

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 eighteen and fifteen. My father and I have no hired help in the day-to-day activities on the farm. We milk approximately 70 cows, with a 20,700-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 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 \$16.82 per hundredweight. This includes a quality premium of fifty cents, a volume 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.

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.

2022 Has Not Been Forgotten...

Much of our 2023 was spent dealing with the repercussions of the 2022 cropping season. While we are blessed that drought and extreme weather seldom affect our area in south central Pennsylvania, last year was apparently our turn. 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 2022 harvest season with a lower feed inventory than normal. Drought conditions in the spring of 2023 had many concerned, as a second consecutive dry year could have a devastating effect on our farm and others across the state. Fortunately, conditions improved, and reports I have heard attest to strong to abundant yields. While the summer months have been a challenge, we are optimistic looking ahead to 2024.

From June through October this year, our purchased feed cost *on a per ton basis* has held rather steady. However, we have had to purchase higher *volumes* of concentrates to make up for lower energy levels in our limited homegrown feeds. This has certainly impacted our bottom line, as milk per cow decreased as well. Since our last hearing, our farm's production level fell to the point where we were no longer being impacted by the Base Excess Program implemented by our cooperative.

Milk Market Sees Sharp Decline Throughout 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 prices 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. 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%.

From May through July, prices paid for milk held in the low \$17 range. (June: \$17.34; July: \$17.12) Our corn silage inventory was totally depleted, and we had to make extreme reformulations to our rations. For several months our milking herd was fed primarily haylage and ryelage. While our protein requirements were close to being met from these forages, a majority of our energy

requirements had to be met through purchased feed. By July, our feed cost per hundredweight had risen to \$11.11, leaving an income over feed cost of \$6.01.

The price paid to farmers for milk continued to slide. In August, we received \$16.18 per hundredweight, with an income over feed cost of \$5.38. September milk fell even further to \$15.46 per hundredweight. With feed expenses that month totaling \$11.52, we were left with a margin of just \$3.94 per hundredweight.

Corn silage finally returned to the ration about the same time our ryelage inventory was depleted. Coupled with a slight uptick in milk price, we did see our situation improve in October as milk price edged higher to \$16.82, yielding an income over feed cost of \$6.44.

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. In the last decade, the state herd size has decreased 12%. 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 107,000 pounds of milk last month, the market adjustment equates to more than \$770 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 at 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 \$100 to \$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 236 member farms. I trust them to continue to work in the best interests 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. Farmers select their coverage level, and payments are possible when the national average income over feed costs equals \$9.50 per hundredweight or less. So far this year, the milk margin triggered payments every month from January to September, with September's margin rate at \$8.44. By comparison, in 2022, payment triggers only occurred in August and September. 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.

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. Prices spiked during the pandemic, but certainly have not eased since then. During the spring of 2022, each container cost \$149.99. During a recent trip to our local farm store, I noticed each now costs a staggering \$159.99.

Over the past year, our farm has also dealt with dramatic increases in our electric utility bill. At our last hearing I shared details regarding our farm's usage versus average daily cost. The trend continues. Comparing June 2023 to June 2022, our daily electric usage decreased 1%. However, our farm's average daily utility cost rose 30%, from \$29.76 per day to \$38.62, for a monthly electric bill of \$1,235. July 2023 had a 4% decrease in daily usage compared to the previous year, but the average daily cost was 26% higher, moving from \$31.01 per day to \$39.12. I certainly hope these 'year over year' trends do not continue into 2024, but even leveling off will still have a significant financial impact on our state's dairy producers.

These are just a few of the financial hardships our fellow dairy farmers face every day. 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.