



# FARMERS CREAMERY

Monthly Newsletter | October 2019

## COMPANY UPDATES

### Welcome Kalona Organic Sales Team Member, Juleen!

We have a new addition to the Kalona Organics sales team. Juleen Shetterly started with the company in October and will be helping grow distribution in the Midwest, as well as support our other business.



### 2019 Eggnog Season is Here!

Kalona SuperNatural Organic Classic Eggnog production began on October 22, and we're looking forward to a great holiday season.

As in previous years, we will be shipping eggnog to several distribution centers across the country. Retailers and consumers are more excited than ever for Kalona SuperNatural eggnog. They love that it has no stabilizers, is non-homogenized, and is batch-pasteurized.



### Requesting More Grass Milk

No deductions on pay, and the average pay is \$30/cwt. We will pay for the first inspection. Call Phil Forbes if interested.

## COMMODITY PRICES

Grower FOB Farm Gate Organic Grain				
Commodity	Price Range	Average	Change	Prior Year
Yellow Corn	7.00 - 11.45	8.47	0.27	9.45
Soybeans	17.50 - 19.00	18.13	-0.82	18.22
Grower Delivered Elevator/Warehouse Organic				
Commodity	Price Range	Average	Change	Prior Year
Yellow Corn	8.00 - 8.85	8.58	-0.19	10.01
Soybeans	18.50 - 20.40	18.95	-0.35	18.85





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## Dairy Nonprofit Execs Make Millions From Farmers as Sales Slide

BY CARY SPIVAK (Milwaukee Journal Sentinel, USA TODAY NETWORK)

As the number of dairy farms nationwide has plummeted by nearly 20,000 over the past decade, there's one corner of the industry doing just fine: The top executives at Dairy Management, who are paid from farmers' milk checks. The Illinois-based nonprofit is charged with promoting milk, cheese and other products – spending nearly \$160 million a year collected through federally-mandated payments from dairy farmers.

In 2017, a year in which 503 dairy farms closed in Wisconsin and 1,600 were shuttered nationwide, IRS records show 10 executives at the organization were paid more than \$8 million – an average of more than \$800,000 each.

Pay for Thomas Gallagher, the group's CEO, has topped \$1 million three times from 2013 to 2017, the most recent year for which data is available, a Milwaukee Journal Sentinel investigation into spending by the group found. His compensation included access to first-class travel and money to cover part of his taxes.

Former U.S. secretary of agriculture Thomas Vilsack, the group's executive vice president, was paid \$800,557 in 2017. Some officials and board members have taken trips to the Super Bowl. Top executives can receive "health club benefits under the executive flexible benefits account," according to documents filed by Dairy Management with the IRS. One affiliated group, GenYouth, has its headquarters on Madison Avenue in New York City and even hosted a 2017 fundraiser on a retired aircraft carrier, the Intrepid, docked on the Hudson River.

Dairy Management officials say the event was paid for through corporate sponsorships and table sales, but the spending and salaries have riled farmers – including some former board members – who are struggling week-to-week to balance their own checkbooks.

"I would often leave the meetings and weep on my way home," said Sarah Lloyd, a Sauk County dairy farmer who served on the Dairy Management board from 2013-16.

"These high-priced marketing people sitting in fancy offices in suburban Chicago were driving up to the meetings in luxury foreign SUVs," Lloyd said. "They were using my money and (other) farmers' money when farmers' kids are on free and reduced lunch.

"The contrast was just maddening."

Dairy Management is funded by one of nearly two dozen federally-mandated agriculture checkoff programs covering everything from avocado and Christmas tree farmers to cattle ranchers and pork producers. The idea is that by banding together, farmers – including many small, family-run operations – will get more for their marketing buck.

The system is overseen by the U.S. Department of Agriculture; the amount paid by farmers is set by Congress.

Dairy farms contribute an outsized amount to the checkoff programs, according to USDA records. A Journal Sentinel analysis of those records shows the program carries a heavier burden for dairy farmers than producers of pork and beef.

Last year, the programs collected a combined \$895 million to promote the various commodities. Of that, more than \$420 million – 47% – came from dairy producers.

