Testimony Offered for
Pennsylvania Farm Bureau
Before the Pennsylvania Milk Marketing Board
Regarding the Level of the Over Order Premium

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Introduction

This testimony is offered at the request of Pennsylvania Farm Bureau, which represents over 55,000 farm and rural family members in 63 counties. Dairy farmers comprise the largest segment of agricultural producers who are members of Farm Bureau.

I am Michael Evanish. I currently serve as manager of MSC Business Services, a division of PFB Members' Service Corporation (an affiliate company of Pennsylvania Farm Bureau), and have served in this position since 1997. MSC Business Services provides an array of business 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 consultation.

I am responsible for overseeing the operation of the division and the 35 accountants, known as Account Supervisors, and 15 support staff. I have been employed by MSC Business Services since 1976. Until January 1989, I served as Account Supervisor, working with members in Butler, Beaver and Lawrence Counties. From 1989 through 1997, I served as Director of Training. In this capacity, I was responsible for educating and training Account Supervisors who work with MSC's clients.

During my tenure with MSC Business Services, I have been directly involved, usually as project leader, in the development and upgrade of programs used by MSC and MSC clients. Each program is specifically designed to meet the business and financial needs of staff and clients, including development of electronic recordkeeping and a modern business analysis.

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 that exist in Pennsylvania's dairy industry and the likely financial impacts these conditions will have on the current and future operation of Pennsylvania dairy farms.

MSC Business Services has approximately 4,500 contracts with PFB members, with the largest enterprise being dairy farms representing over 1,000 contracts.

As I mentioned earlier, an important service that MSC Business Services provides is business consultations. As part of this service, we are often asked to develop budgets and make cost of production projections. I personally review and approve all consulting reports produced by MSC Business Services. At present, I am co-chairman of the Economic Development, Finance and Infrastructure Committee of the PA Dairy Leadership Council. Other features of my work experience and educational background are contained in PFB Exhibit 1.

In our effort to provide our clients with insight on the relative financial health of their dairy operations and how their operations compare with other MSC dairy clients of similar size and make-up, MSC has analyzed and calculated annual averages of cost and income data for several categories of dairy farms serviced by MSC. In past years, MSC has summarized and provided to the public these averages of input costs and income in the annual publication of MSC's *Dairy Herd Analysis*. The last *Dairy Herd Analysis* formally published by MSC was the *2012 Analysis*, which provided the annual averages of cost and income experienced by MSC-client dairy farms for 2011.

Financial information in each year's *Dairy Herd Analysis* includes annual averages of total costs of production and income resulting from operations of four categories of dairy farms:

- the top 10 percent farms;
- farms milking fewer than 100 dairy cows;
- farms milking 100 to 250 dairy cows; and
- farms milking greater than 250 dairy cows.

The averages of total cost of production and income are additionally calculated and shown in terms of cost and income per hundredweight of milk sold and per cow for the four categories I just mentioned to you.

MSC is continuing its manner of analysis and calculation of annual aggregate averages of cost and income for the four categories of dairy farms serviced by MSC to assist individual clients in their understanding of the relative profitability of their dairy farms when compared to dairy farms of other clients with similar size and characteristics. However, we have decided to change the manner the aggregate average data produced from our clients is provided. Instead of providing one annual publication of a *Dairy Herd Analysis* to clients and the general public, MSC is now providing to individual dairy clients a *Dairy Profitability Comparison* that is specific to that client. Each *Dairy Profitability Comparision* generated provides a side-by-side comparison of the client's annual costs and incomes with the average costs and incomes experienced by "comparable size farms" and by the "top 10% farms" serviced by MSC.

The methodology and formulas used in calculating the annual average costs and incomes reflected in the individual *Dairy Profitability Comparison* publications are the same as were used in the production of annual averages reflected in the annual *Dairy Herd Analyses*.

PFB Exhibit 2 is an illustration of the type of document that each MSC client is individually receiving through MSC's generation and publication of the client's *Dairy Profitability Comparison*.

