

**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**

**March 8, 2019**

**Presented by Michael Volinskie  
Manager, MSC Business Services  
PFB Members' Service Corporation**

## **Introduction**

This testimony is offered at the request of Pennsylvania Farm Bureau, which represents over 62,000 farm and rural family members in 63 counties. Dairy farmers comprise the largest segment of agricultural producers who are members of the Farm Bureau.

I am Michael Volinskie. I currently serve as manager 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 September of last year. 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.

I am responsible for managing the division's approximately 4,000 contracts and the supervision of its 30 accountants, known as Account Supervisors, and 20 support staff. I started my career with MSC Business Services in May of 1999. At that time I was hired as an account supervisor for primarily Snyder and Union Counties. Shortly thereafter I was promoted to Regional Manager where I still maintained my clients in Snyder and Union Counties as well as managed on average six account supervisors in the Northeast region of Pennsylvania. In July of 2017 I decided that maybe it was time for a change and took a position with M&T

Bank as hybrid business/ag lender. In September of 2018, Michael Evanish retired as the manager of MSC Business Services, and I returned to fill that position.

Appendix 1 contains a background of professional experience and education. But since this is the first time I am offering testimony before this Board, I would like to summarize in my prepared testimony my experience and education in the field of farm accounting and farm and dairy business analysis. I attended Lycoming College receiving degrees in Accounting and Music performance. Following college I worked in various roles in the accounting field through small businesses and a CPA firm. My intention upon graduation was to work for the Federal Bureau of Investigation. I was hired by the Internal Revenue Service and declined the appointment as I choose a career with MSC Business Services instead. I have been working with agriculture since that time now spanning approximately twenty years.

In my capacity as Manager of MSC Business Services, it is imperative that I have a working knowledge and understanding of existing economic and financial conditions in Pennsylvania's dairy industry and the likely financial impacts these conditions will have on the current and future operation of the dairy farms. To maintain this working knowledge, I am in daily contact with Account Supervisors who share the conditions their clients are experiencing, including prices received for their products.

Important services that MSC Business Services provide are business consulting and benchmarking. As part of these services, we provide historical cost of production figures and projections. I personally review and approve all reports produced by MSC Business Services.

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 insights into 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 2 to this testimony.

At the Board's hearing of August 30, 2017 to consider the level and duration of over-order premium, my predecessor Michael Evanish provided testimony with two supporting tables to his testimony. One of the tables offered by Mr. Evanish compared annual average incomes, costs and net margins per hundredweight of milk sold by MSC-client dairy farms for the period of 2009 through 2016. Table 1 of my testimony is the same table that was offered by Mr. Evanish at the August 2017 hearing.

A review of this table highlights two periods in which MSC-client dairy farms experienced serious drops in milk prices, including that experienced in 2015 and 2016. The financial challenges experienced by MSC's dairy clients were indicative of the type and magnitude of challenges being experienced by Pennsylvania's and our nation's dairy farmers during the same period.

MSC clients, on average, experienced losses in 4 years during this 8-year period, with losses reaching extremes of \$2.53 per hundredweight in 2009 and \$1.68 in 2016. The average losses experienced by MSC clients were significantly higher than average gains in net income received in three of the "profit years" during this period. During the three-year stretch of 2011 through 2013, MSC dairy farmers received important, but modest, average net returns of \$1.04, \$0.01 and \$1.41 per hundredweight. Essentially the financial "rebound" that MSC client

dairy farms experienced in those years did little more than offset the financial losses incurred by MSC-client farms in 2009 and 2010.

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 8-year period of 2010 through 2017. 2017 is the latest year for which income and cost data of MSC-client dairy farms has been reviewed and verified by my office for accuracy and reliability.

A comparison of 2017's cost and income data with those of the prior 7 years clearly show that the financial woes experienced by MSC-client dairy farms during 2015 and 2016 continued during 2017. While not as disastrous as 2016, MSC dairy operations in 2017 experienced a net margin loss. Average income per hundredweight for 2017 was lower than those years prior to 2016, with the exception of 2010. Other than 2016, average income by MSC-client farms was the lowest since 2010. 2017's margin of loss would have been substantially greater, had these farms acted to reduce their costs of production.

While I may be providing the Board with some additional information to that presented by Mr. Evanish in his August 2017 testimony, the themes that this Board should draw from my testimony and tables are essentially the same. As evidenced by cost and income data of MSC-client dairy farms, the financial futures of Pennsylvania's dairy farmers continue to be gravely challenged by the current

and prolonged downturn in dairy prices. The high prices received by farmers in 2013 and 2014 were critical to their ability to financially weather periods of low milk prices. That steep turnaround in price and income kept many Pennsylvania dairy farms in business. But no one, including myself, is projecting a similar steep or quick economic turnaround of the losing economic trend for dairy farmers that has now lasted for more than four years.

