



MICHAEL R. KRUTZA
President and CEO

4-9-03

Dear Senator Schultz,

It was good to meet you the other day at UW-Platteville ground breaking for the Swenm facility.

I'm copying John O'Brien on this note as well.

First, I look forward to confirmation hearing with respect to my appointment to the DATCP board. Because of previously scheduled problems, I am unavailable until May 14.

Included in this mailing is the CID we produced in conjunction of WFC & Rep. Ott regarding the Investment Tax Credit. I think you'll find the CID instructive of interviews of Rep. Ott, Bill Armbrister, Sen. Erpsbach,



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Jim. Schultz

Page 2

Dr Bruce Jones, Shelly Mayer and myself.
My interview on the CID should prove
helpful in assessing my candidacy for
the DASC board.

I look forward to visiting w/you.

Warmest Regards,

Michael Krutza



611 S. 32nd Avenue • P.O. Box 1089 • Wausau, Wisconsin 54402-1089 • (715) 842-2211 • Fax: (715) 842-9561

April 14, 2003

Senator Dale Schultz, Chair
Senate Agriculture, Financial Institutions & Insurance
State Capitol
P.O. Box 7882
Madison, WI 53707

Re: Krutza Confirmation Hearing

Dear Senator Schultz:

I apologize for the scheduling difficulty regarding my confirmation hearing. Know that I look forward to meeting you and hearing your interests and concerns regarding DATCP.

Enclosed are some materials, which should be helpful as you consider my appointment to the DATCP Board. You will find a brief biography, an informational CD regarding FCS Financial Services of Wausau, Wisconsin, and also the informational Investment Tax Credit CD which is FCS produced and co-sponsored with WFC. You may recall viewing the CD, it has a brief intro regarding the value of the dairy industry in Wisconsin and brief interviews with Senator Erpenbach; Representative Ott; Dairy Farmer, Shelly Mayer; Economist, Dr. Bruce Jones and WFC President, Bill Oemichen.

I look forward to meeting you in the future.

Sincerely,

A handwritten signature in black ink that reads "Michael R. Krutza / jr". The signature is written in a cursive style.

Michael R. Krutza
President & CEO

MRK:jjr

Enc.



Interoffice Memo

DATE: April 14, 2003

FROM: Mike Krutza, CEO FCS Financial Services, and a subsidiary of United FCS

Summary:

I have long been passionate about the renewal and vibrancy of Wisconsin's agriculture and rural economy. Discussions with Bill Oemichen, CEO of the Wisconsin Federation of Cooperatives and Bill Brey, Chairman of the Wisconsin Farmers Union, encouraged me to serve on the board of DATCP.

Highlights of Qualifications:

- Twenty nine years of varied leadership responsibilities in the Farm Credit System; i.e. loan officer, District Bank supervisor, Chief Credit Officer, Chief Financial Officer of FCS-Northwest Wisconsin. CEO of FCS Financial Services, located in Wausau, Wisconsin.
- I was appointed CEO of FCS North Central Wisconsin in 1988, at a time when the organization had just been issued a Cease and Desist order from FCA. This FCS was losing \$300,000 per month and had credit quality of 50% acceptable. As CEO, this is one of the first Farm Credit Services to have the C&D lifted by the Federal Regulator, FCA. Today, this FCS is generating \$300,000 of profit per month, downsized by nearly 50%, offering cash patronage dividends of \$8 million over the past 7 years and growing about 6% annually. At the same time, we have recommitted our efforts to remain local with six office locations. We have vibrant housing, agriculture and young and beginning farmer programs.
- Extensive leadership within the State's rural and agricultural community, including Co Chairman of Dairy 2020; Director Rural Economic Development Board-Dept. of Commerce; Director Wisconsin Agribusiness Council; Director Wisconsin Federation of Cooperatives.
- Management Chair of United FCS, the first holding company of its kind within the Farm Credit System, which merged the FCS of Minnesota Valley of Western Minnesota and the FCS of North Central Wisconsin. United FCS is unique for retaining the local identity and control for the members in the area.
- Author of several articles regarding the renewal of Wisconsin's dairy industry, including testimony to the Joint Finance Committee in April 2001 which proposed an economic stimulus package for the State which featured the Investment Tax Credit proposal for modernizing the state's family dairy farms. Contributing writer for Midwest Dairy Business and Dairy Herd Management. Frequent speaker for farm audiences.

Other Achievements:

- Focus for organizational success is cultural based on creating an experience for employees and customers, which understands and anticipates their needs.
- One of few FCS' in the Nation to provide 100% cash patronage to members totally nearly \$8 million dollars since 1994.
- Received AgriMarketer of the Year Award from NAMA (National Agricultural Marketers Association) in 1996.
- Sponsored Rural Development Symposium for area coop managers and directors in 1994.



