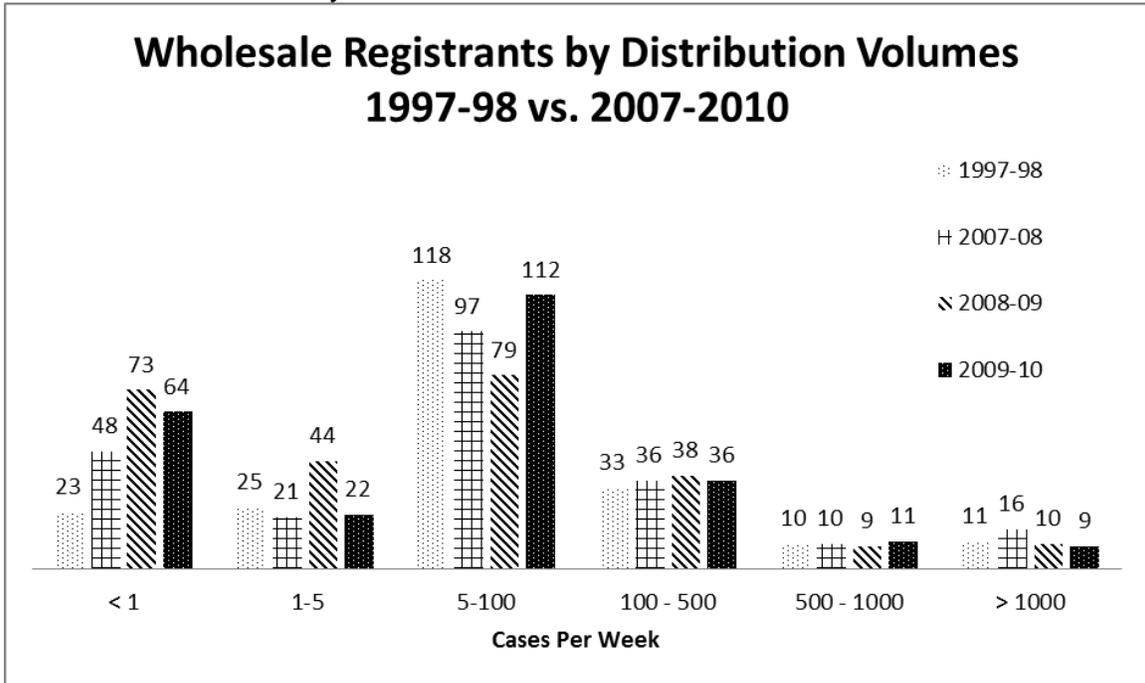
As can be seen in Table 2, the majority (80 %) of retailers that the Egg Board registers sell less than 5 cases of eggs each week. Upon further review of this group of retailers, we find that the majority of them (approximately 3200) sell less than one case of eggs per week. When looking at the group of retailers selling more than five cases per week, we find that nearly 70 % are moving volumes greater than 10 cases per week with some retailers exceeding volumes of 100 cases per week.

This data indicates that we have seen a shift in the retail grocery segment that has resulted in more large volume retailers, fewer midsized retailers, and an increase in very small retailers such as convenience stores and farmers market participants.

Wholesale Permits:

The current number of registered wholesalers is 254. In 1997-98 the ISEB had 220 registered wholesalers. Although the total number of wholesalers has not varied significantly, we have seen a change in the type and size of wholesaler. Table 3 illustrates that over the past ten years we have seen an increase in the number of the very small and the largest wholesalers. The increase in small wholesalers can be partially attributed to the greater number of small flock producers distributing eggs to a local retailer. In the 2009-10 fiscal year, also note an increase in the number of wholesalers distributing 5-100 cases per week.

Table 3: Wholesalers by Volume Sold



One other point worth discussing relative to registered wholesalers is the physical location of the distribution sites that are delivering shell eggs in Indiana. Of the registered wholesale locations, approximately 47 % are located outside of Indiana. These registrants distribute approximately 37 % of the shell eggs. Every contiguous state plus Arkansas, Tennessee, Georgia, Virginia, and Pennsylvania have registered facilities that distribute shell eggs into Indiana.

INSPECTION ACTIVITIES:

Three inspectors and two administrative staff are charged with enforcing the Egg Board's regulations. Staff is strategically located around the state with each inspector being responsible for approximately 1600 retailers within their assigned areas. Additionally, all in-state wholesalers are visited on a regular basis to assure compliance with the regulations. Table 4 documents the activities of staff from July 1, 2009 to June 30, 2010.

