

INDIANA STATE EGG BOARD



ANNUAL REPORT 2010-2011

**Indiana State Egg Board
Purdue University
Poultry Science Building
West Lafayette IN 47907-2042**

**Phone: (765) 494-8510
Fax: (765) 494-6349**

Web: <http://www.ansc.purdue.edu/ISEB>

A MESSAGE FROM THE EXECUTIVE ADMINISTRATOR

Mark Straw

It has been another busy year at the Indiana State Egg Board. Our revised fee structure became effective starting October 1, 2010. Licensing fees were modified as were the case fee assessments paid by wholesalers. The new fee structure was designed to support the Egg Board for the next 12 – 15 years without any additional increases. We continue to supplement our income through cooperative work with federal agencies in an effort to extend this time period as long as possible.

Other rule changes included the modification of the sell by dates required for grade AA product from 10 days to 15 days. Additionally, the rule created a definition for lot consolidation of eggs at retail locations. This enhancement now allows retailers the opportunity to reduce loss by combining eggs while maintaining the traceability of the original product. As a result of this modification, the repackaging of eggs at retail is no longer legal.

July 09, 2010 was the implementation date for the new FDA rule “Prevention of Salmonella Enteritidis in Shell Eggs During Production, Storage, and Transportation”. The rule is focused on the implementation of an SE Prevention Plan at every egg production farm with more than 50,000 layers. In July of 2012, the rule will be enforced for farms between 3,000 and 50,000 layers. In December 2010, the FDA requested a bid from the ISEB to conduct farm inspections under the newly implemented rule. In March of 2011, the ISEB received a contract from FDA to conduct 20 inspections in Indiana. Mr. Mears and I were trained by FDA to conduct these inspections. As of June 30, 2011, no inspections had been conducted but were scheduled to start in August 2011

The USDA/AMS Country of Origin Labeling program has been extended another year. However, federal budget uncertainty forced USDA to not release any new work until late in the 2011 fiscal year. The next assignment of work is scheduled to start in July 2011.

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 accomplishments 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. As a result of their support, the future of the Indiana State Egg Board is bright.

Program Overview:

From its establishment over 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 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, wholesale registrants must report the volumes of product distributed in Indiana and pay a \$.11 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 fourth largest egg producing state, with approximately 24 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 2010-2011 fiscal year, the ISEB licensed 4850 (est. due to licensing structure change and data migration) retailers and 246 wholesalers. Table 1 illustrates retail registration trends over the past 10 years.

Table 1: Annual Retail Registration



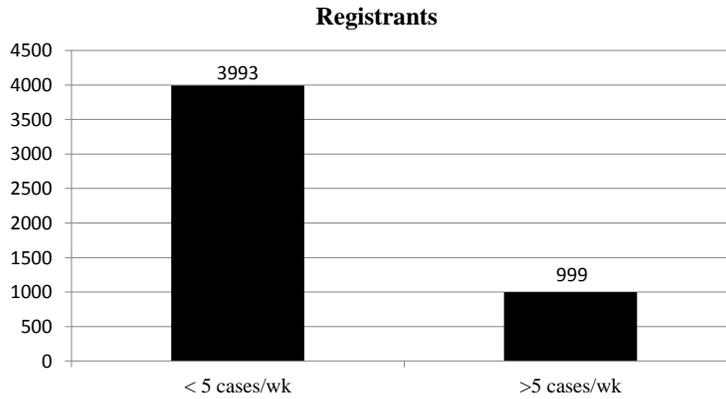
Retail Permits:

As mentioned previously, the retail licensing structure was modified in October 2010. The result of this change is licensing data that is a combination of a two tier and four tier permit system. We have combined the data and utilized the prior year's licensing structure consisting of the two categories those selling fewer than 5 thirty dozen cases per week and those selling more than 5 thirty dozen cases per week.

We do not believe that there has been a significant shift in retail licensing numbers and that the distribution is similar to 2010. Thus the following chart has not been modified.

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.