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Senate Agriculture, Financial Institutions & Insurance
State Capitol
P.O. Box 7882
Madison, WI 53707

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President & CEO

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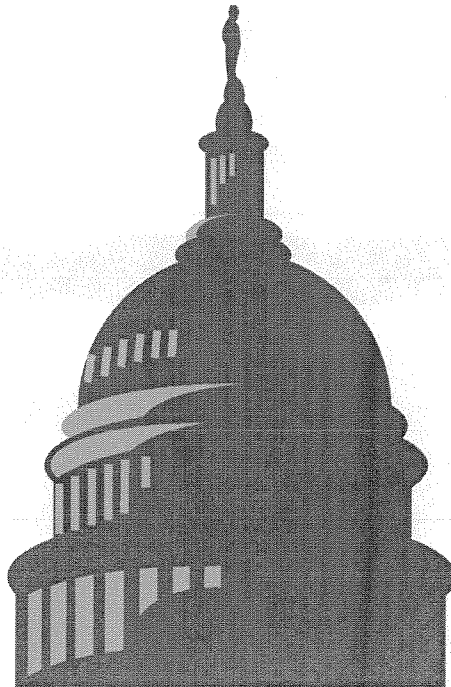
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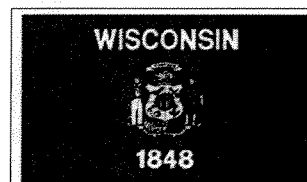
**\$1 Billion Rural Economic
Stimulus Package for Wisconsin**

**"MODERNIZING WISCONSIN'S
DAIRY INDUSTRY"**



Presented By Michael Krutza, CEO FCS North Central Wisconsin
Reprint of testimony presented to Joint Committee on Finance, April 4, 2001

November, 2002



***\$1 Billion Rural Economic Stimulus Package for Wisconsin
"Modernizing Wisconsin's Dairy Industry"***

Presented to
Joint Committee on Finance
(Brian Burke, Senate Chair / John Gard, Assembly Chair)

Public Hearing, Marshfield, WI
Wednesday, April 4, 2001

Presented By Michael Krutza, CEO FCS North Central Wisconsin

Background

Wisconsin's dairy industry is the state's single largest business representing more than \$3.5 billion in gross farm receipts and a combined economic impact of \$17 billion on Wisconsin's economy. The dairy industry is in danger of losing its farmers and the infrastructure needed to continue if modernization doesn't occur. New thinking is needed to create a new strategy to grow this economic engine of Wisconsin.

In 1996, the Dept of Commerce created a business planning grant program, which has singularly influenced modernization more than any other effort. More than 600 farm families in Wisconsin have professionally developed and evaluated business plans to help them determine if they should modernize. This is critically important since an estimated 90% of Wisconsin's dairy farmers have not adopted proven technologies of milking parlors and freestalls, which have been available since the mid-1960's. The impact of these 600 farm families modernizing represents significant economic growth for Wisconsin rural communities. Assuming an average herd size after modernization of 100 cows, these farm families represent approximately \$180⁽¹⁾ million of cash receipts. According to Dr. Larry Swain, UW River Falls, the \$180 million cash receipts of these modernized farmers represent approximately \$450⁽²⁾ million to the local communities. **Clearly, dairy farm modernization is key to rural economic development in Wisconsin.** Furthermore, according to Ohio State University, analysis reveals that producers need to grow their herds by 60% nearly every 10 years to keep pace with inflation.

In 1997, Farm Credit Services of North Central Wisconsin conducted research on the results of farmers using the Dept. of Commerce early planning grant program. That study showed that farmers ROA, net operating rate, break even cost per CWT improved regardless of the farm operations size. While this grant program was a positive first step at the producer level, even more needs to be done. Wisconsin's alarming low adoption of the proven technologies of parlors and freestalls since the mid-1960's is tragic. There is little evidence that farmers are adapting the proven technologies albeit parlors, freestalls, or rotational grazing at a pace necessary to create a thriving dairy industry in Wisconsin.

This proposal addresses ways which the legislature, the Governor, farmers and industry can build on common ground, yet advance new thinking and solutions to modernizing Wisconsin dairy industry.

Recommendations

Leadership/Vision

There is a need for a hopeful vision for the industry staking out the importance of the industry to all of Wisconsin's citizens. This can best be lead by the Governor.

Therefore, we propose the Governor with the support of the Secretaries of DATCP, Commerce and DNR should state the bold vision of **growing Wisconsin's dairy industry from its current level of \$17 billion to \$25 billion by 2010.**

Furthermore, the Governor would ask the respective secretaries to marshal all necessary resources within their departments to achieve this vision in a way which is environmentally sound and supports the economic interests of all the stakeholders. As a means to accomplish this vision, the following proposals are offered for consideration.

1. Educational Support

The billions of dollars spent on the state's high school, technical schools and university systems since the 1960's has had little apparent impact on the adoption of basic technologies for the state's dairy industry evidenced by less than 10% of Wisconsin dairy farms using parlors and freestalls. New thinking and new strategies are needed.

*The **curriculum** of Wisconsin teaching institutions in the business courses should ensure all students receive competency certification in business skills of managing for return on assets, return on equity and understanding break even cost of production. Deans, administrators and leaders within the states educational system would be encouraged to think differently about impacting the state's rural population in terms of technology adoption. The states initiative for Biotech adoption for the future faces an uncertain fate if the strategies of the past technology adoption aren't changed.

***Tuition credit assistance** should be offered similar to athletic and academic scholarships for the next 5 years to persons who successfully complete continuing education in the area of business or agriculture and returns to production agriculture. Tuition credit would be granted based on the years the individual returned to production agriculture. Additionally, the legislature should increase funding allocations for programs within the Dept. of Commerce, which provide for professional planning assistance to producers.

The estimated reinvestment cost could be \$6 million annually for tuition assistance, assuming 2000 individuals @ \$3,000 tuition costs. Assuming these 2000 farmers go from 60 to 150 cows, the economic impact exceeds \$1.3 billion annually to the State economy⁽³⁾.

