**Commonwealth of Pennsylvania**

**Milk Marketing Board**

**Over-Order Premium Hearing**

**Testimony on behalf of the Pennsylvania State Grange**

**Presented by Matthew D. Espenshade**

**213 Black Swamp Road**

**Bainbridge, Lancaster County**

**Pennsylvania Farm Show Complex – Susquehanna Room**

**February 28, 2017**

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 eight. My father and I have no hired help in the day-to-day activities on the farm. We milk 75 cows, with a 19,600-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 240 local granges located across Pennsylvania.

I am here on behalf of the approximately 10,000 members of the Pennsylvania State Grange. The Pennsylvania State Grange has been an advocate for farmers and rural families since 1873. Today, the Grange requests that the Pennsylvania Milk Marketing Board maintain the over-order premium payment at $1.60, 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 $18.07 per hundredweight. This includes a BST-free payment of 22 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.

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.

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 specifically as “over-order premium.” An additional portion of the premium is used to subsidize quality bonuses.

We are finally seeing some encouraging signs in our milk checks. The before mentioned blend price on our farm of $18.07, is an increase from $16.80 in January. This uptick in price is a welcome relief after a challenging year in 2016. The average price we were paid for the year was $15.54 per hundredweight. During this time our average feed cost per hundredweight at $8.75, leaving an average monthly margin of $6.79 during 2016.

Early in 2016, we saw a sharp decline in the price we receive for our milk. January’s blend price was $18.33, resulting in an IOFC (Income Over Feed Cost) of $10.61. The price had fallen to $16.94 the following month, and our margin dropped almost $2.00 per hundredweight, to $8.77. The downward trend continued through April and May. By June, our price per hundredweight had fallen to $14.48, and to $14.12 by July. Our August statement showed that the price we would receive for our milk was to be $13.81. Our farm had not seen prices this low since $14.66 per hundredweight in January of 2010.

The autumn months showed some improvement, as our blend price rose in September to $14.73, yielding a margin of $5.69 per hundredweight. October’s price was up almost one dollar, and margins gained to $6.47 per hundredweight. By November, our price reached $16.11, with a margin of $7.13. The year ended in December with our blend price at $16.20 and a margin of $7.89. While January of 2017 yielded a price of $16.80, it should be mentioned that this is $1.53 lower than January of 2016, and the resulting margin is $2.35 lower than the same time last year.

But while the price we were paid for our milk through the summer of 2016 saw a dramatic decrease, our feed costs were moving the opposite direction, and increasing. The steam-flaked corn we purchase has been steady, rising just four dollars from $194/Ton in April to $198/Ton in August. Our soybean-based protein concentrate did see a significant price increase, from $465/Ton in April, climbing throughout the summer, and reaching $491/Ton in August. By the end of 2016, we were paying $509/Ton. As the temperatures rose through the summer, milking cows would compensate by decreasing their feed intake. A dairy cow’s ambient temperature, or “comfort zone”, is between 30 and 60 degrees. As temperatures soared into the upper 90’s, coupled with oppressive humidity and little relief overnight, milk production took a significant drop. We increased the percentage of flaked corn and protein to make a more “nutrient dense” feed, which significantly raises the expense. For example, our feed cost per hundredweight in April was $7.74, and remained steady at $7.59 and $7.69 the following two months. But by July, the feed cost jumped to $8.19 per hundred weight, and $8.96 per hundredweight in August, when our blend price was just $13.81, leaving an IOFC of $4.85. From September through November, our feed costs were near or above $9.00 per hundredweight.

We are still seeing the negative effects of the summer heat stress. Many of the cows that freshened leading up to the period of excessive heat have been a challenge to breed. While we would like to see at least 70% of cows confirmed pregnant at our monthly veterinarian herd health checks, for three months our results were less than 25%. This will lead to higher overall breeding expense, coupled with longer days in milk, many of those days at a time when a cow’s milk production is in decline and at the lowest milk volume of their lactation. In addition, this also means there is a “hole” in our calendar next summer where we will not be seeing new cows coming into milk. Instead we will have many new calves arriving in August and September, when newly harvested forages are still fermenting, and balancing a ration accordingly for a milking cow is a challenge.

