

PFB EXHIBIT 1

**Testimony Offered for
Pennsylvania Farm Bureau
Before the Pennsylvania Milk Marketing Board
Regarding the Level and Duration of
the Class I Over Order Premium**

September 2, 2020

**Presented by Wayne Brubaker
Consultant and Senior Accountant, MSC Business Services
PFB Members' Service Corporation**

Introduction

This testimony is offered at the request of Pennsylvania Farm Bureau—the state’s largest general farm organization, representing farmers and member families of every size and commodity across Pennsylvania. Dairy farmers comprise the largest segment of agricultural producers who are members of the Farm Bureau.

I am Wayne Brubaker. I currently serve as a Consultant and Senior Accountant of MSC Business Services, a division of PFB Members’ Service Corporation (an affiliate company of Pennsylvania Farm Bureau). I have served in this position since 2008. MSC Business Services provides an array of services to assist farmers economically manage their farm operations. The services provided include income tax planning and preparation, business and tax accounting, payroll services and recordkeeping, business analysis and benchmarking, and business consulting.

Appendix 2 provides a background of my professional experience and education. To summarize, nearly my entire professional career has been with MSC Business Services. I was initially hired by MSC in 1978 as an Account Supervisor, performing accounting and business analysis services for farm clients in Bradford County and later Franklin County. Having assisted over 200 farms with financial

and tax planning, my tenure has allowed me to help multiple generations of Pennsylvania farm families.

In my capacity as a consultant, it's necessary that I have a working knowledge and understanding of existing economic and financial conditions in Pennsylvania's dairy industry and the financial impacts these conditions will likely have on the current and future operation of the dairy farms. To maintain this working knowledge, I am in regular contact with Account Supervisors who share the conditions their clients are experiencing, including prices received for their products. Important services that MSC Business Services provides are business consulting and benchmarking. As part of these services, we provide historical cost of production figures and projections. I personally review many of these reports.

The purpose of my testimony today is to give the Board perspective of what MSC-client dairy farmers have experienced, on average, during these past several years. It is important for the Board to consider the financial health and stability commonly experienced by dairy farm operations in Pennsylvania in the Board's determination of the level of over-order premium required to be paid to farmers. I believe my testimony about cost and income generally experienced by MSC-client dairy farms will give you a proper perspective.

To provide our clients with insight on their relative financial health, we prepare comparisons of their operations to all-client averages. One key

measurement is how an individual client compares with other MSC dairy clients of similar size and make-up. For the past several years, each dairy farm has received a *Dairy Profitability Comparison* that provides a side-by-side listing of their income and costs with the same from “comparably sized” dairy farms and the “top 10% farms” serviced by MSC. A sample of this report is provided in Appendix 1 to this testimony. 2019 was the latest year that analysis of MSC dairy farm clients was performed and completed by our office in the production of *Dairy Profitability Comparison* information for our individual farm operators.

Financial data from approximately 350 MSC-client dairy farms were evaluated and selected in the production of aggregate averages of cost and income that are contained in Tables 1 through 3, which accompany my testimony. And it serves as the basis for the aggregate average of costs, incomes and net margins generally experienced by MSC-client dairy farms for 2019 and preceding years that I am providing in today’s testimony.

At the Board’s hearing of March 4, 2020 to consider the level and duration of over-order premium, my supervisor, Michael Volinskie, presented testimony and a supporting table that compared annual average incomes, costs and net margins per hundredweight of milk sold by MSC-client dairy farms for the period of 2010 through 2017. Except for the addition of 2018, which, as discussed below, by far represents the worst annual net income of the past eight years, Table 1 of my

testimony is the same table offered at the March 4 hearing. Mr. Volinskie also presented testimony at the March 4, 2020 hearing on the serious and prolonged downturn that MSC clients experienced during the two-year period of 2015 and 2016, which continued into 2018.

I would point out from Table 1 that MSC-client dairy farms only experienced positive annual incomes from dairy production in two of the past eight years represented in the table. In 2018, MSC farms had a negative net margin of \$2.17 per hundredweight, which marked the fourth straight year of a negative net margin.

While the profits received by MSC dairy farmers in 2013 and 2014 were financially important and helpful, the continued and prolonged trend since 2015 has been one of negative net margins per hundredweight and an increasing negative annual net income, which reached its peak of nearly \$90,000 in 2018.