2. Support reinvestment in plant, equipment and technology

Creating a \$25 billion dairy industry in Wisconsin by 2010 presented a need to reinvest in the family farms, the processing industry and all of the attendant infrastrure. Most

notably will be the need to invest in parlors, freestalls, environmental support systems, and the grazing sectors. Therefore, we propose Wisconsin government provide investment tax credits for the next 5 years to family owned dairy farms to stimulate this needed reinvestment. **The investment tax credits would be directed to plant and equipment associated with the modernization of the farm, with special attention to parlors, freestalls, new grazing technologies and adoption of environmental practices.**

Supporting Wis. Dairy Industry is Good Economic Development

Renewal and reinvestment in Wisconsin's dairy industry is good economic development. Modernizing only 10% of Wisconsin farms would generate annually an additional \$540,000,000 of gross farm receipts to farmers and represent nearly \$1.3 billion to the local communities of Wisconsin⁽³⁾. The additional income tax and sales taxes generated by a growing dairy industry could well exceed \$50 million in additional state tax revenue annually.

At a time of a structural deficit, this proposed \$1 billion economic stimulus package makes perfect economic sense while strengthening the social fabric of Wisconsin's rural economy. Modernizing Wisconsin dairy industry is not only sound economic development, it's the right thing to do.

Note—this proposal is supported by the Wisconsin Federation of Cooperatives and part of the legislative agenda for WFC

Addendum to Legislature Proposal

⁽¹⁾ 60 to 100 Cows. $100 \text{ cows} \times \$3,000/\text{cow} = 300,000/\text{sum} \times 600 \text{ farms.}$
 $300,000 \times 600 = \$180 \text{ million}$

⁽²⁾ $\$180 \text{ million} \times 2.5 = 450 \text{ million in community (community multiplier created by Dr. Swain research)}$

⁽³⁾ 2000 / 10% modernize 2000 farms increase from 60 to 150 cows
Today: $2000 \times 60 \text{ cows} = 120,000 \text{ cows} \times \$3,000/\text{cow} = \$360 \text{ million cash \& } \$900 \text{ million to community.}$
If modernized: $2000 \times 150 \text{ cows} = 300,000 \text{ cows} \times \$3,000/\text{cow} = \$900 \text{ million cash \& } \$2,250 \text{ to community. } 1.350 \text{ billion.}$

Modernizing 10% of Wisconsin Dairy Farms Represents \$1 Billion in Economic Growth to State

	Tenets	Comments/Assumptions
Economic Value	<p>Dairy industry represents \$3.5 Billion cash receipts represent economic values of \$17 billion from 20,000 dairy farmers and all support industry.</p>	<p>Information by UW System, Department of Commerce & Department of Agricultural Trade and Consumer Products representing total economic value.</p>
	<p>The average herd size in Wisconsin is approximately 60 cows. Average milk sales is \$2,400 plus \$600 non-milk sales, totaling \$3,000 income/cow. The economic value, therefore of 60 cow herd is 60 cows x \$3,000 income = \$180,000 of cash receipts.</p> <p>The economic value of these cash receipts in the <u>local</u> community is approximately \$450,000 (\$180,000 x 2.5).</p>	<p>Survey research by Dr. Larry Swain, UW River Falls, regarding purchasing behaviors of farmers in local communities</p>

Technology Adoption	<p>Modernization has not occurred in terms of adopting parlors and freestalls by the farmer since 1960's.</p>	<p>Based on Wisconsin Statistical Reporting Service indicating 90% of Wisconsin herds are less than 100 cows.</p>
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Modernizing 10% of Wisconsin Dairy Farms Represents \$1 Billion in Economic Growth to State

