

2021 Annual Report

A Message from the President

As 2021 comes to a close and farmers are wrapping up harvest, I am reminded of FarmFirst Dairy Cooperative's accomplishments and the challenges that made the year memorable in a number of ways. This annual report provides a glimpse at many of those accomplishments and the issues we will need to address on your behalf.

One outcome from the past year is the greater appreciation for things we take for granted after our experiences in 2020. My list of things I have come to appreciate is quite extensive, but there are a few important ones I believe you would agree with.

Consumers became more appreciative of dairy products and the nutritional package they provide. Initially, gallons of milk disappeared from grocery store shelves, as consumers flocked to products, they were familiar with and found comfort in. As a highly nutritious food, milk was a popular choice and the demand for dairy foods dramatically increased. More than 18 months later, demand for dairy continues to be strong. Last year, the average American consumed 655 pounds of dairy in milk, cheese, yogurt, ice cream, butter, and other dairy foods, demonstrating a resilient and growing love for all things dairy, an increase of 3 pounds per person over the previous year according to the USDA.

Empty grocery store shelves in 2020 reminded consumers of the vital role of farmers in ensuring quality food is available for them and their families.

More dairy farmers found a greater appreciation for milk haulers and their milk plant. As we went into 2021, we all had high expectations that things would return to a sense of normalcy. What we're experiencing certainly isn't normal. In fact, maybe there is no such thing as normal as everything seems to change just at different speeds.

Business is experiencing supply change challenges, which for dairy farmers means empty equipment lots, a shortage of replacement parts, delays in receiving needed products and materials, and sky high prices when we do get what we need.

It is not a secret that the labor shortage is one of the main reasons for our supply chain challenges. We are experiencing it on our farms, with our processors, our support businesses, and within our transportation system.

Due to a shortage of employees, some processors have had to reduce the number of days they make product, which isn't ideal for dairy farmers whose cows are producing milk every day.

The labor shortage has affected both our milk haulers and our processors, who are struggling to find enough drivers. In fact, according to the American Trucking Association (ATA), economists predict a shortage of more than 100,000 drivers nationwide by 2023.

More dairy farmers came to appreciate those working alongside them. As the owner and manager of my own multi-generational farm, I have

countless times mentioned in my columns and speeches my appreciation of the work of my family on the farm. Whether it's keeping us fed so we can stay out in the field, getting repairs done or sharing the workload, I am incredibly grateful for them and their diligence. During challenging times, in addition to family it is often a local business, neighbor or friends who extend a helping hand to ensure that everything gets done.

All of these issues – maintaining consumer confidence, addressing supply chain challenges, labor shortages, and providing dairy farmers with sufficient resources and support within our legislative and regulatory issue advocacy efforts are just part of what FarmFirst Dairy Cooperative is focused on, every day. Fortunately, our cooperative has the resources, partnerships and people to get the job done.

As I close, I encourage you to thoroughly read the annual report to see what we've done and what we're working on. Most importantly, on behalf of the board of directors and the staff at FarmFirst Dairy Cooperative, we appreciate you and your dedication to being a part of the dairy industry and this cooperative. 🐄



John Rettler
President

Dedicated to serving and representing you, our family farm members, FarmFirst Dairy Cooperative represents farms in Wisconsin, Minnesota, South Dakota, Michigan, Iowa, Illinois and Indiana through policy bargaining, dairy marketing services, laboratory testing opportunities and industry promotion.

A Word from the General Manager

As I write my third annual report message, I am getting excited to be getting on the road to attend all 18 of our district meetings in November and December. In fact by the time you read it, we'll have one-third of our meetings completed.

After last year when the district meeting and annual meeting were held virtually, it will be good to once again shake hands and talk about how things are going and find out what's on your mind. I do hope that I will see many you at these meetings.

Almost a year ago when we were coming out of the worst part of the pandemic, FarmFirst and our partners in Washington D.C., the National Milk Producers Federation and the Midwest Dairy Coalition knew that some financial assistance would still be needed for the dairy industry. With respect to COVID support, we were able to get additional Coronavirus Food Assistance Program (CFAP) payments, continue the Farmers to Families Food Box Program through a similar new Dairy Donation Program, include dairy farms under the SBA Paycheck Protection Program and provide additional support for dairy farmers through the Pandemic Market Volatility Assistance Program (PMVAP).