Table 2 of my testimony contains an updated comparison of annual average incomes, costs and net margins per hundredweight of milk sold by MSC-client dairy farms for the eight-year period of 2012 through 2019. Except for the addition of 2019, it is the same as Table 2 of Mr. Volinskie's testimony at the Board's over-order premium hearing on March 4, 2020.

A comparison of 2019's cost and income data with those of the prior seven years show that while 2019 was a nominally better year than the historic decline of

2018, negative net margin per hundredweight and annual net margins continued, marking the fifth straight year that the average MSC-client dairy farms failed to show an annual profit. In particular, net margin per hundredweight for 2019 came in at negative .10 cents, while annual net income registered at negative \$4,062.

At the Board's over-order premium hearing of March 8, 2019, Mr. Volinskie testified on the basis of cost and income data provided through 2017 that the financial futures of Pennsylvania's dairy farmers continue to be gravely challenged by the current and prolonged downturn in dairy prices. Inclusion and consideration of 2019's data contained in Table 2 continues to reinforce that opinion.

Table 1 and Table 2's "Total Net Margin" and "Average Net Margin Per Year" figures give a more concrete picture of the severity of financial impact that the most recent five-plus-year downturn has had on the on the Pennsylvania dairy farm operator. These figures show the total monetary "reward" earned on average by MSC-client dairy farms for the eight-year periods represented on the tables, as well as the yearly average of total earnings received for the eight-year periods.

The number appearing to the right of "Total Net Margin" is running total of average yearly profited and lost dollars incurred by MSC-client dairy farms for the eight-year period represented on each table. Table 1 shows the "Total Net Margin" received by MSC-client dairy farms on average from 2011 through 2018. And

Table 2 shows the “Total Net Margin” received by MSC-client dairy farms on average from 2012 through 2019.

The number appearing to the right of “Avg. Net Margin Per Year” represents what the “Total” Margin would be annually if averaged over the eight-year periods represented on each table.

As shown in Table 1, total net earnings by the average MSC-client dairy farm for the eight-year period of 2011 through 2018 was \$11,391, or \$1,424 per year when years of profits and losses are averaged. When annual losses for 2018 are included, as shown in Table 2, total net earnings by the average MSC-client dairy farm for the eight-year period of 2012 through 2019, was negative \$20,116, or negative \$2,515 per year.

These are not financially sound numbers for Pennsylvania dairy farms. Common sense dictates that these “returns” are not successful by any measure. And it’s impossible for businesses, much less families, to sustain a livelihood from these numbers.

From the standpoint of each operator of the farm business, continuation of the dairy decline has a depressing impact on farmers’ future business decisions and enthusiasm to continue making investments in their businesses. Without enthusiasm for the future, owners are far less likely to take on the additional financial risk necessary to modernize their operations. They are also far less likely

to promote dairy farming as a career to the next generation, placing the future of dairy farming in Pennsylvania in greater jeopardy.

At past hearings, witnesses for MSC Business Services have offered testimony to demonstrate the recent trend and need of dairy farmers to commit a greater portion of their milk income for purchases of feed and the production of feed crops. Table 3 shows the percentage of milk income that was spent, on average, for purchased feed and for crop expenses (seed, fertilizer, chemicals and fuel) for the 10-year period ending in 2019. Keep in mind that these costs are out-of-pocket costs for MSC-client dairy farms.

As mentioned at previous over-order premium hearings, in years prior to 2008, dairy farms traditionally needed to commit about 30% of their milk income to purchase feed and feed crop production inputs. From Table 3, you can see that the trend of dairy farmers to commit more than 40% of their milk income for feed and crop production expenses has continued in 2019. The percentage of income dedicated by MSC-client farms in 2019 for purchase of feed and feed crop production inputs was well above 40%.

The necessity for Pennsylvania's dairy farmers to commit a high percentage of their milk income to purchase feed and inputs for feed crops remains a significant concern, and highlights why there is a continuing need for efforts by the

Board and the dairy industry to sustain as high a level of milk prices for dairy farmers as feasible under existing market conditions.

While 2019 generated a marked improvement from 2018, net incomes still posted negative numbers for the average MSC dairy client, and many hoped 2020 would finally be the year to end the drastic dairy despairs. But, as with most industries across the global economy, COVID upended any hopes of a lasting recovery. As many have noted, COVID has forced many farmers to dump milk, look for their own market sources, reduce production, and make difficult choices under immense uncertainty. Even as dairy markets showed some improvement, external and unexpected costs such as negative producer price differentials removed meaningful returns for many dairy farmers.