Economic Value Average 60 Cow Dairy Farm in Wisconsin

<ul style="list-style-type: none"> ▪ 60 Cow Profile ▪ Average production 18,000 milk ▪ \$1,000 debt/cow – 10% Interest/10 yr. Amortization = \$200/yr. Payment/cow = \$1.11/cwt ▪ Cost of Production <table style="margin-left: 20px; border-collapse: collapse;"> <tr> <td style="padding-right: 10px;">\$10.00 variable</td> <td></td> </tr> <tr> <td style="padding-right: 10px;"><u>1.11 capital</u> - \$1,000 debt/cow</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">\$11.11</td> </tr> </table> 	\$10.00 variable		<u>1.11 capital</u> - \$1,000 debt/cow			\$11.11	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top;"> <ul style="list-style-type: none"> ▪ If milk priced \$13 then profit margin per cwt is \$1.90. \$1.90/cwt x 180 cwt = \$342 Profit/cow. \$342 x 60 cows = \$20,520 Net income ▪ Gross Income 60 cows @ \$3,000/cow gross \$180,000 ▪ Economic Value to Community (2.5 x gross) \$450,000 </td> <td style="width: 50%; vertical-align: top;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-right: 10px;">State Tax Income</td> <td></td> </tr> <tr> <td style="padding-right: 10px;">Income Tax 5%</td> <td style="text-align: right;">\$1,025</td> </tr> <tr> <td style="padding-right: 10px;">RE Tax</td> <td style="text-align: right;">\$7,500</td> </tr> <tr> <td style="padding-right: 10px;">\$250,000 Assessed Value</td> <td></td> </tr> <tr> <td style="padding-right: 10px;">Sales Tax 5% \$20,520 =</td> <td style="text-align: right;"><u>\$1,025</u></td> </tr> <tr> <td style="padding-right: 10px;"><u>Farmer Paid Taxes</u></td> <td style="text-align: right;"><u>\$9,525</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>(Approx. \$160/cow)</i></td> </tr> <tr> <td style="padding-right: 10px;">Sales Tax \$450,000</td> <td style="text-align: right;">\$22,500</td> </tr> <tr> <td style="padding-right: 10px;"><u>Farmer Paid Tax</u></td> <td style="text-align: right;"><u>\$9,525</u></td> </tr> <tr> <td colspan="2" style="padding-top: 10px;">TOTAL LOCAL STATE TAX REVENUE</td> </tr> <tr> <td></td> <td style="text-align: right;">\$32,025</td> </tr> <tr> <td></td> <td style="text-align: right;"><i>(Approx. \$534/cow)</i></td> </tr> </table> </td> </tr> </table>	<ul style="list-style-type: none"> ▪ If milk priced \$13 then profit margin per cwt is \$1.90. \$1.90/cwt x 180 cwt = \$342 Profit/cow. \$342 x 60 cows = \$20,520 Net income ▪ Gross Income 60 cows @ \$3,000/cow gross \$180,000 ▪ Economic Value to Community (2.5 x gross) \$450,000 	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-right: 10px;">State Tax Income</td> <td></td> </tr> <tr> <td style="padding-right: 10px;">Income Tax 5%</td> <td style="text-align: right;">\$1,025</td> </tr> <tr> <td style="padding-right: 10px;">RE Tax</td> <td style="text-align: right;">\$7,500</td> </tr> <tr> <td style="padding-right: 10px;">\$250,000 Assessed Value</td> <td></td> </tr> <tr> <td style="padding-right: 10px;">Sales Tax 5% \$20,520 =</td> <td style="text-align: right;"><u>\$1,025</u></td> </tr> <tr> <td style="padding-right: 10px;"><u>Farmer Paid Taxes</u></td> <td style="text-align: right;"><u>\$9,525</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>(Approx. \$160/cow)</i></td> </tr> <tr> <td style="padding-right: 10px;">Sales Tax \$450,000</td> <td style="text-align: right;">\$22,500</td> </tr> <tr> <td style="padding-right: 10px;"><u>Farmer Paid Tax</u></td> <td style="text-align: right;"><u>\$9,525</u></td> </tr> <tr> <td colspan="2" style="padding-top: 10px;">TOTAL LOCAL STATE TAX REVENUE</td> </tr> <tr> <td></td> <td style="text-align: right;">\$32,025</td> </tr> <tr> <td></td> <td style="text-align: right;"><i>(Approx. \$534/cow)</i></td> </tr> </table>	State Tax Income		Income Tax 5%	\$1,025	RE Tax	\$7,500	\$250,000 Assessed Value		Sales Tax 5% \$20,520 =	<u>\$1,025</u>	<u>Farmer Paid Taxes</u>	<u>\$9,525</u>		<i>(Approx. \$160/cow)</i>	Sales Tax \$450,000	\$22,500	<u>Farmer Paid Tax</u>	<u>\$9,525</u>	TOTAL LOCAL STATE TAX REVENUE			\$32,025		<i>(Approx. \$534/cow)</i>
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Modernizing 10% of Wisconsin Dairy Farms Represents \$1 Billion in Economic Growth to State

Economic Value of Average 150 Cow Dairy Farm After Modernization in Wisconsin

<ul style="list-style-type: none"> ▪ 150 Cow Profile (Post Modernization) ▪ Average production 20,000 milk ▪ Cost of Production \$9.00 variable cost/cwt <u>3.00 capital/cwt - \$3,000 debt/cow</u> \$12.00 Total Cost/cwt 	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <ul style="list-style-type: none"> ▪ Profit @ \$13 = \$1.00/cwt x 200 \$200/cow 150 x \$200/cow = \$30,000 ▪ Gross Income 150 cows @ \$3,000/cow gross \$450,000 ▪ Economic Value to Community \$1,125,000 ▪ <u>Incremental Value after Modernization</u> \$1,125,000 - \$450,000 = <u>\$675,000 to community</u> </td> <td style="width: 50%; vertical-align: top; border-left: 1px solid black; padding-left: 10px;"> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">State Tax Income</td> <td style="width: 50%;"></td> </tr> <tr> <td>5% Income Tax</td> <td style="text-align: right;">\$1,500</td> </tr> <tr> <td>RE Tax</td> <td style="text-align: right;">\$9,000</td> </tr> <tr> <td>\$300,000 Assessed Value</td> <td></td> </tr> <tr> <td>Sales Tax 5% \$30,000 =</td> <td style="text-align: right;"><u>\$1,500</u></td> </tr> <tr> <td>Local Farmer Paid</td> <td style="text-align: right;">\$12,000</td> </tr> <tr> <td>Sales Tax 5% x 1,125,000</td> <td style="text-align: right;"><u>\$56,250</u></td> </tr> <tr> <td>TOTAL LOCAL & STATE TAX REVENUE</td> <td style="text-align: right;">\$68,250 <i>(\$455/cow)</i></td> </tr> </table> </td> </tr> </table>	<ul style="list-style-type: none"> ▪ Profit @ \$13 = \$1.00/cwt x 200 \$200/cow 150 x \$200/cow = \$30,000 ▪ Gross Income 150 cows @ \$3,000/cow gross \$450,000 ▪ Economic Value to Community \$1,125,000 ▪ <u>Incremental Value after Modernization</u> \$1,125,000 - \$450,000 = <u>\$675,000 to community</u> 	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">State Tax Income</td> <td style="width: 50%;"></td> </tr> <tr> <td>5% Income Tax</td> <td style="text-align: right;">\$1,500</td> </tr> <tr> <td>RE Tax</td> <td style="text-align: right;">\$9,000</td> </tr> <tr> <td>\$300,000 Assessed Value</td> <td></td> </tr> <tr> <td>Sales Tax 5% \$30,000 =</td> <td style="text-align: right;"><u>\$1,500</u></td> </tr> <tr> <td>Local Farmer Paid</td> <td style="text-align: right;">\$12,000</td> </tr> <tr> <td>Sales Tax 5% x 1,125,000</td> <td style="text-align: right;"><u>\$56,250</u></td> </tr> <tr> <td>TOTAL LOCAL & STATE TAX REVENUE</td> <td style="text-align: right;">\$68,250 <i>(\$455/cow)</i></td> </tr> </table>	State Tax Income		5% Income Tax	\$1,500	RE Tax	\$9,000	\$300,000 Assessed Value		Sales Tax 5% \$30,000 =	<u>\$1,500</u>	Local Farmer Paid	\$12,000	Sales Tax 5% x 1,125,000	<u>\$56,250</u>	TOTAL LOCAL & STATE TAX REVENUE	\$68,250 <i>(\$455/cow)</i>
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Proposed 5% Investment Tax Credit

