

MAINE STATE LEGISLATURE

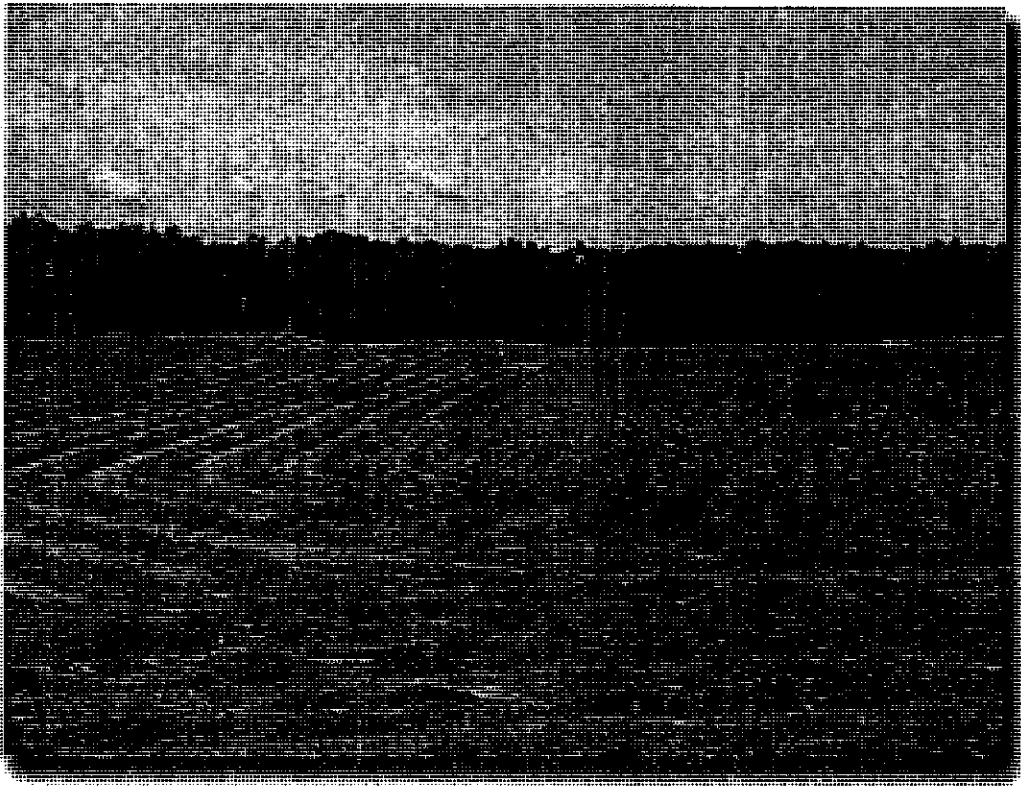
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G O V E R N O R ' S T A S K F O R C E
on the Sustainability of the Dairy Industry in Maine

Final Report • January 2007



MAKING HAY

Bowdoinham, Maine

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

F I N A L R E P O R T • J A N U A R Y 2 0 0 7

On August 30, 2006, Commissioner Bradstreet assembled the Dairy Ad Hoc Committee in accordance with 7 M.R.S.A. §3153-C. The Ad Hoc Committee met to review the 17 recommendations outlined in the Final Report and Recommendations presented to the Governor in November 2003. The Ad Hoc Committee is pleased to present its final report and analysis for consideration in making further recommendations to support the dairy industry.

Dairy Ad Hoc Committee Members

Gary Anderson, University of Maine, Cooperative Extension
Julie Marie Bickford, Executive Director, Maine Dairy Industry Association
Lisa Bragg, University of Maine
Thomas Brigham, Oakhurst Dairy
Ralph Caldwell, Dairy Farmer
Dale Cole, Dairy Farmer and President, Maine Dairy Industry Association
Alan Daigle, Key Bank
Timothy Dalton, PhD, University of Maine
Travis Fogler, Dairy Farmer
Gary Hammond, Hammond Equipment
Russell Libby, Executive Director, Maine Organic Farmers and Gardeners Association
Donald Marean, State Representative
Fred Morton, Farm Credit
John Nutting, State Senator
John Piotti, State Representative and Maine Farmland Trust
Kevin Raye, State Senator
David Wadsworth, Agway/FCI
Peter Waterman, Dairy Farmer

Department Representatives

Shelley Doak, Director, Division of Animal Health & Industry
Stan Millay, Executive Director, Maine Milk Commission
Ned Porter, Deputy Commissioner

Executive Summary

In April 2003, Governor John Baldacci signed an Executive Order creating the Task Force on the Sustainability of the Dairy Industry in Maine. The Executive Order called upon the Task Force to undertake a collaborative process to develop policy recommendations intended to support and enhance the dairy industry. The Task Force was comprised of individuals representing a broad array of agricultural and economic interests. The Task Force issued its Final Report and Recommendations on November 18, 2003. It set the tone for action, research, program development and enhancement, and final analysis. In December 2003, the Commissioner of Agriculture presented a progress report on the 17 recommendations to the Governor in December 2003.

Dairy farming has been woven into the fabric of life in Maine for over three centuries. Keeping cows and producing milk, butter, cheese and ice cream was an integral part of the state's first colonial communities. The modern versions of those activities remain a central element of the state's character and economy today. Their sales support not just the families who own and operate these farm operations, but also an intricate web of neighboring feed suppliers, equipment dealers, veterinarians, bankers, insurance agents, construction contractors, repair shops and many other distinct businesses. *This total amounts to approximately \$570 million in business sales, and approximately 4,000 jobs generating nearly \$150 million of earnings for Maine citizens. Maine has 700,000 acres of dairy related land that supports the state's largest industry – tourism – by voluntarily allowing public access for hunting, fishing, snowmobiling, hiking and other outdoor recreational activities.*

Once again in 2004, dairy was the largest agricultural sector in Maine, with \$109,260,000 in farm gate sales. (New England Cash Receipts report, USDA National Ag Statistics Service). *Despite a drop in the average price of milk in 2005, milk continues to be the number one product produced in Maine, bringing in \$99 million in farm gate receipts.*

It is reasonable to conclude that the economic impact of Maine's dairy industry does exceed, in a clearly measurable way, the \$570 million in business sales indicated by analysis of the inter-industry multiplier effects. Considerable analysis would be required to ascertain the quantifiable extent of the additional economic benefits of the open space managed by active dairy farms. What is clear, however, is this amount (whatever precise number it may have) is embodied in the property values of those residents living in relatively close proximity to Maine's dairy farms. In effect, the value of "rural character" is reflected to some, as yet unmeasured, degree in the residential assets held and property taxes paid by the neighbors of the state's dairy farmers.

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 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.

Maine has continued to lose farms, but at a much slower rate than the rest of the Northeast. More importantly, the economic impact of the remaining farms has not lost its influence on the state's economy.