Dairy farmers are required to pay in 15 cents per hundred pounds of milk sold. Ten cents goes to state and regional marketing programs, such as the Dairy Farmers of Wisconsin. A nickel goes to national programs, such as Dairy Management.

The checkoff payments from dairy, pork and beef producers are each calculated differently. When the three are compared on a per-\$100 basis, individual dairy farmers wind up paying a larger share of their revenue than their peers in the pork and cattle industries.

At current prices, dairy producers pay 80 cents per-\$100 sold into the checkoff program. That's twice what pork producers pay (40 cents per-\$100) and more than 10 times what beef producers pay (roughly 7 cents per-\$100 sold).

The dairy checkoff program, which began in 1983, would cost a farmer milking 100 Holstein cows about \$3,400 per year.

The dairy marketing efforts are best known for the long-running "Got Milk?" campaign, which was launched in 1993 by the California Milk Processor Board, and a sidekick campaign featuring milk mustaches on celebrities.

Yet per-capita milk consumption in the United States has fallen, or remained flat, every year since 1985. And it fell 24% during the national "Got Milk?" campaign which ended in 2014.

With milk prices sagging for the fifth straight year, the percentage of farms shutting down – especially small, family operations – is higher than at any time since the Great Depression.

The Journal Sentinel provided Gallagher a two-week window for an interview, but he declined to take questions by phone or in person. In response to questions, Dairy Management spokeswoman Heather Oldani issued a statement defending the executive suite pay scale: "The DMI Board conducts a comprehensive review each year of the CEO's salary in comparison to peer companies. Executive salaries overall are within competitive levels of compensation for comparable positions within the public and private sector."

### Pay out of step with other groups

Gallagher, 67, has been head of Dairy Management since the nonprofit was incorporated in 1995. He was paid \$1.36 million in 2015, just over \$1 million in 2016 and \$899,810 in 2017, according to documents all nonprofits must file with the IRS.

Gallagher's pay package was more than double the median paid to CEOs at large nonprofits in 2015 and 2016, according to Candid, formerly known as GuideStar, a group that analyzes nonprofits.

Peter Hardin, an outspoken critic of the dairy checkoff program, notes there is a significant difference between leaders of federally-mandated checkoff organizations and other nonprofits: The others have to raise money. Checkoff groups don't have that burden.

"These guys just sit there and have their hand out for the promotional checkoff guaranteed cash flow," said Hardin, the owner and editor of The Milkweed newspaper, a Brooklyn, Wisconsin, publication that covers the dairy industry.

What's more, Gallagher's pay greatly exceeded that of the heads of other nonprofits funded by a checkoff program.

In the eight-year period that began in 2010, Gallagher's average annual pay was \$976,744, a Journal Sentinel review found. The pay package included a supplemental retirement plan, which Oldani said was eliminated in 2016.

That's nearly double the amount paid during the same period to the head of the National Cattlemen's Beef Association. The two men who led the beef group were paid an average of \$523,327.