Profile 60 cows growing to 150 cow operation with parlor and freestall.

Total new inventory:

Parlor	\$ 75,000 (double 8 parallel in barn)
Freestall	\$150,000
Cows	\$130,000
Misc. Equip.	<u>\$ 30,000</u>
	\$385,000 – TTC Base \$255,000

5% Income Tax Credit \$12,750

Modernizing 10% of Wisconsin Dairy Farms Represents \$1 Billion in Economic Growth to State

Impact of Stimulating 2000 (10% of Wisconsin Dairy Farmers) to Modernize

<u>60 Cows</u>	to	<u>If Modernized 150 Cows</u>	<u>Difference</u>
Gross	\$180,000	\$ 450,000	
Community Economic Value	\$450,000	\$1,125,000	
2000 Farms x \$450,000	\$900,000	\$2,250,000,000	<u>\$1.35 Billion</u>
2000 State/Local Tax	\$64 Million	\$136.5 Million	↑ \$72.5 Million Sales/Income/RE

Modernizing 10% of Wisconsin Dairy Farms Represents \$1 Billion in Economic Growth to State

Economic Impact

	<u>60 Cows</u>	<u>150 Cows</u>	<u>With Proposed State ITC</u>
Income Per Cow	\$ 342	\$ 200	
Personal Income	\$20,520	\$30,000	\$9,480 Family Income
State Income Tax	\$ 1,025	\$ 1,500	<\$1,500> \$12,750 ITC
RE Tax	\$ 7,500	\$ 9,000	
5% Sales Tax on Personal Income	\$ 1,025	\$ 1,500	
Farm Tax Paid	\$ 9,550	\$12,000	\$10,500
Gross Farm Income	\$180,000	\$ 450,000	
Economic Value To Com. 2.5	\$450,000	\$1,125,000	\$675,000
Sales Tax on \$450	\$ 22,500	\$ 56,250	\$ 33,750
Tax Generation	\$ 32,050	\$ 68,250	\$ 36,200
Tax Gen/Cow	\$ 534	\$ 455	

Added investment parlor \$75,000 Dbl. 8; 150 freestall \$150,000; Cows \$130,000;
Equipment \$30,000

ITC Base \$255,000

5% ITC \$12,750 Annual Credit to State Income Tax

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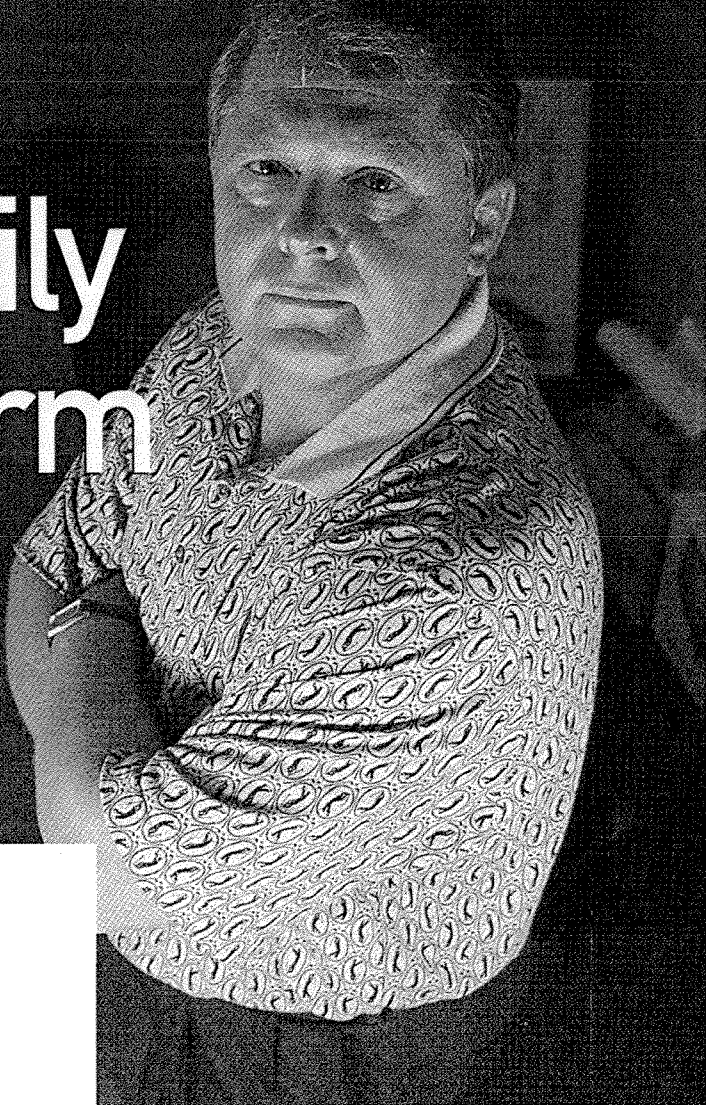
THE HYPOCRISY OF CO-OP
LOBBYISTS / 14

