Commonwealth of Pennsylvania

Milk Marketing Board

Testimony

Pennsylvania State Grange

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Over-Order Premium Hearing

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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 thirteen. My father and I have no hired help in the day-to-day activities on the farm. We milk approximately 75 cows, with a 21,200-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 approximately 200 county and community Granges located across Pennsylvania.

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 $22.97 per hundredweight. This includes a volume premium of ten 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. Almost all milk within the co-op attains that level of quality.

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 four and a half cents, which is labeled as “special premium.”  In one month on our farm, where we produce about 100,000 pounds of milk, this line contributes approximately $45. An additional portion of the premium is used to subsidize quality bonuses.

***Challenges Continue***

It has been almost three years since the onset of the COVID-19 pandemic in America.  The daily lives and routines of almost everyone in all walks of life were significantly impacted. At the onset, as businesses and schools shuttered, consumer demands shifted, and cooperatives such as my own struggled to find outlets for what soon became an overabundance of product. In response to lower demand for milk, my cooperative, *Dairy Farmers of America*, developed the Base Excess Program for its members. 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. The program we hoped at the time would be a temporary inconvenience is now well into its second year, and each month since its implementation has resulted in decreased net payments to farmers due to impacted market conditions.

***Milk Price and Feed Costs***

Our dairy nutritionist has been busy this spring and summer. He has done a very good job of trying to balance purchased feed costs with our changing forge supplies. The overall cost of our ration has been higher each consecutive month since March. In March of 2022, we were paid $21.71 per hundredweight, with an income over feed cost (IOFC) of $14.75. April’s milk moved higher to $22.50 per hundredweight, but so did feed expense, with a margin of $15.17. In May, the milk price slipped to $21.45, and IOFC was lower as well, to $13.23. June milk showed slight improvement as it moved to $22.00, but again, higher prices for feed lowered the income over feed cost to $13.02.

***Forage Supplies Force Changes***

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. The March 2022 price for this complete feed was $450/Ton. But as spring ended and we exhausted our supply of haylage, the primary protein source in our ration, a major reformulaton of the complete feed was required. This caused the April 2022 price to move sharply higher to $544/Ton. In addition, we had to compensate for the loss of forage by increasing the amount of corn silage fed. When we were finally able to make haylage for the first time this year, we were able to return to a more normal ration. The complete feed cost decreased, but did not return to the $450 range. For May, that feed cost was $496/Ton. The price moved higher in June as well, and was $502/Ton on our most recent feed purchase.

Soon we will be making our third cutting of haylage. But the actions taken in spring were not without repercussions. After using higher volumes of silage, we now have had to lower the amount of corn silage to make it last until late August, so we will use more haylage, and the cycle continues.

***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 62 cents per hundredweight, up from a 48 cent deduction at my previous testimony in March. At that rate, on a moderate-sized farm like ours that produced approximately 139,000 pounds of milk last month, the market adjustment equates to almost $860 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, and it is a burden I know I would not want to deal with myself.

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 $125 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.

Even though businesses, food services and schools are returning to a somewhat normal routine, the Base Excess Program is still in place. In May 2021, the percentage production that would be paid in full was raised to 88%. In April of this year the level was raised to 90%, where it remains today. In newsletters, the administrators of the program have stated their goal is to get the base percentage back to 100%, but at the same time, pointed out the goal of the program was "to send real economic signals to farms based on the demand levels in our marketplace." Nowhere is there any guarantee that the level could not be lowered.

This program enacted by our cooperative has had a significant financial impact on our farm, and probably many others. For the year 2021, our farm received $7,000 less than what normal valuation would dictate if there were no Base Excess Program. However, in the first six months of 2022, we have already seen a total of $7,700 in deductions related to overproduction. And even though the threshold is now set at 90%, for each month since April, the corresponding over-base penalty has increased higher than the previous month. As you can imagine, the loss of nearly $15,000 in revenue over just 15 months has had a significant financial impact on a farm like ours.

I want to reiterate that I strongly believe in our cooperative structure. It gives our dairy farm a stability that I value in looking at our long-term future. We have gone through unprecedented times in the global marketplace, and the responses implemented have not been without hardship. As dairy farmers, it is in our nature to face challenges and overcome obstacles. My intent was only to share some of the challenges specific to our farm's situation, a situation many find themselves in today.

***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. Items as basic as ear tags, latex milking gloves and calf medicines have been on backorder for months at our local farm store.