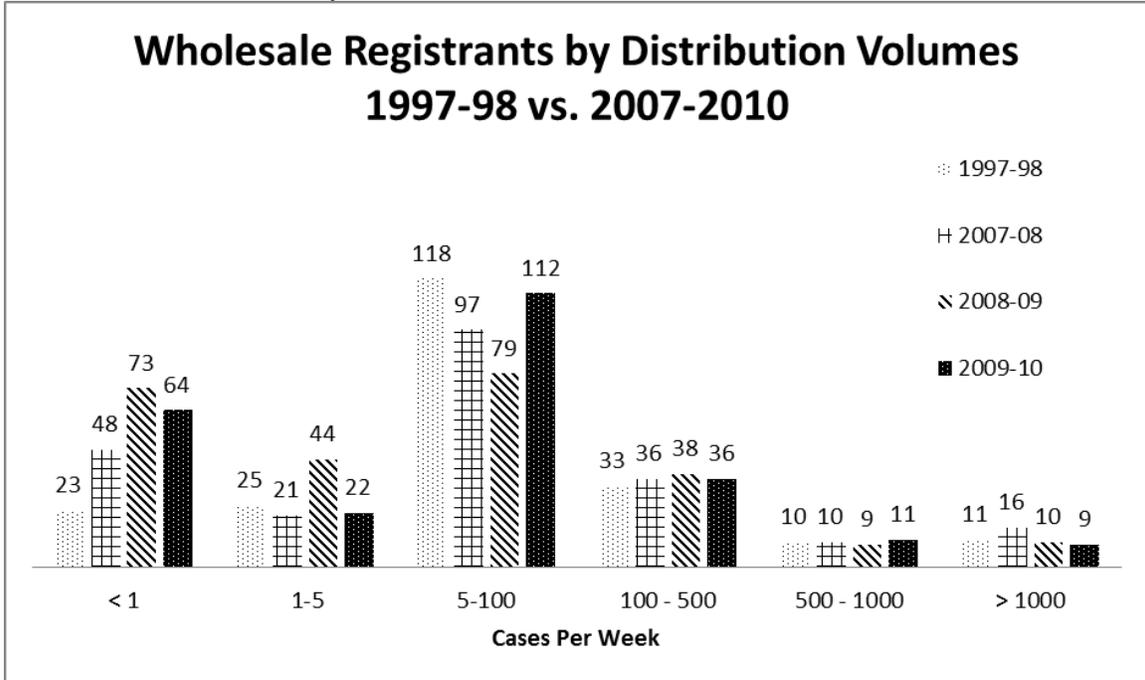
This data indicates that we have seen a shift in the retail grocery segment that has resulted in more large volume retailers, fewer midsized retailers, and an increase in very small retailers such as convenience stores and farmers market participants.

Wholesale Permits:

The current number of registered wholesalers is 246. 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. Data for the 2010 – 11 year is not

included in the table. Wholesale licensing fees and volume categories were modified in October 2010, thus the data is confounded with different data from two different licensing systems. The next report published will contain only data from the new licensing system.

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, 2010 to June 30, 2011.

Table 4: Quarterly Inspection Data

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	TOTAL
Inspection:					
Retail	1,974	1,628	1,865	1,437	6,904
Restaurant	0	0	0	0	0
Wholesaler	21	31	12	16	80
Nursing Home	0	0	0	0	0
Hospital	0	0	0	0	0
Bakery	0	1	0	1	2
Other	0	0	3	7	10
Surveillance	19	17	18	15	69
School Lunch	10	1	19	2	32
COOL	0	0	0	0	0
Total Inspections	2024	1678	1917	1478	7097
Dozens Inspected:					
State	22,021	19,992	26,805	22,713	91,531
Federal	<u>1,664</u>	<u>1,563</u>	<u>1,604</u>	<u>1,544</u>	<u>6,375</u>
Total Dozen Inspected	23,685	21,555	28,409	24,257	97,906

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 2010-11 fiscal year, inspectors retained 59,167 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-two such inspections were conducted in 2010-2011. More than 840,136 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:

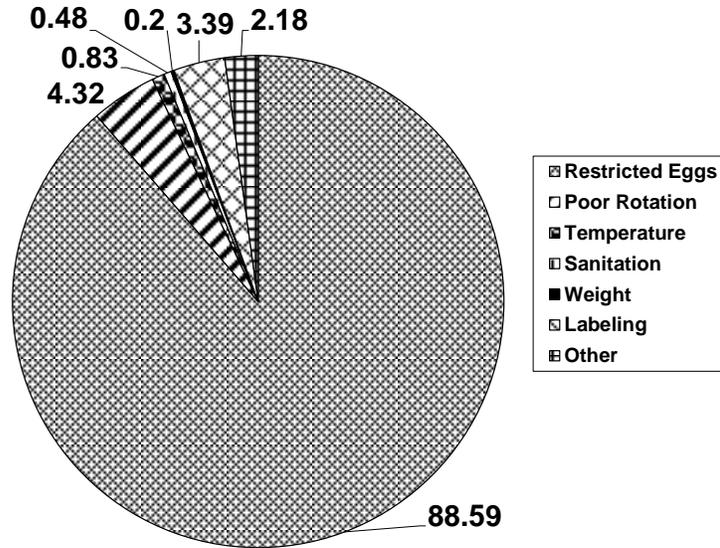
Although most of the retail and wholesale inspections are completed without incident, occasionally situations arise during these inspections that result in removal of eggs. Violations can be a result of any one of the following situations:

