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GOVERNOR'S TASK FORCE

on the Sustainability of the Dairy Industry in Maine

Final Report ~ December 2009

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Maine Department of Agriculture - 28 State House Station - Augusta, ME 04333
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Governor's Task Force on the Sustainability of the Dairy Industry in Maine

2009 Dairy Task Force Members

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Task Force on the Sustainability of the Dairy Industry in Maine

November 2009 Executive Summary

The Task Force met to examine the current problems confronting Maine's dairy industry and develop recommendations on how best to reduce the vulnerability of the dairy industry to economic forces. The Task Force was asked to evaluate the recommendations of the 2003 Dairy Task Force report, examine the impact and cost of Maine's tiered dairy stabilization program, discuss factors affecting the price of milk and make recommendations for stability within the dairy industry to preserve the State's farms and local milk supply. The Task Force met once with Governor Baldacci to discuss the plight of Maine's dairy industry.

The Task Force found that Dairy farming is a part of life in Maine and remains a central element of the state's character and economy with 315 farms ranging in size from 10 cows to 1700 cows making 590 million pounds of milk per year. Maine's dairy industry generates over \$570 million dollars each year for the state's economy. It contributes over \$25 million dollars to the state and municipal government in taxes and provides over 4000 jobs for Maine people.

Maine dairy farms are small businesses which are dependent on other businesses such as grain dealers, equipment dealers, milk truck haulers, veterinarians, cattle dealers, and other cattle and dairy specialists. These farms represent 700,000 acres of fields, pastures, crop lands, and small woodlots in Maine, which is extremely important to the state's number one industry, tourism and are needed for outdoor sports activities and open space.

The cyclical dynamic of dairy pricing has continued on a national scale and has become more erratic and extreme, dropping to new lows in 2008 & 2009, causing financial stress throughout the industry. The Task Force determined this is because of a failed federal milk pricing policy which Congress and USDA need to modify.

The Task Force found that Maine has continued to lose farms, but at a slower rate than the rest of the Northeast due to help from the stabilization program and agreed the program should continue, recommending the use of costs of production numbers and support levels currently in statute. They recognized the need to review the cost of producing milk but given the bleak economic times decided not to recommend changes at this time that might increase the cost of the stabilization program. Maine's dairy farmer representatives on the Task Force were unanimous in this decision but recognized a need to update these numbers in the future.

The Task Force voted to recommend adding a fourth tier of support for Maine's largest farms and voted to recommend reducing the production range in tier one so that farmers moved into tier 2 more quickly. The Task Force was not unanimous on these two points, but with the exception of one member, agreed to support them.

The Task Force discussed and recommended changes to the handling fee schedule that would trigger the rates to kick in sooner, thereby increasing revenues.

Governor's Task Force on the Sustainability of the Dairy Industry in Maine November 2009

On Tuesday, August 11, 2009, Maine Department of Agriculture Commissioner Seth Bradstreet assembled the 2009 Task Force on the Sustainability of the Dairy Industry in Maine in accordance with Sec. TTT-8 of 2009 legislation enacted by the Maine Legislature. The Task Force was established to examine the current problems confronting the dairy industry and develop recommendations on how best to reduce the vulnerability of the dairy industry to economic forces within and outside the state.

Duties included, as a starting point, that the task force review the Final Report of the Recommendations of the Governor's Task Force on the Sustainability of the Dairy Industry in Maine dated November 18, 2003 and the report of the ad hoc committee of dairy industry representatives assembled by Commissioner Bradstreet dated January 2007. The task force was directed to discuss the recommendations of the 2003 report, determine which recommendations have been implemented, evaluate success of the recommendations implemented in meeting goals stated in the 2003 report and decide if recommendations not implemented warrant further attention. (See Appendix) The task force was also directed to closely examine the following:

- The impact and cost of the tiered dairy stabilization program in the Maine Revised Statutes, Title 7, section 3153-B, enacted by the 121st Legislature with an effective date of April 16, 2004;
- Factors affecting the price of milk as it moves from the farm to the dairy processor to the retail seller; and
- Other focus areas as determined by the task force at its early meetings.

The task force was required to submit its report to the Governor and the Joint Standing Committee on Agriculture, Conservation and Forestry no later than November 27, 2009. The report needed to include recommendations for long term stability within the dairy industry and recommendations for immediate implementation as required to preserve the State's farms and local milk supply.

The Task Force met August 11 and 25; September 9, 16, and 23; October 14, 21, and 28; and November 17 and 24 for a total of 10 meetings. There were two sub-committee meetings, and another sub-committee meeting with Governor Baldacci on October 15 dealing with the dire economic situation facing the industry and possible emergency measures that might be implemented immediately.

The first three meetings were for information gathering. The Task Force heard from Bob Wellington, Sr. Vice President of Agrimark Cooperative, Ed Gallagher, Vice President of Economics and Risk Management for Dairylea Cooperative, Dr. George Criner, University of Maine economist, Marge Kilkelly, Deputy Director for The Council of State Governments and representatives from US Senator Snowe's, US Senator Collins', and US Representative Pingree's offices.

The Dairy Situation in Maine in 2009

Maine currently has 315 dairy farms in 15 counties (There are sheep and goat dairies in Hancock County, but no cattle dairies). This represents a decline since 2004 of seventy-eight farms. In the period from 2000-2004, Maine had lost one hundred six dairy farms.

Currently there are close to 32,000 cows in Maine making 590 million pounds of milk per year (69 million gallons). This represents a decline of 1.4% since 2004.