Our farm is also dealing with a substantial rate hike from our electric utility. Comparing April 2022 to April 2021, our daily electric usage dropped 1%. However, our farm's average daily utility cost rose 34%, from $24.15 per day to $32.31 per day. May 2022 had an 8% decrease in daily usage compared to the previous year, but the average daily cost was 32% higher, rising from $23.07 per day to $30.50. When comparing the months of June, electric usage dropped 5% from 2021 to 2022, but average daily cost rose 20%, for a monthly electric bill of $952. Where are these funds to come from? As the heat and humidity of summertime require extended use of barn fans, I am not looking forward to our electric bill in the months to come.

The unprecedented rise in fuel prices was a major news item for weeks across the country. However, the rising price of diesel during the busy planting season could not come at a worse time. Purchasing diesel fuel is necessary to operate the various machinery used to plant and harvest crops, mix feed and other routine farm activities. A receipt from December 2021 showed the purchase of 100 gallons of diesel at $2.99/gallon. By April 2022, the price had risen to $4.89/gallon. During one week in June, we were delivered 318 gallons of diesel. The price per gallon was $5.60, for a fuel bill of more than $1,700.

Our cooperative has been dealing with fuel costs as well as it fulfills the hauling needs of its members. In May of 2021, this expense penciled out to 18 cents for every hundredweight shipped. In May of 2022, the expense was 26 cents, an increase of more than 30% in just one year.

Needless to say, the fuel adjuster portion of the over-order premium is of great value to farmers, and is a critical part of the overall benefit the premium provides.

These are just a few of the financial hardships our fellow dairy farmers 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. We are fortunate that the price we are paid for milk has been over $20 per hundredweight in recent months, and under normal circumstances, that would be encouraging news. Unfortunately, for many, our enthusiasm is tempered when we are aware that our dollar does not go as far as it did not so long ago. Even at these current milk prices, every dollar coming back to the farm matters, including the over-order premium.

***Existence***

The over-order premium has been a part of the Pennsylvania dairy industry for decades. The funds generated by this premium come from consumers making the choice to buy beverage milk in one of its many forms. It does not come from the sale of cheese, yogurt or other manufactured dairy products.

Anyone who has taken part in these hearings knows that one of the primary factors in setting the level of the premium is that it needs to be a practical level for all parties involved. The Board is focused on setting a premium level beneficial to farmers, yet does not make the importation of out of state milk a financially viable option. I don’t think anyone in this room wants that.

Each of us has to chart our own pathway to success. Every day on the farm, we make decisions that will impact our bottom line, whether it be applying that extra gallon of fertilizer to the acre, or deciding when a favorite cow needs to move on. We make decisions on how to market our milk, where to market our milk, or perhaps even process it ourselves into a value-added product. The cooperative I belong to has made the sale of Class I fluid milk a priority, and with it, taking the risks of competing in a marketplace with a perishable product. Another cooperative may rather choose to focus on Class II or III, opting for products more readily transported and with longer shelf life in the grocery store. All of these options are fine. Each of us, as individual farmers or directors of a cooperative, must determine our own business model.

Today, Mount Joy Farmers Cooperative has 254 members in 12 counties. Together, we made the business decision to become equity partners in *Dairy Farmers of America* (DFA). The over-order premium is shared by our members because we function as one unit, sharing the risks, and sharing the rewards. I believe we have established a beneficial way to distribute the funds generated by the premium, helping to defray costs and bolster bonuses.

But now in addition to market adjustments, over base deductions, and the concerns revolving around the day to day operations of a dairy farm, our producers are now faced with the very real possibility that the over-order premium could be taken away. As of today, I have heard no plan to replace these funds generated by the premium, only the desire to eliminate the premium.

It has often been said that dairy farmers are not *price setters*, but rather *price takers*. But there is one area in which the farmer does have some input… the over-order premium. At these hearings, the Pennsylvania State Grange has testified regarding the challenges facing our farmers and why the premium is important. Time and time again, our members have voiced support for the dairy industry and the over-order premium. Any decision regarding the future of this benefit should be taken with utmost caution.

Because of these hearings, I have gained a deep respect for the business model held by independent processors and the farmers that ship their milk to these facilities. I hope the Board and parties involved today consider the impact the loss of the over-order premium would have on their operations. They are a vital part of the state's dairy industry and their unique innovations are critical for the future of fluid milk consumption.

***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.