Message from the President

The Rise and Fall of Reserves

Tom Bellamore

Earlier this year, at the California Avocado Commission's (CAC) annual meetings, management reported that the organization was in sound financial health. A crop size of around 375 million pounds was expected, revenue was projected to exceed expenditures, and ending reserves were forecast to exceed $12 million.

Reserve levels have sparked grower interest and debate since the Commission's inception. Historically, they have hovered around 33 percent of the budget, so at the annual meetings there was little doubt in anyone's mind that the projected year-end reserves were atypically high. Management made a point to call attention to that fact, reminding growers that reserves have increased in importance over time, as a budget and risk management tool.

For decades, California avocados were harvested year-round, and the Commission realized some revenue every month. Our current pattern of seasonal shipping has changed that. The Commission now operates for nearly six months (November through April) without income and reserves are used to develop the marketing campaign in advance of the season start and to carry operating costs. Still, you might say, wouldn't a lower level of reserves suffice? The answer is: "yes, however..."

Reserves also are needed to contend with unforeseen circumstances, and this crop year was chock full of those. The season had barely begun when the Thomas fire consumed more than 280,000 acres, impacting avocado production in Ventura and Santa Barbara counties. On the heels of the fire were crop-damaging freezing temperatures and then fog, which coincided with and impaired the bloom in some parts of the growing region. By spring, most industry experts had adjusted their crop size downward. Then came the heat. As the season wraps up, the final crop size for the year appears to be around 320 million pounds, about 50 million pounds below the opening estimate. To support the late season shipments, and in light of the ample reserves, the Commission chose not to curtail marketing expenditures this year. Ending reserves are now forecast to be $2.5 million less than the original projection.

Everyone knows that the heat in early July not only caused damage to the current crop, but also the new crop set on the trees. The 2019 crop that looked to be setting nicely prior to the heat is now thought to be considerably smaller, perhaps as low as 160 million pounds. A crop of this size would generate roughly $8 million in revenue at the current assessment rate, substantially below what is needed to maintain strong marketing and non-marketing programs in the coming year.

Of course, management's proposal to the CAC Board is to tighten the belt in 2019, to the point of discomfort. There is little choice. We cannot, however, risk becoming inconsequential as a brand, so the work of maintaining awareness and preference for California avocados among our trade customers and consumers must continue, as cost-efficiently as possible. Here's where reserves help.

By the close of 2019, reserves are projected to be on the order of $6 million. What looked to be "excessive" reserves in March 2018 will now be – just a few shorts months later – exactly what was needed to carry us through the last three crop years (***2017***: 216 million pounds, ***2018***: 320 million pounds and ***2019***: 160 million pounds). A look back through the industry's statistical data confirms that consecutive small crop years are an anomaly, but certainly a possibility.

It is the board and management's responsibility to be prepared for such a possibility, and for other contingencies unrelated to crop size. Reserve levels rise when the market overperforms price projections and they fall when crop volume projections do not materialize. Some of the "fall" can be mitigated with close budget management – scaling back expenditures when the crop size dips – or with assessment rate changes, if necessary. There is no manual for managing reserves and any seasoned board member will explain that it is more art than science. And ultimately, it is an art that a new, incoming CEO must learn, and learn quickly.

That takes me to my final point. When growers stood up at the annual meetings and offered suggestions for reducing reserves, we listened. The board's officers explained that a leadership transition was on the horizon, and the change in personnel would likely result in a short-term spike in overhead, hence another contingency, another reason for carrying higher reserves. Still, ahead of the weather-related trouble, it was management's intent to propose an assessment rate decrease in the new fiscal year. Unfortunately, that decrease now seems ill advised. Mother Nature, more than anyone else, has seen fit to temper the Commission's reserves, which now appear to be just where they needed to be to get us through three lean years.

Board of Directors

District 1

Member/Jessica Hunter-**Secretary**
Member/ Ryan Rochefort
Alternate/Michael Perricone

District 2

Member/Leo McGuire
Member/ Ohannes Karaoghlanian
Alternate/Bob Schaar

District 3

Member/ John Lamb
Member/ Robert Grether-**Treasurer**
Alternate/John Lloyd-Butler

District 4

Member/ Ed McFadden
Member/ Jason Cole
Alternate/Bryce Bannatyne Jr.

District 5

Member/Rick Shade-**Chairman**
Member/ Tyler Cobb-**Vice Chair**
Alternate/Randy Douglas

Handlers

Member/Egidio “Gene” Carbone
Member/Gary Caloroso
Alternate/Vacant Seat

Public Member
Nina Ames

To contact a CAC representative, please visit: CaliforniaAvocadoGrowers.com/Commission/your-representatives