Commonwealth of Pennsylvania

Milk Marketing Board

Testimony

Pennsylvania State Grange

December 7, 2022

Over-Order Premium Hearing

Matthew D. Espenshade

213 Black Swamp Road

Bainbridge, Lancaster County

(717)-361-2844

president@pagrange.org

To the Members of the Board:

My name is Matt Espenshade. I am a seventh-generation dairy farmer from Lancaster County. The farm has been owned and operated by my family since 1867. I am married, and have two sons, ages sixteen and fourteen. My father and I have no hired help in the day-to-day activities on the farm. We milk approximately 75 cows, with a 20,600-pound rolling herd average. We farm 260 acres, raising our own forages and replacement heifers as well. In addition, I serve as the Master (President) of Elizabethtown Area Grange #2076, one of more than 230 county and community granges located across Pennsylvania. In a recent development, in October, I was elected to serve as the 26th President in the 150-year history of the Pennsylvania State Grange.

I am here today on behalf of the Pennsylvania State Grange, which has been an advocate for farmers and rural families since 1873. Today the Grange will offer evidence in support of its recommendation that the Board maintain the over-order premium at $1.00 per hundredweight for the next six months on qualifying milk. The Grange also requests the continuation of the fuel adjuster premium as it is calculated under the Board's current Official General Order A-999.

As a member of Mount Joy Farmers Co-Op, which is affiliated with *Dairy Farmers of America* (DFA), my fellow producers and I receive a blended price for the milk that is shipped. The blend price we received for milk on our most recent check was a net of $22.92 per hundredweight. This includes a volume premium of five cents and an additional ten cents for being under contract with our co-op.

Because we are part of a co-op, the over-order premium is spread across all members, regardless of the milk's class, processor location, and final destination. Approximately 30 to 35 percent of the milk produced by our co-op members goes to Class I facilities and is sold within the Commonwealth.

On our farm's monthly co-op statements, the over-order premium approved by the PMMB is included among the bonuses and premiums. On our most recent statement, the amount was sixteen cents, which is labeled as "PMMB over order premium."

Because our farm ships approximately 100,000 pounds of milk per month, at that rate, the over-order premium added $160 on our most recent statement. One month's premium would cover the cost of the annual enrollment fee required in the Dairy Margin Coverage program. Or perhaps a farm might use the funds to buy one bag of fortified milk replacer to feed their calves. There are plenty of expenses to be met, and it is the producer who gets to decide which use of the premium best serves his dairy operation.

As participants in a farmer owned cooperative, we function as one unit, meaning we share the risks, and we share the rewards. The funds generated by the over-order premium are returned to its members in a variety of ways. Some come directly to each member. Funds may also be used to subsidize or bolster quality premiums, or other benefits. Some cooperatives may use these funds to defray the costs of transportation, or perhaps office expenses. It is a business decision to be made by the cooperative leadership, which was elected by the cooperative members. In any event, the funds are used to cover costs which would otherwise come out of the pockets of their own dairy farmer members.

Challenges Continue

It has been 99 days since the last over-order premium hearing was convened. Our state's dairy producers are still challenged by high costs of feed, fuel, and supplies. I will share a few examples of these in a moment. Utility costs are reaching never before seen expenditures, and coupled with exorbitant fuel rates, have a significant impact on a farm's bottom line. Maintaining good farm employees is a necessity, regardless of the size and scale of a dairy operation. Being able to offer a competitive wage is critical for a farm to maintain a dedicated workforce that must frequently labor in difficult situations, often beyond the traditional ‘9 to 5’ workday.

I have shared with you in previous testimonies the impact of the Base Excess Program, developed by my cooperative, *Dairy Farmers of America*, on its members. Initially under this program, each month a farm would receive full payment for the volume of milk which totaled 85% of the farm’s production in March 2020. Pounds of milk over that 85% would receive whatever value could be derived from the marketplace, with the understanding this would probably be substantially less. Each month since its implementation, the program has resulted in decreased net payments to farmers due to impacted market conditions.

Several months ago, farmer members were given the opportunity by DFA to petition to adjust their base pounds, which our farm did. In a letter, I explained that our base was set at a low point in the year as far as cow numbers and production level. Upon review, our request was granted. The increase of the base level to 92% by DFA, coupled with the approval of our petition to increase the daily milk volume allowed, has taken our farm out of a challenging situation for now, but not before the loss of nearly fifteen thousand dollars in revenue.

Even though businesses, food services and schools are returning to a somewhat normal routine, the Base Excess Program is still in place.

Milk Price and IOFC

So far this year, milk price peaked in August when it reached $24.05 per hundredweight, with an income over feed cost (IOFC) of $13.06. September’s milk price dropped slightly, but overall feed cost rose in response to higher purchased feed expense, tightening the margin to $11.52. As we began October, we were able to feed more home-grown corn silage as the primary forage. Coupled with a drop in the cost of our complete feed, our margin improved to $12.14. November’s milk price was slightly higher, moving from $22.81 per hundredweight in October to the current $22.92. Income over feed cost for November settled at $13.50 per hundredweight.

Purchased Feed Costs

Our farm attempts to maximize our forage production capabilities, which makes it necessary to purchase our supplemental feed to meet our ration's protein and energy requirements. Every three weeks, we will order a total of twelve tons of what is considered a "complete feed", a blend of soybean and corn meals, with other cost-effective additives. This makes us very much at the mercy of the markets. For comparison, the January 2021 price for this complete feed was $323/Ton. However, by May 2022, the price had moved sharply higher to $496/Ton, an increase of more than 50%. A feed purchase in June was even higher, at $502/Ton. In August, the cost of this complete feed reached $527/Ton. Our price dropped two dollars in September, and an October statement had the price at $504/Ton.

