

FY 2014

LEGISLATIVE
REPORT

Dairy Development and Profitability Enhancement



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Pursuant to Minn. Stat. § 3.197, the cost of preparing this report was approximately \$__1000_____.

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Executive Summary

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

1. Dairy Profit Teams

- Based on 2013 farm records analysis, these teams produced a \$13,583,138 return on the state’s investment, resulting in a \$29.5 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 \$644,187.

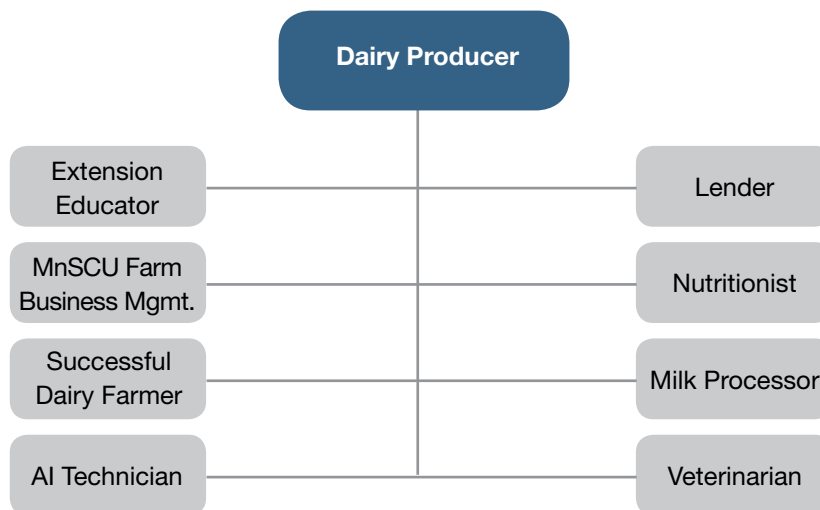
2. Dairy Business Planning Grants

- The Dairy Business Planning Grants Program assists producers in positioning themselves for the future. This grant covers 50 percent of the cost of developing a business plan, up to a maximum of \$3,000.
- 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.

Introduction

The Dairy Profit 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 2014, a total of \$460,000 was granted to the program partners.

Dairy Development and Profitability Enhancement Team



The above chart shows an example of a Dairy Profit 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.

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

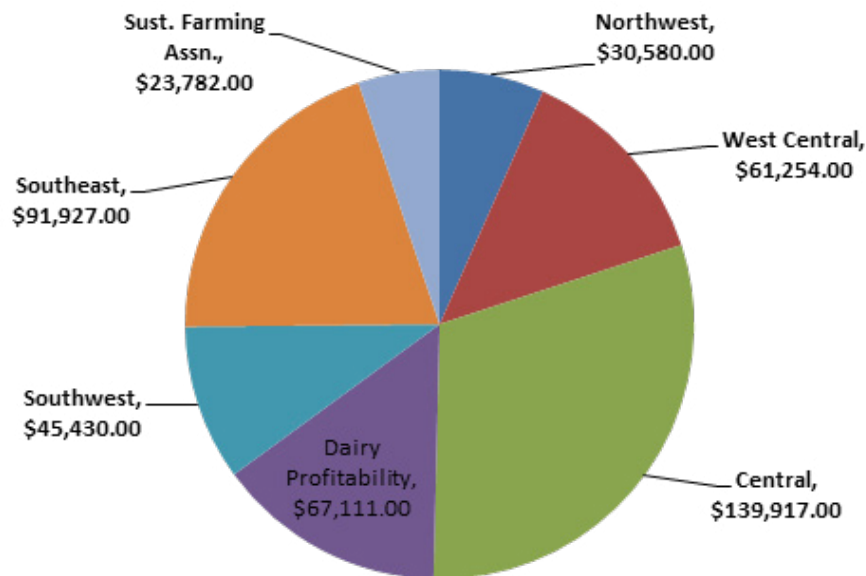
Background

Minnesota Dairy Initiative (MDI)

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.

Distribution of Fiscal Year 2014 Dairy Team Grant



The Program Partners

Statewide, 300 dairy farms representing 57,582 cows (8 percent of farms and 12 percent of the cows respectively) participated in the program in FY 2014. Of this total, 283 farmers were enrolled in the six regional groups with the remaining 17 dairy producers working with the Sustainable Farming Association. In addition, there were 9,638 farms that participated in educational programs conducted and led by the Minnesota Dairy Initiative programs (MDI), 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 51 participant herds in 2014 (6,083 cows).
- Estimated in-kind contributions for this region are \$14,000.
- In addition there were 128 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 \$160,600.
- West Central is working with farms to incorporate cover crops to improve the soil health and soil fertility. Some early adopters have bought their own no till drills. Dr. Terry Van Dyke is working to find and recommend cures for stray voltage on farms. Feed prices are down and milk prices are up allowing for milk producers to catch up financially.