Our electric bills have been trending upwards in expense for several years, but we saw notable increases in 2016. Higher temperatures and humidity this summer led to increased energy consumption due to fans in the barn running longer, and equipment working harder to keep milk properly cooled. In July 2016, our electric bill was $1,008.36, by far the highest electricity bill we have seen since I have been testifying before this Board. The following month was nearly identical, at $1,006.78. Fortunately, our energy consumption has declined since then, but the financial impact was significant.

In 2015, we had our first foray into contracting and milk marketing through the “Margin Protection Program for Dairy Producers” (MPP-Dairy). Insuring the profit margin for our milk is certainly not without cost. After much consideration, for 2016, we decided to decrease our coverage level, from $6.50 to an IOFC of $6.00 per hundredweight, and maintained 90% coverage on production. This level of protection cost our farm $829, just slightly lower than 2015, but it also meant 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.

As mentioned previously, our farm’s August margin came in at $4.85 per hundredweight, the lowest profit margin in approximately six years. After many months of struggling to make ends meet financially, we received notice in the form of a letter dated August 4, 2016, that we would be receiving a payment of $488 through our MPP policy. Not that we expect the protection program to be a significant source of income, but the policy did cost $829 for the year. It was the only payment we received for term of the policy, so we are still $341 away from breaking even during a financially challenging year.

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 had been a deduction of 40 cents per hundredweight, but between July and October 2016, it was raised to 45 cents. In November 2016, it was dropped back to 40 cents, 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 after 29 consecutive months of deductions, I have to wonder if this assessment will ever end, or is this the “new normal”.

Restrictions continue to be placed upon dairy farmers regarding how to manage their dairy cows. Our co-op has moved to prohibit the use of recombinant bovine somatotropin, or “rBST” by our member farmers. Since then, the bonus paid to farmers has been reduced, from 27 cents per hundredweight, to now 22 cents. I am uncertain about the future of this premium as the marketplace moves away from this safe and useful product in response to being somewhat rejected by consumers. Beginning January 1st, a common over-the-counter medication, tetracycline, used to treat pneumonia, breathing difficulties, as well as hoof and heel ailments, has been restricted to prescription by veterinarian.

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 are a significant motivation and this financial reward for diligence cannot be understated. Our Board of Directors approved a new set of standards for our co-op, which went into effect on September 1, 2016, and the departures from the standards issued less than five years ago in 2012 are notable. Measurements of quality, which would have earned a 40 cent per hundredweight bonus, are now worth 10 cents. Criteria which would have garnered 60 cents have been reduced to 40 cents. Yet, the penalty “hammer” for milk that does not meet certain standards is levied rather forcefully. Previously, having a Somatic Cell Count (SCC) of 400,000 would result in a 10 cent penalty, but under the new guidelines, results in a 50 cent deduction. An upper echelon infraction, of 750,000 SCC or higher, was a 75 cent deduction, but is now a penalty of $3.00 per hundredweight.

The Board of Directors of Mount Joy Farmers Co-op is elected by our membership, and is comprised of member dairy farmers. They have a tremendous responsibility in managing the milk markets of the 331 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. As producers we may be challenged by the quality bonus decision, but these are the steps necessary to remain competitive in the northeast where there is an abundant milk supply.

Because of the tight cash flow during the 2016 spring planting season, we were only able to put fertilizer on at planting. 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 have been 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. It is a constant challenge to figure out which bills will be paid each month. Our farm raises our own forages, but must purchase all our feed concentrates. With new feed being delivered every two weeks, it is a like trying to dig yourself out of a hole, and a cause for concern among my family.

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 consider maintaining the $1.60 over-order premium for fluid milk produced, processed, and sold within Pennsylvania. Thank you for your assistance to dairy farmers in the past and your consideration of the matter before you today.