Conclusion

The persistent and dismal financial experiences incurred by Pennsylvania dairy farmers throughout the 2015 through 2019 period have continued. The uncertainty brought about by COVID has increased the market volatility and many expect the general decline in net margins to continue. Pennsylvania's dairy farms today continue to face very real and critical financial challenges, which imminently threaten their continued operation in dairy farming.

My testimony should convince the Board that there is continued financial need for the Board to provide additional income to Pennsylvania dairy producers

through its Class I over-order premium. And based on that need, adoption by the Board of the recommendations of Pennsylvania Farm Bureau and other interested parties to continue the current level of base Class I premium at \$1.00 per hundredweight for the upcoming six months is warranted. I would recommend and encourage the Board to continue the over-order premium at its current level, plus the fuel add-on.

I would like to thank the Board for the opportunity to offer testimony today.

TABLE 2

**MSC Business Services
Key Dairy Benchmarks per CWT**

	2012	2013	2014	2015	2016	2017	2018	2019	Avg
Income									
Milk	\$19.77	\$21.40	\$25.57	\$18.14	\$16.97	\$18.66	\$17.10	\$19.34	\$19.62
Livestock Income*	\$1.50	\$1.48	\$1.87	\$2.27	\$1.61	\$1.46	\$1.02	\$1.23	\$1.56
Other	\$2.06	\$1.59	\$1.28	\$1.25	\$1.55	\$1.31	\$1.94	\$2.26	\$1.66
Total Income	\$23.33	\$24.47	\$28.72	\$21.66	\$20.13	\$21.43	\$20.06	\$22.83	\$22.83
Expenses									
Management Labor	\$2.20	\$2.10	\$2.19	\$1.92	\$1.84	\$1.86	\$1.77	\$1.75	\$1.95
Feed*	\$6.60	\$6.20	\$6.97	\$6.17	\$6.02	\$5.40	\$6.09	\$6.23	\$6.21
Hired Labor	\$1.84	\$1.97	\$2.06	\$1.99	\$2.03	\$2.00	\$2.11	\$2.11	\$2.01
Interest	\$0.69	\$0.63	\$0.63	\$0.55	\$0.59	\$0.58	\$0.68	\$0.71	\$0.63
Rent	\$0.69	\$0.77	\$0.84	\$0.84	\$0.91	\$0.90	\$0.91	\$1.06	\$0.87
Milk Marketing	\$1.09	\$1.11	\$1.14	\$1.22	\$1.24	\$1.27	\$1.31	\$1.31	\$1.21
Dairy Expenses	\$2.30	\$2.23	\$2.47	\$2.10	\$2.11	\$2.07	\$2.01	\$2.05	\$2.17
Crops (Seed, Chem, Fert, Fuel)	\$2.85	\$2.74	\$2.89	\$2.22	\$1.95	\$2.05	\$2.04	\$2.29	\$2.38
Depreciation	\$1.63	\$1.55	\$1.62	\$1.63	\$1.69	\$1.67	\$1.65	\$1.67	\$1.64
Other	\$3.43	\$3.77	\$4.33	\$3.86	\$3.43	\$3.67	\$3.66	\$3.75	\$3.74
Total Expenses	\$23.32	\$23.07	\$25.14	\$22.50	\$21.81	\$21.47	\$22.23	\$22.93	\$22.81
Net Margin	\$0.01	\$1.40	\$3.58	-\$0.84	-\$1.68	-\$0.04	-\$2.17	-\$0.10	\$0.02

*Adjusted for Inventory Change (Livestock Inventory for Livestock Income and Crop Inventory for Feed)

Avg # Cows	134	149	164	161	160	169	180	210	
Milk Sold per Cow	20,036	20,466	20,909	20,970	21,236	21,248	21,095	21,163	
Yearly Net Margin	\$268	\$42,997	\$122,761	-\$30,321	-\$61,802	-\$515	-\$89,442	-\$4,062	Total -\$20,116
									Avg. -\$2,515