For 2006, the results should also be consistent because even though there were low milk prices, which will reduce the farm gate cash receipts amount, the payments made under the federal Milk Income Loss Contract (MILC), the Maine Milk Income Loss Contract (MILC-ME) and the Maine Dairy Stabilization Act (tier) programs kept the cash flow for Maine farms at an economically positive level. This has not been the case with many states across the country, and our neighboring states in New England and the Northeast have suffered greatly through the first 3 quarters of 2006. The result is an increase in Maine's position compared with other states and a solid foundation of economic activity continuing throughout Maine's rural communities.

*Today, there are 350 dairy farms, in all 16 counties,
from Kittery to Easton, from Fryeburg to Edmunds.
33,000 cows in Maine make 650 million pounds of milk
or 76 million gallons of milk per year.
Maine has dairy farms ranging in size
from 10 cows to 1,200 cows.*

There is no doubt that above all, the tied price support 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 for the first time.

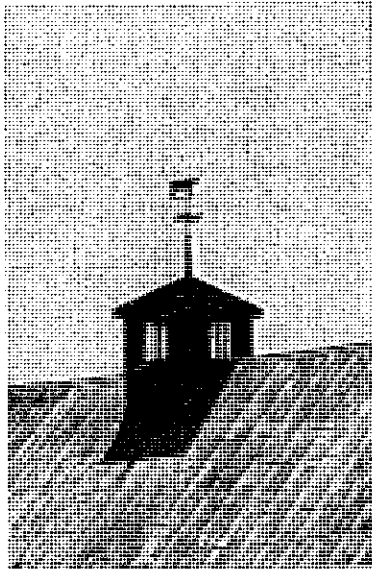
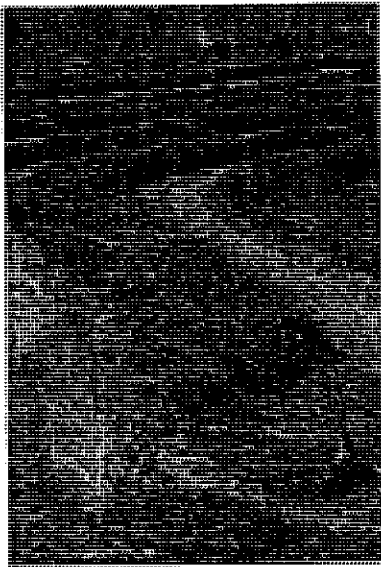
The Maine dairy farmer seeks nothing more than a fair and predictable price for his milk. In the absence of an effective and equitable federal milk pricing formula, Maine's dairy industry composed of the producer, the supportive infrastructure, the processor, and the consumer, benefit from the support 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, to ensure that a safe and steady supply of milk continues to be available for all Maine citizens.

Testimonial From a Member of the Dairy Ad Hoc Committee

"Working for a major feed supplier in Maine I can see this tier program has been a great help financially to our dairy Industry. The farms for the most have been able to keep their feed bills paid much better. With the decline in milk prices in 2006 we are seeing an increase in our accounts receivables at present. We see the large farm accounts increasing more than many of the small and medium sized farms. Most of the large farms have newer facilities with newer updated equipment, which adds to their debt load.

The large farms are certainly more efficient in many things they do but there are higher costs involved as well. They also employ more off farm labor. Increases in fuel costs this past year has added a great deal of extra expense to dairy farms especially the larger farms as a lot of their land may be many miles away from the home farm. This means manure has to be trucked to these fields and the crops raised have to be trucked back to the storages. Higher energy costs have increased commercial fertilizer prices dramatically this past year and large farms generally use more commercial fertilizer than smaller farms.

If we should lose the large dairy farms we have in Maine we could lose the infrastructure that supports all the dairy farms in this state. This would include feed mills, veterinarians, equipment dealers, fertilizer, seed and chemical dealers. It would also affect milk haulers and processors plus many other businesses."



Recommendations

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

The Maine Dairy Industry Association conducted its "Economic Impact on Maine of the State's Dairy Industry" published in 2004. Appendix 1. For over three hundred years, Maine's dairy industry has been a keystone for the state's economic health. This fact is well known but has never accurately been measured. The Governor's Task Force on the Sustainability of the Dairy Industry in Maine acknowledged this fact, saying, "The dairy industry is a major contributor to Maine's economy and agricultural infrastructure, although its impact has not been quantified." The following is an excerpt from the study.

What is Maine's Dairy Industry?

Given its long history, Maine's dairy industry has spread its roots deep and wide into the state's soil, its economy and its social fabric. Dairy farms have remained in families for generations. Their sales support not just the families who own and operate them, but also an intricate web of neighboring feed suppliers, equipment dealers, veterinarians, bankers, insurance agents, construction contractors, repair shops and many other distinct businesses. Looking forward in the flow of production, the milk sold from Maine's dairy farms supports a series of milk, butter, cheese and ice cream producers, who, in turn, spread their own economic ripples of sales, employment and tax revenues throughout Maine's economy.

Finally, but certainly not least, Maine's dairy farms, by their very existence, make an essential and unpaid contribution to the character of life in Maine. Maine has 700,000 acres of dairy related land. These fields that provide forage for the state's dairy cattle also provide open vistas for Maine's commuters and tourists, countless opportunities for hiking, hunting, fishing, snowmobiling, cross country skiing and other outdoor recreation activities. In the parlance of modern economic development theory, Maine's dairy industry constitutes a significant economic cluster.

Production of milk on Maine's 350 dairy farms has amounted to approximately 650 million pounds which—depending on the market price—has generated sales of between \$86 million and \$110 million. This activity provides \$40 million of income to over 1,300 farmers, farm employees and their families.

The sale of milk by dairy farmers, however, is merely a portion of Maine's total dairy industry. Maine's dairy industry includes not just farmers, but also fluid milk processors, ice-cream, cheese and butter manufacturers who add value to the basic milk product and, finally, the retailers who transport and distribute the final product to Maine consumers, both residents and visitors. These businesses provide an additional \$225 million in sales and nearly 900 jobs to the Maine economy. Figure 1 presents a schematic representation of Maine's dairy industry.