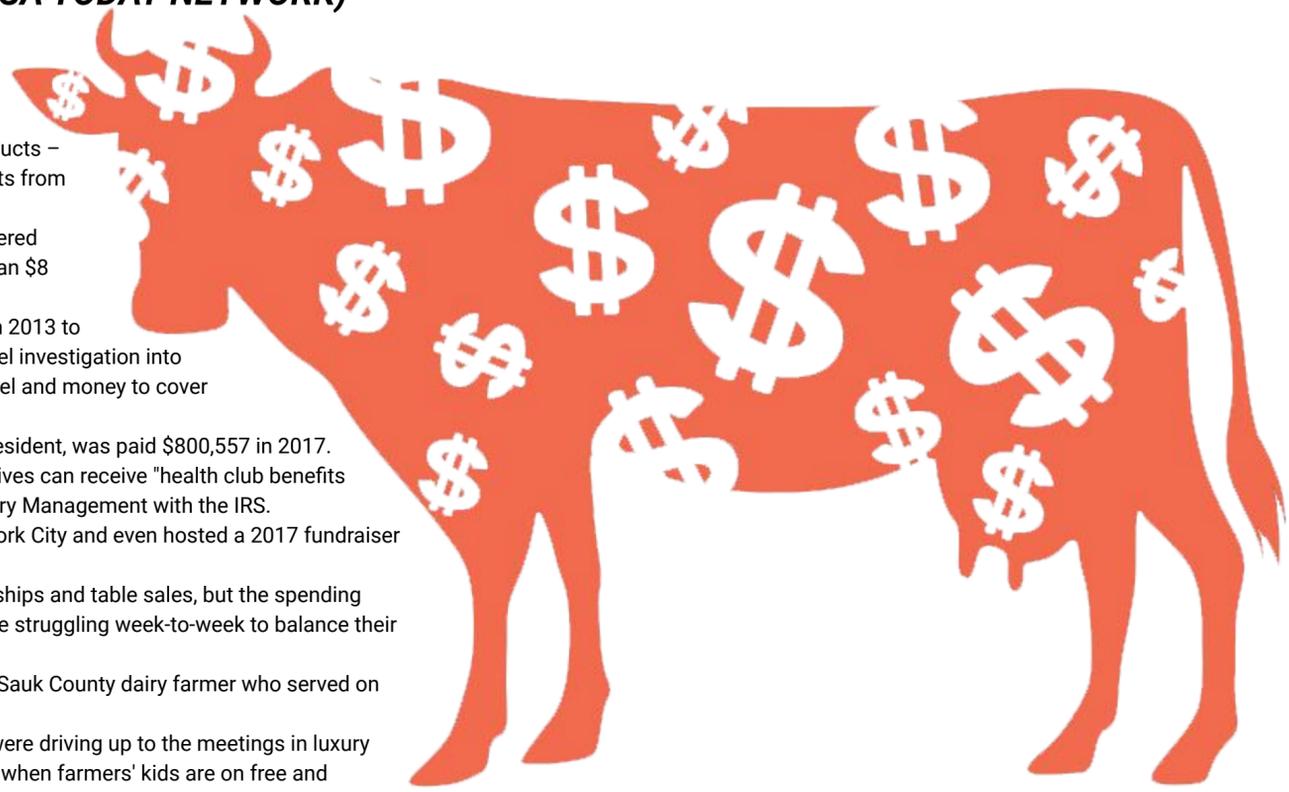
While Gallagher made just under \$900,000 in 2017, Kendal Frazier of the beef association was paid \$507,619 in 2017. Frazier's predecessor, Forest Roberts, collected \$712,199 the previous year.

The executive pay packages reported to the IRS include salary, bonuses, retirement, deferred compensation and other benefits.

The cattle group had revenue of \$64.6 million, while Dairy Management had revenue of \$155 million that year.

Like milk, the amount of beef per capita sold in the U.S. has been on a long downward trend, though beef sales have seen growth since 2015.

"The (dairy) farmers are losing their shirts and they see executives making a million dollars plus," said Mike Eby, chairman of the National Dairy Producers Organization. "A farmer needs every penny right now; I mean milk is so low in value." (Cont. on page 3)





## Dairy Nonprofit Execs Make Millions From Farmers as Sales Slide (Continued from page 2)

BY CARY SPIVAK (Milwaukee Journal Sentinel, USA TODAY NETWORK)

Eby, who used to operate a dairy farm in Pennsylvania, sold his 60 cows last year.

"Over my years in farming, over 17 years, I spent over \$40,000 in checkoffs," Eby said. "I wouldn't mind having \$40,000 sitting in a nest egg somewhere. ... That's a nice amount."

### Farmers 'would have been speechless'

As agriculture secretary under President Barack Obama, Vilsack – a former Iowa governor – oversaw the various checkoff programs. In that role, he made appointments to the various commodities boards.

In addition to being Dairy Management's executive vice president, Vilsack now runs the U.S. Dairy Export Council, an affiliated group that he joined days after leaving the Obama administration.

As a cabinet member, Vilsack's salary was about \$200,000 a year – roughly a quarter of the pay package he received in his first year with Dairy Management.

