Pennsylvania Milk Marketing Board Hearing Testimony

Matthew D. Espenshade

On behalf of the Pennsylvania State Grange

Pennsylvania Department of Agriculture Building

March 1, 2016

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 ten and seven. My father and I have no hired help in the day-to-day activities on the farm. We milk 85 cows, with a 19,400-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 240 local granges located across Pennsylvania.

I am here on behalf of the approximately 10,000 members of the Pennsylvania State Grange. Today, the Grange requests that the Pennsylvania Milk Marketing Board extend the $1.60 over-order premium payment, along with the continuation of the fuel adjuster.

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 $15.63 per hundredweight. This includes a bST-free payment of 27 cents, and 10 cents for being under contract with our co-op. These proceeds have been earned through decisions we have made in the way we produce milk. In addition, we received twenty cents per hundredweight as a quality bonus.

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. Almost all of our farms could expect to see at least 25 to 40 cents per hundredweight coming from the PMMB premium. Approximately 52% of the milk produced by our co-op members goes to Class I facilities. Almost all milk within the co-op attains that level of quality. However, a majority of milk produced with bST is relegated to Class III. This does, in a sense, “water down” the over-order payment to our membership.

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 statement issued February 23rd, the amount was four and a half cents, which is labeled specifically as “over-order premium.” An additional portion of the premium is used to subsidize quality bonuses.

In 2014, the price per hundredweight of milk reached levels seldom seen. On our farm, we took advantage of the higher profit margins to replace two key pieces of outdated machinery, make greater investments in our cropping system, and make structural repairs and improvements to our dairy facilities. These financial outlays led to increased forage yields, better living conditions for our cows, and in general, a more positive outlook for the future amongst our family members. Even though 2015 started off strong, we soon realized that this year was not going to be like the previous one.

In January 2015, we received a blend price of $22.42 per hundredweight, with an Income Over Feed Cost (IOFC) of $12.01 per hundredweight. At this time we were paying $195/Ton for steam-flaked corn to meet our ration energy requirements. For our soybean-based protein supplement, we were paying $516/Ton. Through the spring we watched our blend price drop month after month. This downward trend continued as summer began, with our June blend price at $15.32. The blend price we were paid each month between April and July of 2015 was close to, if not more than, ten dollars per hundredweight less than the comparable month in 2014.

By September 2015, our blend price had fallen to $14.96, with an IOFC of $5.76 per hundredweight on our farm. As our blend price declined over those first seven months of 2015, our purchased feed costs did not follow at the same rate, and remained rather unchanged. In comparison to January feed expenses, September steam-flaked corn was a dollar lower, at $194/Ton, while the cost of our protein supplement dropped less than 10%, to $485/Ton.

Through the late fall and winter months of 2015, we saw a rebound in the price we were paid. October's blend price edged slightly higher to $15.02, with an IOFC of $6.38 per hundredweight. In November we received $16.75 per hundredweight, and our margin rose to $8.28. We ended the year in December, with a blend price of $17.80 per hundredweight, and IOFC at $9.30. Through the harvest season, we did see a decrease in our purchased feed costs, as flaked corn moved slightly lower to $188/Ton, and our protein supplement to $477/Ton.

However, as 2016 began, we have seen a sharp decline in the price we receive for our milk. January's blend price was $18.33, resulting in an IOFC of $10.61. However, the price had fallen to $16.94 the following month, and our margin dropped almost $2.00 per hundredweight, to $8.77. With our most recent statement yielding a blend price of $15.64, I fear that once our feed costs are calculated, this downward trend in profit margins will continue.

Our cooperative is still challenged in finding markets for our milk. To help cover balancing costs, in September 2014, our members began to be assessed a "Market Adjustment" fee, which is included on our monthly statements. Since April of 2015, it has been a deduction of 40 cents per hundredweight, where it remains today. 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 I am sure that we as producers are all noticing the assessment's effect on our bottom line this year, while profits are comparatively slim.

Our electric bills have been trending upwards in expense. Our March 2014 electric bill was $591.41. However, by comparison, our bill from March of 2015 was up significantly, to nearly $650 for the month. October has been a traditionally high usage month in the past. In 2014, our bill was $786.74

in October, but the same month in 2015 exceeded that, at $833. Our costs were lower through the fall and winter of 2015, but our February statement came with a bill of $853.

One of the new provisions of the current Farm Bill is the "Margin Protection Program for Dairy Producers" (MPP-Dairy), and last year was our first foray into contracting and milk marketing. Insuring the profit margin for our milk is certainly not without cost. We insured at an IOFC margin of $6.50 per hundredweight, across 90% of our production. The total premium for the year was $879. This was a significant financial outlay for our farm. With so much volatility and uncertainty in our industry, we certainly cannot afford to go through another extended downturn like 2009. But even with the rapid and steep decline in our milk check during the coverage year, we did not hit levels low enough to trigger an indemnity payment. Our farm's margin of $12.01 in January 2015 fell to $6.75 in July 2015. This is just 56% of our January margin. Any business would be financially challenged with these extreme shifts in their marketplace.

As we reviewed our options for the upcoming year, I would note there was a significant rate increase to purchase what we would consider adequate coverage. The policy we chose in 2015 cost $879. That same coverage for 2016 would now cost $1,193, an increase of more than $300.

After much consideration, for 2016, we decided to decrease our coverage level to an IOFC of $6.00 per hundredweight, and maintained 90% coverage on production. This level of protection will cost our farm $829, just slightly lower than our previous year, but also means a lower threshold for reimbursement.   Like many of our expenditures, it was easier to justify when we had income on hand to cover the cost. For many farmers in our situation, this year the coverage premium will be a difficult pill to swallow.

I admit that after the improvements and progress we made in 2014, the downward trend we experienced in 2015 was rather disheartening. In 2014, we had the opportunity to invest more in our corn crop which would be taken for silage. We were able to put a nitrogen-based liquid fertilizer on our crop at a critical stage, and we saw increased total yields while planting fewer acres of corn. Because of the tight cash flow during spring planting season, we were only able to put that fertilizer on about 1/3 of our acres. As a farm that tries to maximize our home-grown forages, it was a difficult position to be in. Through the winter months, many farmers are trying to prepay seed and other planting expenses in order to take advantage of discounts and avoid interest payments. Inability to do so will lead to higher input costs and greater financial stress on their dairy business.

The money you choose 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. The decision you make today will have a direct impact on my family, and other farm families across the state. I sincerely hope that you will maintain the over-order premium for milk sold in Pennsylvania. Thank you for your assistance to dairy farmers in the past and your consideration of the matter before you today.