

INDIANA STATE EGG BOARD



ANNUAL REPORT 2011-2012

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

Mark Straw

The past year has brought positive change to the Indiana State Egg Board. Our new fee structure is now fully in effect and has started to give us some financial security that should last for the next 10 years. We were able to add one additional inspector, Mr. Robert (Bob) Haynes. Bob will be working the Marion County area and points east to the Ohio state line. He comes to us with a great deal of experience in the poultry industry and the food processing/food safety arena. As a result of Bob joining the staff, we have been able to reduce the coverage areas of the other field staff. This will allow us to strengthen our wholesale inspection program.

The Board vacancy in our consumer representative position was filled this year by Ms. Margaret (Peggy) Titus. Ms. Titus comes to the Board with a background in consumer education and extension from Purdue University. We welcome Ms. Titus to the Board and look forward to working with her.

We continued to work with the USDA Ag Marketing Services on the Country of Origin Labeling Program (COOL), Shell Egg Surveillance and commodity inspection program. Over the past year we conducted 84 retail audits under the COOL program and signed a new Cooperative Agreement for the next 5 years.

The Food and Drug Administration contracted with the ISEB to help them complete farm audits under 21 CFR 118 "Prevention of Salmonella Enteritidis in Shell Eggs During Production, Storage, and Transportation". Staff conducted 20 inspections of layer facilities with more than 50,000 birds. We have submitted a proposal to FDA to continue conducting inspections through September 2013.

We continue to work closely with the State Department of Health and the County Health Departments. Administrative rule changes implemented by the Department of Health have resulted in county health departments requiring farm market producers to have a retail food establishment permit to sell eggs. This action has resulted in increased confusion and variability at the county level. Additionally, House Bill 1298 giving the State Police and Vehicle Enforcement Officers the authority to detain trucks hauling food items for high temperature passed the General Assembly and will be fully implemented in July 2012. We were involved in the creation of a guidance document for law enforcement and county health officials to clarify the transportation temperature requirements for eggs.

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.

2012 Annual Report, Indiana State Egg Board

Our exceptional staff continues to be our strongest asset. They have taken on more responsibilities as we have added additional inspection programs while not having a negative impact on our core mission. They are well respected throughout the state and nationally as they participate in training and educational activities. Ms. Candy Byers, Assistant Executive Administrator, was honored by the National Egg Quality School for her years of service and dedication to the program. I want to publically thank each member of our staff for their exceptional effort and professional attitude.

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 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 2011-2012 fiscal year, the ISEB licensed 4881 retailers and 289 wholesalers.

In October 2010, The Indiana State Egg Board approved an administrative rule change that created a new licensing structure. Retail registration was modified from a two permit system that was based on one volume differentiation to one that included four different designations. We created a farm market retail license for small producers who market their own eggs through a farm market. The fee was maintained at the lowest level of \$20. The other three permit categories were differentiated based on average weekly sales volume. The retail license categories are:

Farm Market retail	\$20
< 5 cases/wk.....	\$30
5 – 50 cases/wk.....	\$50
>50 cases/wk.....	\$100

The wholesale license structure was also modified. The most significant change was the inclusion of a farmer’s market combination permit that allows a small producer to sell their own eggs at the farmers market and wholesale. The four remaining permits are based on distribution volumes. The wholesale license categories are:

Farmers market wholesale, < 5 cases/wk	\$50
< 5 cases/wk (not own production)	\$50
>5 – 250 cases/wk.....	\$90
>250 – 500 cases/wk.....	\$120
>500 – 1,000 cases/wk.....	\$150
>1000 cases/wk.....	\$200

Retail Permits:

When looking at retail registration trends over the past 10 years (Graph 1), registration numbers appear to be stabilizing at around 4900 registrants. There was no apparent impact of increased permit fees on the number of registered retailers.

