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 1, 2021**

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## Introduction

Good morning, I’m Wayne Brubaker. I’m offering this testimony at the request of Pennsylvania Farm Bureau—the state’s largest general farm organization and an affiliate of the American Farm Bureau Federation. Pennsylvania Farm Bureau represents farm family members of every size and commodity across the state, including dairy farmers, which comprise the largest commodity group of Farm Bureau members.

Exhibit 7 provides my professional experience and education, but briefly, I’ve spent my entire professional career with MSC Business Services, a division of PFB Members’ Service Corporation (an affiliate company of Pennsylvania Farm Bureau). MSC Business Services provides an array of services to help farmers manage their finances. In addition to general business consulting, MSC Business Services provides income tax planning and preparation, business and tax accounting, payroll and recordkeeping services, and business analysis and benchmarking to Pennsylvania Farm Bureau members.

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. During my 40-plus years with MSC, I’ve assisted over 200 farms with financial and tax planning, helping multiple generations of Pennsylvania farm families.

Since 2008, I've served as a Consulting Supervisor of MSC Business Services. In my position as a consultant, it's essential that I have a working knowledge and understanding of the economic and financial conditions in Pennsylvania's dairy industry, along with the financial impacts these conditions will likely have on the current and future operations of the dairy farms. As a result, I'm in regular contact with MSC Account Supervisors who share the conditions their dairy farm clients experience, including prices received for their products. Additionally, I frequently read and analyze key public dairy reports and forecasts related to dairy margin coverage, mailbox prices, component-class pricing, and Chicago Mercantile Exchange futures pricing.

With this background in mind, I hope my testimony gives the Board a helpful perspective of what the average MSC-client dairy farmers have experienced in recent years, along with the current and projected market trends in the near-term. In my view, these are important aspects for the Board to consider in determining whether and at what level to set the Class I over-order premium level for dairy farmers. To that end, as I will discuss in more detail, given the continued high feed costs, relatively flat milk prices, and discontinuation of COVID-related payments, PFB is recommending that the Board maintain the over-order premium at $1.00 per hundred weight, plus the fuel adjuster.

To provide our MSC dairy clients with insight on their relative financial health, we prepare an analysis of their operation. In addition, we provide a comparison of their operations to 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 comparison of their income and costs with “comparably sized” dairy farms as well as the “top 10% farms” serviced by MSC. We recently completed our 2020 *Dairy Profitability Comparison*, and a sample of this report is provided in Exhibit 2 to this testimony.

Relatedly, in compiling the data for the *Dairy Profitability Comparison*, we also evaluated financial data from approximately 275 MSC-client dairy farms and developed tables identifying the production of aggregate averages of expenses and income. These tables are contained in Exhibits 3 and 4, which accompany my testimony and serve as the basis for the aggregate average of costs, incomes and net margins generally experienced by MSC-client dairy farms for 2020 and preceding years.

In September 2020, I testified concerning aggregate income, expenses and profitability data of MSC dairy clients from 2011 to 2019. The data was presented in a series of tables and accompanied my testimony. Table 1, Exhibit 3 of today’s testimony contains the updated 2020 figures. I want to briefly reiterate the historical trends during the past decade. I would also like to discuss industry price and expense trends that have occurred since the most recent over-order premium hearing in March.

Prior to 2020, the past half-decade was extremely difficult for dairy farmers. Since 2015, yearly net income for MSC dairy clients averaged a negative $37,228, ranging from negative $515 in 2017 to an astounding negative $89,442 in 2018. While 2019 showed a marked improvement, it still resulted in an average annual net loss of approximately $4,000. Taken together, this meant MSC dairy farmers posted five consecutive years of negative annual net incomes dating back to 2015. Going back even further to 2012, the average MSC dairy client experienced total negative annual income of $20,116, or a negative $2,515 per year. In short, Pennsylvania dairy farmer's net margins had been lousy for a long time.