Maine has dairy farms ranging in size from 10 cows to 1700 cows. The most common breed of dairy cow in Maine is the Holstein. Other popular breeds include Jersey and Guernsey.

Maine has over 60 processors. There are five processors who package fluid milk for drinking. They are H.P. Hood and Oakhurst Dairy, which are located in Portland, Garelick Farms/Dean Foods which is in Bangor, Houlton Farms Dairy in Houlton, and Smiling Hill in Westbrook. A dozen processors make ice cream and another thirty or so make specialty cheeses. A few dairy farmers take their milk and package it for drinking or process their own butter, cheese, and ice cream right on the farm for sale to the public.

The Maine dairy industry generates over \$570 million dollars annually for the state's economy and contributes over \$25 million dollars to the state and municipal government in taxes each year.

Maine dairy farms represent 700,000 acres of fields, pastures, crop lands, and small woodlots. All this open space is extremely important to the state's number one industry,--tourism. These lands are needed for hunting, fishing, snowmobiling, riding ATVs, horseback riding, and scenic vistas.

Maine dairy farms are small businesses that work closely with other businesses such as grain dealers, equipment dealers, milk truck haulers, veterinarians, cattle dealers, and other cattle and dairy specialists. When you add the processors and agri-businesses, Maine's dairy industry provides over 4000 jobs for Maine people.

Since the 2003 progress report, the U.S. dairy industry has been marked by two significant factors. The western United States has seen unimagined and unprecedented growth, not just in total milk production, but also in the average size of each dairy operation. This shift is the result of state and federal government policies that offer financial incentives in the form of tax breaks and subsidies to take unproductive land and convert it to animal agriculture, or convert land from one type of production to dairy production in an effort to diversify the agricultural economy of a region.

Secondly, the cyclical "boom-and-bust" dynamic of dairy pricing has continued on a national scale and has become more erratic and extreme. Coming off the historic low prices of 2002-2003, dairy prices to farmers rose significantly over 2004-2005, only to drastically drop to new historic sustained lows in 2006, 2008 and 2009.

Maine has continued to lose farms, but at a much slower rate than the rest of the Northeast. Some of these farms have gone out because of the age of the farmer or the fact there is no one to take over the farm. Some of these farms are still in business, just not as dairy operations. Most importantly, the economic impact of the remaining farms has not lost its influence on the state's economy. Many states have looked to Maine as an innovative leader in the dairy industry, first with the Northeast Dairy Compact and now with the Maine Dairy Stabilization "Tier" Program. The "Tier" program has been extremely successful in providing a safety net during periods of historically low national milk prices.

Maine's rural economy is invisible. For instance, Bath Ironworks represents 5,500 jobs and as such represents a major employer in the State. However, Maine's Dairy Industry represents 4,000 direct jobs and little is noted in the media about the current emergency situation. Farms are businesses that are very

important to rural and urban communities across the state. They represent the local tax base, employ local people, conserve land that is utilized for hunting, winter sports, tourism, and support local feed distributors, machinery sources, trucking business, and milk processors. Some say that the dairy industry is at a critical point with its infrastructure. When that point is breached, the support businesses needed to maintain the dairy industry will leave the state, which will negatively affect all of Maine agriculture.

Maine Dairy Stabilization Program History and Overview

The Maine Dairy Relief Program commonly known as the “Tier program” was established in 2004, with the passage of LD 1945. In 2004, there were 393 dairy farms in Maine. Maine dairy farms were paid \$13.9 million from 2004 to June of 2007 under this program. In July 2007, the target prices and tier levels were changed to reflect higher costs of production. In 2007, Maine had 342 dairy farms. Since that time, \$24 million has been paid to dairy farms in the stabilization program.

This program has effectively slowed the loss of dairy farms in Maine. Farm numbers have declined, however the number of pounds of milk produced by Maine Dairy Farms has remained relatively stable. There is no doubt that the price stabilization program has helped secure a future for many dairy farm families. It has provided a safety net for many farmers on the verge of shutting their doors and has provided a window of opportunity for interested, younger farm families to begin dairy farming.

For FY 10 & 11, a cap of \$13.3496 million was put in place by the Legislature for the dairy stabilization program. \$9 million was earmarked for the first five months of FY 10 with the balance of \$4.3496 million reserved for February 2010 through May 2011 if milk prices do not increase. To date, \$9 million has been paid to farmers for June, July, August, and a small percentage of September milk.

Farm Credit of Maine and other farm suppliers and dealers have extended credit limits beyond normal limits for dairy farms this year based on expected stabilization program payments. These businesses cannot continue this practice without jeopardizing their own survival.

The Maine dairy farmer seeks a fair and predictable price for their milk. In the absence of an effective and equitable federal milk pricing formula, Maine’s dairy industry (which is composed of the producer, the supportive infrastructure, the processor, and the consumer, benefit from the support and collaboration of the Maine State Legislature, the University of Maine, the University of Maine Cooperative Extension, the Maine Dairy Industry Association, the US Department of Agriculture, the Maine Farm Bureau, Farm Credit, Maine Organic Farmers and Gardeners Association, and the Maine Department of Agriculture), must work together to ensure that a safe and steady supply of milk continues to be available for all Maine citizens.

Findings:

The Task Force finds that the pressure on the stabilization fund cannot be relieved until the Federal Milk Orders are reformed.

The Task Force strongly recognizes that Maine's Dairy Stabilization Program has been effective and has been a model for other states. Maine's Dairy Stabilization Program has worked very well until just recently, when milk prices fell for an extended period of time. 2009 has been a unique year. This year, large payments were required in July and August. In the last five years it has been rare to have any significant payments made in these months.