Table 1 and Table 2's "Net Margin" and "Yearly Net Margin" figures provide a more sobering picture of what dairy farming has meant financially for the average Pennsylvania dairy farm operator and the financial "reward" for operating a dairy farm in recent years. The "Net Margin" rows on each table show the annual net returns received on average by MSC-client dairy farms on the per each per hundredweight of milk produced. While the "Yearly Net Margin" rows on each table show in total dollars of annual net return that MSC-client dairy farms received on average for all milk produced on the farm.

The number appearing under the heading of "Total" in the last column of "Yearly Net Margin" is running total of profited and lost dollars by MSC-client dairy farms for the 8-year period represented on each table. Table 1 shows the "Total" of what MSC-client dairy farms received on average from 2009 through 2016. And Table 2 shows the "Total" of what MSC-client dairy farms received on average from 2010 through 2017.

The numbers appearing under the heading of “Avg” in the last column of each table represents what the “Total” Margin would be annually if averaged over the 8-year periods represented on each table.

Table 2’s “Total” and “Annual Average” Margin figures for the 8-year period of 2010 through 2017 do not paint a financially sound picture for Pennsylvania dairy farms. For this 8-year period, MSC-client farms netted a total of \$97,776 from the operation – an average annual return of \$12,222.

Table 2’s figures alone, however, may not tell the full story of financial conditions on Pennsylvania dairy farms in recent years. Table 2 does not include the “Yearly Net Margin” that MSC-client farms experienced in 2009. Inclusion of 2009’s figures cast an even more dismal light on recent financial experience of Pennsylvania dairy operations. That year, MSC-client farms lost on average \$59,461. If 2009’s loss is included, MSC-client farms netted a total of \$38,315 for the 9-year period through 2017 – an average annual return of \$4,257.

It shouldn’t take an accountant or business analyst to understand what these figures mean. The returns received in recent years by Pennsylvania dairy farmers would be widely unacceptable in other industries. And from the standpoint of the individual farm operator, continuation of meager returns have a depressing impact on farmers’ subsequent business decisions and enthusiasm toward investing 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.

As I mentioned earlier, dairy farmers have done as best they can in controlling their cost of operation in response to the prolonged period of lower milk prices they are receiving. Table 2 shows that 2017 MSC-client farms reduced their average cost of production by \$0.34 per hundredweight from the previous year and \$1.03 per hundredweight from cost incurred in 2015. 2017's cost of production was the lowest incurred by MSC-client farms since 2010.

This effort to manage cost is notable. But if the level of "cost management" reaches the point where the farm operator is foregoing needed repair of equipment and infrastructure of the farm operation, there will be serious and detrimental impacts on productivity and profitability of the dairy farm. While I don't offer any particular study to confirm that many dairy farmers are dangerously avoiding the cost of needed repairs and maintenance, my general experience leads me to believe such avoidance is taking place on many Pennsylvania dairy farms.

At past hearings, Mr. Evanish has testified on the recent trend for dairy farmers to devote 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). 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. Table 3 shows the relative purchased feed and crop expense, milk price, and percentage of milk price committed to feed and crop expense experienced by MSC-client dairy farms for the 10-year period of 2008 through 2017. You can see that for 2017 the trend of dairy farmers to commit more than 40% of their milk income for feed and crop production expenses has continued.

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

### ***Conclusion***

Pennsylvania's dairy farmers continue to be directly and negatively impacted by serious reductions in producer milk prices that have been in place since 2015. Despite the efforts by dairy farmers to respond to this economic

downturn, by managing costs and increasing cost efficiency, Pennsylvania's dairy farms continue to face imminent and real financial challenges.

My testimony should convince the Board that an increase of 25 cents to the base level of mandated Class I over-order premium to \$1.00 per hundredweight is warranted, based on cost-price needs of Pennsylvania dairy farmers. It is my recommendation that the Board adopt an Order to establish a level of premium at \$1.00 for the upcoming six months.

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





**TABLE 3**

**MSC Business Services**

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

<b>Year</b>	<b>Purchased Feed &amp; Crop Expense (Per Cwt.)</b>	<b>Avg. Milk Price (Per Cwt)</b>	<b>Percent of Feed &amp; Crop Expense to Milk Price</b>
2008	\$7.98	\$19.84	40%
2009	\$7.02	\$13.91	50%
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%

## APPENDIX 1

Michael E Volinskie, Manager

MSC Business Services

Michael Volinskie is the Manager of MSC Business Services, a division of PFB Members' Service Corporation (an affiliate company of Pennsylvania Farm Bureau). MSC Business Services employs approximately 50 professional and support staff providing services to members consisting of income tax preparation, record keeping, payroll services, financial statements, benchmarking and consulting.