Table 4: Quarterly Inspection Data

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	TOTAL
Inspection:					
Retail	1,765	1,614	1,516	1,798	6,693
Restaurant	0	7	0	0	7
Wholesaler	19	17	14	23	73
Nursing Home	0	0	0	0	0
Hospital	0	0	0	0	0
Bakery	0	0	0	0	0
Other	0	3	0	0	3
Surveillance	14	11	16	21	62
School Lunch	15	18	1	2	36
COOL	53	4	89	64	210
Total Inspections	1866	1674	1636	1908	7084
Dozens Inspected:					
State	18,886	18,539	21,815	24,231	83,471
Federal	<u>1,195</u>	<u>1,063</u>	<u>2,204</u>	<u>1,541</u>	<u>6,003</u>
Total Dozen Inspected	20,081	19,602	24,019	25,772	89,474

Retail inspection activities are primarily targeted at the larger metropolitan areas of the state, and retailers in these areas are visited a minimum of two times annually. The more rural areas of the state receive visits at least once annually. On average, each field staff conducts over ten inspections per day while traveling 115 miles.

In addition to inspection work at the retail and wholesale level, the staff conducts unannounced inspections at the 19 shell egg processing plants and grading stations in Indiana, enforcing the Egg Products Inspection Act. The visits are conducted a minimum of once each quarter. All field staff are licensed by the U. S. Department of Agriculture to conduct these activities. The Egg Products Inspection Act controls the disposition of inedible and restricted eggs, which do not meet the requirements for consumer use. During these inspections, cooler temperatures are checked to assure adherence to the 45 degree storage

temperature requirement, and carton and case labeling is checked to assure refrigeration information requirements are met. Eggs which do not meet the established requirements during these inspections are retained, and must be either brought into compliance or shipped to an approved egg products processing plant to be further processed. In the 2009-10 fiscal year, inspectors retained 36,669 dozen shell eggs under this authority.

The Indiana State Egg Board staff is also licensed to conduct destination poultry inspections for the U. S. Department of Agriculture. Inspections are conducted at food storage warehouses contracted to handle eggs, poultry, and other commodities for distribution to schools and the several nutrition and feeding programs around the state. Thirty-six such inspections were conducted in 2009-2010. More than 460,000 pounds of poultry was certified as wholesome during these inspections. The Egg Board is reimbursed by the U. S. Department of Agriculture on a fee grading basis for these services.

Violations/Compliance issues:

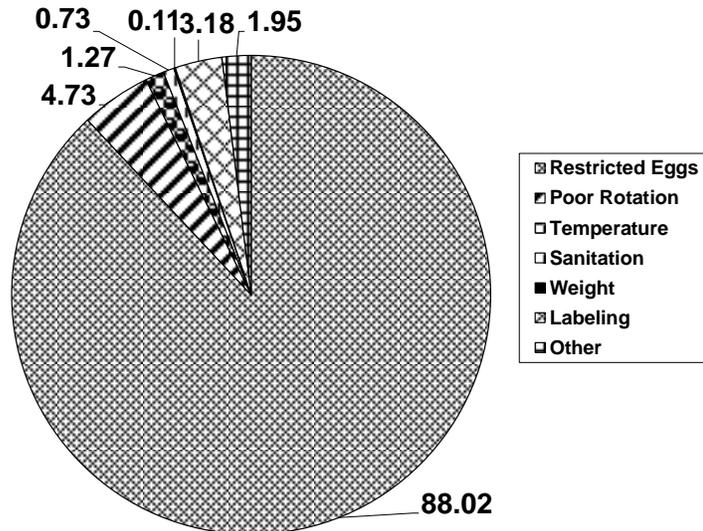
Although most of the retail and wholesale inspections are completed without incident, occasionally situations arise during these inspections that result in removal of eggs. Violations can be a result of any one of the following situations:

- **Restricted Eggs:** Dirties, cracked, bloody, or inedible eggs
- **Poor Rotation:** Eggs are past expiration date
- **Temperature:** Storage or display area is above 45° F or below freezing
- **Sanitation:** Storage or display is in an unsanitary condition
- **Weight:** Egg weights are below USDA standards
- **Labeling:** Not in compliance with labeling requirements
- **Other:** Can include not posting license, missing eggs, buying from a non-registered wholesaler

In 2009-10, inspectors removed 36,669 dozen eggs from sale. The majority of removals were a result of restricted eggs. A breakdown of the percentage of violations reported is shown in Table 5.