The Task Force recognizes the need to increase the awareness of consumers about the Quality Seal and the importance of dairy farms to the State's economy and the benefits of buying local. The Maine Quality Seal was enacted in Maine statutes as the Maine Quality Trademark regulated by a governmental entity, Maine Department of Agriculture, Food and Rural Resources, and used to distinguish milk produced and processed in Maine from milk produced/processed at another location.

The Task Force recognizes that there are compelling economic and environmental reasons for the State of Maine to support the Maine dairy industry. Farms that are hard pressed for money need to make difficult decisions. Maine has spent millions of dollars to assist farms with improving manure management procedures and structures and implementing best practices with crops. Now is the time to support those prior investments by strengthening the future health of the industry. The Task Force urges the Maine Department of Agriculture to continue to support the Nutrient Management Program and do all it can to maintain the viability of the program.

The Task Force recognizes that the 2009 crop year was disastrous for Maine Farmers. Forage quality and quantity has been adversely impacted and will result in lower milk production and higher input costs, which will only exacerbate the financial stress felt by Maine's dairy industry.

The Task Force supports the possibility of deriving revenue for the General Fund from dairy products, other than fluid milk. Approximately 40% of Maine's fluid milk stays in the State and is subject to the Milk Handling Fee.

Recommendations:

1. The Task Force recommends that the Agriculture, Conservation and Forestry Committee make review of this report its first priority, with the goal of reporting out no later than January 20 any legislation requiring action of the 2nd Regular Session of the 124th Legislature. (Note: Recommended changes in the Milk Handling Fee and Maine Dairy Stabilization “Tier” Program will need to be enacted as emergency legislation before February 1, 2010 in order to have an effect in the 2010 fiscal year).
2. The Task Force recommends that the support program that is implemented be completed by February 2 and that it consist of four tiers without silos and utilize the costs of production of \$20.70, \$18.07, \$17.29, and \$16.51 for tiers one through four, respectively. The break point of Tier 1 would be 16,790 CWT of milk and the break point for Tier 4 would be 76,803 CWT of milk. The Task Force voted to recommend adding a fourth tier of support for Maine’s largest farms and voted to recommend reducing the production range in tier one to 16,790 CWT so that farmers move into tier 2 more quickly. The Task Force was not unanimous on these two points, but with the exception of one member, agreed to support them. This change to the program includes a range change and the addition of a fourth tier. This recommendation may require across the board reductions in payments to producers to accommodate current budget constraints. Payments from the “Tier” program must be a Department of Agriculture priority in order to get the Office of Information and Technology support necessary in order to make the payments as quickly as possible.
3. The Task Force recommends the use of the cost of production numbers and support levels currently in statute instead of higher ones from the 2007 Study as the basis for making recommendations. They recognized the need to review the cost of producing milk but given the bleak economic times decided not to recommend changes at this time that might increase the cost of the stabilization program. Maine’s dairy farmer representatives on the Task Force were unanimous in this decision but recognized a need to update these numbers in the future to reflect the actual current needs of the dairy farms.
4. The Task Force strongly recommends that the Federal Milk Market Order be reviewed and revised and urges everyone in the milk industry and leaders in the State, including the Governor, Commissioner of Agriculture, the Legislature’s Joint Standing Committee on Agricultural Conservation and Forestry, and the Legislative Council keep in touch with Maine’s Congressional offices until such changes occur. Some concerns are set forth below:
 1. Maine is not included in the Federal Order System. A Maine milk plant should not have all its milk pooled in the Federal Order, only that portion that is sold outside the state. Under the current Federal Milk Order, when a Maine milk plant sells more than 25 % of its milk outside of Maine, the rest of the milk is pooled in that Federal Order.
 2. Ownership of milk, once co-mingled with milk from other farms is a key public policy issue and that stop and hauling charges are market distorting and

stranded costs. Under the current Federal Milk order, the farmer pays all input costs to make milk, and pays to have milk picked up and shipped. The milk is co-mingled so farmers cannot dictate where milk goes, even though they pay for it.

- 3. The Federal Order system fails to recognize regional differences when pricing milk. This policy assumes equal costs across the country when in fact there are many factors regionally that effect milk prices.**
- 4. The Task Force believes that without changes in the Federal Milk Orders, the wild swings in milk prices will continue and continue to disrupt dairy farms economically.**
- 5. The Task Force recommends that the Maine Milk Commission develop a comprehensive data collection method that would make a strong effort to collect reliable and verifiable information for cost of production for each tier. The data collection process and analysis should address the needs of both the “Tier” program and the Maine Milk Commission’s rule-making process.**
- 6. The Task Force recommends that the Schedule of the Handling Fee Rates (Public Law chapter 269 2007) be revised in a manner that will result in an overall increase in rates and a significant increase in revenue generated. This revision would also provide for a minimum rate of 4 cents per gallon at all times and a maximum rate amount of 84 cents per gallon.**
- 7. The Task Force recommends pursuing a voluntary reverse coupon that would be put on all milk products which would be credited at the grocery store at the time of purchase and be paid to the Maine Milk Commission for distribution to Maine dairy farmers. This may entail legislative action to create an escrow pool.**
- 8. The Task Force recommends that the Maine Department of Agriculture continue to support the Nutrient Management Program and do all it can to maintain the viability of the program.**
- 9. The Task Force recommends that the Commissioner of Agriculture share this report with Maine’s Congressional Delegation.**
- 10. The Task Force recommends that the Commissioner of Agriculture explore any and all ways possible under existing law to provide some level of payment for November and/or December 2009 milk. (To be paid in January 2010).**

Appendix 1

In accordance with TTT -8 of the 2009 legislation enacted by the Maine Legislature, the following are the updates on the Recommendations from the Governor's Task Force on the Sustainability of the Dairy Industry in Maine Since November 2003 and January 2007

2003 goals and a progress update on each goal.