Table 3

MSC Business Services

Key Dairy Benchmarks - Purchased Feed and Crop Expense to Milk Price

Year	Purchased Feed & Crop Expense (Per CWT)	Avg. Milk Price (Per CWT)	Percent of Feed & Crop Expense to Milk Price
2010	\$7.69	\$18.05	43%
2011	\$9.50	\$21.87	43%
2012	\$9.45	\$19.77	48%
2013	\$8.94	\$21.40	42%
2014	\$9.86	\$25.57	39%
2015	\$8.39	\$18.14	46%
2016	\$7.97	\$16.97	47%
2017	\$7.45	\$18.66	40%
2018	\$8.13	\$17.10	48%
2019	\$8.52	\$19.34	44%

2019 Dairy Profitability Comparison

MSC Business Services
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Specially Prepared for:



Management Study Comparison 2019

	My Farm			Comparable Size Farms			Top 10%		
	Avg # Cows		84.00	Avg # Cows		80.23	Avg # Cows		240.08
	Milk Sold /Cow		20,491	Milk Sold /Cow		20,404	Milk Sold /Cow		24,738
	Dollars	\$/Cow	\$/CWT	Dollars	\$/Cow	\$/CWT	Dollars	\$/Cow	\$/CWT
Revenue									
Milk, Sold	\$330,397	\$3,933	\$19.19	\$308,618	\$3,847	\$18.85	\$1,138,150	\$4,741	\$19.16
Livestock Income	8,392	100	0.49	20,015	249	1.22	77,706	324	1.31
Ag Program Payments	16,090	192	0.93	18,765	234	1.15	44,594	186	0.75
Custom Work	0	0	0.00	0	0	0.00	26,094	109	0.44
Crop Income	9,647	115	0.56	17,582	219	1.07	22,229	93	0.37
Patronage Refunds	5,527	66	0.32	1,968	25	0.12	12,676	53	0.21
Other Income	11,156	133	0.65	13,652	170	0.83	25,076	104	0.42
Total Revenue	\$381,209	\$4,539	\$22.14	\$380,600	\$4,744	\$23.24	\$1,346,525	\$5,610	\$22.66
Production Costs									
Feed Expenses	\$87,734	\$1,044	\$5.10	\$91,951	\$1,146	\$5.62	\$316,567	\$1,319	\$5.33
Labor Expenses	29,632	353	1.72	14,977	187	0.91	109,995	458	1.85
Repairs (Machinery)	8,294	99	0.48	19,418	242	1.19	52,570	219	0.89
Rent - Lease of Real Estate	0	0	0.00	12,808	160	0.78	48,184	201	0.81
Machine Hire (Custom Work)	37,489	446	2.18	17,275	215	1.06	44,366	185	0.75
Supply Expenses	8,883	106	0.52	18,251	227	1.11	41,219	172	0.69
Gasoline, Fuel, Oil (Business)	971	12	0.06	12,122	151	0.74	35,096	146	0.59
Seeds & Plants	9,592	114	0.56	15,697	196	0.96	29,126	121	0.49
Fertilizer	1,449	17	0.08	9,621	120	0.59	29,028	121	0.49
Vet and Medicine	7,021	84	0.41	6,469	81	0.40	21,384	89	0.36
Utilities (Business)	5,084	61	0.30	12,288	153	0.75	20,121	84	0.34
Heifer Raising, Off-Farm(Expense)	29,742	354	1.73	529	7	0.03	19,481	81	0.33
Chemicals (Sprays or Pestic.)	743	9	0.04	8,444	105	0.52	15,959	66	0.27
Other Production Costs	14,544	173	0.84	19,160	239	1.17	46,142	192	0.78
Total Production Costs	\$241,178	\$2,872	\$14.02	\$259,010	\$3,229	\$15.83	\$829,238	\$3,454	\$13.97
Administrative Costs									
Management Labor	\$44,436	\$529	\$2.58	\$49,184	\$613	\$3.00	\$103,304	\$430	\$1.74
Marketing Expenses	26,947	321	1.57	23,743	296	1.45	81,668	340	1.38
Economic Depreciation	14,000	167	0.81	44,315	552	2.71	78,053	325	1.31
Insurance (Business)	9,908	118	0.58	9,462	118	0.58	19,349	81	0.33
Other Administrative Costs	4,997	59	0.29	9,536	119	0.58	16,728	70	0.28
Total Administrative Costs	\$100,288	\$1,194	\$5.83	\$136,240	\$1,698	\$8.32	\$299,102	\$1,246	\$5.04
Interest Expense	\$1,697	\$20	\$0.10	\$12,953	\$161	\$0.79	\$35,480	\$148	\$0.60
Net Margin	\$38,046	\$453	\$2.19	(\$27,603)	(\$344)	(\$1.70)	\$182,705	\$762	\$3.05

Disclaimer:

Numerous factors, many beyond the scope of the data in this summary, influence individual results. All data reported reflects past performance and does not predict or forecast future results. The data reported is believed to be accurate, but Pennsylvania Farm Bureau, MSC Business Services makes no warranty or representation, expressed or implied, as to its suitability or fitness for any purpose. The user of this data is cautioned to utilize the data at their own risk, recognizing that Pennsylvania Farm Bureau, MSC Business Services disclaim all liability for any damages, however occurring, to any person or entity as a result of such use.

