



Cooperative Extension Service  
Institute of Food and Agricultural Sciences

# Impact of the Regulatory Environment Facing Florida Dairy Farmers<sup>1</sup>

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## Abstract

Government regulations have a significant impact on Florida dairy farmers. According to a sample of farmers, waste disposal activities on dairy operations are most negatively impacted by government regulations. Most of those farmers viewed milk and feed inspections as beneficial to their businesses. The average dairy farmer spent 22 percent of the work day complying with governmental regulations. Increased flexibility and more common sense in rule implementation were the main suggestions made by farmers to improve the current regulatory system.

**Key words:** dairy, regulations, impact

## Introduction

Residents of the urban state of Florida are generally interested in the environment and usually support laws and regulations intended to protect it. Unfortunately, the costs and benefits of such laws and regulations are seldom researched before they are passed. This oversight is compounded by the duplication of regulations among federal, state, regional and county agencies.

At the federal level the Environmental Protection Agency (EPA) is responsible for a number of laws including, but not limited to, the following: Clean Air

Act (CAA); Endangered Species Act (ESA); Wetland Regulations; Worker Protection Standards; and the Federal Insecticide, Fungicide and Rodenticide Act.

The Florida Department of Environmental Protection (DEP) is the state agency that is primarily responsible for environmental regulations. It targets the following areas: waste management, ground water discharge, hazardous waste, underground and above-ground storage tanks, drinking water standards, and wetlands. Dairy regulations relating to milk quality, dairy feed and herd health are mainly established and enforced by the Department of Agriculture and Consumer Services.

At the regional level, the Florida Water Resource Act of 1972 systematized the water management districts. These districts operate as a statewide network to manage the quality and quantity of state water resources. Their regulatory programs include consumptive use permits, irrigation restrictions, surface water permits and well construction permits.

At the county level the most important environmental legislation is the Local Government Comprehensive Planning and Development Act. This Act mandates that each county develop and implement a comprehensive plan for land and water use in the county via zoning and other methods.

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The impact of laws and regulations issued by these government agencies presents a complex challenge for commodity production with some commodities being affected more than others. To fully measure the extent to which regulations have affected the agricultural producer, it is necessary to understand the complexity and interactions of the many government regulations related to farming.

Many of the regulations that affect dairy farmers are not specifically designed for them but are instead laws that apply to the economy and the general public on such issues as water, land, labor and chemicals. The underlying assumption of many of these regulations is that any externality will be absorbed by the general public.

The number of laws and corresponding regulations imposed on the use of land, water, chemicals and labor has increased significantly since the early 1970s. Individual citizens and many businesses that are not natural-resource-based are not seriously affected by these laws; however, the laws do significantly affect the Florida farmer because land, water, chemicals and labor are major factors of production. A combination of these four factors must be available at competitive relative prices in order for agricultural commodities to be profitably produced.

The common approach to regulations across all levels of government is the command/control system. Bauman and Oates (1988) describe this approach as the use of "instruments involving explicit limitations on allowable levels of emissions and the use of specified abatement technique." A command/control regulation is generally issued by the government (top-down) to achieve some objective (for example, improved water quality) and then to micromanage the manner in which that objective is accomplished. Permit requirement, the use of best management practices (BMPs) and the abolition of certain management practices are three commonly used methods of control.

### **Key Laws and Regulations**

In order to operate a dairy farm in the state of Florida, dairy farmers must comply with state and federal laws governing air, water quality and the protection of endangered species. Three key federal laws--Clean Water Act (CWA), ESA and CAA--and two key state environmental regulations--Feedlot and Dairy Wastewater Treatment and Management Requirements (FEEDLOTS), and Groundwater Permitting and

Monitoring Requirements (GROUNDWATERS)--are discussed below (Olexa 1996). A wide array of federal and state labor laws regulate the hiring of labor. These laws affect labor supplies, wage rates, labor cost, labor management and the productivity of hired workers (Polopolus 1992).

#### *Clean Water Act*

The CWA protects the waters of the United States from pollutant discharges. Dairy farms may fall under the jurisdiction of this law because the wastewater from feedlots and milking parlors is often discharged into nearby bodies of water. If discharge occurs, the dairy farmer must obtain permitting under the CWA.

#### *Endangered Species Act*

The ESA was enacted to protect both plant and animal species threatened with extinction. This Act makes it illegal for anyone to "take" a species that has been designated as endangered. "Taking" includes harming, harassing, wounding or killing a species. Once a species is listed as endangered, its "critical habitat" is also protected by the Act. The "critical habitat" is the geographical area occupied by the species, which contains physical and biological features essential to its survival. The destruction of a critical habitat is therefore considered "taking" because it harms or kills an endangered species.

Certain circumstances may place a dairy farmer within the regulatory oversight of the ESA. For example, a dairy farmer decides to extend agricultural operations to previously unused portions of his/her farmland. If a protected species has its critical habitat on this land and it is likely that this habitat will be destroyed, the dairy farmer will be unable to utilize the area.

#### *Clean Air Act*

The CAA was passed to prevent and control air pollution in order to promote public health and welfare. Under this law, air pollutants are deemed adverse to the public welfare if they affect climate, weather, property, economic values or personal comfort. Because of the odors emitted during the course of milk production, dairy farmers may be subject to this law's regulatory oversight.

#### *Feedlot and Dairy Wastewater Treatment and Management Requirements*

FEEDLOTS protect the surface waters of the state by promoting safe water quality. As stated by these requirements, dairy farmers may not discharge processed wastewater pollutants into the surface waters of the state for any storm events equally or less severe than the 25-year, 24-hour storm. Wastewater includes water from flushing barns, milking parlors and dairy feedlots where cows are confined and fed. The 25-year, 24-hour storm involves a level of rainfall within a 24 hour-period that will not likely be exceeded more than once in a 25-year period. Dairy farmers who fail to comply with the FEEDLOTS must obtain a wastewater permit. This permit requires dairy farmers to develop methods to eliminate surface water pollution.

Without exception, FEEDLOTS apply to dairies with 700 or more mature cows. Dairies with 200 to 699 mature cows must comply with FEEDLOTS if pollution occurs at sites where cows have direct contact with surface waters or with manmade devices--such as pipes or ditches--that lead to surface waters. In certain circumstances, FEEDLOTS apply to dairies with fewer than 200 mature cows if the Department of Environmental Protection determines that those dairies are significant sources of pollution.

