

Commonwealth of Pennsylvania

Milk Board

Testimony

Pennsylvania State Grange

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Over-Order Premium Hearing

Matthew D. Espenshade

213 Black Swamp Road

Bainbridge, Lancaster County

(717)-361-2844

president@pagrange.org

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 eighteen and sixteen. My father and I have no hired help in the day-to-day activities on the farm. We milk approximately 73 cows, with a 20,700-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 approximately 200 county and community Granges located across Pennsylvania. Since October of 2022, I have served as the Master of the Pennsylvania State Grange. It has been a tremendous honor to represent my fellow Grange members as together we work for the betterment of the agricultural community.

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 \$19.51 per hundredweight. This includes a market premium of five 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 twelve cents, which is labeled as "PMB 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 its 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. In any event, the funds are used to cover costs which would otherwise come out of the pockets of their own dairy farmer members.

Weather Challenges Farmers, Affects Yields

2023 was what many Pennsylvania dairymen would consider a "rebound" year after the excessive droughts that affected many of our state's farms in 2022. Through double-cropping and the blessing of adequate rain last year, our farm was finally able to rebuild the feed inventories of our home-raised forages.

Unfortunately, during this past year, once again rainfall was in short supply, especially during the critical pollination time for our corn taken for silage. As a result, the kernels did not fill out on the ears, leading to lower available feed energy levels, decreased feed quality and value. Additionally, the corn did not reach the height one would hope for. These two factors combined for significantly lower tonnage per acre at harvest. While in a good year we can expect our corn silage to yield 25-32 tons per acre, we calculate our early corn yields were approximately 12 tons to the acre.

This shortfall in home grown forage will lead to further challenges next year, as we will have to purchase more feed and hope our spring ryelage to be taken as a forage does well.

As of October 1, 19% of Pennsylvania is under drought conditions, mainly through the southern and western counties. Only 21 counties are currently considered not affected by drought. It is our hope that other parts of the country will have solid corn and soybean yields, enabling our purchased feed costs per ton to remain in check. We continue to push to maximize yields from our acreage, as we have already planted rye this fall to be taken as forage next spring.

Milk Margins Impacted

As we try to cover expenses on the farm, we note that thus far no month during 2024 has reached the milk price of December 2023, at \$20.51 per hundredweight. We began May 2024 receiving \$17.16 per hundredweight for our milk, with an income over feed cost (IOFC) of \$9.32. In mid-June we depleted much of our corn silage supply, leading to a reformulation of our feed ration. July milk, at \$18.06 per hundredweight, was outpaced by these increases in feed costs, leaving an income over feed cost of \$8.56 per hundredweight. The milk price did increase in August to \$19.59, but purchased feeds continued to pull down our margin, to \$8.14. During August we were finally about to harvest corn silage. Though lower in quality than we would like to see, it did relieve some of the expense of purchasing concentrate, and income over feed cost rose to \$9.00 per hundredweight.

Challenges for PA, Challenges for Cooperatives

The Center for Dairy Excellence reports that there are slightly more than 5000 dairy farms in Pennsylvania, and the average herd size is now approximately 99 cows. However, the Commonwealth continues to see farms exit the dairy industry at an alarming pace. The family of one of our State Grange officers, from Berks County, recently dispersed their dairy herd. This

unfortunate trend is also evident within Mount Joy Farmers Co-Op, which has seen a net decrease in member farms for eight 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 58 cents per hundredweight. At that rate, on a moderate-sized farm like ours that produced approximately 91,000 pounds of milk last month, the market adjustment equates to almost \$530 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.

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 \$100 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 233 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 PMB. 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. It has been a welcome safety net as our farm has tried to navigate these turbulent times in the industry. March 2024 was the first time in 17 consecutive months that an indemnity payment was not triggered.

Margin projections have certainly improved over the summer months, but we are also reminded that markets do change, sometimes unexpectedly, and risk mitigation is an important consideration for farms of all sizes. Nor does six months of margins above DMC triggers erase the deficits of the prior 17 months.

Congress has yet to approve the 2024 Farm Bill. The draft proposal by the House Agriculture Committee includes several revisions, but we are all waiting to see the final version.

Utilizing financial safety nets has become standard practice on our farm, and many others across the Commonwealth. The Pennsylvania State Grange encourages all producers to strongly consider participating in this federal program. During 2023, Dairy Margin Coverage payments triggered in every month, including two, June and July, where the margin fell below the "catastrophic level" of \$4.00 per hundredweight, a first for DMC coverage or its predecessor, the Margin Protection 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, this product is no longer available over the counter, and must be obtained through a licensed veterinarian. Due to regulation and supply chain issues, to buy that same product we have been using for at least 35 years will cost \$76.00 per box through the veterinary practice.

On most Pennsylvania farms, raising crops to feed the cattle is just as important as milking. Across our state, seed orders for 2025 are being placed now. Farmers are trying to find ways to stay current on monthly bills, and if possible, take advantage of early payment discounts.

I have shared with this Board the impact of the increases in our farm utility bills, namely electricity. For two years we have dealt with this increased expenditure. Comparing June 2022 to June 2024, our daily electric usage cost rose from \$29.76 per day to \$34.29, for a monthly electric bill of \$1,028. Comparing July 2022 to July 2024, the farm's daily electricity cost rose from \$34.29 per day to \$38.90. Overall electricity usage on our farm remains steady to lower, but the daily added expense keeps compiling. 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. Through these challenging times, every dollar coming back to the farm matters, including the over-order premium.

Conclusion

The money the Pennsylvania Milk Board 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.