



Annual Report or Grant Summary for 2009

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FY 2009

Dairy Development and Profitability Enhancement Legislative Report



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Executive Summary

The Dairy Development and Profitability Enhancement Program has two primary components:

1. Dairy Diagnostic Teams

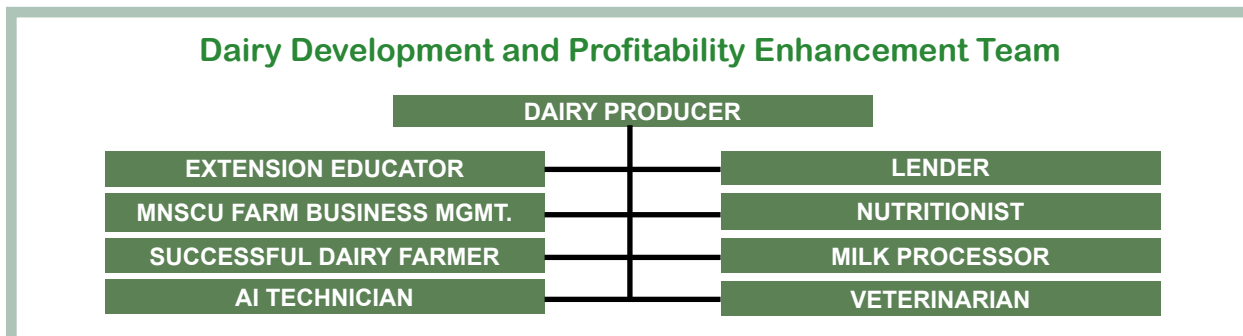
- Based on 2008 farm records analysis, these teams produced a \$42,677,065.40 return on the state’s investment, resulting in a \$67 return for every grant dollar spent.
- Significant returns like this occurred through cost savings (reduction of feed, interest or labor expense, etc.), increased herd size and increased profitability (increased milk production, improved milk quality, improved health and other management factors).
- In addition, the program has received in-kind contributions from the dairy industry totaling \$ 1,137,121.
- The farmers in the program also added 3,224 new cows to their herds, creating 64 new jobs as well as retaining over 980 jobs in Minnesota.

2. Dairy Business Planning Grants

- The Dairy Business Planning Grants Program assists producers in positioning themselves for the future. This grant covers 50% of the cost of developing a business plan, up to a maximum of \$5,000.
- A number of producers are exploring expanding their herds, while others are investigating transferring the operation to the next generation, managing debt or investing in feedlot improvements for environmental protection.

Legislative History

The Dairy Diagnostic Team Grant Program began as a pilot program in 1996. The program was then funded by a biennial appropriation of \$1 million. The program expanded in 1997 to five regional groups and one statewide organization. The 2003 Legislature appropriated \$2 million for the 2004/05 biennium to increase dairy diagnostic efforts and to provide grants to individual farmers for dairy business planning and modernization. For fiscal year 2009, a total of \$635,000 was granted to the program partners.



The above chart shows an example of a Dairy Diagnostic Team. Each team is comprised of people with varying backgrounds and expertise. They work with the farm family to evaluate the current farm operation and future objectives. The team makes recommendations and lists priorities to help the family meet those objectives. The team can also help the farmer redirect resources to meet the objectives. Some recommendations may take longer than others to implement. No two farms are exactly the same, just as no two teams’ recommendations are exactly the same. The issues may be similar, but the means for resolving the issues may be very different.

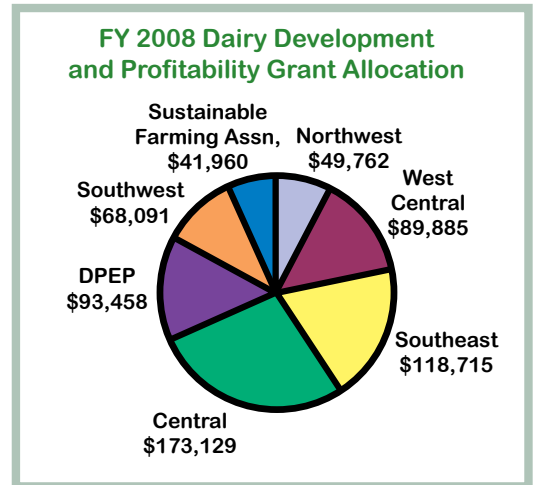


Minnesota Dairy Initiative (MDI)

The following is a short progress report on the activities of the grant recipients:

The MDI is a producer-led initiative to coordinate a comprehensive approach to the delivery of on-farm services to Minnesota’s dairy farmers through the Dairy Development and Profitability Enhancement Program (DDPE).

The MDI is a federation of six regional partners, Sustainable Farming Association (SFA), and several affiliated organizations, including the Minnesota Department of Agriculture (MDA), Minnesota Milk Producers Association (MMPA), the University of Minnesota, Minnesota State Colleges and Universities (MnSCU) through Farm Business Management and other industry groups.



The Program Partners

Statewide, 396 dairy farms representing 49,068 cows (8% of farms and 10% of the cows respectfully) participated in the program (see attachment B) in FY 2009. Of this total, 379 farmers were enrolled in the six regional groups with the remaining 17 dairy producers working with the Sustainable Farming Association. In addition, there were 3042 farms that participated in educational programs conducted and lead by the Minnesota Dairy Initiative programs, including organic transition workshops, milker trainings, barn tours, etc. The program is limited to a three-year involvement with the team, but farmers can reapply if they need the team to assist them in their next phase of management.