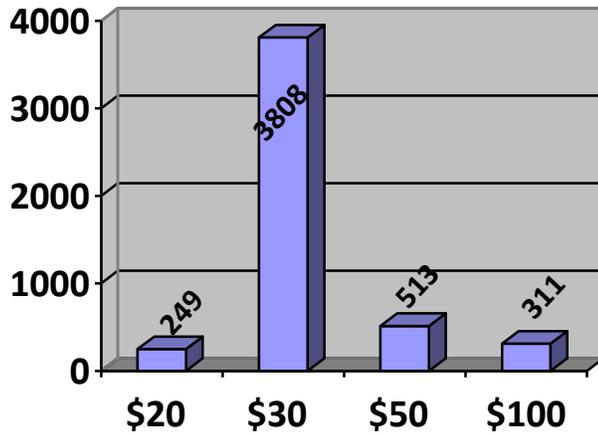
Graph 1: Annual Retail Registration



As a result of the new retail licensing structure, we are able to get a better understanding of the retail market place. Graph 2 illustrates the license distribution of the 4881 registered retailers. We have 249 registered farm market retailers and over 3800 small retailers who sell fewer than 5 thirty dozen cases per week. The majority of these registrants are convenience stores. The combination of these two groups represents over 83% of our retail registrants. Upon further review of this group of retailers, we find that the majority of them sell less than one case of eggs per week.

Graph 2: Retail License Distribution

2011-12 Retail Registration by License type



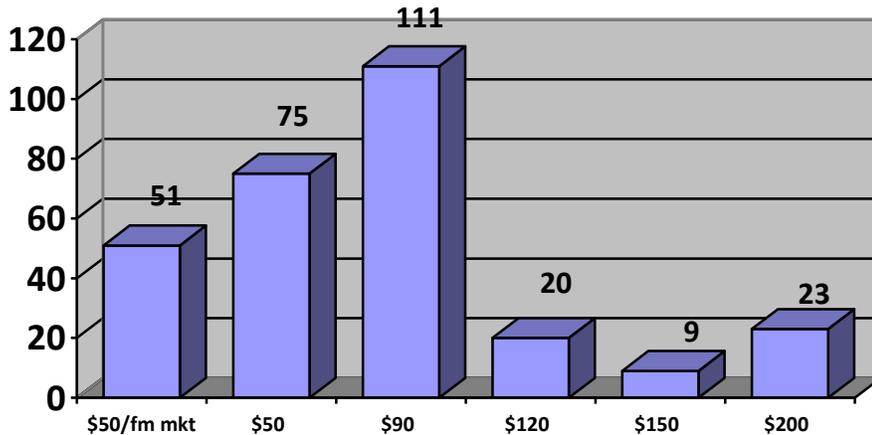
When looking at the group of retailers selling more than five cases per week (\$50 and \$100 levels), we find that nearly 70 % are moving volumes greater than 10 cases per week with some retailers exceeding volumes of 100 cases per week.

Those retailers selling > 5 cases per week represent 17 % of the retail licenses issued. Based on estimated sales volumes, this small group of retailers markets nearly 85 % of the eggs sold to the consumers of Indiana. Our data indicates a shift in the retail grocery segment that has resulted in more large volume retailers, fewer mid-sized retailers, and an increase in very small retailers such as convenience stores and farmers market participants.

Wholesale Permits:

We currently have 289 registered wholesalers, which represents the addition of 43 wholesalers in the past year or a 17.5% increase. The majority of this increase is a result of the new farmers market retail/wholesale combination permit.

Graph 3: Wholesalers by Volume Sold



As illustrated in Graph 3, we had 51 registrants with a farmers market wholesale/retail combination permit. The number of out of state wholesalers has remained stable at around 119. Wholesalers distributing fewer than five 30 dozen cases a week are no longer required to report the volume of eggs sold each quarter. This licensing transition has reduced the work load on office staff by reducing the number of companies reporting from 246 to 163.

INSPECTION ACTIVITIES:

Four 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 1200 retailers within their assigned geographic areas. Additionally, all in-state wholesalers are visited on a regular basis to assure compliance with the regulations. Table 1 documents the activities of staff from July 1, 2011 to June 30, 2012.