While the 2020 figures are significantly better, showing a positive net income of approximately $45,000—the second best of the past decade—a closer examination reveals these figures are overwhelmingly driven by COVID-related government payments. Specifically, these payments added roughly $3.15 per hundred weight to MSC dairy farmers' income. Without these payments, the expected net margin would have been negative $2.27 per hundred-weight—a figure that would've been the worst net margin of the past decade. Instead, lifted by COVID payments, the 2020 net margin for MSC dairy clients averaged .88 cents per hundred-weight. Thus, it’s evident that the COVID-related payments served their purpose and kept dairy farmers afloat during a time where many farmers were forced to dump milk, look for their own market sources, reduce production, and make difficult choices under immense uncertainty. However, as the COVID-related payments are ceasing, traditional metrics such as the price of milk and expenses, particularly feed, become critical factors in determining a dairy farmer’s net margin.

As mentioned at past over-order premium hearings, feed expenses are by far the single highest expense for dairy farmers. For MSC dairy clients, feed costs represent nearly three times their next highest cost, crop expenses (seed, chemicals and fertilizer). As represented in Table 1, Exhibit 3, this trend continued in 2020 for MSC dairy farmers. Feed expenses rose from $6.23 to $6.82 per hundred weight—just shy of the highest feed cost of the past decade for our clients. Additionally, as displayed in Table 2, Exhibit 4 when feed and crops expense are added together, such expenses continue to represent nearly half of an MSC dairy client’s milk income, equating to 46% of the average milk price in 2020. In other words, as feed prices go, so goes a dairy farmer’s check.

Compounding issues associated with proportional problems surrounding feed expenses, volatile and historic highs for soybean and corn prices have continued during 2021. During the March over-order premium hearing, I commented on the immensely volatile feed prices during the second half of 2020, as well as the general expectation that above-average prices would continue in 2021. Unfortunately, these concerns have largely borne out for dairy farmers. As displayed in Figure 2, Exhibit 5, corn prices rose nearly 50% since the beginning of the year, increasing from approximately $4 per bushel to $6 per bushel as of June. Similarly, while soybean meal prices have leveled off some from highs of roughly $425 per ton at the start of the year to about $375 per ton in June, this amount still represents a significant increase from the relatively flat average of $300 per ton experienced from June 2019 to August 2020. Looking forward, futures markets predict corn and soybean prices to level off slightly but remain above historic averages through the end of the year. This means unless there are drastic increases in milk price, dairy famers' net margins will continue to be squeezed by feed expenses.

Relatedly, tightening margins stemming from feed costs has also been prevalent during the first half of 2021. As presented in Figure 1, Exhibit 6, according to the American Farm Bureau Federation, national averages of feed costs recently reached their highest levels this past May and June since the Dairy Margin Coverage program began in 2019. Further, factored feed cost averages have steadily increased since the start of the year, rising from $10.40 per hundred weight in January 2021 to $12.20 in July (Exhibit 6). Expectedly, as of June, dairy margin coverage payments have been triggered for seven consecutive months. Projected milk and feed prices indicate payments for Dairy Margin Coverage will be triggered for the next few months.

In contrast to the expected continued highs and volatility of feed expenses, milk prices, although experiencing modest rises in 2021, continue to remain relatively flat. Historically, Class III milk prices have been a significant factor in determining a farmer's overall milk check. In the Center for Dairy Excellence's Dairy Markets & Management Update, dated July 30, 2021, there is a list of the future Class III milk prices for the next 12 months. The average expected Class III price is $17.26. Over the same period, from July 2020 through June 2021, the Class III price averaged $18.60. Class III prices have been a major driver of the price Pennsylvania farmers receive for their milk. The decrease in this price would indicate that the price Pennsylvania farmers will receive in coming months will be similar to or below the price they have received in the previous months.

***Conclusion***

Pennsylvania dairy farmers are generally in a better financial position than in the latter half of the past decade. However, it is likely that the cessation of COVID-related payments, along with sustained above-average feed prices, will continue to squeeze dairy net margins. Combined with milk prices that are relatively flat, present industry conditions create an environment where continued financial support is needed for dairy farmers.

Consequently, Pennsylvania Farm Bureau respectfully recommends the Board continue the current Class 1 over-order premium at $1.00 per hundredweight, plus the fuel adjuster, for the upcoming six months. I would like to thank the Board for the opportunity to offer testimony today and am happy to answer any questions.