With respect to the Dairy Margin Coverage Program, we were able to get changes to the Feed Cost Calculation and USDA will now be using the full value of high-quality alfalfa. We were also able

to secure supplemental DMC Payments which will be payments to producers who establish modest production history updates. The changes to the DMC program will expand the budget baseline funding for the next Farm Bill.

In 2020, dairy farmers received \$210.5 million in DMC payments and in 2021 payments are expected to be \$817.17 million through July with five more months to go with continuing high feed costs.

But now is no time to rest on our laurels, there are so many other issues that need to be addressed. Right now, in Washington D.C. the Budget Reconciliation process is being used to advance the majority's legislative agenda. One idea floated to raise funds was to change when capital gains on inherited assets are taxed. So far, the dairy industry and other agriculture sectors have successfully protected current tax policy known as "stepped up basis." FarmFirst will remain diligent in our efforts to make sure there are no changes.

On the environmental stewardship side of things, the Biden Administration wants to make changes to the Trump Administration policy regarding "Waters of the United States." We worked hard to get the definition of "navigable waters" to what it is now and need to keep it as is. With respect to climate change and carbon credits, the dairy industry needs to stay on message and remind policy makers and the public that dairy has a small

carbon footprint and that our endorsed stewardship practices can generate carbon and other environmental credits.

Other issues that need to be addressed include international trade and making sure that Canada complies with the USMCA trade agreement, numerous supply chain issues and labor shortages. All of these issues, if not addressed, will adversely affect the dairy industry.

In closing, your cooperative had a very good financial year. All three of our divisions, Member Services, Family Dairies USA Milk Marketing and our Fox Valley Quality Control Lab, were profitable. Being financially strong will allow us to reinvest and build on our programs, services and advocacy efforts on your behalf.

Your board of directors and staff remain committed to providing you the best leadership possible as we move into 2022 as we carry the mantra "Today's Vision, Tomorrow's Success."

Thank you for your continued confidence in and membership with FarmFirst.



Regards,

A stylized handwritten signature in black ink, appearing to read 'JL'.

Jeff Lyon
General Manager



Key Priorities in 2021 for FarmFirst



Priority: Ensure that COVID-19 Programs Adequately Serve Dairy Farmers and that Food Donation Programs Include Dairy Products

As the COVID-19 pandemic wreaked havoc on the economy in the spring of 2020, dairy farmers found themselves caught in the crossfire. The usual demand for dairy in restaurants, schools and other institutions became non-existent, while retail demand skyrocketed. Milk was dumped in many parts of the country, and milk prices plummeted during parts of the pandemic. New programs were implemented that carried into 2021 providing valuable support to dairy farmers.

- **Coronavirus Food Assistance Program (CFAP)** - Through this program congress allocated \$16 billion to the USDA to provide financial assistance to farmers and ranchers negatively impacted by the pandemic. This program received additional waves of funding over the course of the past year, and more than \$1.2 billion was awarded for dairy farmers alone. FarmFirst was a strong advocate to ensure that dairy farmers were compensated fairly for the losses they incurred.
- **Farmers to Families Food Box Program** - As part of the Coronavirus Food Assistance Program (CFAP) mentioned above, funding was earmarked specifically to purchase and distribute agricultural products to those in need. Throughout the five rounds of food purchases made, more than 173.6 million food boxes were delivered that included fresh produce, milk, dairy and cooked meats to disadvantaged Americans across the country.
- **Dairy Donation Program** - As a follow up to the Farmers to Families Food Box Program, the Dairy Donation Program came from the 2021 Consolidated Appropriations Act, directing Congress to develop a \$400 million program to facilitate dairy product donations and reduce food waste. Under this new program, eligible dairy organizations partner with non-profit feeding organizations that distribute food to individuals and families. FarmFirst has been championing this program as it bridges the gap between available product and those that need it.
- **SBA Paycheck Protection Program** - As part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, funds also became available to provide financial assistance to small businesses, including dairy farms, in the form of forgivable loans to help businesses keep their workforce employed. This program proved valuable when revenue drastically diminished and employees still were on staff. When SBA enrollment was first opened, FarmFirst vocalized the need for its eligibility to be expanded to include dairy farms.
- **Pandemic Market Volatility Assistance Program (PMVAP)** - Through the Pandemic Market Volatility Assistance Program, USDA will provide more than \$350 million in pandemic assistance payments to dairy farmers who received a lower value due to market abnormalities caused by the pandemic and ensuing Federal policies. Payments will reimburse qualified dairy farmers for 80 percent of the revenue difference per month based on an annual production of up to 5 million pounds of milk marketed and on fluid milk sales from July through December 2020. USDA will make payments through agreements with independent handlers and cooperatives. 🇺🇸