Dairies in the Okeechobee Drainage Basin are subject to separate regulatory requirements that are specific to the Basin. Because of water-quality problems in this area, all dairies are required to obtain wastewater permits and to implement BMPs to control phosphorus and nitrogen runoff. The BMPs include fencing to keep cattle away from the water flow and the collection, treatment and reuse of barn wastes.

### *Groundwater Permitting and Monitoring Requirements*

Producers who are exempt from FEEDLOTS may still be forced by GROUNDWATERS to obtain a wastewater permit. GROUNDWATERS were passed to protect Florida's groundwater beyond a zone of discharge. A zone of discharge is defined as an area of groundwater within which water quality standards are not enforced. For a dairy farm that does not need a wastewater permit under FEEDLOTS, the zone of discharge is the lesser of 100 feet from the source of pollution or the distance from the pollution source to the property boundary. Farming operations that threaten to violate groundwater standards at the zone of discharge boundary must be issued a permit under GROUNDWATERS.

### *Workers' Compensation*

The workers' compensation law was passed to provide protection for workers who suffer job-related injuries or illnesses. Coverage in Florida is applicable to agricultural employers who employ six or more year-round workers or 12 or more seasonal workers. Both employees and employers are required to report work-related injuries or illnesses when they occur.

### *Immigration Reform and Control Act (IRCA)*

This immigration law makes it unlawful for U.S. employers to employ aliens not legally entitled to work in the United States. It requires dairy farmers and other employers to carefully monitor official personnel forms for completeness, making appropriate forms available to federal government officials upon advance (three-day) notice.

### *Fair Labor Standards Act (Minimum Wage and Child Labor)*

This law deals with the standards concerning minimum wage, equal pay, overtime pay, record keeping and child labor. Dairy farmers with more than seven full-time employees must comply with the Act's provisions. Family members are excluded from the minimum wage requirements.

### *Unemployment Insurance*

The primary purpose of unemployment insurance is to provide partial and temporary supplemental income to employees who lose their jobs through no fault of their own. Individual states may have more extensive coverage than the minimal federal standards for agricultural employers. For example, in Florida, dairy farmers with five or more employees or a payroll of at least \$10,000 in any calendar quarter are required to pay both federal and state taxes on the first \$7,000 of each employee's annual payroll (Polopolus 1992).

### *Occupational Safety and Health Act (OSHA)*

The OSHA program seeks to ensure safe and healthy work environments. Dairy farmers are exempt from OSHA inspection and penalties if they have 10 employees or less; however, serious, willful or repeated violations by any farmer are subject to citation. Dairy farmers who employ 11 or more workers are subject to a wide range of OSHA requirements, including requirements to inform employees of all safety

regulations, to report accidents, to maintain records on injuries and illnesses and to comply with special agricultural standards.

## The Study

A 1995 study surveyed the impact of the total government regulatory environment on Florida dairy farmers. For purposes of the study, the regulatory environment included all government regulations that would apply to a Florida dairy farm. The dairy industry was selected because dairy products are important Florida commodities and because the industry's operations are geographically dispersed throughout the state. The dairy industry also has a relatively long history of government regulation as compared to other Florida agricultural industries.

## Procedure

The study was not designed to collect the detailed costs and benefits of each regulation to the farmer but instead to get a better understanding of the economic and sociological impacts of the regulatory climate on the farmer. Interviews were the primary method of data collection. The interview questions were designed to elicit interviewed farmers' responses, mainly in terms of costs and benefits, regarding the impacts of regulations. (The interview questions are listed in the appendix.)

Specific questions were asked about the costs and benefits of regulations related to various practices and activities of their dairy operations. Dairy farmers were asked to give their best assessment of the costs and benefits of government regulations on their farms. Since land, water, chemicals and labor are critical to the success of a dairy farming operation, several questions were asked about how the respondents assessed the impact of the regulations on these resources. Farmers were not asked to comment on regulatory agencies by name but to comment on their personal experiences with regulatory agencies as a whole.

The questionnaire was also designed to gain general information about the impact of the following four regulation cost categories: (1) direct expense (long- and short-term), (2) opportunity cost of the farmers' inability to perform farm activities or tasks because of time spent on compliance with government regulations, (3) cost of waiting or delay when the outcome (approval) is rather certain, and (4) cost of uncertainty related to the total regulatory environment facing the dairy farmer.

Although these categories describe the real impacts facing the farmer, the study was not designed to obtain detailed costs for each category.

The focus of the study was the total impact of government regulations on the Florida dairy farmer. In contrast to other research that concentrates on a specific regulation, respondents were interviewed about the impact of the total government regulatory environment on their businesses. The extent to which each level of government regulates the farmer varies widely depending upon the type of regulation. For example, the cost and time required to obtain an environmental dairy operating permit are much greater than the requirements for passing milk or feed inspections.

As a result of limited funds, a relatively small number of farmers was interviewed. Since this is an exploratory study, it is considered desirable to involve respondents from various geographic regions of the state. An effort was made to select farmers who had dealt with regulatory agencies and who were operating above-average-sized herds that were economically viable. County extension faculty from various regions of the state assisted in the selection of the sample.

## Participants

A sample of 36 Florida dairy farmers was interviewed in late 1994 and early 1995. The size of the farmers' average herd was 1,360 head with average annual milk production of 17,523 pounds per cow. These figures are higher than the average for the entire state. Farmers from large dairies were selected because some government employees and other individuals had reported that large dairy farms were not seriously affected by government regulations since they had adequate management ability and funds to deal with the regulations. It has been suggested that smaller dairy farms do not have the management ability nor the funds to cope with government regulations.

## Results

Response percentages regarding the major problems facing dairy farmers are presented in Figure 1. Environmental regulation was cited as the most important problem by 42 percent of the interviewed farmers, and heat and humidity were ranked as the second most important problem by 28 percent of the respondents. The low price of milk and high production costs tied for third with 11 percent of the respondents

citing each. Labor regulation was a major problem according to 8 percent of the farmers.

Although regulations were assumed to be an important problem for dairy farmers, the respondents' ranking of regulations as more important than high production costs and low milk prices was unexpected. Perhaps this can be partly explained by their perception that regulation costs were continuously increasing while milk prices and feed costs were varying through time. Also, an upward bias for regulations may have existed because respondents were aware that the interview was associated with a study on regulations.

Seventy-five percent of the farmers said waste disposal regulations had the greatest negative impact on their operations. Labor regulation followed next with 25 percent (Figure 2). When asked to identify regulations that were good for business, 64 percent of dairy farmers said that milk inspection regulations assured the general public that milk was a safe product (Figure 3). Environmental regulations were considered good for business by 14 percent of the farmers; however, many thought that the regulations were not properly implemented. Brucellosis-testing and feed composition regulations were each considered favorable by 3 percent of the respondents who believed it was important to assure the general public that the Florida dairy business is a clean and healthy operation. Finally, 16 percent of the respondents said that none of the government regulations were good for business.