Goal One: To maintain or increase the number of Maine dairy farms and the infrastructure that supports them.

Goal Two: To improve the cost competitiveness of the Maine dairy industry.

Goal Three: To maintain or increase the diversity of Maine's dairy industry.

Goal Four: To develop state policies that support dairy farmers and recognize their contribution to the economy and landscape of Maine.

Goal Five: To create price support mechanisms through which the State of Maine can insulate dairy farmers from the volatility of the milk market.

Recommendation 1: Recognize the economic importance of Maine's dairy industry

1. The Maine dairy industry generates over \$570 million dollars a year to Maine's economy ("*Economic Impact on Maine of the State's Dairy Industry*")
2. The Maine dairy industry contributes over \$25 million per year to state and municipal governments in taxes.

2009 Update: The Task Force discussed at length the status of Maine's dairy farms and determined that all Maine farms are interdependent and that if one segment of farming suffers a set back, it has a ripple effect on all other farms, the home community, and farm businesses in the state.

3. Maine's rural economy is invisible. Bath Ironworks represents 5,500 jobs and as such represents a major employer in the State. However, Maine's Dairy Industry represents 4,000 direct jobs and little is noted in the media about the current emergency situation. Farms are businesses that are very important to the communities of the state. They represent the local tax base, employ local people, conserve land that is utilized for hunting, winter sports, and tourism, support local feed distributors, machinery sources, trucking business, and milk processors. Some say that the dairy industry is at a critical point with infrastructure. When that point is reached, the supports needed to maintain the industry will leave the state.

Recommendation 2: Assess the current status of Maine dairy farms

2009 Update: In 2007, Maine had 342 dairy farms. Since that time, \$40 million has been paid to dairy farms in the "Tier program". As of October 2009, there were 315 dairy producers, which constitutes a net loss of 27 farms since the inception of the program in 2004. This program has slowed the loss of farms in Maine. There is no doubt that above all, the price stabilization program secured a future for many dairy farm families. It provided a safety net for many farmers on the verge of shutting their doors and it provided a window of opportunity for interested, younger farm families to begin dairy farming.

Recommendation 3: Encourage dairy producers to consider estate planning and generational transfer of farm assets

2009 Update: The work with farm families relative to estate planning and generational transfer has continued in the past two years. These programs have worked with groups as well as individual families. The complexities of estate planning and generational transfer are important to preserving wealth. Cooperative Extension has continued with the two stage educational programs mentioned in the first report of the dairy industry in 2007 on a New England wide basis. The first level called Transferring the Farm I is an introductory program encompassing a whole day of lectures by a farm management specialist, an estate planning attorney, and a farmer panel of participants whom have gone through or are going through a transfer. Additionally, presentations have been made about the FarmLink program at these sessions.

A second level estate transfer program utilizing a case study basis has been delivered by farm management specialists who are also attorneys that have come in from out of state to work with clients who would like to have a more in-depth coverage of asset transfer techniques.

Most recently, Cooperative Extension has used the program delivery strategy of a large group presentation followed by intensive work with individual families. Participating families are worked with intensively for several weekly meetings to develop a transfer plan. This has allowed a lot of discussion among participants and more specific treatment of their individual situation.

Resource material is available at a New England run website (webmaster at UMaine) at <http://www.farmtransfernewengland.net>.

While not strictly estate planning, Cooperative Extension has worked with individual families who are transitioning their farms to a new size, bringing in a new generation or both. These efforts are a combination of business management, business development and generational transfer.

Recommendation 4: Encourage participation in the Farm Link Program as a means of matching prospective farm sellers with prospective buyers

2009 Update: The Farm Link Advisory committee has had 50 successful links, including several matches that have supported the Maine dairy industry.

Recommendation 5: Prepare future generations of Maine dairy farmers by encouraging young people to seek higher education and other training opportunities.

2009 Update: Related issue: LD 352 was carried over to the Second Session of the 124th Legislature. It proposes to establish forgivable loans for veterinary students who practice in an area with insufficient services in a veterinary specialty related to livestock.

The University System continues to support undergraduate and graduate majors in the agricultural sciences. As more and more students come from non-farm backgrounds, the college has adapted programs and courses to provide these students with the applied knowledge and experiences necessary to enter today's agricultural workforce. The student-run dairy program within the Department of Animal and

Veterinary Sciences is an excellent example of this hands-on teaching approach. Presently there are 194 undergraduate majors in the areas of animal science (175; 20 male/155 female), sustainable agriculture (15; 7 male/8 female), and resource economics and agribusiness management (63; 37 male/26 female). In addition, the university has several hundred students in agriculturally aligned majors such as biology (370; 168 male/202 female), food science and human nutrition (162; 26 male/136 female), ecology and environmental science (82; 54 male/28 female), soils and plant sciences and zoology (59; 16 male/43 female). Pre-veterinary majors at the University of Maine continue to gain acceptance to veterinary schools across the U.S. (mainly Penn, Cornell, Tennessee, Iowa, Tufts, Illinois, Ohio, Minnesota, VPI, North Carolina, Oklahoma, Michigan, California, Colorado), and foreign schools (Canada (P.E.I.), Glasgow in Scotland, Ross in St. Kitts and Murdoch in Australia).