Analytical Study Comparison 2019

	My Farm		Comparable Size Farms		Top 10%	
Dairy Productivity Factors						
Total # Milk Shipped (CWTs)	1,721,269		1,637,025		5,939,009	
Somatic Cells (1,000s)	125		186		171	
Cow Cull Rate	31%		33%		32%	
Dairy Animal Inventory Change	(\$16,000)		\$1,046		\$23,917	
Internal Herd Growth	-12.36%		-1.05%		2.02%	
Replacements per Cow	0.37		0.86		0.96	
Purchased Feed & Crop Exp / CWT	\$5.27		\$8.18		\$7.34	
Net Milk Price / CWT	\$17.63		\$17.43		\$17.68	
Total Cost Prod Milk / CWT	\$16.99		\$21.29		\$15.85	
Pur Feed / Milk Income	24%		25%		29%	
Milk Shipped / Man	930,416		920,306		1,271,078	
Total Feed Fed / CWT	\$7.89		\$10.59		\$10.60	
Milk Inc. over T. Feed / Cow	\$2,317		1,224		2,065	
Return per \$100 Feed Fed	\$250		\$153		\$200	
Ratios						
Return on Assets	1.87%		-0.52%		12.79%	
Current Ratio	0.46:1		4.38:1		2.66:1	
EBITD / Cow	\$1,169		\$1,109		\$1,777	
Percent Net Worth	65%		58%		52%	
Operating Expense %	90%		107%		84%	
Interest Expense %	0%		3%		2%	
Asset Turnover (years)	5.58		3.95		2.15	
Total Business Prod / Man	\$201,335		\$221,679		\$302,327	
Labor Productivity Ratio	5.03:1		6.80:1		7.90:1	
Total Man Equivalents	1.85		2.05		5.36	
Dairy Debt per Cow	\$2,576		\$3,629		\$3,308	
Cows / Man	45		45		53	
Other Cost Analysis						
Total Fixed Costs / CWT	\$5.05		\$10.78		\$7.11	
Total Variable Costs / CWT	\$14.89		\$16.49		\$13.73	
Direct Crop Expense / Acre	\$157		\$115		\$142	
Crop Margin / Acre	(\$29)		\$45		\$113	
Value Forage Harv / For Acre	\$747		\$416		\$648	
Value Grain Harv / Grain Acre	\$876		\$344		\$412	
Machine Op Cost / Acre	\$588		\$194		\$251	
Total Mach Op Cost / Acre	\$641		\$320		\$347	

* Comparable Size Farms

The data in the Comparable Size Farms column is designed to average, as closely as possible, farms with roughly the same number of cows milked as your farm. The data is not from all farms in the MSC Business Services database, but is only from those utilizing conventional feeding systems that have been designated as included in this summary by their Account Supervisor.

* Top 10%

The Top 10% Farms were chosen based on Net Margin per cwt within the MSC Business Services database. These farms utilize conventional feeding systems and have been designated as included in this summary by their Account Supervisor.

Appendix 2 to Exhibit 1

**Wayne Brubaker, Consultant
MSC Business Services**

Wayne Brubaker has served PA Farm Bureau members since 1978. Beginning as an Account Supervisor in Bradford County, moving to Franklin County in 1980 and assuming the position of Consultant in 2008. He has worked extensively with over 200 farms helping with financial planning, farm management, tax planning and preparation, business planning and transition planning. During his tenure, he has helped numerous farms transition from one generation to the next. He has been around so long that he is now helping the third generation take over grandpa's farm.

Wayne has a BS degree in Business Administration with a minor in Accounting from Messiah College and is an IRS Enrolled Agent.

He is married, has three married children and nine grandchildren. He is actively involved in his church where he leads worship and teaches Sunday School.