West Central Team Testimonials/Observations:

Nate Walters, Pope County

Nate Walters is getting an additional 7 lbs. of milk per cow after having his farm checked for stray voltage. A field day was held at his farm and was well attended.

Martin Primus, Todd County

MDI has helped increase milk production in two ways. A. was with improvements in my hay fields and pastures because of my no till drill. B. found and fixed stray voltage.

Michael Guck, Ottertail County

MDI helps with the farm business management, it helps with the soil testing and helps with a variety of other things.

Northwest Dairy Profit Teams

- There were 17 farms enrolled in this region in 2014 (1,830) cows.
- Estimated in-kind contributions for this region are \$22,440.00.
- Coming up with a specified economic impact is always a difficult item to pin down. I believe all of the dairy farms are better off financially by participating in the Dairy Initiative Program. Based on the 17 Northwest dairy farms that participated in the program this past year, their dairy enterprise analysis showed an average of \$4,062 of milk sales per cow. Total cow numbers for these farms was 1,830. This equates to more than \$7.4 million dollars in milk sales. With 102 dairies in the Northwest Region and more than 7,000 cows, figuring a similar return per cow, total milk sales from the Northwest area should have approached \$29 million. With the dairies most of this income is spent in the local and regional economy. That is a sizeable amount of money to be circulated in our sparsely populated area of the state.

Net return per Dairy Cow	NW \$ 488	State wide \$ 295
Total Expenses per Cow	\$3,584	\$4,088
Feed Cost per Cow	\$2,167	\$2,380

- This region has sponsored several educational events including milk quality, developing grazing and feeding plans, development of business plans, work agreements and cash flows, in addition to meetings on robotic milking, cost sharing equipment, energy issues and facilities and cow comfort which resulted in an additional 151 farms impacted.
- The dairy industry had a rebound year in 2013-14. A swing in feed prices has made a huge impact in returning profitability to the dairy industry. Record high corn and forage prices drove profits down to a barely break-even scenario in the prior two years. MNSCU Farm Business Management data for 2013 shows profit per cow of less than \$300 per cow and less than \$100 per cow when applying a labor and management charge. 2014 data appears to show that profit per cow should be approaching the \$1,000 per cow and \$800 per cow after applying a labor and management charge.

Northwest Team Testimonials/Observations:

Joe Neft, Beltrami County

Please do everything you can to keep the Dairy Profit Team program continuing and keeping Farm Business Management involved in the NW DPT program.

Mr. Schafer, Roseau County

The Dairy Initiative program helps us to understand our farms financial position and to know our cost of production for milk. Our lender really appreciates getting that information.

Mr. Steinmetz, Mahnomon County

We expanded the herd to include three new robotic milkers, we have been looking for ways to improve efficiency and ultimately produce more milk per cow, per day.

Mrs. Steinmetz, Mahnomon County

I saw the success that my parents have received as they expanded their dairy herd with robotic technology.

Mr. Weidenborner, Beltrami County

With the help of the diagnostic teams we have been able to transition the dairy operation to the next generation.

Dairy Profitability Enhancement Program (DPEP)

- Forty farms, (with a total of 16,666 cattle and goats) were enrolled with DPEP in 2014.
- One hundred thirty-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 \$149,047.50 of in-kind contributions to the dairy industry in the DPEP region.

- DPEP also had 229 farms touched through educational programs, workshops, etc.
- DPEP estimates the economic impact of their program is approximately \$1,521,828.
- Additionally, some DPEP farms have made reinvestments in their operations by adding or updating facilities. Some of these updates include new freestall barns, robots, and parlor renovations. These investments total approximately \$550,000.

Dairy Enhancement Program Testimonials and Observations:

Jon Moulton, Chisago County

For our dairy, we have set goals and the DPEP is making us accountable. We can discuss more issues more in-depth. For us that is good!!

Wade Thaemert, Carver County

I like that everybody puts ideas on the table and we can see what will work for us.

Bob Schuft, Sibley County

DPEP keeps everyone I work with on the same page, including my wife.