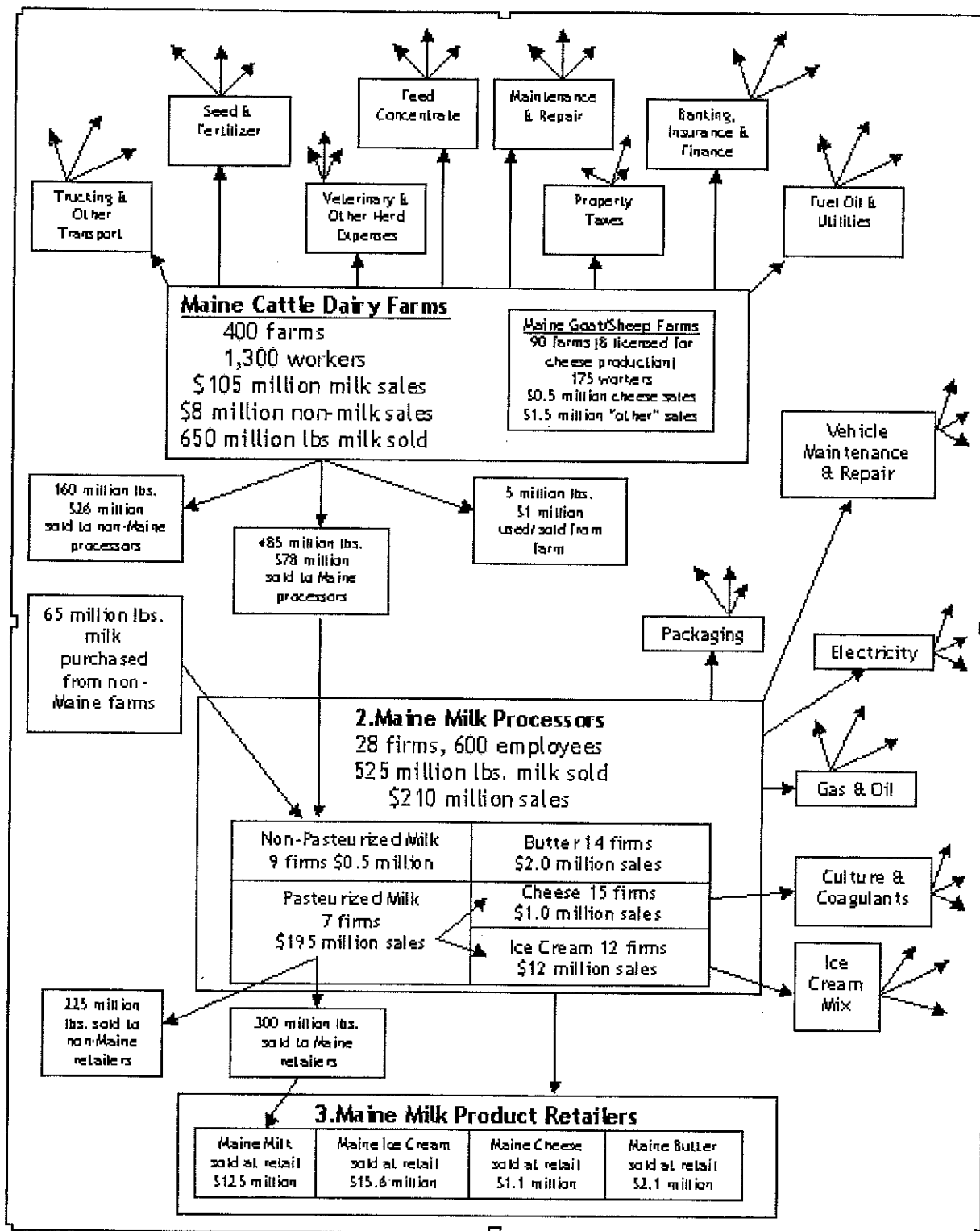


Figure 1: The Elements of Maine's Dairy Industry

What is the Dairy Industry's Economic Impact on the State of Maine?

Producing fresh milk lies at the center of a network of business inter-connections stretching back through a chain of suppliers, forward through a chain of value added processors and indirectly to many other businesses across the state through the consumer spending of those employed on these farms and in these suppliers and processors. All of these activities, in turn, provide significant tax revenues to both local and state government.

The total economic impact of the dairy industry on the state of Maine can be seen in three components: the direct effects; the indirect effects; and the induced effects.

The direct effects are the sales of those industries that make up the dairy industry itself, the farms, the milk processors and milk retailers. The indirect effects are the purchases made by industries down the supply chain that can be attributed to the direct sales of the dairy industry—dairy payments for feed, fertilizer and repair that become the purchases of the grain mill, of the repair shop, of the insurance agent and on and on in the flow of expenditures. Finally, the induced effects are the household consumption expenditures that can be attributed to the direct and indirect effects. This is the money spent by the farm worker at the local grocery, the electric bill paid by the worker at the grain mill, the college loan paid by the worker at the ice cream plant who is helping his daughter through college, and on and on.

The total economic impact of the dairy industry on the State of Maine is the sum of these three components. This total amounts to approximately:

- \$570 million in business sales
- 4,000 jobs
- \$150 million of earnings for Maine citizens.

What is Its Fiscal Impact on the State of Maine?

Together, the businesses and individuals included in this total impact pay nearly \$25 million in state and local taxes. This includes nearly \$7.5 million in sales taxes, nearly \$7 million in income taxes and over \$10 million in local property and excise taxes.

What is the Dairy Industry's Non-Market Impact on the State of Maine?

Maine's dairy farms, by their very existence, make an essential but unpaid contribution to the character of life in Maine. Maine has approximately 700,000 acres of dairy-related farmland. The fields that provide forage for the state's dairy cattle also provide open vistas for Maine's commuters and tourists, countless opportunities for hiking, hunting, fishing, snowmobiling, cross country skiing and other outdoor recreation activities.

The primary impact of the open space provided by Maine's dairy farms is on the gas stations, restaurants and motels that serve tourists coming to dairy farm areas. If these tourists, be they snowmobilers, hunters, hikers or visitors just passing through, went elsewhere businesses serving them in central would lose sales, but businesses in other areas would gain, so the issue is one of geographic distribution rather than overall impact.

The impact of Maine's dairy farms on "rural character," however, is less ambiguous. To the extent that homeowners prefer to live in areas with the amenities generally called "rural character" which are clearly attributable to the existence of dairy farms, then the value of that preference will be embodied in the price of their land and home. In short, all else equal, people should be willing to pay more for housing with "rural character."

A preliminary analysis of land values in Kennebec County indicates that such a "milk country" premium does in fact exist. Using values *per housing unit per acre* as a measure, the average value for Kennebec County as a whole is \$29,901. For the eleven towns with more than 1% of their land formally "declared" as farmland, the average

value is \$39,858. For the ten towns with no land formally “declared” as farmland, the average value is \$28,008.

In short, it is reasonable to conclude that the economic impact of Maine’s dairy industry does exceed, in a clearly measurable way, the \$570 million in business sales indicated by analysis of the inter-industry multiplier effects. Exactly what this additional amount may be cannot be known without considerable additional analysis. What is clear, however, is this amount (whatever precise number it may have) is embodied in the property values of those residents living in relatively close proximity to Maine’s dairy farms. In effect, the value of “rural character” is reflected to some, as yet unmeasured, degree in the residential assets held and property taxes paid by the neighbors of the state’s dairy farmers.

Since the Governor’s Task Force on the Sustainability of the Dairy Industry in Maine’s report was completed and published in 2004, the U.S. dairy industry has been marked by two significant factors. Firstly, the western United States has seen unimagined and unprecedented growth, not just in total 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.

The combination of these two factors has had a dramatic effect of the national dairy landscape, with traditionally strong regions, like the Midwest and the Northeast, becoming less influential and seeing a higher percentage of attrition of farms.

Maine has continued to lose farms, but at a much slower rate than the rest of the Northeast. More importantly, the economic impact of the remaining farms has not lost its influence on the state’s economy. In fact, dairy has increased its importance as a lynchpin of Maine’s agricultural economy, providing the link to sustain valuable agribusinesses to the benefit of many different types of agricultural production, as well as laying a foundation for the rapid expansion of the production of artisan cheeses – from cows’ milk as well as from other milk-producing livestock.