SOYBEAN DEMAND YIELDS
OPPORTUNITY / 17

FIRMS ENDORSE HUMANE
LIVESTOCK TREATMENT / 20

Saving the family dairy farm

Mike Krutza says investment tax credits
and strategic assistance could revitalize
thousands of farms. See page 10.



A plan to keep our dairy farms

Encouraging investment could be the last chance to save family dairy operations. ■ By Kurt Gutknecht

Get big or get out. That's the message a lot of dairy farmers hear — or think they hear. Many industry cognoscenti think the future of the state's dairy industry lies in California-style dairy operations, each consisting of hundreds or thousands of cows.

But some observers say there is another alternative — incremental expansion that will keep thousands of "smaller" dairy farms in the black. Groups have proposed various public policies to prevent the loss of these "family farms." Now a lender has advanced a plan to modernize Wisconsin's dairy industry, which he says would trigger a billion dollars worth of economic growth.

The proposal calls for investment tax credits to encourage modernization, increased assistance from state agencies and Pell-type grants for continuing education for farmers. The increase in farm income resulting from these policies supposedly means the state would easily recoup any temporary decrease in tax revenue several times over — and the plan would allow the state to keep more of the dairy farms that it supposedly cherishes.

STEPWISE GROWTH

Mike Krutza's proposal has attracted only lukewarm support. He spoke to

an audience of mostly empty chairs when he unveiled his proposal before a legislative committee. He fielded an inquiry from the Legislative Reference Bureau. Jim Harsdorf, secretary of the Wisconsin Department of Agriculture, Trade and Consumer Protection, says he likes the idea, in large part because it's "size neutral" — it treats all dairy farms the same, regardless of size.

As president and CEO of FCS Financial Services, better known as Farm Credit Services of North Central Wisconsin, Krutza has been espousing stepwise growth for several years — but with an aging farm population, time is running out. He's said this before, however, and his message has received a hohum response, the equivalent of a nod and a pat on the back and a fare-thee-well. He keeps trying.

Bankers have been accused of giving farmers enough rope to hang themselves, as during the late 1970s when farmers were lent money on the basis of inflated expectations and bloated real estate values.

Krutza's life would probably be easier if he were able to service a few fat loans with a limited number of clients. Instead, he's taken the opposite tack and warns about the evils of too much debt and too few farmers.

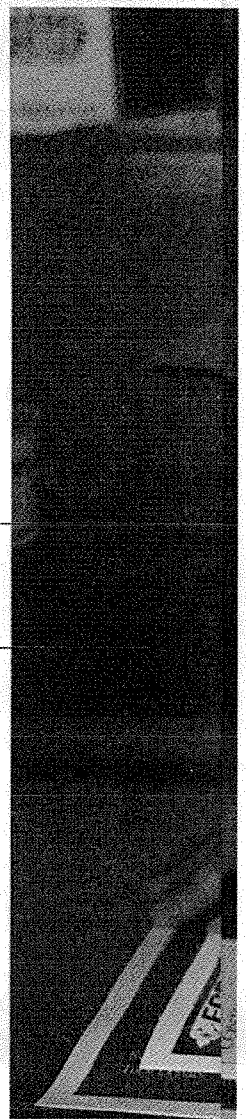
Results of a 1994 FCS survey of 243 dairy farmers showed that the in-

terest costs associated with large expansions often led to significantly higher breakeven prices. Based on those findings, he argued for incremental expansion — evolution instead of revolution — to avoid the excessive debt per cow that can sap profit margins.