PRIORITY: Ensuring Climate Change Policies Recognize Dairy's Small Carbon Footprint

FarmFirst, and the entire U.S. dairy community, remains committed to advancing the environmental stewardship efforts that the dairy industry has established over the past several decades. In 2020, the U.S. dairy industry launched the Net Zero Initiative to achieve industrywide neutral or better carbon emissions, optimize water usage and significantly improve water quality by 2050. The Net Zero Initiative seeks to make technology and best practices more accessible and affordable to dairy farms of all sizes and in all regions.

Dairy farmers can provide solutions to many of today's biggest environmental challenges, including carbon emissions, nutrient management, soil health and water quality. Industry collaboration, plus support for the research and adoption of new technologies and practices, makes dairy well-positioned to achieve its goals.

As reconciliation discussions continue for the Build Back Better Act, there are a few noteworthy wins for dairy among the climate-smart ag provisions, including:

- A 30 percent Investment Tax Credit for methane digesters and nutrient recovery systems;
- \$9 billion in new funds for the Environmental Quality Incentives Program, which provides important technical assistance to dairy farmers, targeted toward stewardship practices that can reduce greenhouse gas emissions;
- \$25 million annually for Conservation Innovation Trials, with the new funding targeted toward initiatives that use feed and diet management to reduce enteric methane emissions, which can comprise roughly one-third of a dairy farm's greenhouse gas footprint. NMPF is excited for this opportunity to amplify its focus on innovative feed additives and rations that reduce enteric emissions;
- A new cover crop initiative to pay producers \$25 per acre of established cover crop practices to reduce nutrient runoff and soil erosion; and
- \$7.5 billion in new funds for the Regional Conservation Partnership Program, which funds locally developed, targeted partnership projects, with emphasis on initiatives that incentivize or target reduced methane emissions.

As a member of the U.S. Dairy Sustainability Alliance, FarmFirst remains committed to advancing such initiatives that provide the tools and resources for dairy farmers and the industry to achieve these environmental goals. 🇺🇸

Key Priorities in 2021 for FarmFirst



PRIORITY: Fully Implement Changes to the Dairy Margin Coverage (DMC) Program, Including the High-Quality Alfalfa Calculation

The USDA announced on August 19 that it would make improvements to the Dairy Margin Coverage safety net program updating the feed cost formula to better reflect the actual cost dairy farmers pay for high quality alfalfa. This change will be retroactive to January 2020 and is expected to provide additional retroactive payments of about \$100 million for 2020 and 2021. Full details have yet to be published but it is expected that the price of alfalfa hay used in the DMC feed cost calculation will be changed, from the current 50-50

blend of the U.S. average price for all alfalfa and the average price of premium and supreme alfalfa hay in the five largest milk producing states, to just the 5-state average for premium and supreme alfalfa.

Making improvements to the Dairy Margin Coverage program has been a priority for FarmFirst and we are glad to see the change become a permanent part of the safety net program. Finessing and perfecting the finer details of the dairy margin coverage formula allows it to reflect the actual costs and it makes a world of a difference for dairy farmers; in that it becomes a much more accurate compensation of losses experienced.

FarmFirst has also been a long-time advocate for the Supplemental Dairy Margin Coverage program, which will allow producers to make modest changes in their milk production history. These small improvements to the program allow it to more accurately perform as it was intended to - to support dairy farmers when their cash flow is tight.