Once again in 2004, dairy was the largest agricultural sector in Maine, with \$109,260,000 in farm gate sales. (*New England Cash Receipts report, USDA National Ag Statistics Service*). Despite a drop in the average price of milk in 2005, milk continues to be the number one product produced in Maine, bringing in \$99,120,000 in farm gate receipts.

Dr. Tim Dalton, University of Maine, Maine’s most reputable and knowledgeable source for economic data on the dairy industry, has said that based on the 2004 economic impact study, as well as his own work on assessing the industry and the cost of dairy production in Maine, that the economic multiplier for Maine is at least 5.7. If we take the US Department of Agriculture’s National Agricultural Statistical Survey (NASS) farm gate value for 2005 and add the federal Milk Income Loss Contract (MILC), Maine’s MILC-ME and Maine Dairy Stabilization Act (tiered program) payments for the same time period, the result is a direct economic value of \$99,853,538 for dairy farms in Maine. The result of that simple calculation places the 2005 economic value of Maine’s dairy (\$99,120,000 farm gate cash receipts + \$233,538 ME Dairy Stabilization payments + \$500,000 MILC & MILC-ME = \$99,853,538 x 5.7 economic multiplier) show that in 2005 the economic impact of the Maine dairy industry was \$569,165,166.60. This is consistent with the 2004 economic impact study.

For 2006, the results should also be consistent because even though there were low milk prices, which will reduce the farm gate cash receipts amount, the payments made under the federal MILC, MILC-ME and Maine Dairy Stabilization Act programs kept the cash flow for Maine farms at an economically positive level. This has not been

the case with many states across the country, and our neighboring states in New England and the Northeast have suffered greatly through the first 3 quarters of 2006. The result is an increase in Maine's position compared to other states and a solid foundation of economic activity continuing throughout Maine's rural communities.

RECOMMENDATION 2: Assess the current status of Maine dairy farms

Three studies have been conducted to assess the current status of Maine dairy farms since the Task force's recommendations were submitted in November 2003. The Maine Milk Commission sponsored a study of the cost of producing non-organic milk in Maine in 2005. A procedure was established to monitor the cost of production on a periodic basis between major cost-of-production studies. Second, a study of the cost of producing organic milk was initiated with USDA funding in 2005. And third, a rapid assessment of the influence of the recommendations on the financial position and future outlook of both dairy industry producers and service providers was conducted in 2006.

In 2005, dairy producers were surveyed in order to update the cost of producing milk in Maine. This research resulted in the publication of the Maine Agricultural and Forest Experiment Station Technical Bulletin 215 titled "The cost of Producing Milk in Maine: Results from the 2005 Dairy Cost of Production Survey." Appendix 2. In summary, the study found that the cost of producing milk in Maine increased but increased at a lower rate than the national farming inflation rate (Table 1). The national producer price index, which measures the inflation rate in the farming sector, rose by approximately 4.2% per year between 2002 and 2005, while the cost of production on Maine dairy farms rose at an annual rate of 1.9% to 2.4% per year depending upon the farm size. This result indicates that dairy farmers are keeping costs in check and are gaining cost efficiencies.

The Maine Milk Commission has established a procedure to monitor the cost of producing milk in Maine between the comprehensive survey studies that are produced every three years. The cost of production budgets described in Dalton and Bragg (2005) are updated using the USDA Prices Paid Index (PPI) to reflect increases in the prices of inputs. This indexing approach is presented to Maine Milk Commission on a period basis and has been used to develop revised short-run breakeven cost of production estimates and the producer margins reflecting national and Maine economic conditions.

Cluster	Herd Size (cows)			2004 Milk Production (lbs/farm)			Short-run Breakeven Price (\$/cwt)
	Mean	Min	Max	Mean	Min	Max	Mean
Small	55	23	125	819,446	250,160	1,916,049	\$ 16.93
Medium	163	100	250	3,324,793	2,135,625	4,306,006	\$ 14.79
Large	304	237	380	6,153,800	4,908,000	7,300,000	\$ 14.13

Source: "The Cost of Producing Milk in Maine: Results from the 2005 Dairy Cost of Production Survey."

Second, a study on the cost of producing organic milk was initiated in 2005 through a USDA Integrated Organic Initiative grant. The University of Maine in collaboration with the University of Vermont is conducting this research. Data was collected from organic farms in 2005 and 2006. A summary of the data collected during the first year found that feed and labor costs were significantly higher in organic farms than non-organic and that profitability margins were very slim. The full report is available at: <http://www.umaine.edu/rep/research-pub.html>. This initial summary of the financial data will be combined with a second round of data collection to provide a more comprehensive view of the challenges and opportunities in organic dairy farming.

Third, researchers in the Resource Economics and Policy Department at the University of Maine conducted a rapid assessment of the current status of both dairy producers and service providers in Maine. The assessment followed up on questions related to respondent's future outlook for the industry from the 2005 cost-of-production study as well as expanded the investigation to include business management strategies potentially impacted by the recommendations put forth by the Task force. Researchers asked the respondents to share their opinions as to how recommendations and programs put in place as a result of those recommendations have impacted their farm or business.

How do current dairy producers feel about the future outlook for the industry? It is unlikely that business strategies over the next three years given current conditions will include increased diversification of on-farm production activities or changes to the industry's herd size. Additionally, eighty of the responding farms indicated it was very unlikely or unlikely they would develop a formal transfer plan. Of these eighty farms, 56% also indicated they would be exiting the dairy industry within the next ten years. While the number of producers likely to implement a transfer plan has increased over the last couple of years, the high percentage of farms not likely to implement succession or transfer plans is potentially detrimental to the sustainability of the dairy industry.

Substantial attention has focused on the dairy industry because of a concern that many producers are getting out of dairying. Although low milk prices are postulated as a primary reason for exits from dairying, other factors may be important as well.

Data from a representative 64-farm subset of a 2002 survey of dairy producers in Maine were used in a study by the University of Maine entitled: **Factors Affecting the Decision to Exit Dairy Farming by Bragg and Dalton 2003. Below is a summary. Appendix 3.**

Of the 64 farms, 15 indicated an imminent exit from dairying, whereas 49 dairy farms expected to remain in business for ≥ 5 yr. The decision is a function of 3 independent variable categories: demographic, efficiency, and opportunity costs. Four factors other than milk price are involved in exit decisions: older producers, higher off-farm income, lower returns over variable cost, and greater diversification of farm income were more likely associated with a decision to leave dairy farming.

Over the past 25 years, national milk production has shifted from the East and Midwest to the West. In 1975, 71% of national milk production was produced in the Northeast, Lake States, Corn Belt, and Plains, and just 17% was produced in the Mountain and Pacific states. Although traditional dairy regions still produce the most milk in the nation, the aggregate production of the Mountain and Pacific states is rapidly approaching the level of the Northeast and the Lake States.

Paralleling this shift in dairy production is a decline in overall farm numbers through exit and consolidation in search of scale economies and production efficiencies.