- **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 2010-11, inspectors removed 39,427 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 2006 - 2009, we had observed see some minor changes relative to an increase in rotation and sanitation violations. The past two years has seen those violations coming back down. 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>	<u>2010-11</u>
Restricted Eggs	85.15	84.32	81.78	88.02	88.59
Poor Rotation	4.55	4.37	5.27	4.73	4.32
Temperature	1.68	1.70	1.60	1.27	.83
Sanitation	.86	0.59	1.40	0.73	.48
Weight	0.11	0.29	0.40	0.11	.20
Labeling	3.63	3.26	3.94	3.18	3.39
Other	4.02	5.46	5.58	1.95	2.18

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 at relatively high levels, with the majority 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. The new licensing system will give us a much better understanding of the demographics of wholesalers.
- We will continue to evaluate opportunities to improve our inspection efficiency.

**INDIANA STATE EGG BOARD
FINANCIAL STATEMENT
FISCAL YEAR JULY 1, 2010 – JUNE 30, 2011**

Beginning Cash Balance.....	\$ 250,608.78
Income	\$ 466,866.58
Expenses:	
Salaries/Benefits.....	\$ 353,551.15
Travel	\$ 23,213.22
Automobile Purchased	\$
Printing and Duplicating.....	\$ 1,210.88
Postage	\$ 2,254.25
Telephone	\$ 4,236.67
Board Expense	\$ 2,997.64
Office Expense	\$ 247.56
Computer/Computer Supplies	\$ 3,810.23
Grading Supplies	\$ 533.74
Education/Memberships	\$ 225.00
Rent.....	\$ 250.00
Overhead.....	\$ 10,464.65
Other.....	\$ 8,155.26
Total Expenses	\$ 411,150.25
Net Loss	\$ (55,716.33)
FY 2010 year end accounting adjustments	\$ 531.47
Ending Fund Balance.....	\$ 306,856.58

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.

2011 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	248.3	247.7
2010	2011				
248.3	246.3 (est.)				

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

1- Iowa	51,988	6 - Texas	14,195
2 - Ohio	27,486	7 - Minnesota	10,023
3 - Pennsylvania	24,123	8 - Michigan	9,623
4 - Indiana	22,001	9 - Nebraska	9,168
5 - California	19,452	10 - Florida	8,931

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

• U.S. egg production during April 2011 was 6.49 billion table eggs, which is up from 6.41 billion table eggs produced during April of last year.

• Presently, there are 65 egg producing companies with 1 million plus layers and 14 companies with greater than 5 million layers.**

• To date, there are approximately 180 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.)

• For 2009-2010, cage-free production is 3.7 percent of the total U.S. flock size of 10.5 million birds. Of this, 1.8% is organic and 1.9% is other.

• In 2010, the average number of egg-type laying hens in the U.S. was 281 million. Flock size for October 1, 2011, was 281 million layers, decreasing from last year's 279. Rate of lay per day on October 1, 2011 averaged 74.6 eggs per 100 layers, up 1% from last year.

• Of the 218.14 million cases (estimated) of shell eggs produced in 2010:
68.9 million cases (31.6%) were further processed (for foodservice, manufacturing, retail and export);
124.9 million cases (57.3%) went on to retail;
17.45 million cases (8.0%) went for foodservices use; and
6.9 million (3.1%) were exported.

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

Indiana State Egg Board Board of Directors

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
West Lafayette, IN 47907
Representing: Purdue, Office of
Agricultural Research Programs

Mr. Greg Hinton

Rose Acre Farms
P.O. Box 1250
Seymour, IN 47274
Representing: Federal/State
Inspected Plants

Gary Peacock

Covington Foods, Inc.
P.O. Box 206
Covington, IN 47932
Representing: Indiana Grocery &
Convenience Store Association