Michael Volinskie started his career with MSC Business Services in May of 1999. At that time, he was hired as an account supervisor for primarily Snyder and Union Counties. Shortly thereafter he was promoted to Regional Manager where he still maintained clients in Snyder and Union Counties as well as managed on average six account supervisors in the Northeast region of Pennsylvania. In July of 2017 he decided that maybe it was time for a change and took a position with M&T Bank as hybrid business/ag lender. In September of 2018, Michael Evanish retired as the manager of MSC Business Services, and he returned to fill that position.

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# Dairy Profitability Comparison 2017

Specially Prepared For:



## Management Study Comparison 2017

	My Farm			Comparable Size Farms			Top 10%		
	Avg # Cows		150.00	Avg # Cows		138.39	Avg # Cows		289.11
	Milk Sold /Cow		23,104	Milk Sold /Cow		21,888	Milk Sold /Cow		24,803
	Dollars	\$/Cow	\$/CWT	Dollars	\$/Cow	\$/CWT	Dollars	\$/Cow	\$/CWT
<b>Revenue</b>									
Milk, Sold	\$637,877	\$4,253	\$18.41	\$562,303	\$4,063	\$18.56	\$1,372,226	\$4,746	\$19.14
Livestock Income	72,559	484	2.09	47,077	340	1.55	145,483	503	2.03
Crop Income	0	0	0.00	10,752	78	0.35	27,527	95	0.38
Patronage Refunds	6,003	40	0.17	5,168	37	0.17	18,721	65	0.26
Ag Program Payments	0	0	0.00	6,853	50	0.23	13,886	48	0.19
Miscellaneous	938	6	0.03	3,007	22	0.10	3,652	13	0.05
Other Income	2,472	16	0.07	12,213	88	0.40	16,398	57	0.23
<b>Total Revenue</b>	<b>\$719,849</b>	<b>\$4,799</b>	<b>\$20.77</b>	<b>\$647,878</b>	<b>\$4,678</b>	<b>\$21.36</b>	<b>\$1,597,893</b>	<b>\$5,527</b>	<b>\$22.28</b>
<b>Production Costs</b>									
Feed Expenses	\$208,587	\$1,391	\$6.02	\$164,703	\$1,190	\$5.44	\$331,083	\$1,145	\$4.62
Labor Expenses	15,388	103	0.44	43,708	316	1.44	162,358	562	2.26
Rent - Lease of Real Estate	16,550	110	0.48	25,815	187	0.85	79,571	275	1.11
Repairs (Machinery)	40,829	272	1.18	26,455	191	0.87	53,009	183	0.74
Supply Expenses	28,590	191	0.82	30,382	220	1.00	47,255	163	0.66
Machine Hire (Custom Work)	16,722	111	0.48	22,508	213	0.97	39,224	136	0.55
Gasoline, Fuel, Oil (Business)	19,808	132	0.57	16,337	118	0.54	35,945	124	0.50
Seeds & Plants	20,686	138	0.60	20,062	145	0.66	35,319	122	0.49
Vet and Medicine	6,044	40	0.17	14,142	102	0.47	34,150	118	0.48
Chemicals (Sprays or Pestic.)	14,900	99	0.43	10,859	78	0.36	32,317	112	0.45
Utilities (Business)	13,026	87	0.38	17,357	125	0.57	28,805	100	0.40
Fertilizer	31,797	212	0.92	15,662	113	0.52	26,829	93	0.37
Breeding Fees	10,502	70	0.30	7,822	57	0.26	17,906	62	0.25
Other Production Costs	4,015	27	0.12	39,852	223	1.02	78,352	271	1.09
<b>Total Production Costs</b>	<b>\$447,444</b>	<b>\$2,983</b>	<b>\$12.91</b>	<b>\$453,657</b>	<b>\$3,278</b>	<b>\$14.97</b>	<b>\$1,002,123</b>	<b>\$3,466</b>	<b>\$13.97</b>
<b>Administrative Costs</b>									
Management Labor	\$81,595	\$544	\$2.35	\$64,054	\$463	\$2.11	\$105,533	\$365	\$1.47
Marketing Expenses	34,022	227	0.98	38,772	260	1.26	83,088	287	1.16
Economic Depreciation	114,860	766	3.31	52,154	377	1.72	77,730	269	1.08
Insurance (Business)	877	6	0.03	12,777	92	0.42	24,055	83	0.34
Other Administrative Costs	12,692	85	0.37	15,030	109	0.50	31,209	108	0.44
<b>Total Administrative Costs</b>	<b>\$244,046</b>	<b>\$1,628</b>	<b>\$7.04</b>	<b>\$182,787</b>	<b>\$1,321</b>	<b>\$6.02</b>	<b>\$321,615</b>	<b>\$1,112</b>	<b>\$4.49</b>
<b>Interest Expense</b>	<b>\$19,053</b>	<b>\$127</b>	<b>\$0.55</b>	<b>\$18,092</b>	<b>\$131</b>	<b>\$0.60</b>	<b>\$32,960</b>	<b>\$114</b>	<b>\$0.46</b>
<b>Net Margin</b>	<b>\$9,306</b>	<b>\$61</b>	<b>\$0.27</b>	<b>(\$7,163)</b>	<b>(\$52)</b>	<b>(\$0.24)</b>	<b>\$241,195</b>	<b>\$835</b>	<b>\$3.36</b>