Keith Root, Waseca County

DPEP helps me keep up on things I may otherwise let slide. I appreciate all the members of my team taking time for my meetings. It's a good way to bounce things off each other.

Central Dairy Profit Teams

Ninety four farms in this region worked with this program in 2014. (10,826 dairy cows and dairy goats). There have been 365 new animals added due to expansion within this region. Seven of this year's participants were first time enrollees and three were new start up dairies.

- Estimated in-kind contributions are \$338,400.00 (5,640 hours of Volunteer Time)
- Estimated economic impact of their program is \$ 9,221,445 which includes the economic impact of added cows, positive changes in new returns per cow of farms enrolled versus those that are not and reduced feed costs.
- Teams focused on increasing cow numbers, low cost expansion and remodeling, beginning farmers, improved record keeping skills, increasing milk production, improved milk quality, farm transfers, robotics, stray voltage and water issues.
- Central teams also promoted other educational events including seminars and Summer Farm tours. An additional 5,545 farms were impacted by the program.

Central Team Testimonials/Observations:

Producer from Crow Wing County

This program believed in our stray voltage problem when others doubted. And for that we are forever grateful.

Producer from Aitkin County

This program is a good way to get information to help make sound business decisions. They also have helped us make our dairy more time efficient.

Producer from Cass County

The program has helped me continue farming; it has provided more option and has helped with feedlot upgrade.

Agri-Business from Stearns County

This program has kept many of our farms in business, the team approach brings many options to the table.

Agri-Business from Mcleod County

This program is one of the easiest to work with, you deal with the current problems, and the team helps the producer sometimes see the big problem at the table without offending them.

Agri-Business from Kandiyohi County

Options is what I see every time a team sits down at a kitchen table, many different options on how to make life better for each farm.

Agri-Business from Ottertail County

This is a very informational program for producers and team members. I have been a part of many teams, and to see the success of the team approach on each farm is incredible!

Sustainable Farming Association (SFA)

- SFA worked with 17 producers (875 cows/goats) 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 625 participants attended these events.
- SFA provided statewide networking for dairy grazing, organic production and marketing information.
- Estimated economic impact \$100,000
- Estimated in-kind income \$8,750.
- SFA assists the dairy farm family toward meeting its goals by identifying and utilizing mentors and specialists with experience in grass-based and/or organic dairy methods, networks with other dairy farmers and develops additional value added options.

Startup and farm transition

There are a number of inquiries into starting up a dairy. Many are existing farms that would like to add dairy as an enterprise. Huge financial investments and high debt ratios make many of these inquiries very risky. The farm transfer website has been a vehicle to facilitate connecting farms looking to enter and those exploring exiting farming.

SFA Testimonials/Observations:

Douglas County

Pasture improvements: 20 percent more forage/year. Herd expansion of 2-3 cows (small acreage seasonal homestead cheese operation). 3# cheese /cow/day @\$8/pound = \$24/cow/day. \$24x210 days in milk x 2 cows = \$10,000/year additional income.

Wadena County

Custom grazing dairy heifers. About 60 yearling dairy heifers grazing complex cover crop mix. Saving dairy producer about \$0.30/heifer/day in feed cost for about 6 months (60 x .30 x 180 days = \$3,240 savings). Custom grazer getting about 378,000 #'s or 189 tons (60 head x 35# manure/heifer/day x 180 days) manure distributed for organic crop on 105 acres plus increased soil health.

Kandiyohi County

New organic dairy start-up. Building milking parlor. When completed will add 32 jersey cows. 32 cows x 10,000 #'s RHA (organic) = 3,200 cwt. 3,200 cwt x \$30/cwt = \$96,000 estimated gross income off milk. Additional income from cull cows and bull calf sales.

Southwest Dairy Profit Teams

- Twenty nine farms were enrolled in the program in 2014 with a total of 4,348 dairy cow and dairy goat operations.
- Estimated in-kind contributions are \$47,250.
- Estimated economic impact of their program is \$1,662,225.30.
- This region partnered and hosted a number of workshops; the total of educational contacts is estimated at 313 for the past year.
- The Southwest Minnesota Dairy Profit Group advisory board feels it is important to try to help any dairy in any way we can or at least try. Our goal is, "Leave No Farm Left Behind". We try to be a resource for farms we do not work with on a regular basis; to find answers to questions, get resources, or connect them with someone who can answer their questions or help them with a certain situation. We find this is a good recruiting tool. Some of these farms later come to be a farm that forms a team.
- I want to quote my statements from last year's report, "Agriculture is subject to the whims of politicians as well. It bears watching closely what happens in Washington to the talks on and final outcome of the farm bill. There is a dangerous

precedent occurring there that affects the whole economy and how people interact in the market.” Thank you for a farm bill with a Dairy program that actually seems to have had a lot of thought put into it and makes a sincere effort to provide a helping hand when and where it may be needed.