Farmers were asked what kind of changes (if any) they had made as a result of government regulations regarding labor, mechanization, herd size and crops grown. Many of the regulations required an increase in monitoring and reporting practices and changes in production practices. Response percentages are presented in Figure 4. The amount of labor hired as a result of government regulations had increased according to 70 percent of the farmers; 11 percent of the farmers had reduced their labor force; and 19 percent had retained the same sized labor force. Fifty percent of the farmers increased mechanization while 6 percent decreased mechanization, and 44 percent made no mechanization changes.

The impact of government regulation generally limited expansion in the size of dairy herds. Herd size increased because of regulations according to 11 percent of the farmers and decreased according to 25 percent of the farmers. As a result of regulations, the majority of the farmers (64 percent) said their herd size remained

the same. Government regulations had a minor influence on the types of crops grown. The number of different crops grown increased according to 8 percent of the farmers but decreased according to 14 percent of the farmers. Most respondents (78 percent) said government regulations had no effect on the types of crops grown. Regulations, such as the waste disposal requirements, and resultant limitations may ultimately affect the types of crops produced.

Farmers were asked in what way, if any, government regulations had affected the value of their land. Seventy-two percent of the farmers thought government regulations had decreased the value of their land; 22 percent said regulations had had no effect on the value of their land; and 6 percent thought government regulations had increased the value of their land (Figure 5). The county comprehensive land use plan and DEP permit requirements were the major causes cited for declining land prices. As a result of restrictions on land and water use, the plan limits the owner's use of the land.

About 40 percent of the respondents were required to have a DEP permit. In the case of producers who were not required to obtain DEP permits (grandfathered in), subsequent owners are required to obtain the permit. The future value of dairy farms without permits will decline because of the high costs involved in the permitting process. The cost of compliance with the DEP's permit requirement is the most expensive regulation for the dairy farm. This cost must be paid entirely by the dairy farmer, except for those farmers in the Okeechobee Drainage Basin. The major items that constitute the cost are permit application, legal costs, engineer design, and equipment and construction. (It was not possible to obtain detailed records of the cost of each category.) The total cost of compliance is a multi-million dollar expenditure for larger farmers.

Farmers were asked how government regulations had affected their relationships with their lenders. According to 81 percent of the farmers (Figure 6), government regulations had harmed these relationships. While none of the farmers said that government regulations had improved these relationships, 19 percent stated that regulations had had no effect on these relationships. The reasons cited for the erosion of relationships varied among farmers (Figure 7). Of the farmers with damaged lending relationships, 79 percent attributed the situation to decreased land values that reduced their equity position. Environmental audit regulations were noted by 14 percent of the farmers to

have damaged their relationships while 7 percent cited increased paperwork as the cause.

Farmers were asked what adjustments in their time spent on dairy operations had been made as a result of the time they had to allot for regulatory compliance. Response percentages are presented in Figure 8. Seventy percent of the farmers said that they spent less time on production and marketing; 16 percent said they spent the same amount of time in production and marketing and had hired more people to deal with regulations; and 14 percent said they had continued their same operations by working longer hours.

Responses revealed that regulations generally limited plans for herd expansion (Figure 9). The regulatory environment was cited by 64 percent of the farmers as the reason they had no plan to increase their herd size. Uncertainty of the regulatory climate was cited by 22 percent of the farmers as the reason they had delayed plans for herd expansion, and 8 percent of the farmers cited the same reason for selling out. Despite the uncertainty of the regulatory climate, 6 percent of the farmers planned to increase the size of their herds.

Farmers were asked to evaluate government officials in charge of regulation enforcement with respect to four attributes: (1) knowledge of the dairy industry, (2) flexibility, (3) helpfulness, and (4) courteousness. Each of the attributes was rated with a scale on which a score of five indicated a high level of the attribute and a score of one indicated a low level. The results are presented in Figure 10. The average score for knowledge of the dairy business was 1.2, followed by 1.9 for flexibility and 2.1 for helpfulness. Courteousness was scored, on average, as 3.5 by the respondents.

These results suggest that the regulators were generally courteous but were not knowledgeable about the dairy business. The relatively low scores on helpfulness and flexibility can be partly explained by the rigid rules that regulators are required to follow and the regulators' lack of knowledge of the dairy business. Some farmers said they had problems being innovative in their marketing and management practices because so much of their time was oriented toward coping with regulations. The average time spent on regulations by the dairy farmers was 22 percent of their work day. This may partly explain why government regulation was ranked as the most important problem facing dairy farmers.

Farmers were asked to estimate the percentage of change in regulations affecting the dairy business during the last five years. The majority of farmers estimated that the number of regulations affecting their farm had increased by an average of 132 percent during the previous five years.

Respondents were also asked what changes, if any, should be made regarding government regulations affecting their livelihood. Responses to this question varied widely among farmers and were not totally anti-government or anti-regulation; however, some serious concerns surfaced about the design of the current, rigid, regulatory system and the lack of common sense used in its implementation. Although the regulatory process allows for public input, the respondents seemed to believe that most regulations were directly issued by the government.

The underlying issue in response to this question was a lack of trust for government officials who develop and implement the regulations and rules affecting farmers' businesses. Many farmers said they would like to have a more cooperative and trusting relationship with all government agencies, which was more dependent upon incentives and less dependent upon rigid commands. A few farmers said they would like to see a change that prevented government regulators from experimenting with farms and then charging the farmer for testing costs. In addition to the more general comments listed above, the farmers had some specific recommendations for changes in the regulations and rules that affected them. Those included (1) more flexibility and common sense in implementation of the rules, (2) less duplication by regulatory agencies, (3) more knowledgeable people to write and implement the rules, and (4) a need for more of an incentive approach and a more cooperative relationship with government agencies.

## Summary

Florida dairy farmers are regulated by several agencies at various levels of the government. Many of the regulations are not dairy-specific but are based on broad legislation regarding land, water, chemicals and labor. A sample of farmers considered some of the government regulations to be good for the dairy farmer but thought some involved added costs and time.

Farmers ranked environmental regulations as the most important problem they faced, and they ranked the regulation of waste disposal as the most serious

government regulation they encountered. In contrast, they considered milk inspection regulation to be good for their businesses because it assures the public that milk is a safe product.