West Central Dairy Profit Teams

- West Central teams worked with 32 participant herds in 2009 (3300 cows).
- Estimated in-kind contributions for this region are \$9,000.
- In addition there were 36 other farms not enrolled within the program that received educational information from the program through workshops and seminars.
- The economic impact of the program was \$1,217,264 as a result of improvements in productivity and profitability on these farms.
- This was a particularly challenging year for the dairy industry as a whole. Prices have been \$4 to \$6 below the cost of production for most of the year, and as a result, our dairy farmers are now working to pay down short term debt.
- West Central is working with two farms that have just completed new parlors, barns, and basins. One farm has 145 cows and the other has around 100.
- West Central is also working with two new start-up dairies. Both dairymen are in their thirties. One milks 40 cows and the other will be milking 60 when all the purchased heifers freshen.
- West Central has two dairies where the fathers are transitioning the businesses to their sons. They plan to build new barns and parlors when they see better prices.
- West Central is also working with three farms dealing with stray voltage.
- West Central also added a ration specialist to its team. Karen Gorentz is very busy formulating rations for clients and she has become very valuable asset to the team.
- Investments in the two dairies that put in basins, barns, and parlors are approximately \$750,000.



West Central Team Testimonials/Observations:

"Dairy diagnostics has given us the tools to continue farming"
- Becker County farmer

"You don't get exposed to new ideas if you live like a hermit on the farm. That's where dairy diagnostics comes in."
- Douglas County farmer

"Our trip to the "Johnson's Dairy;" was very helpful to our own situation. The simplicity of the operation was remarkable." - Todd County farmer

"Our farm recently completed a pack barn, a parlor, and a basin, following our team meeting. The cull rate is drop-

ping, reproductive efficiency is improving, production is up, and we've added 40+ cows." - Douglas County farmer

"Your program is very comprehensive. You've helped with everything from family farm transitioning, to the "Minnesota Corner," and high tensile fence."

"I talked to my neighbor the other day and gave him your name and number. Dairy diagnostics is a valuable program, and I think he could benefit."

"Hello...we called to sign up for your program. We were recommended by our neighbor who had good words for your program."

With a major improvement in facilities after a dairy team meeting, an Otter Tail County farm went from 56 cows to 200, and employs four families. The cows are producing 85#/cow/day.



Northwest Dairy Profit Teams

- There were 23 farms enrolled in this region in 2009, 2,145 cows.
- Estimated in-kind contributions for this region are \$58,574.00.
- The dairy initiatives program does provide good sound return on the money spent on the program. An earlier study of farms in a Dairy Initiative program average an increase of \$50,000 in net farm income and improvement to net worth of \$50,000. Utilizing the 23 dairy farms impacted by the Northwest Minnesota Dairy Profitability and Enhancement Program would have an economic impact of \$1.15 million dollar increase in profit for this year alone.
- This region has sponsored several educational events including NW Dairy Industry Meetings, Pasture Walks, Compost Barn Construction and operation and Organic Transition Planning which resulted in an additional 120 farms impacted through this program.
- There remain about fifty dairy operations in the designated TB zone. The producers have learned the system of annual testing, movement certificates, etc. The TB issue did tip the cup to have a few producers leave the dairy industry as a result of the TB requirements in the MAZ (Modified Accredited Zone).
- Everyone in agriculture is well aware of the financial setback that dairy farms have endured the past year. Even though their milk check grows smaller, each dairy farm remains a significant business for their community. Based on the 2008 MNSCU FBM Database numbers, the average dairy farm spent over \$800,000.00 to operate their business and meet their family living needs. With seventy five dairy farms in the NW area, that means that 60 million dollars were spent by dairy farms alone.

Some enterprise management observations by farms within the program:

- An increase in average milk production per cow of approximately 500 pounds per cow.
- Total cost per cwt of milk produced is below the bench average
- Lbs. of milk produced per lb/grain concentrate is above the benchmark average
- Milk price of DI farms tend to have a higher average milk price than the benchmark.
- Net farm income tends to be above the benchmark average.
- In addition the accessibility to competing processors, value of, and quality feed alternatives, distance to processors (Milk Hauling charges) continue to be a challenge for this region.
- In addition the accessibility to competing processors, decrease value of quality feed, because of excess moisture and distance to processors continue to be a challenge for this region.



Northwest Team Testimonials/Observations:

"The team helped us look at alternative feeds and how to get them to our farm for an affordable price."

- Clearwater County farmer

"We have changed our herd from conventional to organic milk production with the help of the initiative team and my farm management instructor."

- Mahnomon County Producer

"The Dairy diagnostic team that visited our place last year gave us a list of things that we could do to change our operation to be more profitable. We found the suggestions very useful."

- Beltrami County producer

"We have made successful changes with the help of the dairy Diagnostic team."

- Beltrami County producer

"This program has helped me to improve production and to work with the EQUIP program."

- Polk County farmer

"This is a very good program. After each visit we have things we would like to accomplish. We have implemented many of these ideas and continue to come up with new questions" The team helps us to sift through the questions and concentrate on the things that are most important for our operation."

- Mahnomon County producer

"By having the team visit it saved our dairy operation. By following the team suggestions of keeping financial records and tracking efficiencies we were able to improve profitability."

- Polk County farmer

"The Dairy Initiative program gave us the opportunity to explore the possibility of putting in a robot because of the workshops that they have sponsored."

Clearwater County producer

"Every visit that the team makes helps us to refine our dairy business, we wish more dairies would open up to the ideas that come from the dairy diagnostic visits."

