

MAINE STATE LEGISLATURE

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Governor's Task Force on the Sustainability of the Dairy Industry in Maine
Progress Report **December 2004**

The Commissioner assembled an ad hoc committee of industry representatives to make specific task assignments, establish benchmarks and write this progress report. The members of the ad hoc committee include:

- Commissioner Robert W. Spear
- Gary Anderson, University of Maine, Cooperative Extension
- David Lavway, US Department of Agriculture, Farm Service Agency
- Russ Libby, Maine Organic Farmers and Gardeners Association
- Ray Nowak, Farm Credit
- Shelley Doak, Director, Division of Animal Health & Industry

Summary

The Governor's Task Force issued its first report in November 2003. This progress report illustrates that while the dairy industry continues to face challenges, the industry as a whole has stabilized over the last year. Milk prices gradually grew, cattle prices were higher than expected, and according to Maine lending institutions, dairy farmers are managing their debt. There is no doubt that the Dairy Stabilization Act helped to secure a future for many dairy farmers. "All we need is a predictable price; a price we can count on."

Dairy farmers are diversifying, developing management and estate plans, participating in the Farms for the Future Program, and implementing their own strategic plans. They are also taking advantage of the vast number of programs and services offered through both the Department and the University.

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

The Maine Dairy Industry Association funded the "Economic Impact on Maine of the State's Dairy Industry" published in 2004. (Attached).

The direct economic impact of Maine's dairy industry amounts to over \$260 million in business sales, over 1,300 jobs and over \$40 million in income to farmers, workers and business owners.

The total economic impact of the dairy industry on the state of Maine is made up of three components: The *direct* effects, the *indirect* effects and the *induced* effects (these are the household consumption expenditures that can be attributed to the direct *and* indirect effects of the dairy industry).

The total of each of these impacts amounts to \$569 million in business sales, approximately 4,000 jobs generating nearly \$150 million of earnings for Maine citizens.

Together, the businesses and individuals included in this total impact pay nearly \$25 million in state and local taxes.

Recommendation 2: Assess the current status of Maine dairy farms

The Department finds that 2004 has shown a decline in the rate of loss of milk production. Maine is still losing dairy farms but 2004 appears as though it was a much better year for dairy related businesses than the past two years.

The Maine Milk Commission will commence its cost of production survey in January 2005. This survey will provide the Department valuable insight and data directly from individual dairy farmers. In addition, State Dairy Inspectors will be used to obtain more specific data from farmers, as well as venues such as the Agricultural Trades Show and Dairy Seminar.

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

The University of Maine Cooperative Extension (UMCE) held an introductory session in farm estate planning in Augusta. The program featured structured presentations on the mechanics of estate planning, a discussion of family communication strategies with a farm counselor and a panel of young farmers that have recently transferred farms from one generation to another. This introductory session was followed up with a second level conference in Westbrook where a lawyer specializing in farm transfer presented specific case studies on farm transfer.

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

The *Farm Link Program* is currently working with 108 prospective farmers and 60 farm owners. Ten individual "links" have occurred through leases or outright sales covering 1,000 acres; two are dairy farms. There are considerable financial challenges for farmers seeking to make their farms viable for the next generation. Further, funding for purchasing farms is limited. Still, there continues a steady interest in dairy farming. In 2004 there were over ten start up operations. The program will be featured at the upcoming Agricultural Trades Show.

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

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 (118), sustainable agriculture (13),

and resource economics and agribusiness management (63). In addition, the university has several hundred students in agriculturally aligned majors such as biology, food science, ecology, environmental science, soils and plant sciences and zoology.

Historically 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 Augusta, Bangor campus, will be reunited at the University of Maine. There is hope that this program will be a four-year degree program.

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 University will present a bond proposal to expand this facility. The Rogers Farm is the site for a many forage and grain experiments. Individual research projects include:

- Impacts of structural change in the dairy industry.
- 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 Maine Agriculture in the Classroom provides educator training and awareness workshops. To date, 76 statewide educators and over 2,000 students participated in this agricultural training program. This impressive, hands on program is a critical educational program for teachers and their students by bringing agricultural from the farm into the classroom.

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

The Department's *Agricultural Marketing Loan Fund* was changed in the last legislative session to acknowledge and provide broad support for the dairy industry. The commissioner may direct the Finance Authority of Maine to take actions to provide support including entering into agreements to sell, assign or otherwise pledge amounts in the aggregate principal amount of loans and undivided interests in a pool of loans, and assign or pledge any cash balances in the fund, mortgages or other security to provide assurance that amounts provided as monetary support by the commissioner to milk producers are returned to their original source.

In addition, the Department, the legislature passed, a bill last session to increase the State participation in the project loans. The State participation is 90% of the project cost for loans under \$100,000 and 75% for loans over \$100,000.