- What does this hold for the Dairy Industry? Looking ahead to 2015 we should see something similar to 2014. There can always be a history changing event to throw a monkey wrench into things, but this dairy program would fill some of the gaps that sort of thing would create. With a better safety net in place I am somewhat optimistic for 2015.
- Minnesota could soon experience a rebound in dairy cattle numbers if we become more responsive to the challenges of permitting and overcome what is perhaps more of a social stigma of the “not in my back yard phenomena.” Perhaps my faith in politicians is over exaggerated but this too could happen! The dairy industry needs a strong sense of support from all in our state as this industry competes across this country. Other forces such as water concerns could set the table for a cattle drive headed to Minnesota.

Southwest Team Testimonials/Observations:

Luke Olson, SisBro Dairy, Martin County

I have been with the southwest dairy profit group since 2009 and have had nothing but good things coming from being in it. The group benefits me in so many ways, like having my lenders on my team make it easy to communicate with them about what is happening on the dairy. They in turn have learned to trust my decisions when problems arise and I in turn have learned to use their knowledge to better run my business. Having Heidi as our coordinator has been more beneficial then she might know. She organizes the meeting, helps keep them flowing as well. She brings to the dairy knowledge of grants, ideas, people, and other things that help my business to overcome problems that pop up and to thrive. When you have a team that is working together for your business, the business will succeed far better than doing it on your own. That is why I enjoy working with the SW Minnesota dairy profit group.

Paul Lanoue, Instructor MN West Farm Business Management, Marshall, MN

I genuinely appreciate the efforts of the SW Dairy Initiative. Not only have they helped identify farmers who could use assistance in calculating financial benchmarks but have provided technical and production insight that allows our farms to grow and prosper. By teaming up local professionals to identify strengths and areas of growth potential opportunities, we have been able to navigate difficult times and make plans for business growth and transition. Both our services complement each other to strengthen the dairy industry in SW Minnesota.

Southeast Dairy Profit Teams

- 52 farms (with a total of 16,954 cows) enrolled in the dairy profitability program in 2014.
- Estimated in-kind contributions are \$ 78,300.
- Estimated economic impact of the program is \$ 240,000.
- 2,647 farms also participated in educational workshops and events within the region.

Dairy farming in SE Minnesota was greatly improved from 2013. We had a much improved cropping year with most hay surviving the 2013 winter, as opposed to 2012 winter when much of the hay saw winter kill leaving many producers without first or second crop hay. This resulted in many crop trials with a variety of forages seeded and fed. As a result, poorer forages and scramble diets were in effect until the completion of first crop hay in late May and early June. Following the improved feed quality, we saw both improved milk production and prices, which began a positive cash flow for most producers in the SE Minnesota area.

Southeast Team Testimonials/Observations:

Doug Heintz

Our dairy initiatives team has been instrumental in our farm’s success. I look forward to our quarterly meetings to bounce different ideas off our team of professionals. They have so much experience in so many diverse areas. These meetings are essential in developing our farm business management goals.

Jaime Wolf

Our MDI team and the farm management program has supported me and helped enable me to purchase the 180 cow herd from my previous employer. I was the herdsman, until I purchased the herd in the spring of 2014. We were also a recipient of the Livestock Improvement Grant by the MDA. These two (MDI Team and Grant) have

provided me the support to own my own herd. This is not something that I would have been able to do without the folks that implement these programs and support me in my day to day operation.

Dairy Business Planning Grants

The Dairy Business Planning Grants Program granted \$ 30,300 to producers exploring making some changes to their operations in fiscal year 2014. The grants are capped at \$3,000/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 1 of the 12 farms tested their farms for stray voltage and then determined the best route to eliminate it from their farm. The end result of the Dairy Business Planning Grant must be a business plan that thoroughly explores making that change.

If only 75 percent of all grant recipients who were exploring expansion over the past year decided to go forward with their plans, there would be an additional 787 cows added to the state at a modest production (18,000 lbs./cow) and conservative milk price (\$12/cwt) \$ 1,699,920 of gross income will be added to the economy of rural Minnesota. In addition, this will result in an additional 15 jobs if one assumes 50 cows/FTE. Appendix C is a map of the 12 producers who applied for and received dairy business planning grants in fiscal year 2014.