Challenges for PA, Challenges for Cooperatives

The Center for Dairy Excellence reports that there are 5,430 dairy farms in Pennsylvania, which represents 15.9% of the nation's total dairies. The Commonwealth continues to see farms exit the dairy industry at an alarming pace. This is also evident within Mount Joy Farmers Co-Op, which has seen a net decrease in member farms for six consecutive years.

Though our cooperative is made up of farms of varying sizes and dynamics, more than half of our membership consists of farms with 65 cows or less. Our cooperative is still challenged in finding markets for our milk, and our dairy farmers continue to shoulder a significant part of the burden. To help cover balancing costs, our members are assessed a "Market Adjustment" fee, which is included on our monthly statements. Since 2014 it has been a fluctuating deduction. Our most recent statement showed the deduction currently at 58 cents per hundredweight, up from

48 cents at my testimony in March. At that rate, on a moderate-sized farm like ours that produced approximately 102,000 pounds of milk last month, the market adjustment equates to $595 in lost revenue for the month. I have no doubt that it is a challenge to find a home for all the milk produced by the members of our cooperative, but having these options does come with a cost.

Our co-op prides itself on producing high quality milk. It is a point that is made over and over by our leadership in newsletters and at annual meetings. Quality bonuses and premiums are a significant motivation and this financial reward for diligence cannot be understated. During an average month on our farm, picking up an additional 10 cent bonus somewhere will add upwards of $100 to our monthly statement.

The Board of Directors of Mount Joy Farmers Co-op is elected by our membership, and is composed of member dairy farmers. They have a tremendous responsibility in managing the milk markets of the 254 member farms. I trust them to continue to work in the best interest of our members, and our co-op manager has always been willing to answer my questions in preparation for my testimonies before the PMMB. From time to time, we as producers may be challenged by their decision, but these are the steps necessary to remain competitive in the northeast where there is an abundant milk supply.

Protecting Margins

Since the program's early days, our farm has been enrolled in the USDA's Dairy Margin Coverage (DMC) program, and our farm has renewed our participation for the upcoming year. Dairy futures forecasts printed in recent dairy publications show lower prices are expected for milk during 2023. The past two and a half years have shown us all just how quickly and how long markets can be impacted by unforeseen events, and utilizing these available financial safety nets has become a standard practice for our family.

Beyond Profit Margins

During these hearings in the past, much of the testimony presented before this Board revolved around income over feed costs. Obviously, this is a critical metric as feed is one of, if not the greatest daily expense in dairy production. However, I believe we need to note that the supply chain issues, record inflation rates, and price increases that have impeded daily life for Americans have hit Pennsylvania's dairy sector very hard.

The marketplace demands the highest quality milk. Weather conditions and other factors can challenge the health of the dairy cow. Treating mastitis, an infection within the udder, is a standard practice, and a product called '*Today'*, is a highly effective intramammary treatment. At our local farm supply store, a box would cost $40.99 in November 2020, a significant expense considering the treated milk must also be discarded. However, to buy that same box on the shelf now, if it's available, will cost $65.00.

Fuel costs continue to be a major concern for producers that raise some or most of their own crops. Purchasing diesel fuel is necessary to operate various machinery used to plant, harvest, mix feed and other routine farm activities. A receipt from December 2021 showed the purchase of 100 gallons of diesel at $2.99/gallon. This past July, we were paying $4.99 per gallon during the busy haying season. Prices began to move lower, and late September settled to $4.19. However, within just two weeks of that purchase, our follow-up delivery saw a price spike upwards, to $5.29/gallon.

Our farm has been dealing with dramatic increases in our electric utility bill. Comparing October 2020 to October 2021, our daily electric usage dropped 11%. However, our farm's average daily utility cost rose 23%, from $24.66 per day to $30.32, for a monthly electric bill of $909.47. This trend has continued. When we compare October 2021 to October 2022, usage is down an additional 7%, but the average daily cost rose 32%, to $40.15 per day. Though our farm is using considerably less electricity, our daily cost has almost doubled. Our October 2022 electric bill was $1,204.51.

September 2022 had a 3% increase in daily usage compared to the previous year, but the average daily cost was 44% higher, rising from $33.24 per day to $47.82. For the month of September 2022, our electric bill was $1,482.52. Where are the funds to pay these bills expected to come from?

These are just a few of the financial hardships we face every day. These higher input costs will make it much more difficult to keep current on bills, take advantage of early-payment discounts and avoid significant late fees. Some economists predict Class III and IV futures will drop below or hover near $20 per hundredweight for most of 2023, and this downward trend should be a concern for our Class I product. Those of us trying to stay ahead of our expenses are aware that our dollar does not go as far as it did not so long ago. As margins continue to tighten, every dollar coming back to the farm matters, including the over-order premium.

Conclusion

The money the PMMB chooses to invest in the over-order premium is not just supporting the local farmer, but the businesses they depend on as well. To be honest, the premium you approve today will not spend much time in the pockets of the average farmer. This premium will help dairy producers to maintain farm equity and pay down the debt that has accumulated, and put money back into their local community. The decision you make today will have a direct impact on my family, and other farm families across the state. I am grateful for the opportunity to share with you just a portion of the economic challenges facing our Pennsylvania dairy farmers. Being a part of these hearings has given me a greater appreciation of the challenges all segments of the dairy industry are facing.

It is good to remember that all of us in this room want the same thing; that Pennsylvania milk is the first choice to be served on Pennsylvania dinner tables. I hope you will consider the plight of our farmers as you set the over-order premium for fluid milk produced, processed, and sold within Pennsylvania. Thank you to this Board for its assistance to dairy farmers in the past and your consideration of the matter before you today.