Recommendation 7: Provide cost sharing for pasture and forage improvement emailed

Many livestock farmers in Maine are learning about potential advantages of growing grass as carefully managed pasture for their animals. Rotating land in pasture reduces soil erosion and helps keep farms and farmland viable and helps maintain the rural character of Maine communities.

Maine Grass Farmers Network (MGFN), created in 2004 by the UMCE, gathers and provides information and support to interested farmers. This organization will host its first conference at Pineland Farms in late October. The agenda ranges from management to feeding to marketing. It is well known that grass farming can increase profitability, helping to keep farms and farmland viable while maintaining the rural character of Maine communities.

The Department will continue to have discussions with the Natural Resource Conservation Service who once provided cost share program dollars. In addition, other funding options will be explored.

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

In recent years, the Maine Agricultural and Forest Experiment Station (MAFES) and UMCE have 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/>).

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

A statewide conference was held to introduce dairy producers and agribusiness professionals to the *Cornell Dairy Farm Business Summary*. A daylong conference centered on how data is entered into the business summary and what farm efficiency factors/analyses are generated for use by producers and their management staffs to make

management decisions. In support of this effort, the New England Farm Account book was completely redone to be more in line with the requirements for data entry into the business summary and electronic chart of accounts is 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*. Through federal and foundation funding, the program offers on farm risk assessments and testing for certain diseases. The producers learn how to minimize risks as a means to lower production costs and improve quality.

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.

The Department also provides *Next Level* estate planning workshops for business and financial planning.

Farm Credit and the US Department of Agriculture, Farm Service Agency conduct business and financial planning when meeting with individual farmer's seeking financial assistance. They estimate they provide these services to nearly half of all Maine dairy farmers.

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

The Department is in the process of examining its rules governing milk and milk products processing to ensure they are responsive to those interested in value-added dairy processing. The Department plans to hold a public hearing to obtain comments on any proposed changes in the next few months.

Of note, there are currently 45 licensed dairy processors making a variety of dairy products including fluid milk, ice cream, cheese and cultured products. Interest in cheese making and bottling fluid milk continue to be explored by a number of producers and other interested individuals.

Farm Credit has worked with a number of smaller processors developing business and financial plans.

Department and UMCE staff provides ongoing technical assistance to the Maine Cheese Guild. The Cheese Guild members are actively involved in marketing their products, through events such as the Blaine House event and the upcoming Cheese Festival at the Portland Public Market. In addition, the members provide educational forums for interested cheese makers with the assistance of the Department and UMCE staff. Members plan to meet at the University of Maine to see the new pilot plant and directly interface with faculty in Food Science, Nutrition and Animal and Veterinary Science. In addition, the University has hired a food microbiologist who is providing technical

assistance that includes testing and culturing to individuals interested in processing dairy products.

Recommendation 11: Promote farm asset management as a diversification strategy

The Department was awarded a grant from the US Department of Agriculture to implement the *Dairy Farms for the Future: Diversifying Farms to Expand Direct Markets for Milk Products in Three Regions in Maine*. The idea was to enroll more dairy farms in the *Farms for the Future Business Planning Grant* and utilize the federal grant money for implementation. Last spring, a special mailing was sent to all dairy farms inviting them to apply to the *Farms for the Future Program*. There were eleven farms selected for the business-planning Phase I, with a deadline for completing the business plans of September 30, 2004. The projects that offer the best opportunity for on-farm diversification and/or value-added processing will receive federal implementation funding.

Organic dairy farming is also on the rise. In 2004, the number of organic dairy farmers grew to 65 and for the first time, a large processing plant is set to begin processing a line of organic milk for sales and distribution in and outside of Maine. There are now 3 viable organic processors with Maine and Northern New England. The demand for organic dairy products is on the rise.

In 2004, the Department created a pilot program to assess the value of raising bull dairy calves that might otherwise go to slaughter. The objective was to determine if investing in the bull calf was more fiscally beneficial than sending the calf to slaughter realizing no gain. The other goal was to determine the cost effectiveness of raising the calves naturally for Maine's premier natural beef processor. This processor is seeking to expand its native beef population. The pilot consisted of granting funds to a dairy farmer who purchased locally grown forages and grains and potato byproducts. Initial findings are impressive. The dairy Holstein steers are meeting market standards in terms of quality and yield grade and doing so within the expected growth timeframe.

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

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

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

Recommendations 12, 13 and 14 are under consideration through the Governor's Blaine House Conference on Natural Resources.

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

The Agriculture community is still hopeful that a bond issue will be passed by the Legislature to ensure that farmland protection efforts through the Land For Maine's Future Program will continue. The Department's Collaborative Action Plan for Farmland Protection is a working document that lays out many strategies and the roles of stakeholders who are committed to the long-term protection of one of our state's most valuable natural resources.

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

Implemented with passage of Chapter 648 Public Law in April 2004.

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

Implemented with passage of Chapter 648 Public Law in April 2004.