Pennsylvania Milk Marketing Board Hearing Testimony

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On behalf of the Pennsylvania State Grange

Pennsylvania Department of Agriculture Building

September 2, 2015

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 nine and six. My father and I are assisted by my 18 year old nephew in the day-to-day activities on the farm. We milk 86 cows, with a 19,200-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 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 $15.40 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. Our cooperative offers quality bonuses for low somatic cell counts. However, due to an outbreak of environmental mastitis on our farm during that month, we did not receive a bonus. Our levels were within the acceptable range, and I would note we were not penalized either.

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 June 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 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. February was $1.49 lower, to $20.93 per hundredweight. The drop in March was even more steep, a decline of $3.81 per hundredweight, to $17.12. Our price fell to $16.56 in April and $15.74 in May. This downward trend continued as summer began, with our June blend price at $15.32 and a modest rise to $15.40 in July.

But while the blend price we were paid for our milk dropped, our feed costs did not follow in the same manner, and remained rather unchanged. In fact, our purchased flaked corn fluctuated only four dollars higher during the first seven months of 2015, ending once again at $195/Ton in July. The price of our purchased protein concentrate has had a slight retreat, from $516/Ton in January, down to $472/Ton in June, but rising to $483/Ton in July. This decrease of $33 between January and July is a savings of less than 10%.

Meanwhile, our Income Over Feed Costs (IOFC) per hundredweight of milk was seeing dramatic decreases. The margin of $12.01 in January had fallen to $7.67 by March. In the months to follow, IOFC continued to decline, to $7.03 in April, and $6.71 in May. June's margin was also lower, to $6.65. We saw a slight uptick in July, to $6.75, yet this is just 56% of our January margin.

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.

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. In September and October of that year, the deduction was 15 cents per hundredweight. At the time, our blend price was $23.91 per hundredweight, and higher in October. In November this fee jumped to a 50 cent deduction, but our blend price was still strong, at $25.37. It remained at fifty cents through January of 2015. But in months to follow, as our blend price faltered, our farm's assessment rescinded only slightly. It dropped a nickel, to 45 cents per hundredweight in February and March, when our blend price stood at just over $17.00. Then it was lowered by another nickel to 40 cents in April, 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 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. Even with a cooler than normal summer last year, our July 2014 electric bill was $754.27, and reached a high of $786.74 in October. But higher temperatures 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. Our May electric bill was $704.53, but climbed to $876.09 in June, with our traditionally highest months yet to come.

One of the new provisions of the current Farm Bill is the “Margin Protection Program for Dairy Producers” (MPP-Dairy). This is 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 past six months, we have not yet hit levels low enough to trigger an indemnity payment. The deadline for renewing our involvement in this program is drawing near, but I can’t say for sure that we will maintain our current level of coverage. 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 are experiencing in 2015 is 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.

With the annual seasonal costs of custom harvesting corn silage just weeks away, we are facing a challenging autumn and winter. We can only hope that prices rebound soon, and that this negative trend does not continue much longer.

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.