- Mahnomon County Producer



Dairy Profitability Enhancement Program (DPEP)

- Seventy two farms, (with a total of 11,869 cattle and goats) were enrolled with DPEP in 2009.
- One hundred ninety-eight industry professionals donate their valuable time to the dairy producers enrolled in the Dairy Profitability Enhancement Program (DPEP). The majority of these professionals serve on multiple teams. They participate in an average of 3.4 meetings per farm per year. This is equivalent to \$294,525 of in-kind contributions to the dairy industry in the DPEP region.
- DPEP also had 360 farms touched through educational programs, workshops, etc.
- DPEP estimates the economic impact of their program is approximately \$1,945,372.
- The financial crisis that the dairy industry is enduring has created an increased need for Dairy Profit Team advisement. Cuts in funding for the Dairy Development and Profitability Program may limit the program’s potential to meet the needs of Minnesota’s dairy farmers.



Dairy Enhancement Program Testimonials and Observations:

"Without the Dairy Profitability Enhancement Program, we would have given up years ago." - Chisago County producer

"The Dairy Profitability Enhancement Program has helped us in expanding our dairy operation. They have kept us informed of grants and monies available to us, and have helped us build more confidence that we are moving in the right direction with our operation. I am very satisfied with the way things are." - McLeod County Dairy Producer

"DPEP forces us to look at things that we would sometimes like to ignore (reproduction, SCC). We were encouraged to get a handle on reproduction of our herd. Now, although we still have room for improvement, we have more heifers on hand, and in another year or so, we will have greater flexibility in culling or selling springing heifers." - Rice County Dairy Producer

A Le Sueur County farm family that owns and operates a 180 cow dairy has met quarterly with their dairy profit team over the past year. They have focused on maintaining the herd’s performance level while reducing input costs in an effort to maintain their equity position during this extended period of low milk prices. The farm family’s commitment to a strict timed breeding program, as recommended by their team, is paying off. The herd’s peak milk production level has consistently improved and is 16 lbs/cow higher than it was just one year ago. Their pregnancy rate continues to improve as well and is currently at 20%. They estimate that their total annual economic impact is \$326 per cow or \$58,080 for the farm.

A Sibley County farm family has worked closely with their DPEP team in the last year. They use their meeting time to address areas where there is opportunity for improvement and create a comprehensive plan of action so they may capitalize on those opportunities. Team members work with the farm family between team meetings to complete the plan. A specific area of focus in the last twelve months has been employee performance both in and out of the parlor. An incentive / reward system has been created. It was essential that this program was implemented at little or no cost to the farm family. Team members and the companies they represent have generously donated items to be given to employees as a "reward" for a job well done. The employees have begun to take their job more seriously and have been instrumental in improving the herd’s performance level in relation to milk production, milk quality, and reproductive health. They estimate that their total annual economic impact is \$356 per cow or \$152,963 for the farm.





Central Dairy Profit Teams

One hundred forty four farms in this region worked with this program in 2009. (15,191 cows and dairy goats). There have been 2,113 new animals added due to expansion within this region. Thirty four of this year's participants were first time enrollees.

- Estimated in-kind contributions are \$518,400.
- Estimated economic impact of their program is \$30,935,789.00 as well as an estimated of new investment of \$6,464,200.00
- Central MN region also worked with 12 new start-up dairy producers.
- Teams focused on increasing cow numbers, beginning farmers, improved record keeping skills, increasing milk production, improved milk quality, farm transfers, low cost facilities improvements and improved herd health.
- This region also provided mini-grants to producers focusing on Milk Quality, Farm transfer, Expansion and new start-ups.
- Central teams also promoted other educational events including seminars and Summer Farm tours. Despite the low milk prices this resulted in an additional 476 farms impacted by the program.



Central Team Testimonials/Observations:

In the spring of 2008 CMDPT and SCTC FBM instructor started working with a wife of a dairy producer in Benton county; she wanted help to learn how to keep financial records and to teach her two sons how to become profitable in the dairy business, which her and her husband had seemed to struggle through the last many years. With the help of the team approach and many volunteer team members we have helped this farm get to grade A by guiding them through a milk house update, adding gutter grates in the barn where needed and teaching the young sons about nutrition and general care for the animals from milk quality to herd health. This farm has exceeded any of our imaginations, this past winter they won numerous awards through DHIA, the one son filled out and received a young producer FFA loan to add more bred heifers to his herd, they are keeping records up to date with Fin-Pack and DHIA, plus the additional income this farm is receiving now that they are Grade A producers vs. when they where Grade B is at least \$3,000.00 per year.

Fall of 2008 CMDPT received a phone call from the "Farm Beginnings" program with Land Stewardship about the possibility of teaming up and working on two farms in our program area that are looking at creating a farm transfers down the road. One of the farms that we started working with has a son that just returned home after being out in the "real" world for six years, and was itching to start farming with mom and dad. He had great ideas and young youthful energy sometimes more than dad could handle. Change is hard for producers that get into a routine, they are comfortable with the way things are, and some times think that maybe if the changes are made things won't work as well as they did before. The team started with small steps, SCC was the first and foremost. It seemed that the greatest return to the farm would be to lower the SCC and collect the additional pay from the creamery instead of taking a deduct out of every milk check. This small step showed the producer and his eager son that baby steps can show big rewards. They currently are milking 100 + cows through a small stanchion barn, with a bedded pack for switch cows, the producers goal is too eventually build a low cost parlor in the existing barn and convert an over crowded heifer shed to a bedded pack for milk cows, and move heifers out to an open lot or a empty facilities at a neighbors. Land stewardship also gained a lot of useful information about the dairy industry by taking part as a team member on this farm.