In an interview, he cut short a reporter's questions about his pay and the timing of the move.

"It's insulting to me to be asked this question," Vilsack snapped. "The dairy industry came to me and offered me the job – I didn't seek the job. I didn't ask for the job."

The Journal Sentinel review of the group's IRS filings found:

**Seven-figure pay packages:** Gallagher was not the highest-paid executive at Dairy Management in 2017. His pay was eclipsed by Gregory Miller, an executive vice president whose pay package was valued at \$1.5 million, and Carolyn Gibbs, the chief financial officer who left the organization in July 2017. She was paid nearly \$1.2 million.

**Rising executive costs:** Payroll in the Dairy Management executive suite rose nearly 40% from 2010 to 2017, the Journal Sentinel found. In 2010, the eight executives who, because of the size of their paychecks had to be listed on the tax forms, were paid \$5.8 million. By 2017, two executives were added to the list. Nationwide, the median pay for the top administrative position, excluding the CEO, was \$269,436 in 2016, the most recent year for which Candid/Guidestar data is available.

**Highly-paid contract workers:** Alexis Glick, a former Fox Business News anchor, received a pay increase of nearly 30% in 2017, bringing her to \$259,584. She is CEO of GenYouth, a Dairy Management affiliate that works with the NFL and others to promote physical fitness and dairy products to youth. Though listed as a full-time employee, Glick is an independent contractor, as are a handful of other GenYouth executives. MKTG LLC, a company linked to two GenYouth executives, received \$345,600 in 2017 – up from \$275,689 the previous year.

**Public relations spending:** From 2013 to 2017, Dairy Management has paid nearly \$55 million to the world's largest independent PR firm, Daniel J. Edelman Inc., for "agency services." Among the ties between the two entities: Oldani, who is a Dairy Management executive vice president, left a similar post at Edelman to join the nonprofit in 2017.

In an email responding to questions about the public relations spending, Oldani said Dairy Management works with "leading agencies like Edelman to ensure we are reaching people with relevant and engaging content that shares dairy and dairy farmers' stories."

All told, the Dairy Management board consists of 81 people appointed by the U.S. secretary of agriculture or named by regional bodies that receive checkoff dollars.

Hardin, who has run Milkweed for four decades, declared some of the salaries and payments "absolutely absurd."

If dairy farmers knew about them, he said, "they would have been speechless."

### Reform bill stalls

Critics of the agriculture checkoff programs focus on its mandatory nature, limited transparency and the lack of input from frontline farmers. In 2005, the checkoffs withstood a legal challenge when the U.S. Supreme Court declared they amounted to protected "government speech."

In 2017, the website Politico reported the USDA had gone at least four years without filing a required financial report to Congress about the dairy program. Some years have since been filed, but the most recent report found by the Journal Sentinel was for 2016.

A USDA spokesman blamed the tardiness on the agency's attempt to show "more reflective illustration of the promotion programs changing strategic direction from traditional dairy and milk promotion activities to one involving partnership activities."

The spokesman acknowledged the department provides "day-to-day oversight for all activities" of Dairy Management and the checkoff program. But he declined to comment on the executive pay scales set by Dairy Management, referring all comment back to the group.

Bills to reform the checkoff programs and increase transparency have languished in the U.S. Senate, where they have been introduced three times. The dairy program does not release detailed spending information to the public.

That latest version is sponsored by Republicans Mike Lee of Utah and Rand Paul of Kentucky, along with two contenders for the Democratic presidential nomination – Cory Booker of New Jersey and Elizabeth Warren of Massachusetts.

"The dairy producer has not realized a benefit from the checkoff," said Joe Maxwell, a former Missouri lieutenant governor who now heads the Organization for Competitive Markets, which opposes the way the checkoff programs are operated.

"They continue to go out of business."

### A shift in focus

Beyond advertising efforts, Dairy Management has worked in recent years to develop new markets for dairy products.

Think milk with Happy Meals at McDonald's or extra cheese on Pizza Hut pizzas. Or even the partnership with the NFL.