The concern in many traditional dairying states, including Maine, arises because the loss adversely affects agribusiness firms supporting the dairy industry as well as the economic activity of farming-dependent areas. Many traditional dairy states are concerned farm numbers are reaching the lower limit of critical mass where feed companies, bovine veterinarians, other specialized services and dairy processors can find sufficient business volume to justify operation.

Technological advances leading to increases in milk production per cow have contributed to industry contraction since 1970. Additionally, recent low milk prices are cited as the cause of a 3.7% decline in national dairy farm numbers. Low milk prices and resulting low on farm income influence the decision to exit dairying. Research on other segments of the agricultural economy has found other factors influencing a producer's decision to exit farming. For example, research on farm exits located in southwestern Wisconsin identified age as an important factor. Today 100% of Maine's dairy farmers are producing milk without the use of the artificial growth hormones (rBST). The conscious decision to forgo this bio-technology was in direct response to market demands from the processing,

retailing and consumer segments of the industry. Consequently, all Maine farmers are now producing milk for a value-added niche market.

Milk production is highly capital-intensive and requires production inputs that are specialized in nature. Additionally, liquidation of these capital inputs may yield salvage values comparatively lower than what could be achievable through discounted future streams of revenue. Relaxing the assumption of perfect information, milk prices exhibit monthly and seasonal fluctuations caused by market clearing conditions and the Federal price-setting procedure. As a result, production decisions are based upon price expectations as well as the current market price.

If the expected long-run price is higher than the cost of production, a producer may continue to milk despite a “temporary” price below the minimum of the average variable cost curve. For these reasons, a more appropriate rule can be based upon long-run profitability, including an expected return on capital and the opportunity cost of labor. Prolonged negative profitability may drive the exit decision. Off-farm income can provide support during a time of instability or lessen transition costs from farming when moving to alternative employment.

Many argue that historically low milk prices are driving many producers out of dairying. The likelihood of exit increases as the producer ages and as the importance of off-farm income to total income grows. The likelihood of exit is lowered as a farm specializes toward milk production.

Based on these results, courses of action are recommended to provide long-run industry support options. Linking exiting producers, wishing to transfer the farm outside of the family, to younger potential entrants is one manner to reduce the barriers to entry and to address the predictable component of producer retirement.

As off-farm employment opportunities grow in rural areas, this may impact the division of family time between farm and non-farm employment. The likelihood of exit increases as the importance of off-farm income increases and as farm production becomes more diversified. Farms continuing to produce in the future will be more specialized in producing low cost milk, and these revenues will be the primary source of farm income.

The goal of Maine dairy policy, and many traditional dairying states, is to foster both a healthy and diverse industry. Findings from this research confirm the need for a broader focus of dairy support programs beyond the scope of price supports to reduce farm exit. Results from this study are generalizable to the population of Maine farmers not responding to the survey and can be used as a point of reflection for a geographically broader survey on farm exit decisions. In addition, future research should explore the relationship of the exit decision to alternative land-use opportunities to determine whether urban and residential development increases the probability of exiting dairy production.

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

Many argue that historically low milk prices are driving many producers out of traditional dairy farming. The likelihood increases as the producer ages and as the importance of off-farm income grows. Off farm employment opportunities in rural areas are increasing and luring “generation X” off the farm.

This recommendation encourages transfer planning, whether intergenerational or with new entrants to the industry, as a means to preserve dairy farming in the State. Farm-transfer plans increase the likelihood that the State’s residents will continue to have access to a ready supply of milk as well as the open space and rural character farmland and farming provides. In both the 2002 and 2005 Cost-of-production studies, dairy farm managers were asked whether the farm had an existing transfer plan and if not what was the likelihood that they would transfer management to another person. Responses indicate that only 22% of farms surveyed in 2005 currently have transfer plans. Perhaps this is because 69% of these farm managers think it is very unlikely or unlikely they will transfer management of the farm.

Preservation of dairy farms, particularly of different size operations, increases the acreage of land under farm operation that will continue to provide open space and recreation opportunities. It may not efficiently safeguard the greatest amount of milk possible for the State within farm-based transfer strategies. Current managers, likely to transfer management to another manager, sustain the production of an estimated 580,800-hundredweight of milk over the long run. Seventeen percent of the State's large dairy farms indicate they will transfer management of the farm yet these farms contribute 46% of the milk to the estimated "protected" production. Nine percent of small and 8% of medium farm managers indicate they are likely to transfer management and contribute 32% and 22% to the amount of "protected" milk, respectively.

Understanding the complexities of estate planning and generational transfer are important to preserving wealth and allowing a mechanism for producers to transfer assets when they want, how they want and to whom they want with a minimum of cost. The University of Maine Cooperative Extension (UMCE) has coordinated educational programs at two levels of transferring assets. The first level, called Transferring the Farm I, is an introductory program encompassing a whole day of lectures by a farm management specialist, a social worker discussing family communication skills, an estate planning attorney, and a farmer panel of participants who have gone through or are going through a transfer. Additionally, presentations have been made about the Farm Link program at these sessions. Sessions have been held in Benton, Augusta, Waterville, Bangor and Presque Isle from 2003 through 2006.

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. These programs have been held in Portland two different times. Both of these programs have been offered across New England. When Maine has offered a program in central Maine, another program was held in coastal New Hampshire or on the New Hampshire-Vermont border to accommodate Maine producers who might want to attend those programs.

Last year, the program offered \$150 to participants that worked with an estate planning professional to move forward on their estate plan. This initial sum of money helped people get started with a process that often is put aside.

Currently, the level 1 and level 2 programs are continuing across New England. The level 1 program will continue to be a general program covering many aspects of asset transfer. Level 2 programs will alternate between programs that concentrate on trusts or business structures/healthcare/retirement. The trusts level 2 program is planned to be offered in Waterville in 2007. The New England group sponsoring these programs has initiated a website www.farmtransfernewengland.org as a source of service providers and resources to people considering asset 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 180 prospective farmers and 61 have expressed an interest in dairy. Of the 20 links made so far, 13 have been dairy related. There are currently 20 dairy farms that have expressed an interest in finding a link to take over their farm.

RECOMMENDATION 5: Prepare future generations 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 207 undergraduate majors in the areas of animal science

(134), sustainable agriculture (9), and resource economics and agribusiness management (64). In the past year, 12 animal science graduates have been admitted to veterinary schools across the country, in Scotland and Australia. One graduate is in law school in Arkansas concentrating in Ag Law. Five graduates are in masters programs at The University of Maine and University of Vermont. Other graduates have secured jobs with feed companies, the University of Maine Veterinary Diagnostic Laboratory, Farm Service Agency, and several other agribusiness positions. 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 is run out of the University of Maine Augusta, Bangor campus. They graduate about 13 students a year. All of them graduate with a job and 90-95% stay in Maine to work. It is estimated that about 10-15% leave the profession for other jobs. Students do externships in other states so some students do leave the state to work with practices in other locations. There is hope that this program will be a four-year degree program.

The University of Maine supports 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 teaching undergraduate students. Additionally, the Witter Center has a small beef herd for teaching purposes as well as a small sheep flock. The University has a number of horses that are used for both teaching and research. The **Rogers Farm** is the site used for forage and grain experiments including quality and utilization.