Table 1: Quarterly Inspection Data

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	TOTAL
Inspection:					
Retail	1,634	1,436	1,875	1,888	6,833
Restaurant	0	0	0	0	0
Wholesaler	25	36	34	20	115
Nursing Home	0	0	0	0	0
Hospital	0	0	0	0	0
Bakery	0	0	0	0	0
Other	9	8	1	4	22
Surveillance	27	22	21	22	92
School Lunch	2	17	3	6	28
COOL	34	22	0	0	56
Total Inspections	1731	1541	1934	1940	7146
Dozens Inspected:					
State	17,680	16,132	26,744	28,604	89,160
Federal	<u>1,148</u>	<u>2,292</u>	<u>1,790</u>	<u>1,882</u>	<u>7,112</u>
Total Dozen Inspected	18,828	18,424	28,534	30,486	96,272

Retail inspection activities are primarily targeted at the larger metropolitan areas of the state, and retailers in these areas are visited two times per year. 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 many of the 20 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 2011-12 fiscal year, inspectors retained 67,436 dozen shell eggs under this authority. Our staff also conducts inspections at 11 hatcheries and two cooking facilities through our contract with USDA.

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 assistance programs around the state. Twenty eight such inspections were conducted in 2011-2012. More than 546,018 pounds of poultry was certified as wholesome during these inspections.

The Food and Drug Administration contracted with the ISEB to conduct 20 farm inspections for compliance with 21 CFR 118 "Prevention of Salmonella Enteritidis in Shell Eggs During Production, Storage, and Transportation". We were urged by the industry to assist FDA with these inspections and agreed to a contract with FDA in the summer of 2011.

Violations/Compliance issues:

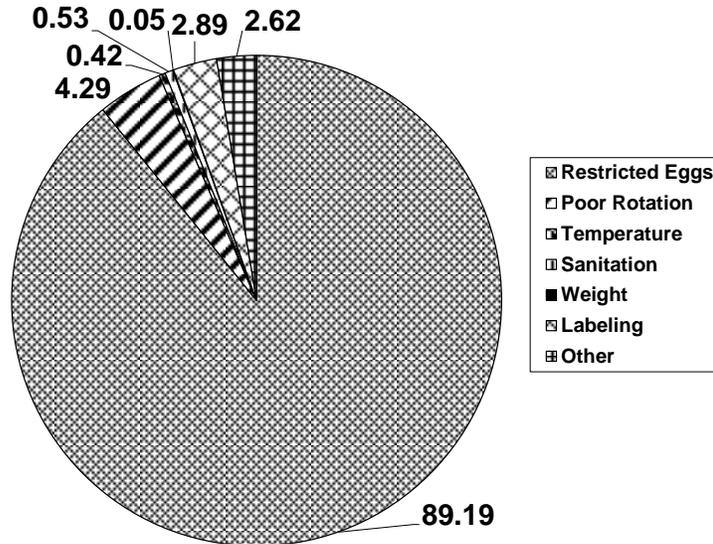
Although most of the retail and wholesale inspections are completed without incident, occasionally situations arise during these inspections that result in removal of eggs. Violations can be a result of any one of the following situations:

- **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 2011-12, inspectors removed 19,474 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 Graph 4.

Graph 4: Violations Resulting in Egg Removal

% Violations By Type



When looking at violation data represented as a percentage of total violations (Table 2) from 2007 – 2011, we see no real trends that would indicate a significant change in violations that would require a shift in our inspection program. Restricted egg issues continue to be the largest problem.

Table 2: Summary Table: % of violations recorded

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Restricted Eggs	84.32	81.78	88.02	88.59	89.19
Poor Rotation	4.37	5.27	4.73	4.32	4.29
Temperature	1.70	1.60	1.27	.83	.42
Sanitation	0.59	1.40	0.73	.48	.53
Weight	0.29	0.40	0.11	.20	.05
Labeling	3.26	3.94	3.18	3.39	2.89
Other	5.46	5.58	1.95	2.18	2.62

While looking at only the restricted egg violations, nearly two-thirds of the violations were a result of leaking eggs. The majority of leaker eggs are caused by poor handling. Checked eggs are nearly 16 % of the violations. Just over 9% of the

violations were due to the presence of dirty eggs with the most common dirt issue resulting from fecal material.

Other Observations:

We continue to see a rise 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 and restaurants. We believe this trend will continue and may require increased inspection time. It is our estimate that less than a half a percent of the shell eggs consumed in the state are distributed by the very small wholesaler.

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. These eggs tend to be on the shelf longer and are more likely to be older when sold. 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 over 7000 inspections each year. The addition of a new inspector should push our inspection numbers to nearly 9000 inspections in 2012-13. Additionally, we will be able to spend more time and energy conducting wholesale inspections.
- 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.
- We will continue to evaluate opportunities to improve our inspection efficiency.