4-H livestock programs and projects have helped youth interested in agriculture develop their interests and even build equity in livestock and equipment in preparation for a career in agriculture. UMCE continues to provide and support 4-H livestock programs within the state, through a variety of youth activities designed to improve the knowledge and leadership skills of youth interested in livestock. In addition, the veterinary technician program, currently at the University of Maine, Augusta, Bangor campus continues to have a large veterinary technician class.

The University and UMCE support dairy research by operating a number of research farms and laboratories and by encouraging the work of individual researchers. The J.F. Witter Teaching and Research Center is the home to a 40-cow herd used exclusively for dairy research and the teaching of undergraduate students. The Rogers Farm is the site for a many forage and grain experiments. Individual research projects continue to include as they did at the writing of the last report:

- Improvement of forage quality and utilization with the use of biological additives
- Regulation of nutrient use in dairy cattle
- Identifying improved forage and crop varieties for Maine
- Ovarian function in dairy cattle

The staff at the University of Maine has put together displays and provided resource information to youth to help them plan their educational goals and the educational opportunities that might fulfill them most completely. These opportunities may be formal or informal and include formal study at Universities across the country that offer programs matched with the needs of individuals, short courses and internships.

Recommendation 6: Create the Dairy Management Improvement Fund as a long term loan for dairy producers seeking to improve their dairy operation.

To date this recommendation has not been addressed but the Dairy Task Force continues to support this recommendation.

Recommendation 7: Provide cost-sharing for pasture and forage improvement.

To date this recommendation has not been addressed but the Dairy Task Force continues to support this recommendation.

Recommendation 8: Utilize the University of Maine AG Center as a clearinghouse for dairy farm management

2009 Update: The 2007 Task Force report detailed that the Maine Agricultural and Forest Experiment Station (MAFES) and UMCE had joined together to form the Maine Agricultural Center (MAC). Although the MAC may be unfamiliar to many people in the dairy industry, it was formed to serve as a single source for all University information, research and programs. MAC is a connecting point between the dairy industry of the state and researchers and UMCE personnel within the state, regionally and nationwide.

UMCE provides much of its information electronically, including educational websites such as the Northeast Grazing Guide <http://www.umaine.edu/grazingguide/>, the “Cows and Crops” Email newsletter, PowerPoint and video presentations, interactive CD's and online courses such as the UMCE Pasture Management Home Study Course (<http://www.umaine.edu/umext/pasture/>). These have all continued to be available to producers across the state as well as many professionals across the country. NRCS utilizes this home study course for professional development of their staff.

The Maine Ag Center (MAC) has worked to advertise the capabilities of UMaine staff with their expertise directory that is widely distributed. The Maine Agricultural Center has an online, searchable directory of agricultural expertise available at the University of Maine. The Center brings together the agriculture-related programs of the College of Natural Sciences, Forestry, and Agriculture; the Maine Agricultural and Forest Experiment Station; and University of Maine Cooperative Extension. The directory provides contact information for UMaine faculty and staff that can help with questions. The directory of agricultural expertise is available at: www.mac.umaine.edu.

In addition to online availability of the directory, the printed version and material from UMaine programs is made available at several events throughout the year. MAC participates in several annual events including the Agricultural Trades Show in the Augusta Civic Center and Agriculture Day in the Hall of Flags in the Maine State House. The MAC display includes material and bulletins relevant to the dairy industry--for example, the Maine Agricultural and Forest Experiment Station bulletin, “A Comparative Analysis of Organic Dairy Farms in Maine and Vermont: Farm Financial Information from 2004-2006”.

One of the main functions of the Maine Ag Center is to administer the Board of Agriculture. The Board of Agriculture was established by the Maine Legislature in 1998 to advise the University of Maine on agricultural research and farm-based extension programs priorities. The Board meets two-three times annually and its membership includes a representative from the Maine Dairy Industry Association.

On behalf of the Board of Agriculture, MAC periodically conducts surveys of agricultural research and extension education needs. The most recent survey was conducted in March 2009. All known Maine agricultural organizations, including members of the Maine dairy industry, were asked to identify priority agricultural research and extension education needs. The Board will use the information acquired from the returned surveys to advise the University of Maine on future work to be done in support of Maine agriculture.

The Maine Ag Center has limited funding to support initial research efforts as university staff study industry issues. The Maine Agricultural Center is a joint undertaking of the Maine agricultural and Forest Experiment Station and University of Maine Cooperative Extension and is committed to serving the

research and extension education needs of the agricultural community of Maine. Each year the MAC partnership funds research/extension projects that address priority issues facing Maine agriculture. The funding is intended to support one-time projects that can be accomplished in approximately one year. Priority is given to projects that have both a research and extension education component. The support of an agricultural industry is also required. Over the last nine years, MAC has supported a number of projects that address important issues facing the dairy industry.

MAC project related to dairy industry funded in 2008:

Alternative Susceptibility Trends for Microbial Isolates from Organic Dairy Herds with Mastitis in the Northeast

Project descriptions and summary reports for this and other projects related to the dairy industry are available on the MAC web site at www.mac.umaine.edu.

The Maine Agricultural Center serves as a portal for inquiries related to University of Maine research and education programs related to agriculture. All inquiries MAC receives are directed to the appropriate University research and extension resources.