Government regulations were considered to have an important negative impact on land values by approximately three out of four of those surveyed. A large majority of the farmers reported that government regulations had negatively affected their relationships with their lenders; they attributed this situation to reduced equity caused by decreased land values. In order to comply with government regulations, most farmers increased their labor forces, and about 50 percent of the farmers increased mechanization. More than 60 percent of farmers did not change the size of their herds as a result of regulations.

Dairy farmers, on average, spent 22 percent of their work day on regulatory compliance activities. According to the interviewed farmers, total regulation of dairy farms had increased by an average of 132 percent during the previous five years.

The respondents made the following suggestions for improvements to the current regulatory system: (1) more flexibility and common sense in implementation of the rules, (2) less duplication by regulatory agencies, (3) more knowledgeable people to write and implement the rules, and (4) a need for more of an incentive approach and a more cooperative relationship with government agencies.

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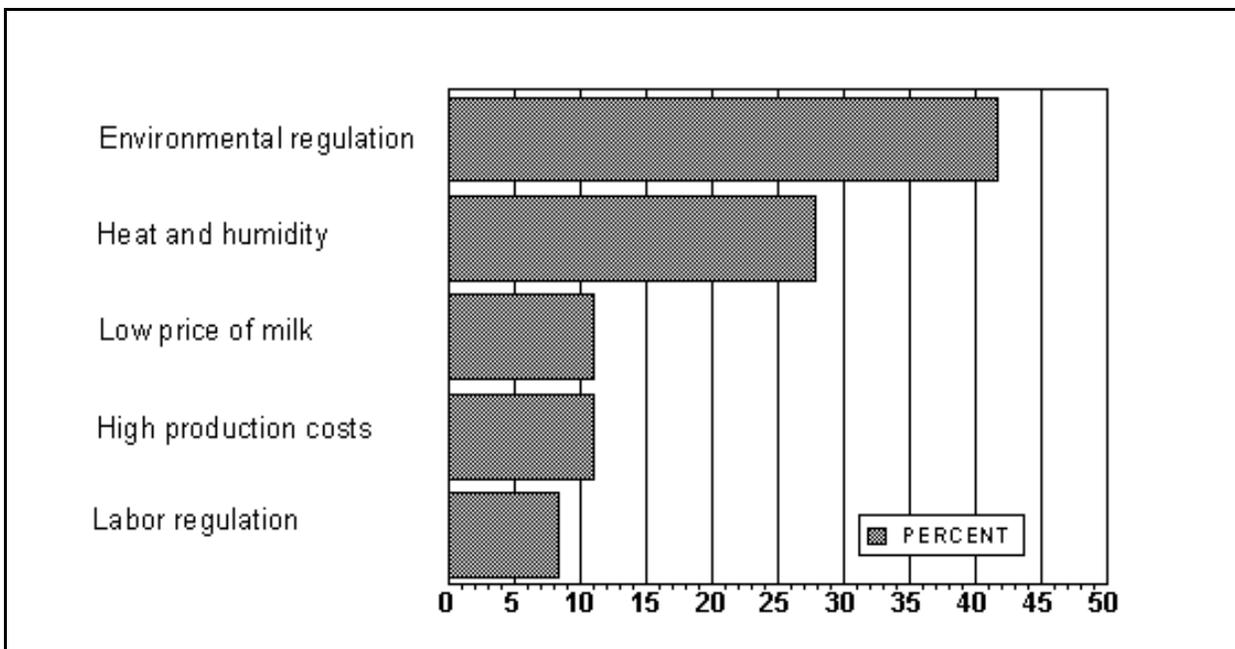


Figure 1. Problems faced by dairy farmers.

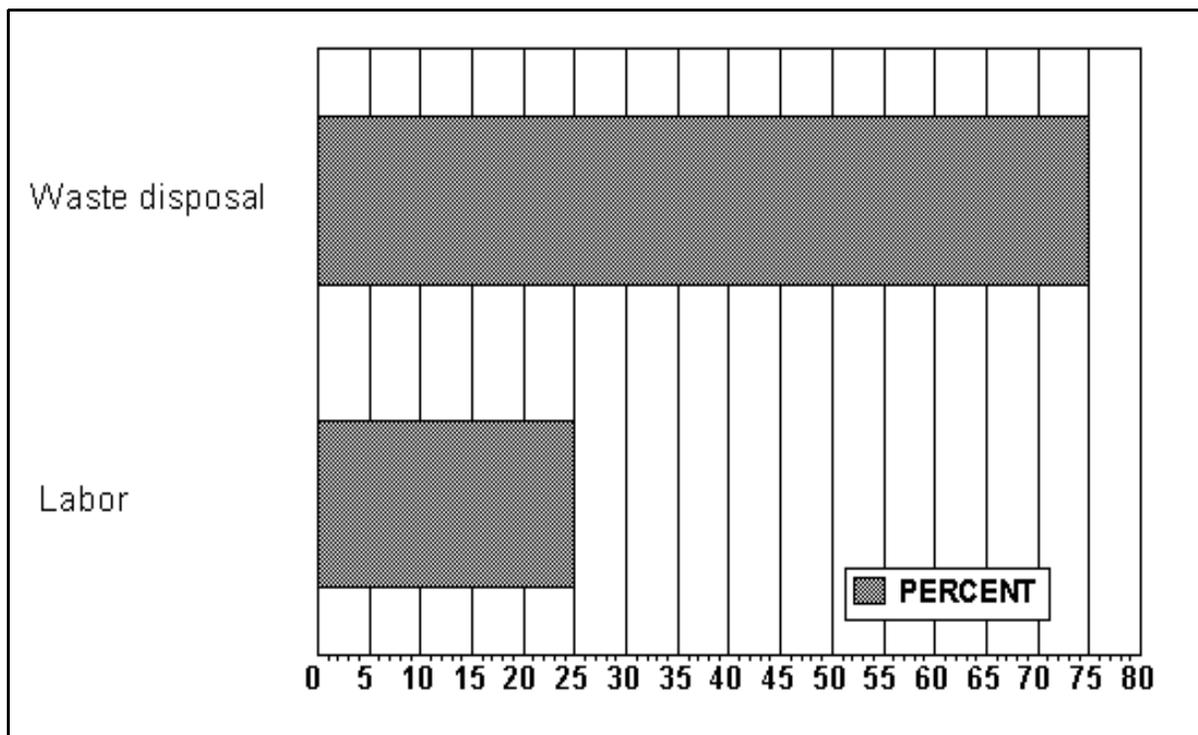


Figure 2. Activities of dairy operations most negatively impacted by government regulations.