A recent 2008 December graduate of the University of Minnesota with a dairy science degree came to our program looking for a team approach to help her get started into the dairy industry. With the help of her team she now is sub-leasing a freestall barn and parlor in Benton County; she applied for a FSA loan for beginning farmers in February of 2009 that is when she became owner and manager of her 150 cows. This young producer had to purchase \$300,000 worth of cattle and machinery. She purchases all of her forages from local farms ~\$80,000/yr. Her rent is \$35,000/yr. Replacement heifers cost about \$40,000/yr. Other expenses ~\$300,000 for feed; vet, etc are similar to other dairies. She is currently milking 150 Holsteins three times a day in a double-ten herringbone parlor with a 90# bulk tank average, cows are housed in 1/2 of the current sand bedded free-stall barn and all of her feed is purchased locally. She is the full time manager of the dairy, but does also employee two full-time and one part-time employee.



Sustainable Farming Association (SFA)

- SFA worked with approximately 17 producers as they explored converting their operations to grazing and/or organic production. The SFA also sponsors educational workshops, seminars and field tours across the state to be a resource to producers about organic management. More than 1575 participants attended these events.
- Estimated Economic Impact \$80,000.
- Estimated In-kind contribution \$9,300.
- SFA worked collaboratively to assist the dairy farm family toward meeting their goals through the use of mentors, production and animal health specialists and others with expertise in grass-based or organic production methods. SFA also facilitated workshops, field days and/or demonstrations by experienced dairy farmers and grazers in cooperation with other DPEP teams. SFA has also supported dairy farm industries related to on-farm and value-added dairy opportunities such as cheese makers and organic dairy processors. SFA also assists in locating and utilizing specific financial and technical resources and partners.
- Provided farmers with assistance via dairy planning grants, MDA and USDA grants and loans. Provided liaison services to connect farmers with FBM and FSA services as well as collaborated with the other MDI teams as needed when working with grazing, organic, sheep or goat dairies.
- GrazeFest is an example of one of the successful annual grazing events supported by SFA for dairy and grazing farmers. The 2008 GrazeFest event was hosted by Dan Middendorf and Kent Solberg of Verndale, MN. Both are very successful grazing dairy producers and grazing mentors.
- The market for sheep and goat dairy products is slowly returning after a sharp drop-off in producers and distributors. Woolwich Dairy, Inc. of Lancaster, Wisconsin (www.woolwichdairy.com) has a waiting list of producers who would like to sell raw product to them. Cost of shipping milk has been prohibitive for many producers during 2008 and 2009 due to fuel and mileage. There is still interest among small goat farmers to grow their herds and ship more milk. The main set-backs have been in syncing production and distribution with demand. SFA has two dairy sheep producers interested in expanding their sheep milk production and have inquired how to get help. Neither has setup teams, but have asked for help locating equipment and loans. One, located near Kimball, has found a bulk tank and is collecting milking equipment.
- Organic dairies are experiencing challenges as processors are refusing to take more organic milk. Organic Choice has placed a ceiling on payments per hundred weight. Organic Valley has placed a quota on existing producers and is letting some producers who are transitioning onto the truck, but is not taking new producers. Horizon is also feeling the pinch of organic milk processing.
- Some consistent trends with grazing dairies are occurring. This includes all of the organic farms, since they are required to graze, as well as non-certified grazing dairies. These trends include low to moderate production, very low sickness and disease costs, widely varying Somatic Cell Count, happy cows and satisfied producers. Some of these characteristics defy a clear-cut economic impact. SFA sees great potential for a unique marketing category of 'green' milk if the industry can settle on standards for grazing. More conventional dairies are experimenting with grass as a supplement to their standard feeding program with mixed results.
- There are a good number of inquiries into starting up a dairy. Some are existing farms that would like to add dairy as a component. Those that are trying to start from scratch have some huge financial hurdles. SFA is working with more college-age persons interested in farm experience and possibly a farm career. The organization is creating a pool of existing dairy farms that are well managed that can hire or host young people who are interested in experience in dairy.
- There is continued interest in on-farm processing. Fortunately, there are some good examples of successful farmstead producers in Minnesota. Also, these producers are willing to share their experiences and know-how to help others do likewise. Goat dairy producers who are too distant from processors have looked into on-farm production of finished product. Fortunately, Minnesota has three experts at U of M – St. Paul, U of W – River Falls and SDSU – Brookings who can help with education related to cheese-making.
- The demand for cheese-making skills is still strong. In 2008, Jodi Ohlsen-Read had some cheese-making classes at her farm that were well attended. SFA has made cheese and wine tasting events a standard part of the annual conference due to the wide variety of producers in this region with more coming online every year.
- In late 2007, SFA secured \$7,000 from the West Central Partnership (WCP) to underwrite the costs associated with surveying the need for a dairy labor pool in Minnesota. The University of Minnesota Center for Small Towns agreed to work with the SFA MDI steering committee in developing and conducting this survey of a random sample of sustainable dairies and Minnesota Milk Producer Association (MMPA) member dairies. The results of this survey were released in early summer 2009. Those providing input into the project and survey include Jim Salfer, UofM Extension, Dennis Johnson, UofM WCROC, Mike Mastey, Ridgewater College FBM, Brant Groen, Ridgewater College, and Ben Winchester, UofM Center for Small Towns. The MMPA board reviewed and approved the use of this survey with their membership. Now, with some seed money from MDA, the program has



begun organizing for real work. A website has been created at www.mndairylabor.com and the first participants have enrolled in the program. Host farms are being selected by region and lists of workers are being developed. Jim Salfer and others have proposed an educational program for workers to help them obtain an unaccredited certificate in dairy herd management.

- Working Lands Initiative (WLI) is a joint project of the USFWS, MN DNR, NRCS and local partners that encourages farmers to voluntarily adopt environmentally friendly practices by determining what habitat their land hosts and adjusting their farming habits to accommodate these ecosystems. This is a fledgling program that could be of benefit to sustainable grazing farms of all livestock types, especially dairy farms. SFA partnered in one pilot project located in central Pope County this past year and is poised to continue encouraging grazing practices, environmental stewardship and reducing invasive plant species in other targeted regions as they become available. The next targeted region has been identified in northwestern Kandiyohi County and southeastern Pope County. Dry heifers and beef cows are currently grazed in this region and there is discussion of adding goats to the mix to curb the expansion of invasive woody plants.