**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 2017

	My Farm	Comparable Size Farms	Top 10%
<b>Dairy Productivity Factors</b>			
Total # Milk Shipped (CWTs)	3,465,653	3,029,089	7,170,914
Somatic Cells (1,000s)	144	241	176
Cow Cull Rate	35%	31%	33%
Dairy Animal Inventory Change	\$36,000	\$7,999	\$40,135
Internal Herd Growth	8.22%	1.93%	4.31%
Replacements per Cow	1.28	0.89	0.97
Purchased Feed & Crop Exp / CWT	\$9.29	\$7.85	\$7.20
Net Milk Price / CWT	\$17.42	\$17.94	\$17.68
Total Cost Prod Milk / CWT	\$18.13	\$18.90	\$15.20
Pur Feed / Milk Income	40%	24%	22%
Milk Shipped / Man	1,359,080	1,184,253	1,080,961
Total Feed Fed / CWT	\$11.13	\$9.19	\$8.43
Milk Inc. over T. Feed / Cow	\$1,680	1,260	1,620
Return per \$100 Feed Fed	\$184	\$242	\$296
<b>Ratios</b>			
Return on Assets	0.97%	1.26%	8.77%
Current Ratio	3.68:1	4.03:1	2.19:1
EBITD / Cow	\$1,499	\$1,047	\$1,750
Percent Net Worth	71%	54%	51%
Operating Expense %	96%	99%	85%
Interest Expense %	3%	3%	2%
Asset Turnover (years)	4.06	2.96	2.53
Total Business Prod / Man	\$300,333	\$270,470	\$263,128
Labor Productivity Ratio	7.90:1	6.86:1	6.43:1
Total Man Equivalents	2.55	3.05	7.46
Dairy Debt per Cow	\$2,157	\$3,452	\$3,430
Cows / Man	59	55	46
<b>Other Cost Analysis</b>			
Total Fixed Costs / CWT	\$8.30	\$8.07	\$7.60
Total Variable Costs / CWT	\$12.20	\$15.44	\$13.12
Direct Crop Expense / Acre	\$260	\$115	\$104
Crop Margin / Acre	(\$57)	\$55	\$125
Value Forage Harv / For Acre	\$751	\$453	\$447
Value Grain Harv / Grain Acre	\$465	\$422	\$388
Machine Op Cost / Acre	\$289	\$176	\$158
Total Mach Op Cost / Acre	\$481	\$265	\$222

\* Comparable Size Farms

\* Top 10%

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 MSG 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.

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

## 2017 Dairy...a Brave New World

Yes, there has been plenty of bad news for dairy in 2017 and early 2018. Processors continue to dump milk, producers have lost markets, and the general tone has dairy experiencing the worst of times. But does that mean no profits are being made? This report contains a summary of the financial information for over 500 dairy operations in PA. This data shows that on average, 2017 was a break-even year.

The MSC Business Services State Dairy Summary - The 2017 Dairy Summary reported an average Net Margin of a few cents per CWT loss. A nice improvement over 2016. Also, the Top 10% farms reported a Profit of over \$3.00 per CWT.

Of course, averages are meaningless when looking at your operation. Because as a wise farmer once told me "If I have one foot in ice water and the other in boiling water, on average I'd be comfortable." So, discounting the average's value, how can this information be used to help you, in your operation?

With helping you in mind, I investigated what factors proved of value in making the profitable farms profitable. Being a Profitable farm was the result of exceling in all 3 key dairy enterprise areas:

- **Milk Production Practices** that resulted in high amounts of Milk per Cow,
- **Animal Husbandry Practices** that lead to positive Internal Herd Growth, and
- **Cropping Practices** that resulted in large quantities of high quality feed.

How did your farm measure up?