On November 1, USDA announced that \$1,080,286,151 was the latest total for DMC indemnity payments for the calendar year, representing payment values from January through September. 🇺🇸



PRIORITY: Ensure Compliance from Canada and Mexico with USMCA

The U.S.-Mexico-Canada Agreement (USMCA), signed into law in January 2020, improved dairy trade with Canada and solidified trade relations with Mexico. Enforcing the agreement's dairy provisions remain key to realizing and maintaining these gains.

While USMCA does not address the full range of Canada's problematic tariff and non-tariff policies, it makes important advances such as reforms to Canada's controversial dairy pricing system. However, Canada's sustained and longstanding efforts to undermine access to its market and lower the benefits of the trade agreement to the U.S. dairy industry continue to pose deep concerns. In light of Canada's efforts to circumvent its USMCA obligations through dairy tariff rate quotas (TRQs), U.S. Trade Ambassador Katherine Tai has initiated a trade dispute settlement case to examine Canada's failure to provide access to its dairy TRQs in accordance with USMCA. FarmFirst will work alongside national dairy leaders to encourage additional action when needed to address these concerns.

USMCA also strengthens U.S. dairy's relationship with Mexico, the top export destination for U.S. dairy products. The agreement preserves duty-free access for U.S. dairy in Mexico and establishes new protections for products that rely on common cheese names, such as parmesan and Swiss cheese. Recent anti-trade sentiment and technical barriers imposed by Mexico threaten to undermine this longstanding trade relationship. FarmFirst has been a long-time advocate to not only maintain but to strengthen our trade relationship with Mexico. 🇺🇸

SEPTEMBER 2021

Federal Milk Order
Market Information

		UPPER MIDWEST	CENTRAL	MIDEAST
Order Name and Number		Order 30	Order 32	Order 33
Producer Milk (lbs.)		2,264,337,917	1,230,897,044	1,687,503,004
Producer Price Differential @ base zone		\$ 0.18	\$ 0.20	\$ 0.59
Statistical Uniform Price/cwt @ 3.5% BF*		\$ 16.71	\$ 16.73	\$ 17.12
Class I Price/cwt		\$ 18.39	\$ 18.59	\$ 18.59
Class II Price/cwt		\$ 16.89	\$ 16.89	\$ 16.89
Class III Price/cwt		\$ 16.53	\$ 16.53	\$ 16.53
Class IV Price/cwt		\$ 16.36	\$ 16.36	\$ 16.36
Component Prices & Test Avg. % aves				
Butterfat/lb.	\$ 1.9388	3.96%	3.91%	3.85%
Protein/lb.	\$ 2.6010	3.13%	3.21%	3.15%
Other Solids/lb.	\$ 0.34450	5.80%	5.77%	5.75%
SCC Adjust Rate/1000	\$ 0.00082			
Producer Milk Classified %				
Class I		9.20%	28.99%	31.50%
Class II		3.20%	11.37%	19.70%
Class III		82.40%	36.51%	39.50%
Class IV		5.20%	23.13%	9.30%
		100.00%	100.00%	100.00%


Providing Greater Value to Members



PRIORITY: Protecting Stepped-Up Basis as Tax Policy is Reformed

Protecting important tax policies have always been a part of FarmFirst's policy; yet the reconciliation discussions this year have required a full-court press by organizations across all of agriculture to make it clear to policymakers the importance of protecting these established policies. At this writing, FarmFirst, NMPF and others in agriculture succeeded thus far to protect two current provisions regarding taxing capital gains on inherited assets. An early proposal for how to pay for various programs and projects in the reconciliation measure included changing when capital gains on inherited assets would be taxed as well as altering the basis


for evaluating the amount to be taxed (a.k.a. the "stepped-up basis"). NMPF and other farm groups have worked to prevent both proposed changes from becoming law, with the House Ways and Means Committee excluding these changes in its contribution to the reconciliation package.

Protecting the ability for farmers to pass on their operations to the next generation is vital; changing such tax policies would jeopardize the future success of family dairy farming. FarmFirst will continue to advocate for supportive measures that protect these long-standing tax policies. 