Table 5: Violations Resulting in Egg Removal

% Violations By Type



When looking at violation data (Table 6) from the past three years, we see some minor changes relative to an increase in rotation and sanitation violations. These changes do not indicate any major issues but do warrant closer monitoring. There has been little change over the past few years relative to restricted eggs and improper labeling. Labeling violations will likely continue until the point in time that all states follow the same labeling requirements. It is also unlikely that we will see any major shifts in the number of violations due to restricted eggs since multiple processes are involved in the distribution channel.

Table 6: Summary Table: % of violations recorded

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Restricted Eggs	85.15	84.32	81.78	88.02
Poor Rotation	4.55	4.37	5.27	4.73
Temperature	1.68	1.70	1.60	1.27
Sanitation	.86	0.59	1.40	0.73
Weight	0.11	0.29	0.40	0.11
Labeling	3.63	3.26	3.94	3.18
Other	4.02	5.46	5.58	1.95

Holding temperature violations are primarily at the retail case and vary dramatically by season. There is a higher incidence of frozen eggs during the summer, which is a

result of temperature variation from the front to back of older display cases. As older display coolers are replaced temperature related issues are expected to decrease.

Other Observations:

Over the past year there has been a significant increase in the number of small producers who are marketing or trying to market their eggs to small retailers, such as convenience stores or locally owned health food stores. We believe this trend will continue and may require increased inspection time.

Additionally, there has been a continued increase in the number and volume of specialty eggs available at retail. Since specialty eggs are a smaller portion of the shell egg market, product is often handled multiple times before delivery to the retail location, resulting in a higher incidence of restricted eggs. More specialty eggs have also increased the number of samples required to conduct a complete inspection of a retail location, thus increasing the time needed to conduct an inspection.

Conclusions and Implications:

- The Indiana State Egg Board is efficient in conducting nearly 8000 inspections each year. It will be extremely difficult with current staffing levels to increase inspection numbers or volumes. This is especially true in consideration of the demographic changes occurring in the retail industry.
- The number of registered retailers continues to grow, with the majority of the growth representing small volume retailers that require greater staff inspection time per case sold than do middle and large retailers. The result is an increased workload on staff.
- Trends indicate a continued increase in the number of small wholesalers, mostly small producers wishing to wholesale some of their excess production. Implementation of a simplified licensing and reporting system for small wholesalers will reduce ISEB operating costs and the reporting burden on small wholesalers.
- We will continue to evaluate opportunities to improve our inspection efficiency.

**INDIANA STATE EGG BOARD
FINANCIAL STATEMENT
FISCAL YEAR JULY 1, 2009 – JUNE 30, 2010**

Beginning Cash Balance.....	\$ 233,064.08
Income	\$ 432,058.55
Expenses:	
Salaries/Benefits.....	\$ 358,515.35
Travel	\$ 20,800.87
Automobile Purchased	\$ (8,635.00)
Printing and Duplicating.....	\$ 1,956.37
Postage	\$ 2,137.81
Telephone	\$ 4,504.16
Board Expense	\$ 2,955.70
Office Expense	\$ 1,434.56
Computer/Computer Supplies	\$ 7,598.01
Grading Supplies	\$ 906.53
Education/Memberships	\$ 850.00
Rent.....	\$ 100.00
Overhead.....	\$ 16,440.77
Other.....	\$ 4,948.72
Total Expenses	\$ 414,513.85
Net Loss	\$ (17,544.70)
Ending Fund Balance.....	\$ 250,608.78

EGG BOARD INSPECTION STAFF

The Executive Administrator is charged with the overall supervision of the field staff and inspection activities, and acts as liaison with the U. S. Department of Agriculture and the several inspection programs involved between the two agencies. Candy Byers, Assistant to Executive Administrator, is responsible for licensing and audit fee reporting and collection. Each field staff is responsible for inspection activities in their respective geographic area of the state. Following is a description of each region and responsible personnel.

NORTHEASTERN DISTRICT

Mr. Darrel Johnson has been with the Egg Board since November, 1984. Darrel is responsible for the northeastern district which consists of the following 31 counties: Adams, Allen, Blackford, Cass, DeKalb, Delaware, Elkhart, Fayette, Fulton, Grant, Hancock, Henry, Howard, Huntington, Jay, Kosciusko, LaGrange, Madison, Marshall, Miami, Noble, Randolph, Rush, St. Joseph, Steuben, Tipton, Union, Wabash, Wayne, Wells and Whitley.

NORTHWESTERN DISTRICT

Mr. Robert "Andie" Mears started working with the Egg Board in February 2010. Andie is responsible for the northwestern district which consists of the following 23 counties: Benton, Boone, Carroll, Clay, Clinton, Fountain, Hamilton, Hendricks, Jasper, Lake, LaPorte, Marion, Montgomery, Newton, Parke, Porter, Pulaski, Putnam, Starke, Tippecanoe, Vermillion, Warren and White.