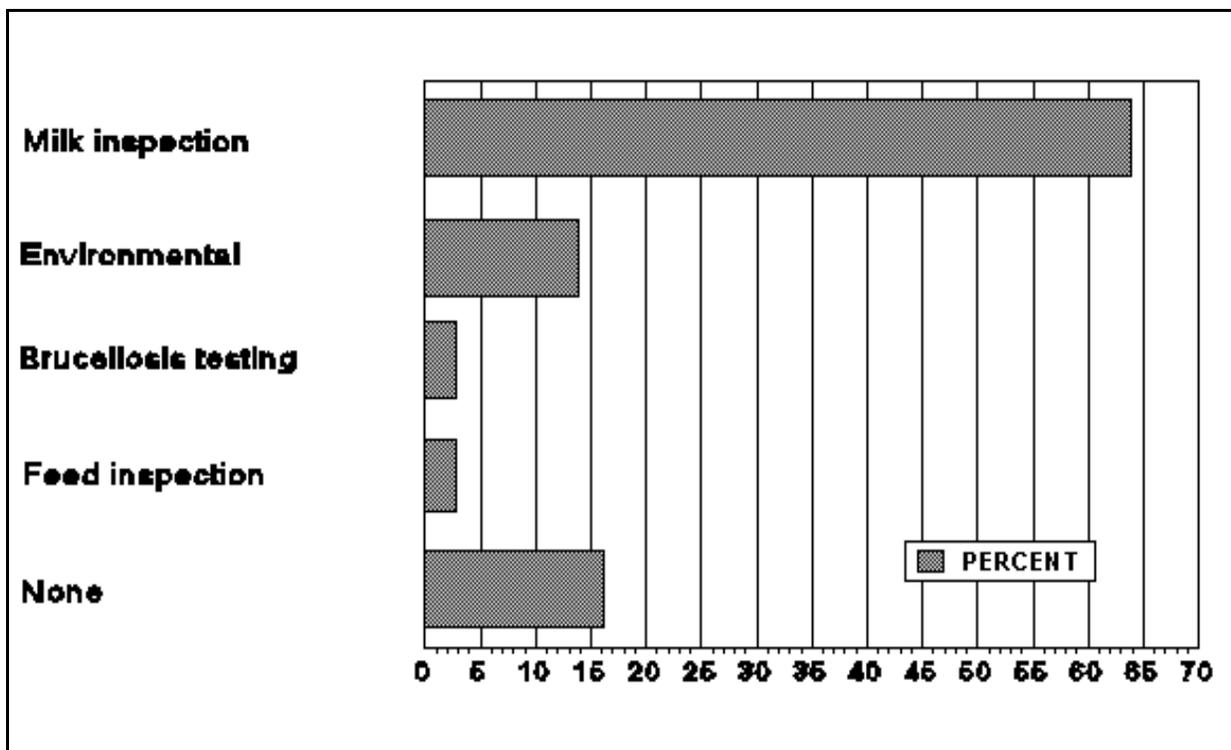


Figure 3. Government regulations that had the most positive impact on dairy operations.

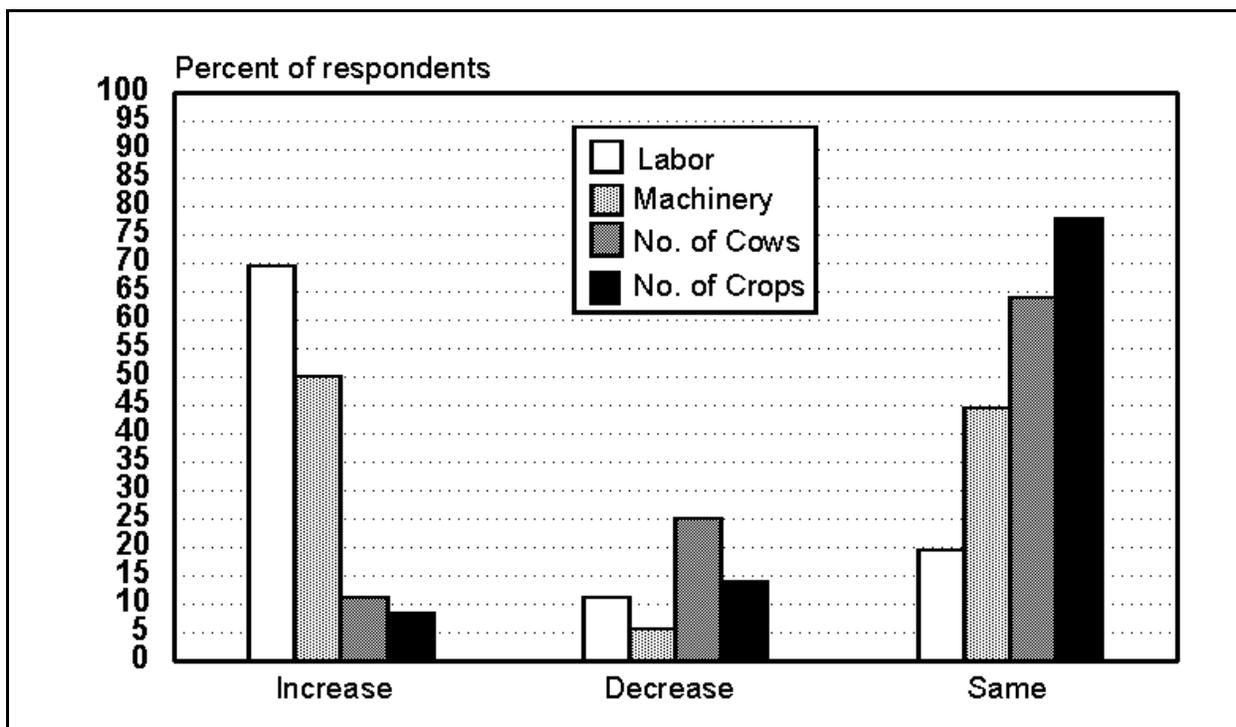


Figure 4. Effects of government regulations on the use of key production inputs.