SFA Testimonials/Observations:

Will and Joy Hedquist, Carlton County

SFA continues to work with Hedquists in a non-team format due to their distance from the dairy belt. SFA and Western MDI are utilizing Hedquists innovative dairy model to expose other dairy producers in central Minnesota with some interesting alternatives to standard dairy enterprises. Hedquists opened their new on-farm store where they sell farmstead products such as: sausages and cheese made with ingredients from their livestock.

In 2009, SFA partnered with Hedquists and other producers as hosts of this year's GrazeFest. Hedquists were one of several stops on grazing tours where they showed off their on-farm store and production methods. Their farm, under the name of Green Pastures Dairy, sells out of cheese every year. They are looking to expand their production now that the farm store is in operation.

Joe Borgerding and Bob Mueller, Stearns County

Both Joe and Bob have been setting up their herds on their own farms through a sharemilking arrangement. Mike Mastey of Farm Business Management has been working with them on the

business planning for this transition. It is through Joe and Bob's vision that the Mn Dairy Labor Development Project got its start. Initially, they both were involved in the EQA program and have transitioned into a leadership/mentor role.

Andrew and Bonnie Wirtz, Wright County (presently)

SFA met the Wirtz's in 2009 and are helping them develop a resume, business plan and skill-set to obtain fulltime work on a grazing dairy farm. Eventually, they would like to rent or buy their own grazing dairy in the north-central region of the state. They are the first clients of the dairy labor program while SFA develops procedures and processes for matching workers with farms and helping workers develop goals for their short-term and long-term future. Here is an excerpt, written by Bonnie, about their feelings about MDI from a recent email.

"...Thank you very much for your help on our journey towards farming. Until we met you (besides our friends in Upsala) there was not a whole lot of positive support and farming seemed an impossible task...I (Bonnie) have been reading through a book (Farmers For the Future)

and also had read your article in the CornerPost. I have a lot of things to say about what would help with successful internships/ employment opportunities between established farmers and young farmers if you are interested. I have a lot of ideas that might help ease the transition and create a trusting relationship between both parties."

Marv Meyer, Stearns County

SFA has been consulting with Marv about starting up a small dairy on his farm near Meire Grove for about six years. First, Marv was saving money and awaiting his retirement from the U.S. Army as a trainer. Then, Marv was put on disability with very limited use of his shoulders. Between finances and his disabilities, it seemed like a pipe dream to have his own dairy operation where he could have his children take an active part of the daily activity. Amazingly, I got this email from him.

"Thanks for forwarding the ads. I am ... actually milking cows here!... I suspect the number to climb next summer. Am currently working on my cheese creamery as well..."





Southeast Dairy Profit Teams

- 54 farms (with a total of 9,556 cows) enrolled in the dairy profitability program in 2009.
- Estimated in-kind contributions are \$92,450.
- Estimated economic impact of the program is \$ 1,433,400
- This region partnered and hosted a number of workshops the total of educational contacts is estimated at 159 for the past year.
- During the past six months it has become very clear that our style of operation, specifically requiring coordinators to be at all team meetings doesn't allow us to "touch" as many farms as other regions. Likewise since we have very strict guidelines in place on when team stipends can be used we have fallen out of compliance with the grants.
- Our long term approach of goal setting and profit enhancement also seems to have the support of dairy professionals, based on their willingness to participate on teams. With the documented measurable results our economic impact isn't a guess and can be supported by the team members. Our Board feels very strongly in our team process and will continue to support until funding is no longer available.



Southeast Team Testimonials/Observations:

"The dairy initiatives team we set up has been very beneficial to our operation both pre-construction and after. We were milking in a 52 tiestall barn and moved into a 120 sand bedded freestall barn with scrapers and 2 robotic milkers. We designed, got permits, built, and began milking in the new facility in less than 4 months! The input from all the team members was critical for making this pos-

sible. The technology grant was used for a bookkeeping program which gives us quick and accurate financial information that allows us to efficiently track our business performance. We are very grateful for how much our dairy initiatives team has helped to make our transition a success." - Wabasha County producer

"I was reluctant to call in a dairy initiatives team when our SCC count hit an all-time high because I was stubbornly clinging to the belief that we should be able to solve this problem ourselves, but I think brining in a team helped us to avoid hitting road blocks that we may have hit going at it alone."
- Mower County producer

Dairy Business Planning Grants

The Dairy Business Planning Grants Program granted \$183,613.22 to producers exploring making some changes to their operations in fiscal year 2009. The grants are capped at \$5,000/producer with a requirement of a one-to-one match by the applicant. A number of the producers are considering expansion, while others are improving their environmental stewardship or refinancing their debt or transferring the operation to the next generation. There have been a few that have tested their farms for stray voltage and then determined the best route to eliminate it from their farm. The end result must be a business plan that thoroughly explores making that change.

If only 75 percent of all grant recipients over the past year decided to go forward with their plans, there would be an additional 1,710 cows added to the state. At a modest production (18,000 lbs./cow) and conservative milk price (\$12/cwt) \$ 3,693,600 of gross income will be added to the economy of rural Minnesota. In addition, this will result in an additional 34 jobs if one assumes 50 cows/FTE. Appendix C is a map of the 42 producers who applied for and received dairy business planning grants in fiscal year 2009.