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

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.

The 122nd Legislature passed legislation authorizing **Maine in the Classroom** to explore the possibility of establishing a revenue stream from the sale of **Agriculture in the Classroom** license plates. After successfully raising sufficient funding to establish the license plate, the 123rd Legislature will need to enact final legislation to authorize the production and sale of the license plates.

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 farm operation

The Department's **Agricultural Marketing Loan Fund** was changed during the 122nd Legislature to offer broad support for the dairy industry. In 2006, funds were awarded to the **Maine Micro-Dairy Development Coop-**

erative. The Cooperative also received a grant from the Cluster Enhancement Program. The Cooperative is actively seeking ways to encourage the development of microprocessors. They are examining ways to gain efficiencies, minimize costs and share equipment with the goal to increase the number of small processors!

In June 2006, the Department's **Agricultural Development Grant** program awarded \$22,000 to the **Maine Organic Milk Producers** to form a cooperative business arrangement to help them lower production costs as well as increase the pool of organic milk.

RECOMMENDATION 7: Provide cost sharing for pasture and forage improvement

The **Maine Grass Farmers Network (MGFN)**, created in 2004 by the University of Maine Cooperative Extension, gathers and provides information on grazing alternatives. Today there are over 210 members receiving a quarterly newsletter. They created a web site www.umaine.edu/umext/mgfn. Maine is also the host site for the **Northeast Pasture Consortium** website www.umaine.edu/grazingguide and a member of Cooperative Extension resides on their board. In addition; there is a grass fed product directory that lists available livestock products. Three grazing conferences have been held and a series of 12 pasture walks at participating farms have been offered over the last two summers. The University of Maine Cooperative Extension hosted a full day in-service training for **Natural Resources Conservation Services (NRCS)** employees on how to write managed intensive grazing plans for cooperating farms.

The Natural Resources Conservation Services continues to provide cost support for grazing systems on a limited basis. Dairy farmers are able to get technical help with grazing practices from both Cooperative Extension and NRCS.

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

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/>). In addition, nutrient management software was developed by UMCE and is used on nearly every dairy farm to develop nutrient management plans to help them more efficiently utilize manure and other fertilizer inputs while at the same time reducing nutrient runoff and other losses to the environment.

The University of Maine and collaborator partners have become national leaders in organic dairy production research. Maine leads the country in the ratio of organic to conventional dairy farms. At the time of this writing there are 65 organic dairy farms in Maine. The market for organic products has grown at 20 percent a year for the last 10 years. Organic milk production has been the fastest growing agricultural sector in the Northeast. The University has aggressively sought grant funds to conduct further research on a variety of organic dairy challenges including forage crops and farmyard pests.

THE FOLLOWING GRANT AWARDS HAVE BEEN MADE SINCE 2003:

2003	\$23,000 Walker Foundation grant to establish the Maine Cattle Health Assurance Program directly benefiting dairy farmers.
2004	\$8,788 - 2004 Northeast Sustainable Agriculture Research and Education (SARE) Farmer/Grower Grant was awarded to an individual organic farmer to evaluate winter barley for grazing and grain production.
	\$287,018 was awarded to the University of Maine and the University of Vermont for a study entitled "Profitability and Transitional Analysis of Northeast Organic Dairy Farms."
	\$18,350 Walker Foundation grant to continue supporting Maine Cattle Health Assurance Program and to enhance (quality) testing opportunities for dairy farmers.
2005	\$9,859 SARE grant was awarded to the Maine Organic Milk Producers to evaluate organic feed quality for dairies.
	\$12,500 was awarded from the University of Maine Trustee Professorship to a member of Cooperative Extension to examine the cost of production budgets for northeast organic dairy farms and models for farms considering transitioning.
	\$829,000 grant was awarded to a collaborative team from the University of Maine, USDA Agricultural Research Service, the University of New Hampshire and the Maine Organic Milk Producers (MOMP). The research will contrast four cropping systems for growing feed. It is expected to be the most comprehensive research on organic dairy rotations that has ever been done.
	\$7,200 Walker Foundation grant to continue to support Maine Cattle Health Assurance Program and quality testing opportunities for dairy farmers.
2006	\$4,172 SARE grant was awarded to an individual organic producer to exam organic winter spelt production.
	\$19,844 was awarded to the University of Maine to focus on risk management education for conventional, organic and transitioning farmers.
	\$78,000 was awarded to the University of Maine from the Maine Technology Institute to assist both the organic dairy sector and researchers in finding production methods that will improve profitability.
	\$143,000 was awarded from the USDA to a team from the University of Maine Cooperative Extension, University of Vermont Cooperative Extension and the US Department of Agriculture Agricultural Research Service to expand grain production and use on organic dairies in Maine and Vermont. The information they gather will be used to help shift current farming methods toward a more integrated model that increases profits by reducing dependence on grain brought in from the Midwest and Canada.
	\$11,800 Walker Foundation Grant to continue support of the Maine Cattle Health Assurance Program and enhance (quality) testing opportunities for dairy farmers.

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

The recent diagnosis of Bovine Spongiform Encephalopathy (BSE) or "mad cow" disease in the US illustrates the importance of disease prevention and biosecurity on dairy farms. Improvements in animal health not only improve food safety and consumer confidence but also improve the farm's financial situation because healthy cattle are more productive and profitable. The Maine Cattle Health Assurance Program is an ongoing program of the UMCE and the Department whose mission is to reduce livestock diseases through modern prevention techniques. In four years, over \$400,000 of funding has been obtained from private, federal and state sources to support applied livestock disease research, educational programs, and individual farm risk assessments on over 170 farms. The testing analysis of over 11,000 samples shows prevalence for certain animal diseases in dairy cattle including Salmonella, Listeria, Bovine Leukemia Virus, and Johne's disease.

Unfortunately, the Department's federal appropriation for 2007 is a mere \$13,000 down from \$94,000 the previous year jeopardizing the continuation of this program. Representatives from the dairy industry, Maine Organic Farmers and Gardeners Association, Maine Veterinary Medical Association and independent producers have sent letters to the Maine Congressional Delegation in support of further funding to sustain this program.

Farm Credit continues to practice consultative lending within its client base. Specifically, within its dairy portfolio, Farm Credit completes extensive benchmarking, utilizing this benchmarking for both lending purposes and aiding their customers in the financial management of their business. The US Department of Agriculture, Farm Service Agency, also continues to utilize their "Farm Plan" as a financial tool for lending and farm financial management. However, with ever decreasing direct loan funds, and a shrinking loan portfolio, they are dealing with fewer agricultural businesses.

Farm Credit also continues to maintain a full service business-consulting group within the Northeast. This group, for a fee, provides a full array of consulting services, from estate planning/generational transfers to financial management. Between Farm Credit and FSA, they estimate that these services are provided to about 50% of the dairy businesses.

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. The electronic chart of accounts is available for those producers using either Quicken or QuickBooks for on farm accounting.