Inquiries from dairy producers are numerous and varied. The exact number of inquires would be difficult to quantify. Some inquiries are general in nature, i.e. What research is being done at UMaine related to the dairy industry? Others are more specific. Examples of topics include:

- Dairy farm management
- Dairy policies and procedures
- Using dairy land for cover crops
- Forage production
- Artificial insemination, breeding
- Alternative cropping systems for organic dairy producers
- Information about short courses being offered to aid local dairy farmers
- Contacts in the dairy industry

Recommendation 9: Publicize and continue to support programs designed to help Maine dairy farmers develop sound business plans

2009 Update: Farms for the Future update, other business assistance opportunities.

Cooperative Extension continues to recommend and encourage that Maine dairy producers enroll in the Cornell Dairy Farm Business Summary. This summary is an extensive analysis of a dairy business and is reasonably priced. Data is input from a farm's recordkeeping program through an online template. For the last update report, Cooperative Extension completely redid an electronic version of the New England Farm Account book to be more in line with the requirements for data entry into the business summary and has made an electronic chart of accounts available for those producers using either Quicken or QuickBooks for their on-farm accounting.

Over 100 dairy farms are now enrolled in the Maine Cattle Health Assurance Program (MeCHAP), a collaborative program of the University of Maine, Maine Dept of Agriculture, agribusiness, dairy producers and veterinarians. Through federal and foundation funding, the program offers on farm risk

assessments and testing for certain diseases. Producers learn how to minimize risks as a means to lower production costs and improve quality. This program in the past two years has centered on milk quality tests. Cooperative Extension has offered detailed culturing of organisms causing high preliminary incubation counts as a way of troubleshooting milking systems and milk handling. They have also continued to provide bulk tank screening for contagious and environmental organisms. Most recently, MeCHAP has offered bulk tank testing for the DNA from the organism causing Johnes disease and is developing testing protocols for other pathogens. The toolbox of diagnostics available at UMaine is impressive.

Several UMCE and Department staff are actively involved in management teams for participants in the Farms for the Future program. This program offers intensive business plan development to participating farms.

The Task Force recommends that the Department of Agriculture and Cooperative Extension hold educational seminars on Risk Management tools, including forward contracting on milk sales, feed purchases, and crop insurance.

Recommendation 10: Support the value-added processing efforts of Maine dairy farmers

2009 Update: PL 2009, c. 414, Part B proposes issuing \$1 million in bonds to provide grants for food processing for fishing, agricultural, dairy and lumbering industries within the State. The 1 million is part of a \$25 million bond issue that will go to the voters in June 2010 for ratification. If ratified, the Finance Authority of Maine (FAME) is directed to adopt rules for administering funds and awarding grants for food processing for fishing and agricultural industries.

Cooperative Extension continues to work with dairy value-added processors throughout the state, mainly cheese producers. UMaine has a pilot plant in the Dept of Food Science as well as a commercial kitchen. The pilot plant includes a 60 gallon cheese vat and a stainless steel cheese press as well as draining tables, etc. UMaine has been the site of several cheese making schools over the past two years. While much of the support is in the biology of cheese production, there is quite a bit of support in packaging, labeling and marketing. This past spring there was a very well attended daylong seminar on cheese production sanitation. The reviews were excellent and cheese producers across the state would like to make this seminar a regular offering.

In 2008, Cooperative Extension developed an educational program whereby cheese producers learned how to do milk quality tests on milk they purchased/produced for cheese production. The goal of this project was to evaluate milk quality before labor and significant expense was expended. Based on milk quality, should the milk be used for a raw milk product, used for a pasteurized milk product or discarded. Seven laboratories were setup so that producers could test their own milk. Producers expanded the use by using the laboratories to troubleshoot production issues.

Recommendation 11: Promote farm asset management as a diversification strategy

2009 Update: The Task Force recognizes the importance of diversification strategies for farm survival. Information about issues, programs and supports for this should be available to farmers on the Department of Agriculture web site.

Recommendation 12: Create Maine Farm Zones as a vehicle for delivering state tax relief to qualifying farms.

2009 Update: PL 2009, c. 356, An Act to Implement the Recommendations of the Commission to Study the Protection of Farms and Farmland, authorizes the Commissioner of Agriculture, Food, and Rural Resources “to develop and initiate a pilot program to examine the effectiveness of agricultural districts in maintaining a land base for farming and enhancing the profitability of farms.” It allows 3 or more farms to request designation as an agricultural district if the farms are located in geographic proximity, produce similar types of agricultural products or share common marketing interests.

Recommendation 13: Amend the State Constitution to direct that farmland, as defined under the Farm and Open Space Tax law, be assessed and taxed at current use value.

2009 Update: The constitution has not been amended.

Related issue: The Final Report of the Commission to Study the Protection of Farms and Farmland (November 2008) recommended reimbursing municipalities for tax losses attributable to farmland taxed under the Farm and Open Space Tax Law (FOS). Other revisions to the FOS were recommended in the report but not included in the legislation submitted by the Joint Standing Committee on Agriculture, Conservation, and Forestry after reviewing the report.

Recommendation 14: Exempt all tangible personal property, including vehicles that qualify for farm registration, and farm buildings from municipal property and excise taxes.

2009 Update: Related Issue: Resolve 2009, c. 25, directs the Department of Agriculture, Food, and Rural Resources and the Bureau of Revenue Services to review rules and bulletins related to sales tax exemptions for commercial agricultural crops and animal production, and sales tax refunds for determining if the appropriate products are included and recommending changes if needed. The bureau is directed to submit its response and draft rules to make agreed upon revisions to both the Joint Standing Committee on Agriculture, Conservation, and Forestry and the Joint Standing Committee on Taxation. Each committee is authorized to report out legislation to the Second Regular Session of the 124th Legislature.