**INDIANA STATE EGG BOARD
FINANCIAL STATEMENT
FISCAL YEAR JULY 1, 2011 – JUNE 30, 2012**

Beginning Cash Balance.....	\$ 306,856.58
Income	\$ 605,018.63
Expenses:	
Salaries/Benefits.....	\$ 352,865.31
Travel	\$ 34,280.44
Automobile Purchased	\$
Printing and Duplicating.....	\$ 1,000.57
Postage	\$ 2,129.51
Telephone	\$ 4,319.39
Board Expense	\$ 3,066.07
Office Expense	\$ 1,148.56
Computer/Computer Supplies	\$ 2,348.39
Grading Supplies	\$ 658.38
Education/Memberships	\$ 1,000.00
Rent.....	\$ 318.75
Overhead.....	\$ 21,885.32
Other.....	\$ 2,506.63
Total Expenses	\$ 427,527.32
Net Loss	\$ (177,491.31)
FY 2010 year end accounting adjustments	\$ (901.67)
Ending Fund Balance.....	\$ 485,249.56

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, audit fee reporting and collection, and State Coordinator for the Country of Origin Labeling Program. 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 21 counties: Adams, Allen, Blackford, DeKalb, Elkhart, Fulton, Grant, Howard, Huntington, Jay, Kosciusko, LaGrange, Marshall, Miami, Noble, St. Joseph, Steuben, Tipton, Wabash, 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 22 counties: Benton, Boone, Carroll, Cass, Clay, Clinton, Fountain, Hendricks, Jasper, Lake, LaPorte, 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 33 counties: Bartholomew, Brown, Clark, Crawford, Daviess, Dubois, Floyd, Gibson, Greene, Harrison, Jackson, Jefferson, Jennings, Johnson, Knox, Lawrence, Martin, Monroe, Morgan, Ohio, Orange, Owen, Perry, Pike, Posey, Scott, Spencer, Sullivan, Switzerland, Vanderburgh, Vigo, Warrick, and Washington.

CENTRAL DISTRICT

Mr. Robert "Bob" Haynes started with the Egg Board in April 2012. Bob is responsible for the central and east-central portion of the state and includes the following 16 counties: Dearborn, Decatur, Delaware, Fayette, Franklin, Hamilton, Hancock, Henry, Madison, Marion, Randolph, Ripley, Rush, Shelby, Union and Wayne.

Appendix 1:

General US Stats

Egg Industry Fact Sheet
Revised June 2012

- 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	248.4
2010	2011	2012			
247.9	247.7	248.9 (est.)			

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

1 - Iowa	52,302	6 - Texas	13,628
2 - Ohio	26,904	7 - Michigan	10,326
3 - Pennsylvania	24,392	8 - Minnesota	9,883
4 - Indiana	22,825	9 - Nebraska	9,271
5 - California	18,876	10 - Florida	9,232

- The five largest egg producing states represent approximately 50% of all U.S. layers.
- U.S. egg production during April 2012 was 6.54 billion table eggs, which is down slightly from last April's 6.56 billion table eggs.
- Presently, there are 61 egg producing companies with 1 million plus layers that represents approximately 87% of the total production and 16 companies with greater than 5 million layers.
- To date, there are approximately 179 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.)
- As of March 2012, cage-free production is 5.7 percent of the total U.S. flock size. Of this, 2.9% is organic and 2.8% is other.
- In 2011, the average number of egg-type laying hens in the U.S. was 281 million. **Flock size for May 1, 2012, was 283 million layers, increasing from last year's 281.** Rate of lay per day on May 1, 2012 averaged 73.6 eggs per 100 layers, up 1% from last year.
- Of the 219.54 million cases (estimated) of shell eggs produced in 2011: 69.7 million cases (31.7%) were further processed (for foodservice, manufacturing, retail and export); 125 million cases (56.9%) went on to retail; 17.56 million cases (8.0%) went for foodservices use; and 7.3 million (3.3%) were exported.

Source: U.S. Dept. of Agriculture, **American Egg Board, ***USAPEEC
Last Updated 6-01-12

Indiana State Egg Board Board of Directors

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Mr. Greg Hinton- Recording Secretary

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