

Overview

The Pennsylvania Milk Marketing Law directs the Pennsylvania Milk Marketing Board, when setting minimum prices, to take into consideration the farm cost of production of milk. In the past, parties testifying at Board hearings had presented as evidence a farm cost of production calculated by the Pennsylvania Agricultural Statistics Service (PASS). PASS has discontinued calculating a farm cost of production, so as a service to the industry, the Board has authorized Board Staff to procure an alternate source of farm cost of production data.

Board Staff has obtained from Pennsylvania Farm Bureau Members' Service Corporation (MSC) financial data of a representative sample of Pennsylvania dairy farms. Using these data as a base and adjusting for general changes in each expense category throughout the year, interested parties will be able to calculate a farm cost of production that can be updated monthly. In addition, each July Board Staff will obtain from MSC updated annual data, which will replace the previous year's base data for calculating ongoing updates to the cost of production developed by Board Staff.

The farm cost of production developed by Board Staff has no special status as a result of Board Staff's involvement in developing it. Interested parties may develop and present as evidence at Board hearings alternate farm costs of production.

Data

Financial information for the cost of production study was provided by MSC. Information regarding management salaries was derived from a survey conducted by The Center for Rural Pennsylvania. Thirty five farms were selected from across Pennsylvania and placed into one of three categories depending upon herd size, which ranged from 35 to 670 cows. After cost data were standardized on a per hundredweight basis, each farm category was weighted according to the amount of milk produced statewide.

MSC provides accounting services to farmers. In this capacity, it has access to financial data, which it provided to Board Staff. However, management salaries are unique in that a farm owner has the ability to adjust his or her salary based upon the farm's current condition. For example, a farmer's spouse may derive income from an occupation off the farm to support the family while the farmer does not draw a farm income because the farm does not generate a positive cash flow. To account for this, management labor costs have been calculated from The Center for Rural Pennsylvania's study Workforce Development for the Pennsylvania Dairy Industry, August 2004. The management salary ("unreported management labor" or "unreported mgmt costs") used is a weighted average of all dairy farm management positions. Three percent of each individual farm's revenue is also included as "volume sensitive management labor" or "volume sensitive mgmt costs."

The table below details the 2004 base year data.

<u>Expense Item</u>	<u>Large Farm Average</u>	<u>Medium Farm Average</u>	<u>Small Farm Average</u>	<u>Statewide Farm Average</u>
Respondents	14	10	11	35
Unreported mgmt costs	0.9453	2.0414	2.6743	2.1161
Volume sensitive mgmt costs	0.6006	0.5876	0.5419	0.5666
Chemicals	0.1942	0.2436	0.1884	0.2030
Custom work	0.7939	0.4739	0.2451	0.4290
Feed	4.3891	4.4086	4.8931	4.6584
Fertilizer	0.6034	0.5373	0.3728	0.4664
Freight	0.0885	0.0040	0.0192	0.0318
Gas, oil	0.5761	0.5084	0.4644	0.5012
Insurance	0.4685	0.3387	0.3224	0.3606
Loan fees, interest	0.9114	0.4405	0.2811	0.4675
Agricultural labor	1.9025	1.3945	1.3550	1.4931
Machine rental	0.2233	0.0032	0.1285	0.1207
Real estate rental	0.7496	0.5133	0.7175	0.6760
Machine repairs	1.1437	1.0410	0.9239	1.0037
Real estate repairs	0.1571	0.0337	0.2945	0.1996
Vehicle payment	0.0192	0	0.0417	0.0264
Seeds	0.3535	0.3186	0.3980	0.3685
Livestock supplies	0.7627	0.0238	0.0680	0.2206
General supplies	0.6291	0.9870	0.5630	0.6803
Payroll	0.0758	0.0662	0.0412	0.0553
Taxes	0.2856	0.3309	0.2733	0.2900
Employee benefits	0.0712	0.1802	0.0462	0.0842
Total utilities	0.4021	0.3868	0.5505	0.4763
Breeding fees	0.1365	0.2016	0.1932	0.1819
Veterinary services	0.6392	0.4559	0.3187	0.4269
Marketing	0.5952	0.8526	0.4704	0.5915
Milk testing, hauling	0.0889	0.1335	0.2227	0.1698
Depreciation	1.1297	1.3969	1.2608	1.2627
Miscellaneous	0.3501	0.2744	0.3155	0.3137
Total	19.2860	18.1780	18.1852	18.4422
Statewide milk portion	23.5%	24.0%	52.5%	100%