Recommendation 15: Earmark at least 10% of the Land for Maine’s Future program for the preservation of Farmland, and consider term easements or leased development rights as an additional tool to maintain the state’s agricultural land base.

2009 Update: P.L. 2009, c 414, Part E proposes a bond issue of \$9.5 million for preservation of land and working waterfront through the Land for Maine’s Future (LMF) program. That total includes a standard LMF allocation of \$6.5 million plus two special, additional allocations: \$2 million for working waterfront and \$1 million for farmland. In addition, 10% the \$6.5 million (or \$0.65 million) is set aside for farmland. Thus, a total of \$1.65 million of the \$9.5 million in LMF bond funds (or 17.4%) will flow to farmland preservation.

Recommendation 16: Increase the cap level of Milk Income Loss Contract payments to create a supplemental program referred to as Maine MILC

2009 Update: The Task Force recognizes that piggybacking on the federal Milk Income Loss Control program (MILC) by creating the Maine MILC program was beneficial at its inception, but because of changes in Federal Law, it has become unwieldy. The federal MILC program has increased their cap, so roughly 40% of the milk previously covered by ME-MILC is now covered by the revised federal program.

Update: PL 2003, c. 648, An Act to Encourage the Future of Maine's Dairy Industry, was enacted during the Second Special Session of the 121st Legislature with an effective date of April 16, 2004. The Maine Milk Income Loss Contract was established with farmers receiving payments on milk produced in excess of the federal cap and below or equally to an annual production of 5,000,000 pounds.

PL 2009, c. 213, part TTT, Sec. TTT-6 suspends payments under the Maine Milk Income Loss Contract in fiscal years 2009-10 and 2010-2012.

Recommendation 17: Develop a tiered price support mechanism with declining price support levels to reflect declining marginal cost of production with greater input.

Update: PL 2003, c. 648, An Act to Encourage the Future of Maine's Dairy Industry, was enacted during the Second Special Session of the 121st Legislature with an effective date of April 16, 2004. Maine's tiered dairy stabilization program originated in this legislation. Sec. 3 of c. 648 established target prices in unallocated language. These prices were to be in effect for "the fiscal year beginning July 1, 2004 and until the Maine Milk Commission updates the Maine producer cost-of production data and calculates new target prices."

PL 2007, c. 240, part OOO authorized the Maine Milk Commission to establish and revise target prices through major substantive rulemaking. Sec. 000-2 establishes interim target prices in unallocated law to be used until the Maine Milk commission updates the Maine producer cost-of-productions and calculates new target prices. The target prices established in Sec. 000-2 became effective July 1, 2007.

2009 Update: The Summary report of the 2007 Maine Dairy Cost of Production Study was presented to the Maine Milk Commission January 23, 2009 and to the Joint Standing committee on Agriculture, conservation, and Forestry by Dr. George Criner on April 14, 2009. The report contains short-run break even costs for 4 herd sizes.

Appendix 2

A brief review of the discussions and deliberations of the Task Force regarding recommendations as they relate to the policies and functions of the Dairy Stabilization “Tier” Program.

Background

The Task Force spent considerable time on two issues regarding the tier support program: the number of tiers that should exist in the program and the level of payments to farms in each tier.

Discussion

The Maine Dairy Stabilization “Tier” program was created with the goal to provide support to the entire Maine dairy industry by ensuring that otherwise viable farms could survive periods of low milk prices. This is achieved by providing payments to dairy farms during those periods that will create a minimum safety net that aligns with the relative short-run-break-even (SRBE) cost associated with each category of farms. The categories have historically been created by creating clusters of like-farms based on 9 unique characteristics ranging from amount of milk produced, to the method of feeding, housing, and milking the herd. This analysis resulted in identifying 3 distinct categories that were used to define the 3 tiers within the Tier program.

Since the dairy industry is constantly changing, so the data about the industry has also been changing. One of the drawbacks of a cluster-model analysis is that certain farms whose data does not align with the majority of survey respondents would fall outside of the three-cluster model. The Task Force spent a great deal of time discussing ways that the Tier program could more closely reflect some of the newer demographics of the Maine dairy industry. When looking at the impact that the very small farms and the very large farms had on the data when they were included in the total analysis, it appeared that the larger farms impacted the data more than the very small farms, primarily because of the large volumes of milk they were producing. This led to a discussion of creating a fourth tier to reflect the SRBE of those farms who had previously fallen beyond the scope of the cluster model.

This change elicited concern that despite the significant volume of milk production represented by those farms in a newly-created 4th tier, their individual farm demographics covered a very broad spectrum, ranging from 400 cows to upwards of 1700 cows and reflecting a wide variety of management practices with disparate rates of efficiency. Ultimately, the Task Force decided that it was important to acknowledge that there is an ability to gain cost savings through higher volume production, and that while a number for a 4th tier could be recommended for immediate implementation, a new analysis of the whole Maine dairy industry is urgently needed to better reflect the actual SRBE figures and to make a more scientific determination of where the dividing lines should be placed between the tier levels.

The other policy issue that received significant discussion involved the process by which farms move through the tier levels over the course of the fiscal year. As a farm reached the production threshold that defines a tier level, it then moves into the next tier level until its production reaches the next threshold. The original objective of this process was to allow all farms an equal chance to access the tier level

amounts for those stages of production. Depending on the amount of milk produced by a farm in a given year, that farm may remain in Tier One for an entire year, or may move through it and into the subsequent tiers in a matter of weeks or months.