That agreement came with a twist:

Rather than pushing businesses to buy more dairy products, Dairy Management paid the NFL more than \$25 million from 2013 to 2017 for a variety of things, including promoting physical fitness and healthy eating habits among students.

That's frustrating to many, including Lloyd, the Columbia County farmer and former Dairy Management board member.

"The NFL doesn't need my money," she said.

Oldani, the spokeswoman, argued in an email that "our give and take with the NFL" makes the arrangement "a net zero financially."

Joe Kelsey, another former board member, praised the work of Dairy Management.

"They've really been in a leadership role in the way one could think about leveraging the marketing dollars that exist," he said.

Kelsey was a sixth-generation dairy farmer from Indiana until last fall when his farm lost a contract with Dean Foods and his family sold its cows.

In an interview, he did not endorse or criticize the pay packages for Dairy Management executives. Rather, he noted, figuring out the right pay – be it for a CEO or a milker – is always difficult.

"I mean when we were milking cows, were we paying our milkers too much or not?" he asked. "Sometimes we weren't paying them enough and they quit ... or maybe we paid them too much and they would never leave even if they were bad."

Some family farmers argue they will never see any benefit from deals being cut between Dairy Management and giant restaurant chains or retailers. Huge factory farms are more apt to work with the processors whose product ends up with national brands and franchises, Lloyd said.

"I can't do the wheeling and dealing to directly line up milk to the supply chain that is benefiting from the marketing dollars," said Lloyd, whose farm has 400 cows and pays about \$16,000 a year to the checkoff program. "I need to rely on the trickle down." (Cont. on page 4)





## Dairy Nonprofit Execs Make Millions From Farmers as Sales Slide (Continued from page 3)

**BY CARY SPIVAK (Milwaukee Journal Sentinel, USA TODAY NETWORK)**

Eby, of the National Dairy Producers group, argued small farms would benefit more from promotion of liquid milk, since they get more money for that than milk used in cheese or turned into powder and shipped overseas.

"What's wrong with promoting milk?" Eby asked.

A small farmer, he said, is "slitting his own throat with his own money" when checkoff money goes to promote other products.

One example: In 2017, Dairy Management spent \$8 million in checkoff money to assist Fairlife LLC in its promotion of Fairlife milk, a product that is lactose-free and contains less sugar than ordinary milk. It is being distributed by Coca Cola.

"Let Fairlife stand on their own two feet," Eby said.

In a statement on its web page, Dairy Management had this to say about the Fairlife LLC deal:

"Fluid milk is our foundation and our heritage, and it is ripe for innovation and meeting consumers' evolving needs. Despite the downward trend we've seen, it is important to remember that fluid milk is still a \$25 billion business. Yes, there still is much work to be done with fluid milk but we first needed a spark. Fairlife has delivered just that."

Marilyn Hershey, chair of the Dairy Management board, defended the work of the nonprofit in a statement to the Journal Sentinel.

"Since its inception, DMI has worked to build demand for and sales of dairy, with average per capita consumption growing 4.2 pounds annually according to the National Milk Producers Federation and USDA data," Hershey said in the statement.

The 4.2 pounds figure takes into account all dairy products, including cheese, butter and yogurt, and covers the period from 1983, when the checkoff program began, to 2017.

But any growth in consumption hasn't been enough to keep up with the steady increase in U.S. milk production, year after year, as farms have become bigger and more efficient. Thus, dairy farmers continue to be squeezed.

John Ikerd, who spent 40 years examining agricultural economics at the University of Missouri, where he remains an emeritus professor, said the partnerships with giant companies are turning many small farmers off to the program.

It's not the dollar amount that is bothering the farmers, Ikerd said. "It's the principle."

In the 1980s, when the checkoff program started, he said, farmers "didn't realize the money was going to be spent to promote a kind of agriculture that was going to end up driving the independent producers out of business."

Now that is hitting home amid farm closings.

Said Ikerd: "You're asking these farmers who are under a lot of financial stress to pay for the program that's basically causing the source of their stress."

*Rick Barrett and Andrew Mollica of the Journal Sentinel staff contributed to this report.*