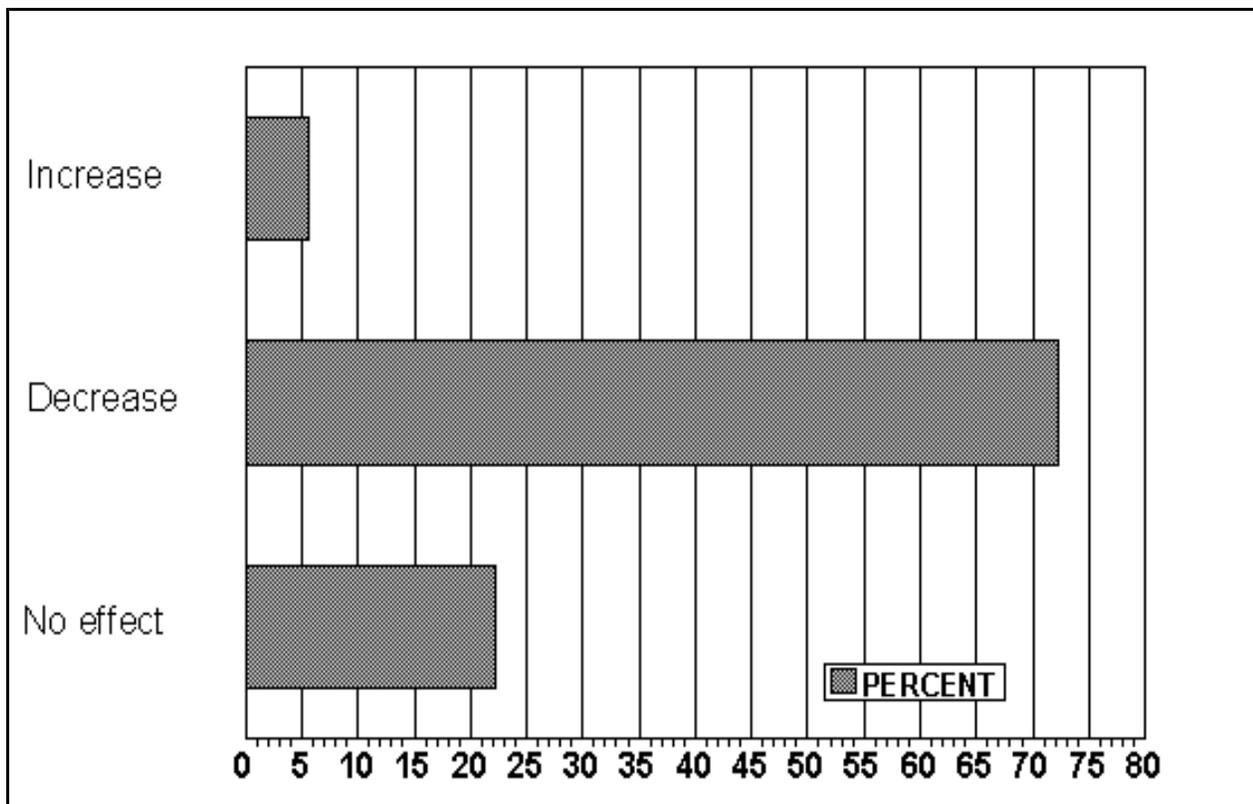


Figure 5. Effects of government regulations on land values.

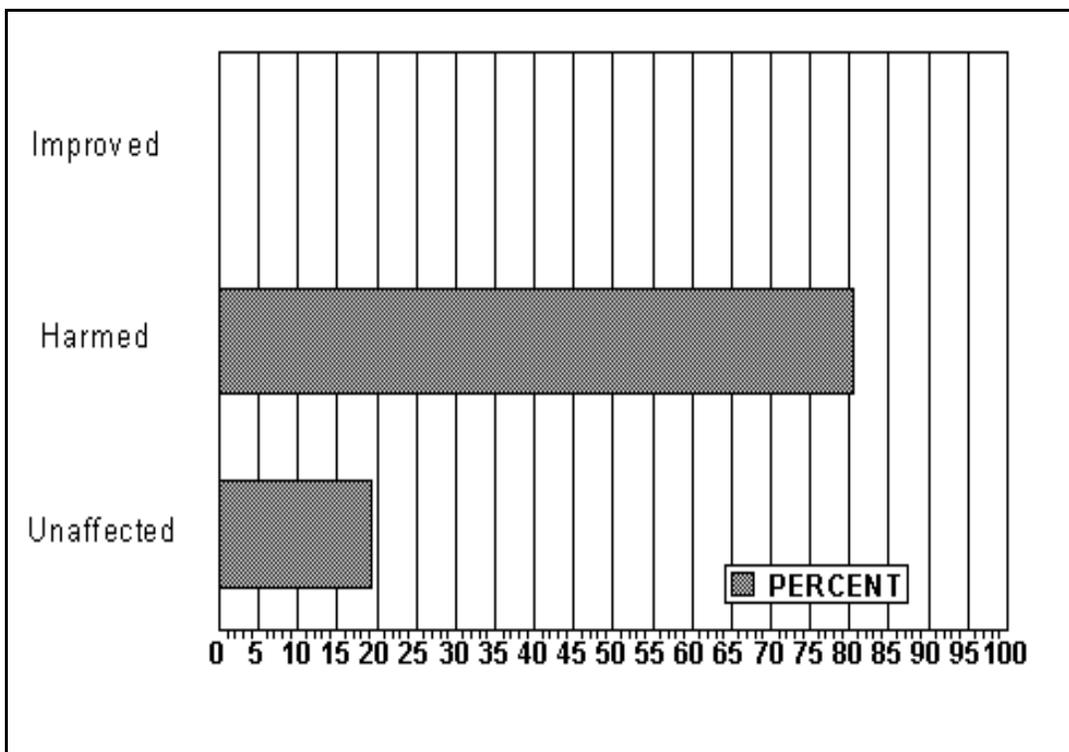


Figure 6. Effects of government regulations on farmer/lender relationships.

