**Pennsylvania Milk Marketing Board Hearing Testimony**

**Matthew D. Espenshade**

**On behalf of the Pennsylvania State Grange**

**Pennsylvania Department of Agriculture Building**

**September 7, 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 20,119-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. In light of economic and weather related challenges, and a monumental decrease over the past year in the price paid to our state’s dairy farmers for their milk, today, the Grange requests that the Pennsylvania Milk Marketing Board consider increasing the over-order premium payment to $1.90, 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 $14.73 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. In addition, we received ten 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.

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 August 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.

Looking back, the extraordinary milk prices of 2014 are now but a distant memory. During that time on our farm, we took advantage of the higher profit margins to replace key pieces of outdated machinery, make greater investments in our cropping system, and make structural repairs and improvements to our dairy facilities. Even though 2015 started off strong, we soon realized that the 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. However, by September 2015, our blend price had fallen to $14.96, with an IOFC of $5.76 per hundredweight on our farm. Through the late fall and winter months of 2015, we saw a rebound in the price we were paid. We ended the year in December, with a blend price of $17.80 per hundredweight, and IOFC at $9.30.

However, early in 2016, we again saw 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. 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 has not seen prices this low since $14.66 per hundredweight in January of 2010.

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 gradual price increase, from $465/Ton in April, climbing throughout the summer, and reaching $491/Ton in August. However, the challenge is that as the temperatures rose through to summer, milking cows tend to lose their appetite. 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 of more than 12% in less than a week. To compensate, 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 on IOFC of $4.85.

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 since our last PMMB hearing, it was raised to 45 cents. 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 co-op has also moved to prohibit the use of recombinant bovine somatotropin, or “rBST” by our dairy producers. It should also be noted that since our last hearing, our “BST free” premium 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.

Our electric bills have been trending upwards in expense for several years, but we’ve seen notable increases in 2016. Our costs were lower through the fall and winter of 2015, but our February 2016 statement came with a bill of $853. While our May 2015 electric bill was $704.53, that same month in 2016 was an $813 expense. In another comparison, June 2015 climbed to $876, but June 2016 was still higher, at $899. Higher temperatures and humidity this summer have 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 since I have been testifying before this Board. While we can hope this trend soon reverses, our traditionally highest months are yet to come.

Last year was 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. In 2015, 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.

When the time came to review our options for the current 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 have 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 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. But much like we did in 2015, this year we again watched our profit margin tumble, month after month. In April our profit margin was $7.79, which slipped to $7.08 in May. The trend continued in June, down to $6.79, with another steep decline to $5.93 in July. And as mentioned previously, our August margin came in at $4.85 per hundredweight, the lowest profit 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, so we are still $341 away from breaking even during a financially challenging year.

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 two critical stages, at planting and after the plants emerge, and we saw increased total yields while planting fewer acres of corn. Because of the tight cash flow during the 2016 spring planting season, we were only able to put that 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 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, and in this current economic climate, that seems a certainty. Ours is probably not the only farm under duress. It is a constant challenge to figure out which bills will be paid each month. To be honest, and I hate to say it, but we are about two months behind on our feed bill. 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 an increase in 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.