PRIORITY: Getting Milk Back into Schools that Kids Will Drink

Dairy foods such as milk, cheese and yogurt are at the foundation of healthy eating patterns. Yet nearly 80 percent of youth ages 9-13 fall short of meeting dairy intake recommendations and miss out on the unique tasteful, nutritional package dairy has to offer. This gap between recommendations and reality, and its resulting negative health consequences, means more work is needed to encourage dairy consumption through expanded offerings and enhanced education.

FarmFirst supports federal nutrition programs that help feed Americans struggling with food security and access in addition to legislative efforts to expand school milk choices to give kids access to healthy, nutrient-dense options. These include the School Milk Nutrition Act, which would permit individual school districts to determine which milk varieties to offer their students consistent with the Dietary Guidelines for Americans, and the Whole Milk for Healthy Kids Act, which would allow both unflavored and flavored whole milk to be offered in school cafeterias. 

In 2021, FarmFirst Dairy Cooperative awarded 13 students scholarships totaling \$14,250. Since 2013, the cooperative has awarded scholarships to 205 deserving students, totaling

\$181,000.

10 dairy farmers

joined the first class of the new FarmFirst Future Dairy Leaders program, which was launched in March 2020 and is resuming this November. Focused on expanding their industry knowledge and leadership skills, this program will be one you won't want to miss.

Opportunity Is Knocking!

Take advantage of the recent rally in milk prices



Call **Travis Glaser** at ARM Services to learn more: 715-456-5607

It is impossible to control market prices, but as a dairy farmer, you can control how market volatility impacts you. Take advantage of the recent milk price rally by locking in certain price protections available through LGM-dairy and Dairy-RP.

Receive the advice you need by calling ARM Services and learn more about:

- Livestock Gross Margin (LGM) Dairy Insurance and how it has performed over the last few years
- Dairy Revenue Protection (DRP) Insurance and how farmers are using it to protect based on components or market prices during seasonal fluctuations
- Dairy Margin Coverage (DMC) and what economists are expecting in 2022

When opportunity comes knocking, you won't want to miss opening the door. Visit www.armservices.com or call **Travis Glaser** at 715-456-5607 to learn how they can protect your milk price.



ARM
Services LLC



2021 Annual Report Inside!

**Plus - Sign Up for a District
Meeting Near You!**

There's Still Time to Attend a District Member Meeting Near You!

District meetings are underway, with several scheduled for the end of November and December, including these meetings listed below. General Manager, Jeff Lyon, will be at every meeting, sharing first-hand how the cooperative continues to develop and expand membership programs and the progress FarmFirst has made advocating on important policy issues. Ballots will be at each meeting for members to cast their vote on future cooperative leaders. Make your reservation today to attend a meeting near you!

Monday, November 29, 12:00 p.m.
Locals Bar & Coffee Shop, Epworth, Iowa

Tuesday, November 30, 12:00 p.m.
River Boat Lanes, Wabasha, Minn.

Tuesday, November 30, 7:30 p.m.
Stout Craft Company, Menomonie, Wis.

Wednesday, December 1, 12:00 p.m.
Pooch Corner Pub, Freeport, Minn.

Wednesday, December 1, 7:30 p.m.
Pizza Ranch, Pipestone, Minn.

Thursday, December 2, 12:00 p.m.
Pizza Ranch, Watertown, S.D.

Friday, December 3, 12:00 p.m.
Pizza Ranch, Sioux Falls, S.D.

Monday, December 6, 12:00 p.m.
The American Legion, Greenwood, Wis.

Monday, December 6, 7:30 p.m.
Village Haus, Boyd, Wis.

Tuesday, December 7, 12:00 p.m.
American Legion Hall, Marshfield, Wis.

Wednesday, December 8, 12:00 p.m.
Pizza Ranch, Fond du Lac, Wis.

Thursday, December 9, 12:00 p.m.
Moose Lodge, Monroe, Wis.

Hurry! Make Your Reservations TODAY!

Call 608-286-1906 or visit www.FarmFirstDairyCooperative.com