Benchmarks

Despite the belief that the size of a herd and milk production is a predetermined factor or benchmark to the profitability of a dairy enterprise, figures from the 2002-2008 Minnesota State Colleges and University (MnSCU) Farm Business Management Records indicate that a well managed small farm carrying a small debt load can provide a satisfactory level of income for a family. Efficient use of available resources, maintenance of a healthy herd, a base level of \$15.71/cwt of milk and the use of DHIA (or similar) records will in combination generate profits to the dairy enterprise. While benchmarks are a way to draw a line in the sand as it relates to achieving a certain level of profitability, these can not be stand alone numbers, but can be used as a guide in total. Interest rates, milk marketing conditions, weather, debt load, supply and demand for energy as well as feed supplements and transitional stage of the herd as well as herd health are all variables that can affect the outcome of any given year.

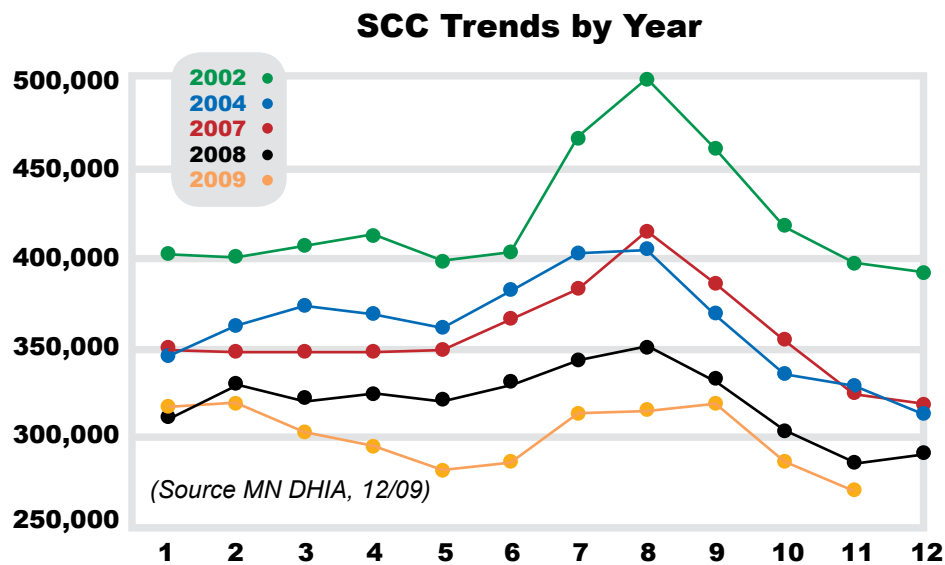
HIRED LABOR	<\$270/cow
TOTAL INTEREST EXPENSE	<\$111/cow
TOTAL DIRECT EXPENSE	<\$11/cwt
MILK PRODUCED	+21,000/cow
CULL RATE	26%
TURNOVER RATE	31%
SCC	<300,000
PERCENT OF BARN CAPACITY	105%
FEED COST/CWT	<\$8.22
MILK PRICE & GOV'T SUPPORT	\$15.90
TOTAL DEBT TO ASSET RATIO	<50%
DEBT PER COW	<\$3000
LABOR HOURS PER COW	<41

Quality Count\$

Quality Count\$ was an initiative designed to help increase dairy farmers profitability and milk quality by decreasing their herd somatic cell counts. Quality Count\$ is an initiative that came about thanks to a unique partnership among Minnesota's public and private dairy organizations (University of Minnesota Extension Service, Minnesota Department of Agriculture, Minnesota Dairy Initiative Teams as well as Farm Business Management Instructors and Minnesota's dairy processors) worked together to reduce Somatic Cell Counts to below 300,000.

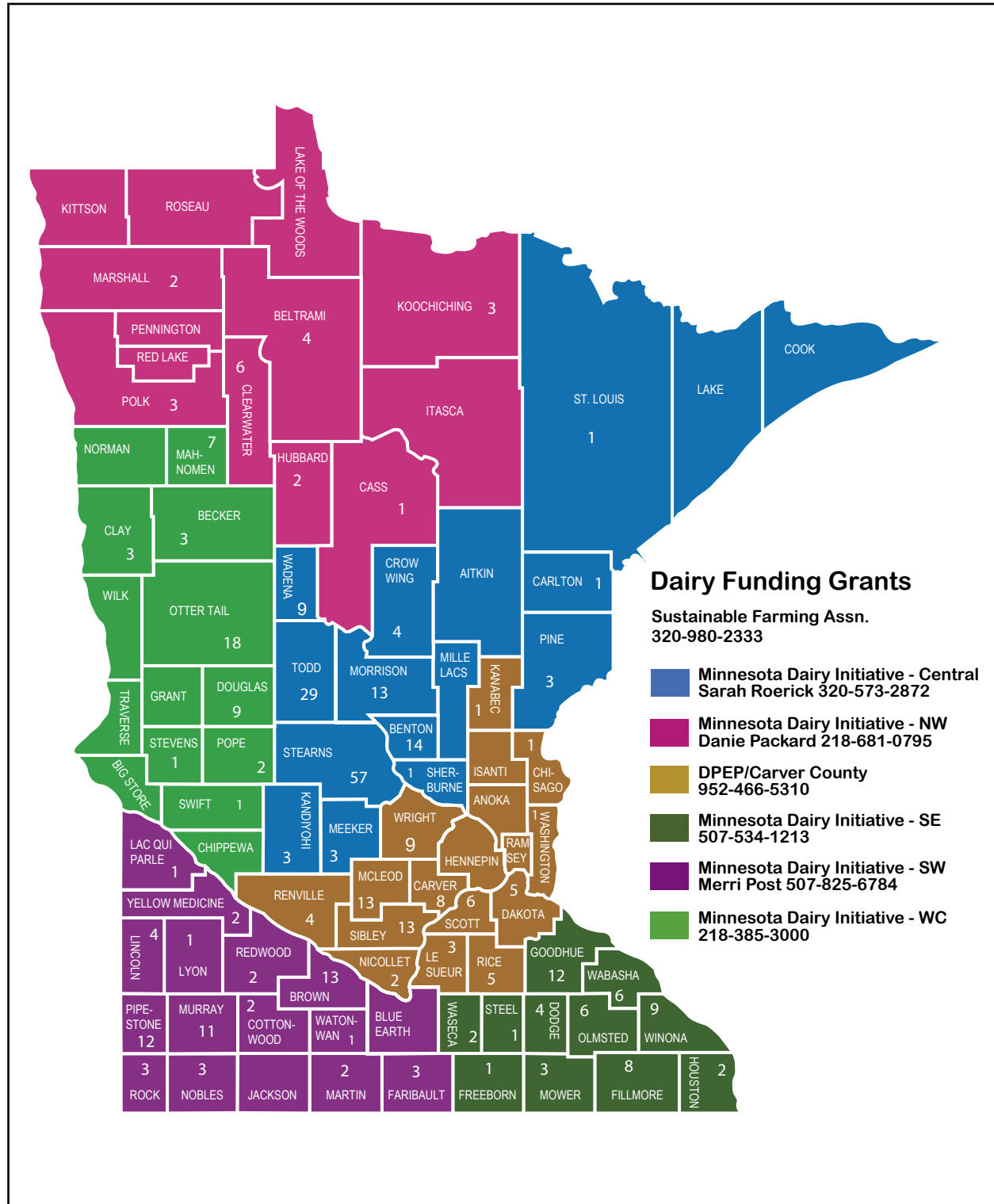
For calendar 2009, Minnesota's average herd SCC was 297,000 (based on Jan-Nov. data), 310,000 for 2008, 320,000 for 2007, 319,000 for 2006, 367,000 for 2005, 362,000 for 2004, 397,000 for 2003, and 424,000 for 2002.