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 **2010-2014 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 \$19/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 cannot be standalone 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. In 2014 the average dairy cow made \$2.74/day due to the higher milk price, 2013 most herds broke even and in 2013 the average herd enrolled in Farm Business Management produced a profit of \$.23/day/cow. Despite the fact that 2014 was a profitable year for the average dairy the projected milk prices for 2015 are not as lucrative.

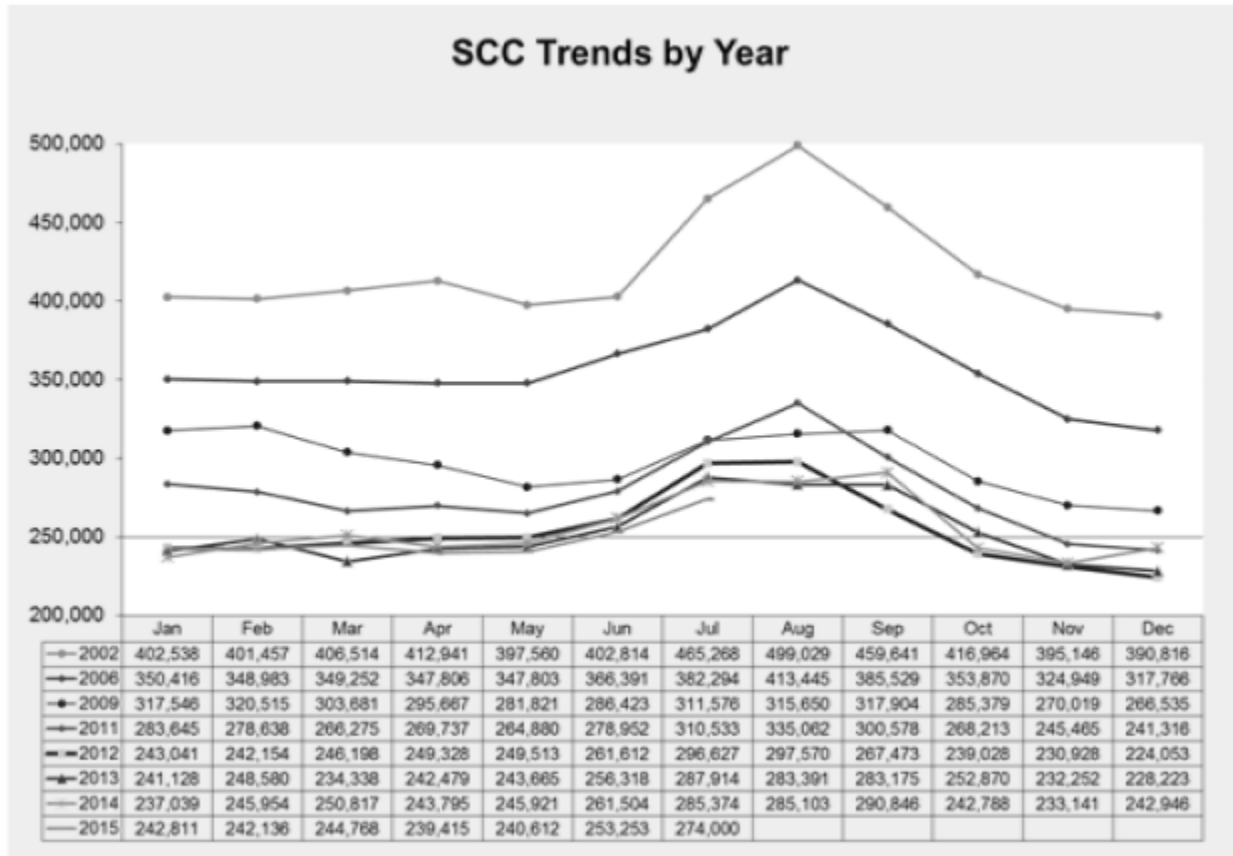
Hired Labor	<\$207/cow
Total Interest Expense	<\$93/cow
Total Direct Expense	<\$14/cwt
Milk Produced	+22,500/cow
Cull Rate	29%
Turnover Rate	37%
Somatic Cell Count	<300,000
Percent of barn capacity	109%
Feed Cost/cwt	<\$9.44
Debt per cow	<\$3000
Labor hours per cow	<41

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, MDA, 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 2014, Minnesota's average herd SCC was 235,000, 234,000 for 2013, 240,000 for 2012, 266,000 for 2011, 294,000 for 2010, 297,000 for 2009, 321,000 for 2008, 347,000 for 2007, 357,000 for 2006, 366,000 for 2005, 362,000 for 2004, 397,000 for 2003, and 420,000 for 2002.