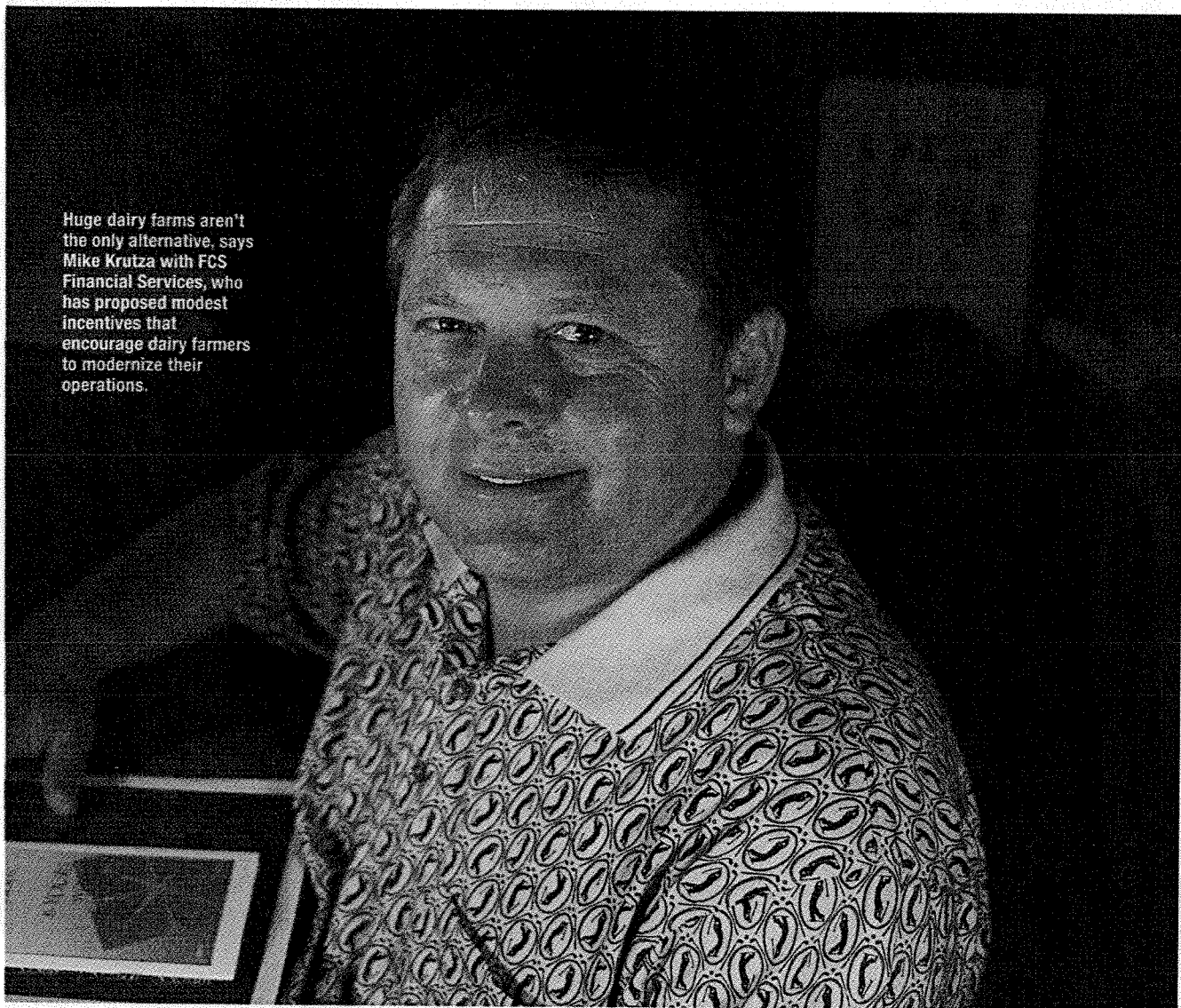
A \$25 BILLION INDUSTRY?

Krutza says a few modest incentives could help Wisconsin's dairy industry grow to a \$25 billion industry by 2010, up from the current level of \$17 billion. According to his calculations, \$1.3 billion in economic growth would result if just 2,000 dairy farmers modernized their dairy facilities and increased herd size from 60 to 150 cows.

But in a state where lip service to agriculture is the sine qua non of political longevity, no one's gotten too excited about the proposal, perhaps because it didn't originate from the groups who usually advance these policies — Krutza is acting largely alone — and perhaps because it implies that farmers have been getting some poor



Huge dairy farms aren't the only alternative, says Mike Krutza with FCS Financial Services, who has proposed modest incentives that encourage dairy farmers to modernize their operations.



advice during the last 40 years or so. The recent economic slowdown and decreased tax revenue haven't helped. Some question whether a banker could have altruistic motives.

Krutza says the state will probably lose cheese manufacturers and related enterprises unless milk production increases. But the issue isn't total milk production per se but how this milk is produced. Farms shore up the rural economy and it's important to keep as many of them as possible, he says. In other words, "Got milk?" should be coupled with "Got farmers?"

A healthy industry is characterized by growth, but not growth for the sake of growth, he says. "I want to see growth distributed uniformly. I approach the issue from a different per-

spective. Instead of just producing more milk to keep cheese plants in the state, I want to consider the human angle. The issue is not attracting cheese plants but in keeping thousands of dairy farmers. If we don't work with these farmers, the other questions are irrelevant. It's not just milk, but how and why we produce milk.

"If we keep doing what we've done, we'll get only what we've got," Krutza says, which in recent decades has been a precipitous decline in the number of dairy farms.

OFFERING MORE OPTIONS

"Let's get down to where the cows are eating. Are farmers reluctant to change? Not any more than anyone else," he says. Unfortunately, dairy farmers have

been offered the one-size-fits-all philosophy of expansion and, not surprisingly, they rejected the advice. "It's just illogical to expect everyone to expand to 400 or 500 cows."