Bruce Dokkebakken, of MN DHIA, has been very helpful in tracking SCC as a measure of milk quality of farms within DHIA.



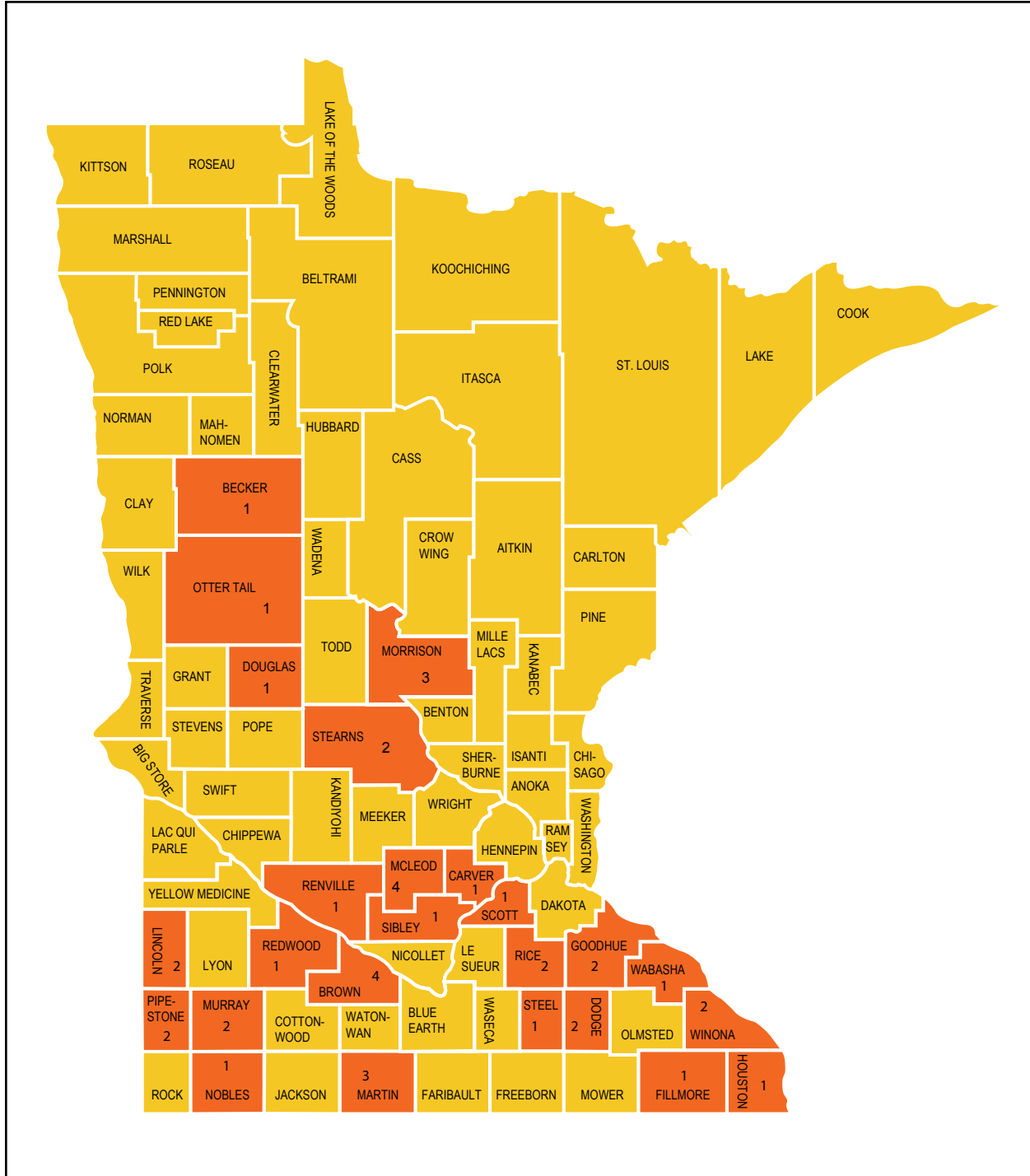
Appendix A

Dairy Development Profitability and Enhancement Teams and Regions



Appendix B

Minnesota Department of Agriculture 2008 Business Planning Grants



42 Dairy Business Planning Grants distributed \$183,613.22 across MN for FY 2009.



Appendix C

\$960,000 the first year and \$40,000 the second year are to expand the one-on-one educational delivery team system to provide appropriate technologies, including rotational grazing and other sustainable agriculture methods, applicable to small and medium sized dairy farms to enhance the financial success and long-term sustainability of dairy farms in the state. Activities of the dairy diagnostic teams must be spread throughout the dairy producing regions of the state. The teams must consist of farm business management instructors, dairy extension specialists, and dairy industry partners to deliver the informational and technological services. Not later than February 1, 1998, the commissioner shall provide an interim report to the standing committees of the Minnesota senate and house of representatives that deal with agricultural policy issues and funding on activities and accomplishments of the dairy diagnostic teams. The commissioner shall provide a follow-up report to the committees on February 1, 1999. This is a one-time appropriation.

\$1,004,000 the first year and \$1,005,000 the second year are for continuation of the dairy development and profitability enhancement grant program under Laws 1997, chapter 216, section 7, subdivision 2, and to expand the program to include additional dairy business planning and modernization activities. Grants from this appropriation for the dairy development and profitability enhancement programs (formerly known as the "dairy diagnostics program") must require periodic reports to the commissioner on the aggregate changes in producer financial stability, productivity, product quality, animal health, environmental protection, and other performance measures attributable to the program. Information reported to the commissioner must be sufficient to establish regional and statewide performance benchmarks for the dairy industry. (b) In designing and implementing the dairy development and profitability enhancement program the commissioner must consult with the dairy leaders roundtable, appropriate producer and processor groups, the Minnesota state colleges and universities system, the Minnesota extension service, farm credit services, and other agricultural lending institutions. (c) Of the appropriation in paragraph (a), at least \$704,000 the first year and \$705,000 the second year are for the activities of dairy development and profitability enhancement teams. The commissioner must make grants, under contract, to regional or statewide organizations qualified to manage the several components of the program. Each regional or statewide organization must designate a coordinator responsible for overseeing the program and making required reports to the commissioner. Dairy development and profitability enhancement teams are encouraged to engage in activities including, but not limited to, comprehensive financial analysis, risk management education, enhanced milk marketing tools and technologies, five-year business plans, and design and engineering costs. Up to 40 percent of the appropriation under this paragraph may be used to provide producers with technical and environmental compliance support services required