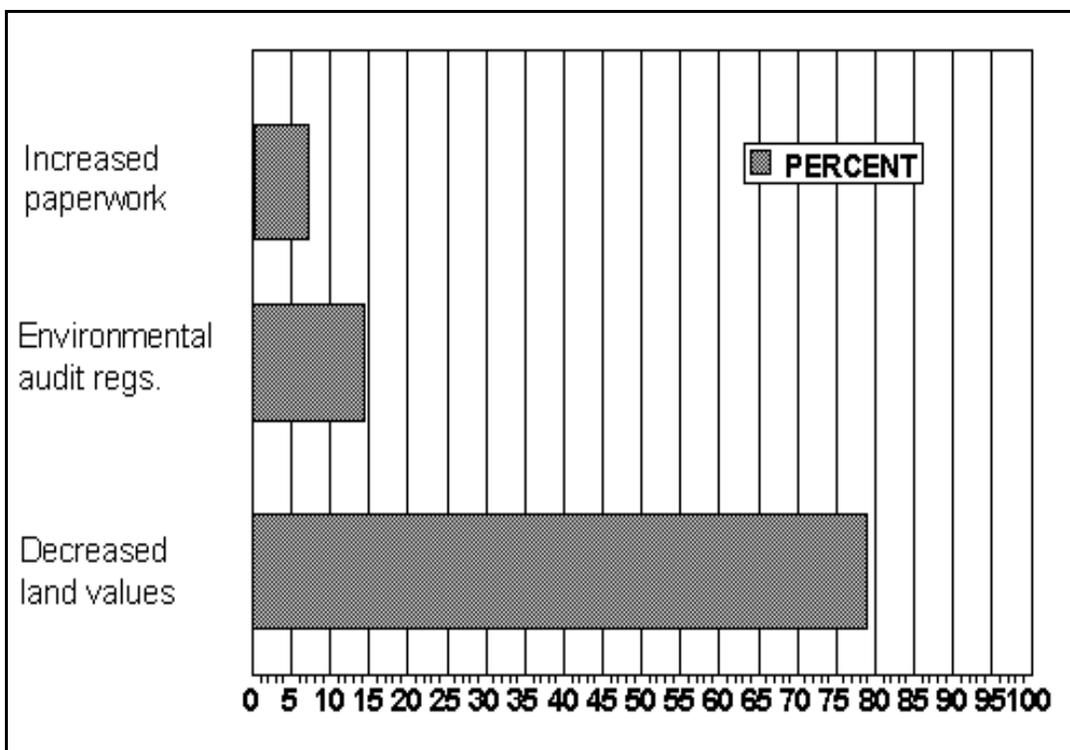


Figure 7. Reasons cited for the erosion of farmer/lender relationships.

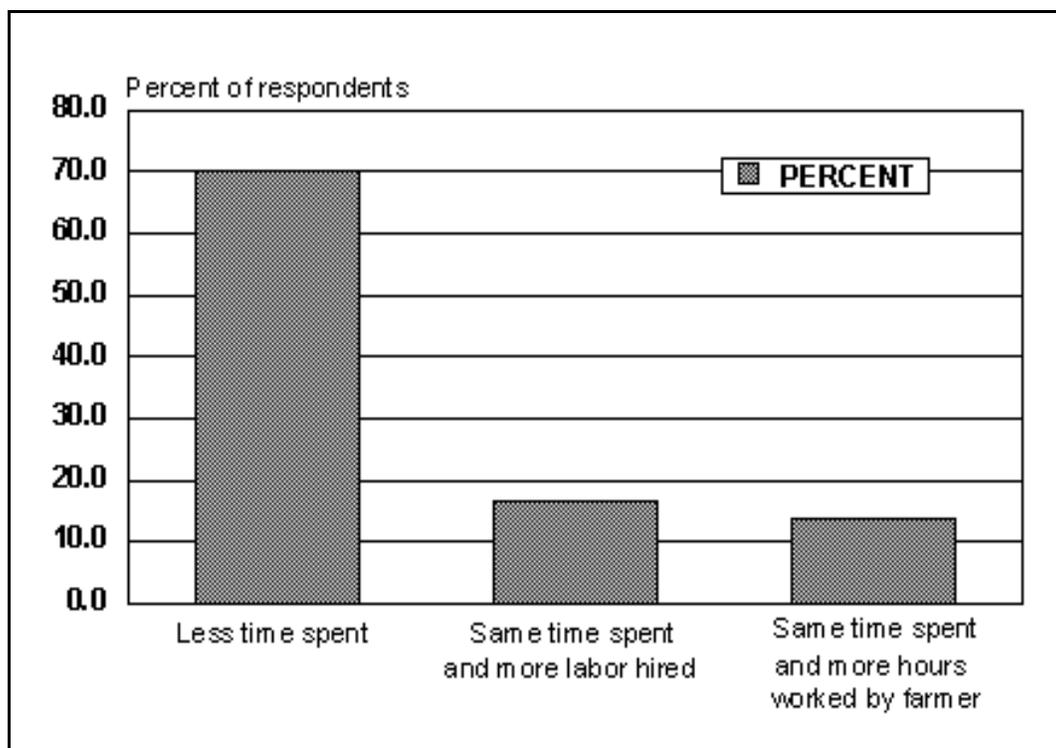


Figure 8. Effects of government regulations on time spent in the production/marketing process.

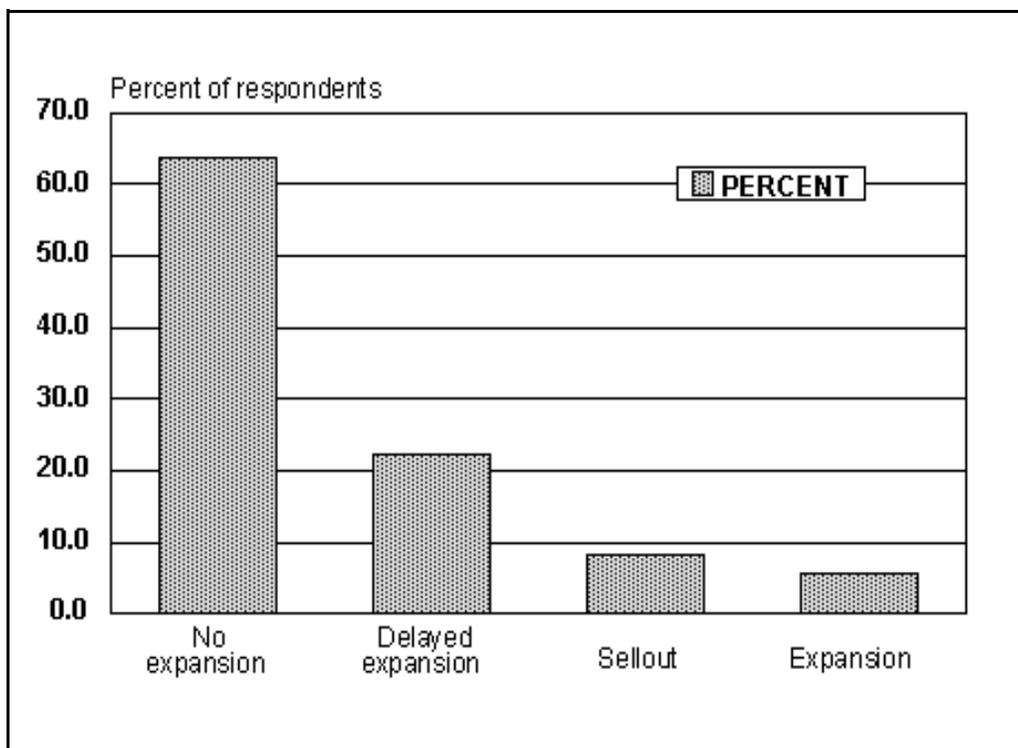


Figure 9. Effects of government regulations on future plans for herd expansion.

