

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 seventeen and fourteen. My father and I have no hired help in the day-to-day activities on the farm. We milk approximately 70 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 the Pennsylvania State Grange, and am a member of Elizabethtown Area Grange #2076.

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 \$17.13 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 fourteen cents, which is labeled as "PMMB over order premium."

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 our members in a variety of ways. Some funds are distributed 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 is elected by the cooperative members. The funds are used to cover costs which would otherwise come out of the pockets of their own dairy farmer members.

### **Weather Challenges Crop Production**

2022 will be a year on the farm I will not soon forget, and not for a good reason. While we are blessed that drought and extreme weather seldom affect local our area in southcentral Pennsylvania, last year was apparently our turn. Not since the excessive rains of 2018 has our farm been so impacted by weather conditions. However, this time, the problem was not too much rain, but not enough. Our farm's main feedstuff is home-raised corn silage. An excessive heat wave, coupled by no rain during the critical pollination stage, led to a drastic decrease in yield for a majority of our corn acres. The kernels on the ears did not fully develop, leading to a significantly lower energy levels in the silage. The lack of rain also limited growth in our hay fields. As a result, we closed the harvest season with lower feed inventory than normal.

As I've talked with producers in the local area and across the state, many find themselves in a similar situation. To make up for the lack of energy in our home-grown corn silage, we have had to purchase more corn, which has impacted our margins. It is going to be a long four months until,

hopefully, our corn is ready for harvest to fill our silo. But even now, the current lack of rain is a cause for concern. Our milk production over the summer will most certainly be lower than last year, and a second dry year could be catastrophic for our family business.

### **Milk Market Sees Sharp Decline in Spring 2023**

We began 2023 in January receiving \$23.65 per hundredweight for our milk, with an income over feed cost (IOFC) of \$15.60. From January through March, milk price remained rather steady, dropping to \$22.96 per hundredweight. However, on our farm, we struggled compensating for lower feed availability and quality. For the first time in decades, we purchased hay. Timothy hay is a cheaper but lower protein alternative to alfalfa, the more common and most protein dense variety. To cover the lower energy, we needed a higher percentage of ground corn in our complete feed. These measures immediately impacted our feed costs, and our income over feed cost slipped to \$12.94 per hundredweight.

April saw a steep drop in milk price to \$20.86 per hundredweight, and our margin also decreased, falling to \$11.19. However, our May milk check fell even further, down an additional \$3.73 per hundredweight to \$17.13, leaving a margin of just \$6.79. Between March and May, the \$5.83 per hundredweight drop in the price we are paid for milk equates to a decrease of 25%. How many American families could handle this type of financial situation?

### **Challenges for PA, Challenges for Cooperatives**

The Center for Dairy Excellence reports that there are approximately 5,000 dairy farms in Pennsylvania, which represents 17.4% 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 seven 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 72 cents per hundredweight. At that rate, on a moderate-sized farm like ours that produced approximately 135,000 pounds of milk last month, the market adjustment equates to more than \$950 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. It is also notable to mention that this expense is in addition to the overproduction assessment begun in April of 2020.

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 241 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 current year. The sharp decline in milk price this spring has triggered payments during each of the past three months. Utilizing financial safety nets has become standard practice on our farm, and many others across the Commonwealth. More than 1700 Pennsylvania farms are enrolled in the Dairy Margin Coverage program. The past few years have shown us all just how quickly markets can be impacted by unforeseen events.

### **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, and continue still today.

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 will now cost \$65.00.

On most Pennsylvania farms, raising crops to feed the cattle is just as important as milking. We are now well into spring planting season, as corn to be harvested for grain or forage this fall is being put in the ground. The recent downward trend in milk price is coming at a difficult time, as farmers are faced with significant upfront costs of seed, fertilizer and fuel. For our farm, just the

cost of seed corn in the bag will pencil out to about \$175 per acre this year. It should be noted that while we are currently not in a drought situation, portions of twelve counties in the Midstate are considered “abnormally dry”.

With no-till farming practices comes the need to manage weeds to give young plants the chance to establish and flourish. Many here are familiar with the herbicide 'Roundup', and perhaps its generic equivalent *Eraser*. *Eraser* is sold in 2.5-gallon containers in a concentrated form, and in November 2020 cost \$69.95. During the pandemic, as supply chains from China tightened, prices rose. In October 2021, that same volume cost \$99.99. During the spring of 2022, each cost \$149.99. During a trip to the local farm store last month, I picked up four containers, each costing a staggering \$159.99.

Our farm is also dealing with dramatic increases in our electric utility bill. Comparing January 2023 to January 2022, our daily electric usage rose 4%. However, our farm’s average daily utility cost rose 27%, from \$29.45 per day to \$38.38, for a monthly electric bill of \$1,228. February 2023 had a 7% decrease in daily usage compared to the previous year, but the average daily cost was 40% higher, moving from \$34.08 per day to \$47.56. April’s usage was down 4% in comparison to 2022, but the daily cost was 27% higher. Where are the funds to cover these expenses expected to come from?

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. As these expenses continue to rise, while the price for milk trends downward, 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.