As with the production of annual publications of the *Dairy Herd Analysis*, the cost and income data analyzed in the *Dairy Profitability Comparisons* is for the year prior to the current year. The *Dairy Profitability Comparison* publications provided to MSC's dairy clients in 2013 reflected 2012 cost and income data. 2012 is the latest year for which aggregate cost and income data of MSC dairy clients has been completed.

PFB Exhibit 3 is a document that contains the annual averages of costs and incomes for the four categories of benchmark dairy farms that would have been included in 2013's *Dairy Herd Analysis* , had one been published. The aggregate averages of 2012's costs and incomes for the usual four categories of dairy farms reflected in PFB Exhibit 3 should serve as the basis for comparison for cost and income averages experienced by dairy farms for these same categories in previous years, as contained in prior publications of MSC's *Dairy Herd Analysis*.

PFB Exhibit 4 is cost and income data for benchmark farms reported in MSC's 2012 publication of the *Dairy Herd Analysis*. As mentioned earlier, the data analyzed for this publication reflects the costs and income incurred by MSC client dairy farms for year 2011.

PFB Exhibit 5 is cost and income data for benchmark farms reported in MSC's 2011 publication of the *Dairy Herd Analysis*, which reflects the costs and income incurred by MSC client dairy farms for 2010.

Comparing PFB Exhibit 3's averages of cost of production for the three size categories of MSC client dairy farms in 2012 with the averages of cost of production and income per hundredweight for the same three size categories of MSC client dairy farms in 2011 and 2010 shows:

For 2012, the average cost of production was:

- $25.64 per hundredweight for farms milking 100 or fewer cows;
- $23.07 per hundredweight for farms milking 100 to 250 cows; and
- $22.47 per hundredweight for farms milking more than 250 cows.

For 2011, the average cost of production was:

- $25.53 per hundredweight for farms milking 100 or fewer cows;
- $22.86 per hundredweight for farms milking 100 to 250 cows; and
- $23.04 per hundredweight for farms milking more than 250 cows.

For 2010, the average cost of production was:

- $22.27per hundredweight for farms milking 100 or fewer cows;
- $20.53 per hundredweight for farms milking 100 to 250 cows; and
- $19.54 per hundredweight for farms milking more than 250 cows.

The experience of MSC benchmark farms over the previous three-year period shows that annual average costs of production incurred in 2011 and 2012 for all three size categories of dairy farms are significantly above costs incurred in 2010. And for farms milking fewer than 100 cows and farms milking 100 to 250 cows, annual cost averages have continued to increase since 2010.

For farms in the fewer than 100 size category, the average cost of production for 2011 was $3.26 per hundredweight (14.6 percent) above the average cost in 2010. And for 2012, the average cost of production was $3.37 (15.1 percent) above the average cost in 2010.

For farms in the size category of 100 to 250 milk cows, 2011's average cost of production increased by $2.33 per hundredweight (11.3 percent) over 2010, and 2012's average cost of production increased by $2.54 per hundredweight (12.4 percent) over 2010.

The only "positive" in average cost of production experienced over the previous three-year period occurred in 2012 by MSC benchmark farms milking more than 250 cows, whose average cost was 57 cents per hundredweight below the average cost experienced by these farms in 2011. But even assuming the average cost for both 2011 and 2012 equaled 2012's lower average of $22.47, the annual cost average incurred by these farms was still $2.93 per hundredweight (15.0 percent) above the average cost experienced by these farms in 2010.

Conclusion

At the May hearing, the Milk Marketing Board acted to reduce the base level of over-order premium by 25 cents to $1.60 per hundredweight and adjust the formula for the premium add-on for fuel that resulted in a reduction of approximately 60 cents to the fuel adjuster premium to be paid to producers. A comparison of average cost and price per hundredweight experienced by MSC-serviced farms for 2012, as reflected in PFB Exhibit 3, with the averages for 2011and 2010 experienced by farms in the same categories of farm size should cause the Milk Marketing Board to retain the over-order premium and fuel premium add-on at the levels established by the Board at the May hearing of for the first half of 2014.

I would like to thank the Pennsylvania Milk Marketing Board (PMMB) for the opportunity to offer testimony today.