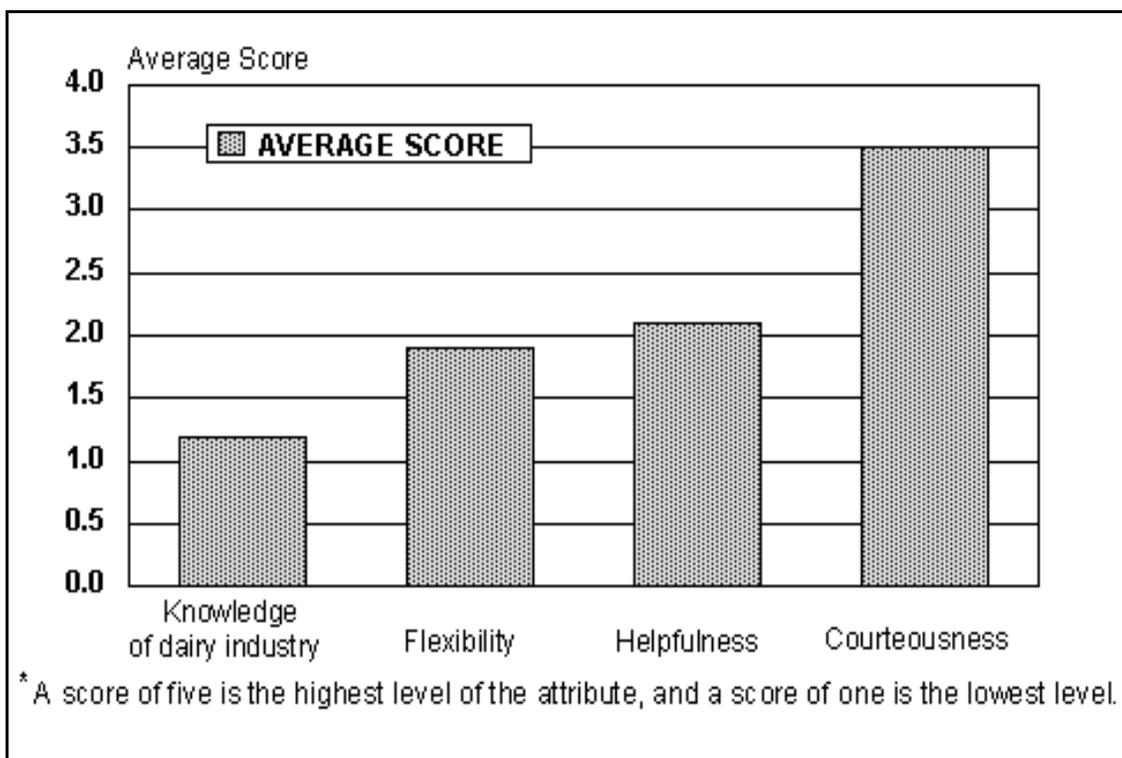


Figure 10. Ratings on selected attributes of government regulatory officials.\*

## Appendix

### Impact of Government Regulations on Florida Dairy Farms

Food and Resource Economics Department  
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#### *Commodity-Dairy*

1. What is the size of your business?  
Total number of cows \_\_\_\_\_  
Number of replacement heifers \_\_\_\_\_  
Average annual milk production per cow \_\_\_\_\_
2. How long have you been in dairy farming?  
Number of years \_\_\_\_\_ From 19\_\_\_\_ to 19\_\_\_\_
3. In what county (or counties) is your farming business located?  
(1) \_\_\_\_\_ (2) \_\_\_\_\_
4. What is the total acreage of your farming operation?  
Acres owned \_\_\_\_\_  
Acres rented \_\_\_\_\_  
Other \_\_\_\_\_  
Total acres \_\_\_\_\_
5. What is the most important problem facing your farming business?  
\_\_\_\_\_  
\_\_\_\_\_
6. What activities of your dairy operation are most negatively impacted by government regulations?  
\_\_\_\_\_  
\_\_\_\_\_
7. In what way, if any, has government regulation affected the value of your land?  
Increased \_\_\_\_\_  
Decreased \_\_\_\_\_  
No effect \_\_\_\_\_  
Why? \_\_\_\_\_
8. In what way, if at all, has government regulation affected your relationship with your lender?  
*Improved* the relationship.  
How? \_\_\_\_\_  
*Hurt* the relationship.  
How? \_\_\_\_\_  
No effect \_\_\_\_\_

9. What is your opinion about the need for regulation? What regulations, if any, are *good* for your business?

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10. What kind of changes have you made in your business in order to comply with regulations?

- Labor: Increase / Decrease / Stay the same (please circle one)
- Mechanization: Increase / Decrease / Stay the same (please circle one)
- Herd size: Increase / Decrease / Stay the same (please circle one)
- Kinds of crops grown: Increase / Decrease / Stay the same (please circle one)

11. What are your future plans with regard to your business? Please circle one.

- a. Expand your farming business
- b. Keep it the way it is
- c. Decrease the size of your farming business
- d. Sell it

12. How would you describe the government officials in charge of enforcing regulations? Rate each of the attributes below, using a rating scale where 5 = extremely (knowledgeable, helpful, flexible or courteous) and 1 = not at all (knowledgeable, helpful, flexible or courteous). Please circle your choice.

- Knowledgeable: 1 2 3 4 5
- Helpful: 1 2 3 4 5
- Flexible : 1 2 3 4 5
- Courteous: 1 2 3 4 5

13. In your opinion, what percentage of your working time is spent complying with regulations (for your total dairy enterprise)?

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14. What has been the percentage of change in regulations affecting your business during the last five years?

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15. What adjustments in time spent on production and marketing practices have you made in order to allot the time needed for regulatory compliance in your dairy operation?

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16. What changes, if any, would you like to see with regard to the regulations affecting you?

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17. In your opinion, do the following categories adequately describe costs of regulations to your business?

(1) Direct cost (cost of permit)

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(2) Opportunity cost of your inability to perform farm activities or tasks because of the time you spend on regulatory compliance

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(3) Cost of waiting or delay when outcome (approval) is uncertain

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(4) Cost of uncertainty regarding government regulation

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