SOUTHERN DISTRICT

Mr. Scott Ratliff has been with the Egg Board since February, 1999. Scott is responsible for the southern district which consists of the following 39 counties: Bartholomew, Brown, Clark, Crawford, Daviess, Dearborn, Decatur, Dubois, Floyd, Franklin, Gibson, Greene, Harrison, Jackson, Jefferson, Jennings, Johnson, Knox, Lawrence, Marion, Martin, Monroe, Morgan, Ohio, Orange, Owen, Perry, Pike, Posey, Ripley, Scott, Shelby, Spencer, Sullivan, Switzerland, Vanderburgh, Vigo, Warrick, and Washington.

2010 Annual Report, Indiana State Egg Board

Appendix 1:

Egg Industry Fact Sheet Revised January 2010

• Per capita consumption is a measure of total egg production divided by the total population. It does not represent demand (USDA has recently adjusted data to reflect 2000 Census figures.)

1998	1999	2000	2001	2002	2003
239.7	249.8	251.7	252.8	255.9	254.7
2004	2005	2006	2007	2008	2009
257.1	255.4	258.1	251.7	248.7	247.5 (est.)
2010					
247.1 (est.)					

• Currently, the top ten egg producing states (ranked by number of layers represented in thousands) are:

1- Iowa	53,563	6 - Texas	13,510
2 - Ohio	27,039	7 - Michigan	10,046
3 - Indiana	22,923	8 - Minnesota	9,865
4 - Pennsylvania	22,419	9 - Florida	9,368
5 - California	19,205	10 - Nebraska	9,065

• The five largest egg producing states represent approximately 50% of all U.S. layers.

• U.S. egg production during April 2010 was 6.47 billion table eggs, which is up from 6.41 billion table eggs produced during April of last year.

• Presently, there are 58 egg producing companies with 1 million plus layers and 13 companies with greater than 5 million layers.**

• To date, there are approximately 192 egg producing companies with flocks of 75,000 hens or more. These companies represent about 95% of all the layers in the United States.** In 1987, there were around 2,500 operations.** (Number of operations in 1987 include some contract farms and divisions.)

• In 2009, the average number of egg-type laying hens in the U.S. was 280 million. Flock size for May 1, 2010 was 279 million layers, down slightly from last year's 282. Rate of lay per day on May 1, 2010 averaged 73.1 eggs per 100 layers, up 1% from last year.

• Of the 215.70 million cases (estimated) of shell eggs produced in 2009:
66.4 million cases (30.8%) were further processed (for foodservice, manufacturing, retail and export);
124.6 million cases (57.8%) went on to retail;
18.3 million cases (8.5%) went for foodservices use; and
6.4 million (3%) were exported.

Source: U. S. Dept. of Agriculture
** American Egg Board
American Egg Board – January 2010

Indiana State Egg Board Board of Directors



Seated (L to R): Mr. Thomas Klump; Mr. Ron Truex; Mr. Robert Krouse
Standing (L to R): Mr. Greg Hinton, Ms. Virginia Burbrink; Dr. Scottie Hester; Mr. Dale Brown; Mr. William Eckrich

Mr. Ronald Truex - Chairman

Creighton Brothers
P.O. Box 220
Atwood, IN 46502
Representing: Egg Council,
Indiana State Poultry Association

Mr. Robert Krouse - Vice Chairman

Midwest Poultry Services
P.O. Box 307
Mentone, IN 46539
Representing:
Indiana State Poultry Association

Mr. Thomas Klump - Recording Secretary

The Kroger Company
1240 State Av
Cincinnati, OH 45204
Representing:
Indiana Retail Council

Mrs. Virginia Burbrink

5377 W. State Road 252
Edinburgh, IN 46124
Representing:
Consumer Interests

Mr. Dale Brown

6490 Brown Lane
Shoals, IN 47581
Representing:
Indiana Farm Bureau

Mr. William Eckrich

LePeep Restaurants
70 E. 91st Street, Suite 101
Indianapolis, IN 46240
Representing:
Food Service Industry

Dr. Patricia Hester

Department of Animal Sciences
Purdue University
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Representing: Purdue, Office of
Agricultural Research Programs

Mr. Greg Hinton

Rose Acre Farms
P.O. Box 1250
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Representing: Federal/State
Inspected Plants

Gary Peacock

Covington Foods, Inc.
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Covington, IN 47932
Representing: Indiana Grocery &
Convenience Store Association