Several UMCE and Department of Agriculture 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 as they take a vision for the future of their farm operation and plan it on paper. While the time spent with each producer is large, the results of a sound business plan have been seen as participants flourish. (*See Recommendation 11, page 22 for more information on Farms for the Future*).

Tilling the Soil of Opportunity, a NxLevel guide for agricultural entrepreneurs, is a comprehensive business-planning course developed specifically for farmers. It is offered by the Heart of Maine Resource Conservation and Development (www.heartofmaine.org) with the support of the Maine Department of Agriculture, Food and Rural Resources. The course is designed to allow farmers to test ideas, explore marketing opportunities, and develop a business and marketing plan specific to their operations.

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

In early 2003, at the height of a statewide discussion about the future of Maine's dairy industry, the Maine Department of Agriculture, Food, and Rural Resources was awarded a grant from the USDA's Federal State Market Improvement Program (FSMIP) to conduct a project entitled, "Dairy Farms for the Future: Diversifying farms to expand direct markets for milk products in three regions of Maine." This project brought Federal, State and private efforts together to help diversify and strengthen Maine's dairy industry by:

- Identifying new regional direct-to-consumer, wholesale and institutional markets for Maine milk and value-added milk products.
- Transitioning and diversifying several dairy operations to better serve regional markets.
- Developing regional strategies for milk distribution system and farmland protection.

The Project's goal was to improve the marketing opportunities for small and medium sized dairy farms in Maine in order to maintain the profitability of those farms and keep agricultural lands productive.

The report, prepared by Kerri Sands of the Maine Farms Project of Coastal Enterprises, Inc., and Russell Libby of the Maine Organic Farmers and Gardeners Association, is a part of the research done for the *Dairy Farms for the Future* project. Appendix 4.

In addition, funds were provided to three farmers for the implementation of their business plans. Each were developing a different value-added component on their dairy farms; cheese making facility in an old barn; developing a line of soil amendments using cow manure and seafood waste; and adding beef cow production and using corn silage (pellets) for fuel. Their selection was based on the fact that they could be used as models for other farms, that they would share the information and be open to receiving visitors to their farms. These farms have been an inspiration to others seeking to diversify, and each have made significant investments in their new enterprises. Farm Credit has worked with a number of smaller processors developing business and financial plans.

In 2006, the Department, held a public hearing to hear comments on the rule governing the production and sale of milk and milk products. The comments were considered and incorporated into the provisionally adopted rule. The rule requires final approval by the Joint Standing Committee on Agriculture, Conservation and Forestry.

*In 2003, there were 42 licensed processors, producing 155 milk and milk products.
Today, there are 55 processors, producing over 172 products.*

Maine consumers demand for quality products from Maine growers and processors is driving the growth witnessed in dairy processing. In its October 2006 issue, Gourmet Magazine recognized "the top 50 restaurants in the US." Two prominent restaurants, Fore Street and Arrows were once again on that list. Both restaurants, strive to source Maine produce, meat, dairy and fruit products. They list Maine made cheeses, as do many other restaurants, on their menus. Maine cheese producers make an outstanding variety of cheeses and the possibilities are endless. Within the last several years, a progressive group of cheese makers has formed the **Maine Cheese Guild**. They have a newsletter, website and hold monthly meetings. The Maine Cheese Guild invited Department personnel to their meeting at the 2006 Agricultural Trades Show to review the rule governing the production and sale of milk and milk products. The members expressed the continued desire to work with the Department to ensure that anyone interested in making cheese adhere to the regulations, as they believe the regulations enhance the marketability of their products! More recently, cheese makers and other farmer's, fishermen, food artisans and chefs hosting a 3-day Maine Fare to celebrate the "bounty of Maine."

In 2006, two Maine Cheese Guild members won two first place and one-third place honors for their cheeses at the American Cheese Society Annual Competition.

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 met 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. The University of Maine and the Maine Cheese Guild held a 3-day cheese school at the University of Maine Food Science Pilot Plant in November 2006. The university provided cheese production and classroom facilities that enhanced the learning environment. Patrick Anglade, an independent cheese consultant from France, was the primary instructor for the cheese school. Students learned to make soft and "bloomy rind cheeses" over the 3-day school. Producers were encouraged to bring cheeses they had made with production problems for Mr. Anglade to offer his suggestions for improvement. Mr. Anglade offered to set up a learning tour in Western Europe for Maine cheese makers to learn how to make new cheese varieties.

RECOMMENDATIONS 11: Promote farm asset management as a diversification strategy

Farms for the Future is a statewide economic development program targeting farms. The Department contracts with Coastal Enterprises, Inc. (CEI), a non-profit community development corporation to administer the program. The two-phase program provides selected farms with:

- Phase I: Assistance in developing new business plans aimed at increasing farm viability and
- Phase II: A grant of 25% of the funds needed to implement the plan, up to \$25,000

In exchange for this support, farms participating in Phase 2 enter into a **farmland protection agreement** that prevents their land from being developed for non-agricultural purposes for five years. The farmland protection agreement may be terminated by paying back the grant.

Farms for the Future operated as a pilot program from 2001-2003, supported by a \$200,000 of state funding and approximately \$250,000 of match funding obtained by CEI. Governor Baldacci's June 2003 economic development bond issue contained \$2 million to continue the program, and in April 2006, the Maine State Legislature approved an additional \$250,000. Every \$1 of state funds leverages another \$4.4 in farmer investment and outside funds.

The program responds directly to one of the primary needs within the farming community: specialized business assistance. Many farmers have an idea for a new product, a new market, or improved efficiency in production, but lack the resources to develop the idea into a viable business plan. Business assistance is:

- Provided by people with extensive farming knowledge, and individualized to each client farm's particular needs and opportunities.
- Since its inception 43 dairy farms have expressed an interest in diversification.

These reflect farmers' comments on this program:

"A small farm is a small business that earns its living from the land. The Farms for the Future Program treats farmers like businesspeople, allowing them to tap into expertise and financing that would otherwise not be available to them."

"It was tempting at times for us to throw up our hands and let the land go to house lots, as all the others (in our community) have over time. But because of the Farms For the Future, we received expert guidance and access to other state and federal departments that encouraged us, educated us, and assisted us in developing a workable farm plan."

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 farmlands, 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.

The three tax-related recommendations listed above are being carried forward in a variety of venues. The Joint Standing Committee on Taxation will be considering numerous bills that stand to impact taxes assessed on real and personal property. Additionally, the Joint Standing Committee on Agriculture, Conservation and Forestry will be considering at least one bill concerning so-called "Ag Districts" — which encourage the conservation, protection and responsible utilization of lands that are managed for purposes of agricultural production.

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

In order for the Land for Maine's Future and other conservation easement/sale of development rights programs to be successfully embraced as a management tool by dairy farmers, the opportunity for leased or shorter-term limits on development must be offered.

The Department of Agriculture's *Farmland Protection Program* is assisting an increasing number of farmland owners with assessing their options to preserve some or all of their best farmland.

Right now, the Department has quite a waiting list of landowners who want to permanently protect the family farm through the sale of development rights. Work continues with the farm community to ensure they have all the tools available to compete in the market and to survive as the urban reaches of the state spread into farm country.