Milking parlors have been one of the biggest aids to efficient milk production but only about 10% of dairy farmers have installed them, says Krutza. He attributes the low adoption rate to the misconception that milking parlors are prohibitively expensive, costing several hundred thousand dollars. Instead, he has materials showing more than 20 types of parlors, ranging from a basic modification of a stanchion barn costing \$1,500 for locks and concrete to those costing more than \$150,000.

Continued on page 12

Continued from page 11

Many steps toward modernization, such as parlors or improved grazing programs, require only a modest investment and would be feasible for farmers thinking of retiring in five or 10 years, says Krutza, providing more income for them as well as making the operation more attractive to potential purchasers.

The state would probably fall over itself if it had an opportunity to lure several thousand small businesses from another state, says Krutza. It should be as aggressive in encouraging the viability of several thousand small businesses — dairy farms — that already exist in the state. “Unless we continue to support these dairy farms, we will see the demise and decay of rural communities.

“My proposal isn’t a social welfare program or a Pollyanna notion to save all farmers. Let’s grow this industry. The dairy industry today is like a 1975 truck with 300,000 miles on it. It’s not going to last much longer. It needs updating and repair for the long haul. Without renewal, the industry won’t maintain its vitality,” he says.

The fact that more than 600 dairy farmers have developed business plans through the Dairy 2020 Planning Grants offered by the Wisconsin Department of Commerce shows farmers will grow their businesses with just a little encouragement, Krutza says.

PUTTING IDEAS TO WORK

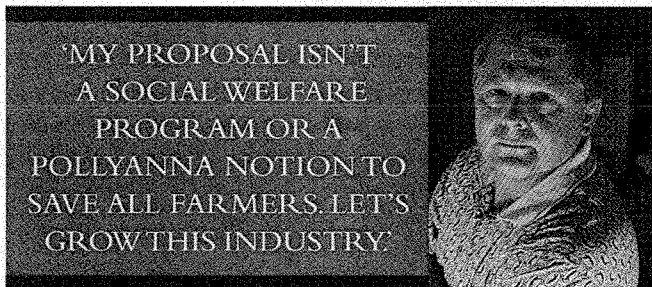
There’s not even a whiff of California about the operation of Bob Prah’s dairy farm near Wausau. No one made much of a fuss when he doubled the size of his dairy operation in 1999 by installing a pit parlor in an existing barn, purchasing heifers and making other renovations. The changes involved a lot of sweat equity.

He now milks 70 cows instead of 35. That’s just a squirt in the flood of milk that is supposedly necessary to “save” the state’s dairy industry, but it’s allowed the Prah family to stay in business on the farm that’s been in the family for 125 years. And the Prah’s

expansion could be implemented by thousands of farmers in the state. About 90% of existing dairy farms have fewer than 100 cows.

“Planning was costly, but it was the best money we ever spent. We did take on more debt, but it has paid off in less stress. It works,” says Mary Jo Prah.

There are other options, including partnerships, the route selected by Park Avenue Dairy, a 125-cow operation in



Merrill. Three years ago, Todd Fryman, Jim Gaeu and Don Radke formed a limited liability corporation (LLC) and pooled most of their land, cattle and equipment. The LLC also enabled them to construct a freestall barn and milking parlor. “That isn’t an investment I would have made at my age if I were on my own,” says Gaeu, 60. FCS determined the financial feasibility of the LLC. The thriving operation supports three families.

“I believe the 18,000 or so dairy farms that are not yet modernized are critical resource to this state, both economically and socially. It would be an arrogant misuse of one of this state’s most important resources if we focused on investing in biotechnology and research facilities, and failed to renew existing dairy farms,” Krutza says.

PLEASED WITH EXPANSION

Bruce Jones, with the University of Wisconsin (UW)-Madison Department of Agricultural & Applied Economics and former director of the UW Center for Dairy Profitability, says the university has also been promoting the idea of incremental expansion. “Decisions to grow quickly and dramatically can result in debt-to-asset positions for dairy operations that exceed lenders’ standards. Given this, it follows that dairy producers may have to adopt

some more modest growth plans as they try to expand their operations,” including the installation of retrofitted parlor systems in existing barns.

Most dairy farmers who expand their operations are pleased with the results, as Roger Palmer, UW-Extension farm management specialist, found when he surveyed more than 300 Wisconsin dairy farmers who had expanded herd size. They reported a better lifestyle, improved management and higher incomes.

Scott Gunderson, UW-Extension dairy agent for Manitowoc County, and Palmer have been espousing staged expansions for several years. Gunderson cites a study by the Minnesota Farm Credit Service, which found that herds that

double in size have a smooth transition and experience little if any drop in milk production. In comparison, herds that tripled or made larger increases experienced “management lags” that often led to decreases in milk production.

In “staged growth expansions” on three dairy farms in Manitowoc County, which involved doubling or tripling herd size, Gunderson found dramatic increases in the labor efficiency of feeding and milking, a better lifestyle, and improved financial health.

The widely accepted adage that healthy enterprises are characterized by growth appears to be true in the dairy industry, in spite of the widespread assumption that expansion only results in “megafarms.” Whether enough dairy farmers are convinced is an open question, as is the notion that strategic incentives could revitalize the state’s dairy farms.

“Most of the people I’ve talked to say the proposal makes sense,” Krutza says. “Wisconsin’s dairy industry can still be a powerful economic and social force. We can create a legacy. The question is how to motivate legislators, state leaders and dairy farmers to make it happen.

“I think we just need to look at what’s possible — and then do it.” ♦