to implement dairy environmental quality assurance practices. A producer is eligible for support under any program under paragraphs (a) to (e) for no more than three consecutive calendar years. Grants to producers must not be used for capital improvements or for the start up of a new dairy enterprise. (d) Of this amount, up to \$300,000 each year may be used as grants to producers of up to \$5,000 per producer to develop comprehensive five-year business plans. (e) The regional and statewide organizations that deliver the dairy development and profitability enhancement program must provide required reports to the commissioner in a format that maintains the confidentiality of business information related to any single dairy producer.

2005 First Special Session Ch. 1 Article 1 Sec. 3 Subdivision 5

\$1,004,000 the first year and \$1,005,000 the second year are for continuation of the dairy development and profitability enhancement and dairy business planning grant programs established under Laws 1997, chapter 216, section 7, subdivision 2, and Laws 2001, First Special Session chapter 2, section 9, subdivision 2. The commissioner may allocate the available sums among permissible activities, including efforts to improve the quality of milk produced in the state, in the proportion which the commissioner deems most beneficial to Minnesota's dairy farmers. The commissioner must submit a work plan detailing plans for expenditures under this program to the chairs of the house and senate committees dealing with agricultural policy and budget on or before the start of each fiscal year. If significant changes are made to the plans in the course of the year, the commissioner must notify the chairs.

2007 Ch. 45 Article 1 Sec. 3 Subdivision 5

\$1,005,000 the first year and \$1,005,000 the second year are for continuation of the dairy development and profitability enhancement and dairy business planning grant programs established under Laws 1997, chapter 216, section 7, subdivision 2, and Laws 2001, First Special Session chapter 2, section 9, subdivision 2. The commissioner may allocate the available sums among permissible activities, including efforts to improve the quality of milk produced in the state in the proportions that the commissioner deems most beneficial to Minnesota's dairy farmers. The commissioner must submit a work plan detailing plans for expenditures under this program to the chairs of the house and senate committees dealing with agricultural policy and budget on or before the start of each fiscal year. If significant changes are made to the plans in the course of the year, the commissioner must notify the chairs.

MN Laws 2009, Chapter 94, Article 1 \$780,000 the first year and \$755,000 the second year are for continuation of the dairy development and profitability enhancement and dairy business planning grant programs established under Laws 1997, chapter 216, section 7, subdivision 2, and Laws 2001, First Special Session chapter 2, section 9, subdivision 2. The commissioner may allocate the available sums among permissible activities, including efforts to improve the quality of milk produced in the state in the proportions that the commissioner deems most beneficial to Minnesota's dairy farmers. The commissioner must submit a work plan detailing plans for expenditures under this program to the chairs of the house of representatives and senate committees dealing with agricultural policy and budget on or before the start of each fiscal year. If significant changes are made to the plans in the course of the year, the commissioner must notify the chairs.