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

The Maine MILC supplemental payment program was implemented with the passage of Chapter 648 Public Law in April 2004. The Maine MILC is linked to the US Department of Agriculture's MILC Program, which hangs on the limbs of the federal budgeting process. Congress modified the MILC two years ago to decrease the payment structure from 45 percent of the difference in the federal order price to 34 percent, which decreased the payments to farmers, but pushed payments, made through the Maine tier program, up. The current MILC was only extended until the end of August 2007. Under the President's proposed Farm Bill, the MILC program is continued, however the payment rate is further decrease to approximately 20 percent of the difference between \$16.94 and the announced Class 1 price for the Northeast Federal Order. Any reduction in the federal program would be mirrored in the state MILC program, as is directed by state statute.

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

The Dairy Stabilization Program was implemented with passage of Chapter 648 Public Law in April 2004. It achieved its goal to keep Maine dairy farming families working. They have continued producing milk through the historically long period of low and volatile milk prices. The Dairy Stabilization Program proved its effectiveness when over 13 new farms started up operations in 2005 – 2006. The Act is unprecedented and is the envy of producers across this country. There is no other state program that resembles it and no other states have exhibited as much concern followed by concrete action than the State of Maine.

There is concern however for the overall cost of the program which experienced higher than expected payouts. To date, more than \$11 million has been distributed to Maine dairy farm families. The primary factors were the decrease in the percentage of payments made to dairy farmers through the US Department of Agriculture's Milk Income Loss Program, and the unprecedented low milk prices.

The Maine Milk Commission has also adopted into its monthly price schedule a higher prevailing premium that is currently being paid in the Northeast producers who do not use artificial rBST hormones as part of their milk production management routine. This premium payment is considered when calculating the monthly tier payment and actually reduces the payment to the dairy farmer. In addition, representatives from the Maine Dairy Industry Association and other associations have waged a significant effort to affect change at the federal government including an overhaul of the federal milk (pricing) order and the continuation of the federal Milk Income Loss Program.

Recognizing that the cost of the tier program has raised concerns among state budget analysts that may impact the program's future, the Dairy Ad Hoc Committee instructed the University of Maine, Department of Resource Economics and Policy to conduct a survey of the dairy farming community to assess the impacts of the Dairy Task Force's 17 Recommendations, and the value of the Dairy Stabilization Program to them. The following is a summation of the results. Appendix 5.

The numbers of suppliers who agree that the actions taken by or initiated by the work of the Task Force have had positive impacts on their business outnumber those suppliers who disagree. Reduction of accounts receivables associated with dairy producers and increased profits due to the ability of producers to upgrade capital are just two examples of positive direct impacts to suppliers.

These positive impacts did not precipitate changes to business strategies for the majority of suppliers. And, more than half of suppliers indicate that the uncertainty of the future of the dairy industry support programs influences their decisions to change business strategy. Anecdotally, suppliers share that while the dairy support programs recently put into place have stabilized the financial position of many producers, the long-run financial situation remains uncertain due to rising expenses and flat gross revenue per cwt of milk.

More than half of all producers surveyed also feel that the support programs have both stabilized their financial outlook and improved their future ambitions in dairy farming. The distribution of responses does indicate a shift in producer opinion. In 2004, the number of producers who were either indifferent about the effect of strategies or felt it was too early to determine an effect outnumbered the number of producers in either of the other two categories (Bragg and Dalton 2006). Current opinions reflect greater number of producers experiencing positive effects of Task Force related programs.

The number of producers implementing capital expansion or replacement strategies outnumbers the number of producers that did not. While promising, most producers taking on capital projects replaced or repaired equipment, as opposed to updating buildings or specialized milking equipment. This reluctance to take on larger capital projects is evident as approximately 68% of producers indicate they are hesitant because the longevity of dairy support programs is uncertain.

TABLE 2: PRODUCER OPINION AS TO THE EFFECTIVENESS OF IMPLEMENTED TASK FORCE STRATEGIES

The task force and the legislation:	Disagree/ Strongly disagree	No opinion either way	Agree/ Strongly agree	Too early to determine
Improved my future ambitions in dairy farming.	11.0%	29.3%	50.2%	9.4%
Enabled the farm to implement building improvements or expansions.	26.6%	22.8%	38.9%	11.7%
Enabled the farm to implement changes or update specialized milking equipment.	29.6%	30.7%	29.0%	10.6%
Enabled the farm to purchase new or repair farm implements (tractors, crop equipment etc).	20.2%	20.2%	56.2%	3.4%
Stabilized my financial outlook.	20.0%	19.4%	53.9%	6.7%
Has reduced my tax burden.	36.9%	33%	22.9%	7.3%
Improved my relationship with creditors (suppliers, banks, and others).	19.2%	42.9%	36.1%	1.7%
Our farm is hesitant to take on capital improvement or expansion opportunities because the longevity of dairy industry support programs is uncertain.	12.5%	16.4%	67.8%	3.3%

N=190

Anecdotal evidence from producers indicates that the Task Force's programs allowed many to stay in operation for the short-run but not enough to guarantee continuing to produce milk in the state over the long run. In other words, producers were able to address the immediate operational concerns of the business but were not able to address issues they felt should be considered in order to have a long-term presence in the industry. In this light, the transfer plan strategies seem to indicate that current producers are experiencing positive effects of the Task Force's programs and plan to continue operating as a dairy farm until retirement but are not optimistic about the endurance of the operation for future generations unless further changes in the total structure (state and federal levels) of milk pricing are implemented.

Maine dairy farmers support an extensive infrastructure, as illustrated in this report, and in return they seek a fair and predictable price for their milk. The level of support exhibited is unprecedented and has enabled many, many dairy farmers to stay in business. Yes, there are farms opting to close their doors, but there are those who have invested and expanded their operations, and there were 7 new farm start-ups in 2006. In January 2007, production increased by 0.9% compared to January 2006. This is the second month in a row that Maine has posted an increase in production and is attributed to farm investments, improved production practices, and a sign of hope for the sustainability of a vibrant and diverse dairy industry much of which were enabled by the dairy stabilization act.

The goal of the state's dairy policy is to foster both a healthy and diverse industry and the successes outlined in this report substantiates the value of work done to date. However, there is still more to be done. A few of the major goals include continuing to work towards federal order price reform, striving for a strong and realistic dairy policy in the 2007 US Farm Bill, moving toward a more direct recognition of current use taxation of working agricultural land, and further development and marketing of Maine milk and dairy products as high-value food that are responsive to consumer demands.

Appendix

Appendix 1. "Economic Impact on Maine of the State's Dairy Industry"

Appendix 2. "The Cost of Producing Milk in Maine: Results from the 2005 Dairy Cost of Production Survey"

Appendix 3. "Factors Affecting the Decision to Exit Dairy Farming," by Bragg and Dalton 2003

Appendix 4. "Dairy Farms for the Future: Diversifying farms to expand direct markets for milk products in three regions of Maine."

Appendix 5. Rapid Assessment