Over the life of the Tier Program, payments have rarely been made in the early months of the fiscal year. Only twice in the program's history have larger farmers ever received payments at the 1st tier rate. These occurred during aberrant periods of dramatically low milk prices in 2007 and 2009.

Because of the extreme budget pressure that currently exists, the Task Force discussed the pros and cons of limiting farmers to the tier level that most directly reflected their total year's production. This process has often been referred to as "siloing". This would effectively prevent larger farms from participating in the beginning tiers of the program and limit their payment rate to the lowest possible rate for their level of annual production.

One problem with silo payment system is that farms on the lower end of a larger tier would receive a lower support payment but would not achieve the commensurate economies of scale. This would be especially telling when farms expanded from the large end of a smaller tier to the small end of a larger tier. The Task Force discussed several options for eliminating this "cliff" problem, but was unable to overcome the limitations and difficulties of administering the changes.

While expressing a need to be mindful and responsive to current budget challenges, the Task Force also felt that any policy changes in the program should be geared to the long-term functionality of the program, rather than as a response to immediate financial shortfalls. If the dairy industry is truly to be sustained through times of low milk prices, the program must be able to balance the need to protect the number of farms with the need to protect the amount of milk produced by those farms. Ultimately the majority of the Task Force rejected "siloing" as a policy change for the Tier Program.

Appendix 3:

A further discussion of tier numbers and silo payments deliberations of the Task Force.

The Task Force spent considerable time on two contentious issues regarding the tier support program, the appropriate number of tiers and the level of payments to farms in each tier. Since these issues can be somewhat obscure, the Task Force deliberations are reviewed here to provide the reader a context for the Task Force recommendations.

Background. The tier support program was designed to provide support to all dairy farms such that otherwise viable farms could survive periods of low prices. This is achieved by providing payments to dairy farms in periods of low milk prices so that short-run break-even costs (SRBE) for “typical” farms can be recovered. The program recognizes that Maine dairy farms are of different sizes and types and economies of scale are the major driver of milk production costs. Consequently, smaller farms generally have higher costs than larger farms and would need higher per unit payments to endure periods of low market prices. This is achieved by segregating farms into tiers according to the amount of their production, calculating the SRBE for typical farms in each tier, and calculating a tier payment as the difference between the tier SRBE and the price farms receive from the market place.

Three tiers representing three different farm size ranges were initially established where tier 1 represented the smaller farms, tier 2 midsize farms and tier 3 larger farms. It was also determined through a deliberative process that a “pass-through” would be established whereby each farm would receive the higher tier one payments until the full volume of tier one production was achieved for that farm. A farm with greater production would receive the tier 2 payment rate until that production volume was met. Any further production would receive a tier 3 payment rate. These higher payments represented an opportunity for larger farms to cover some of their capital costs not include in the SRBE costs.

The issues. Two issues that had been raised earlier in legislative and MMC discussions confronted the Task Force. First, should the number of tiers be increased from three to four? The most recent cost study revealed that an increasing number of the largest farms were not being included in the cost estimates, and the volume of milk represented by those omissions now totaled over 25% of total production. Inclusion of those farms as a fourth tier would more accurately reflect the costs differences of existing milk production in the State.

The arguments for maintaining three tiers were basically two:

1. The program has worked well in the past with three tiers. There is little advantage to changing.
2. Especially the largest of the farms in Maine may be outliers in terms of costs and are not representative of an identified tier.

The arguments for including a fourth tier:

1. A substantial amount of milk is produced by farms with lower costs than those representing tier three farms, resulting in payments in excess of SRBE costs, especially when considering the pass-through provisions, to a substantial volume of milk.
2. A fourth tier more adequately represents the Maine milk industry.

As noted in the report, by majority vote the Task Force recommended a fourth tier.

The second issue was whether the “pass-through” payments should be continued; should be replaced by pay “silos” whereby each farm would receive a consistent payment rate that represented the SRBE for the tier that farm was in; or should be replaced by some modification of silo payments. One problem with silo payments is that farms on the lower end of a larger tier would receive a lower support payment but would not achieve the commensurate economies of scale. This would be especially telling when farms expanded from the large end of a smaller tier to the small end of a larger tier. The Task Force discussed two options for eliminating this “cliff” problem. One solution is to allow a farm to remain in the smaller tier until its production gets large enough that moving to a larger tier would be beneficial. This was referred to as a producer’s option, and generally would result in producers remaining in the lower tier until they had moved to the midpoint of the next tier. An alternative solution is to set the payment based on the marginal cost with respect to output that is determined in the cost study. Either option results in payment rates that more closely represent SRBE costs for different size farms without creating a “cliff” problem.

Arguments for maintaining the pass-through.

1. The pass through has worked well in the past; there is no need to change it.
2. A large majority of dairy farmers favor it.
3. Silo payments create the cliff problem noted above.
4. Modified silo payments, while addressing the cliff problem, will result in farmers responding to the program rather than the market place.

Arguments for silo or modified silo payments.

1. Pass-through payments violate the principle that the program helps all farms equally through periods of low prices; some farms receive only SRBE prices, others receive more.
2. Especially when program funds are limited, pass through payments result in a shift of payments from tier 1 farms to larger farms. Some estimates reviewed by the Task Force suggest that under certain programmatic and market conditions, as much as 40% of FY11 payments to tier 1 farms could be transferred to larger farms through the pass-through payments.

By a majority vote, the Task Force recommended continuing the pass-through payments.