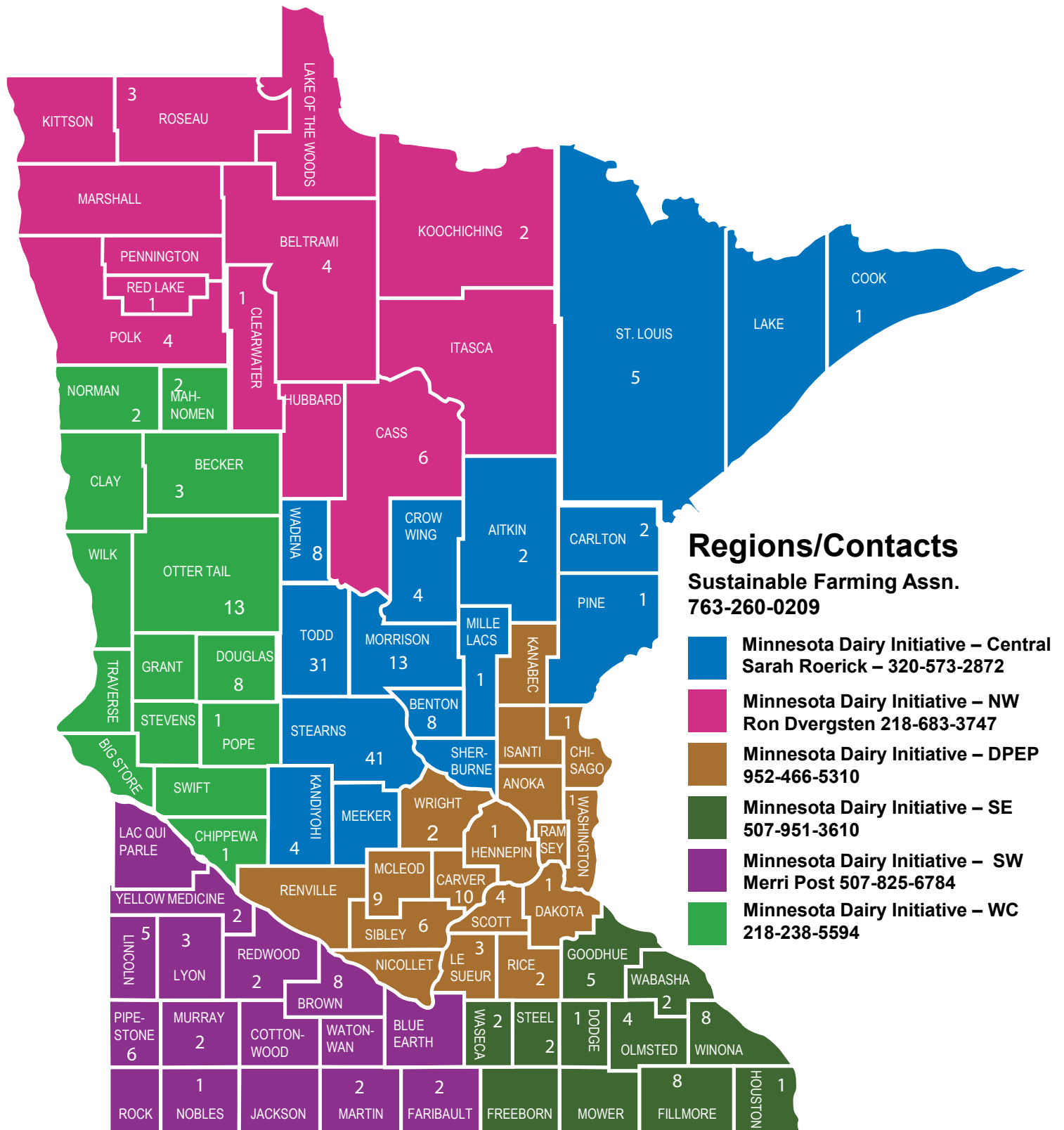
Bruce Dokkebakken, of MN DHIA, has been very helpful in tracking SCC as a measure of milk quality of farms within DHIA.



(Source MN DHIA, 8/15)

Appendix A

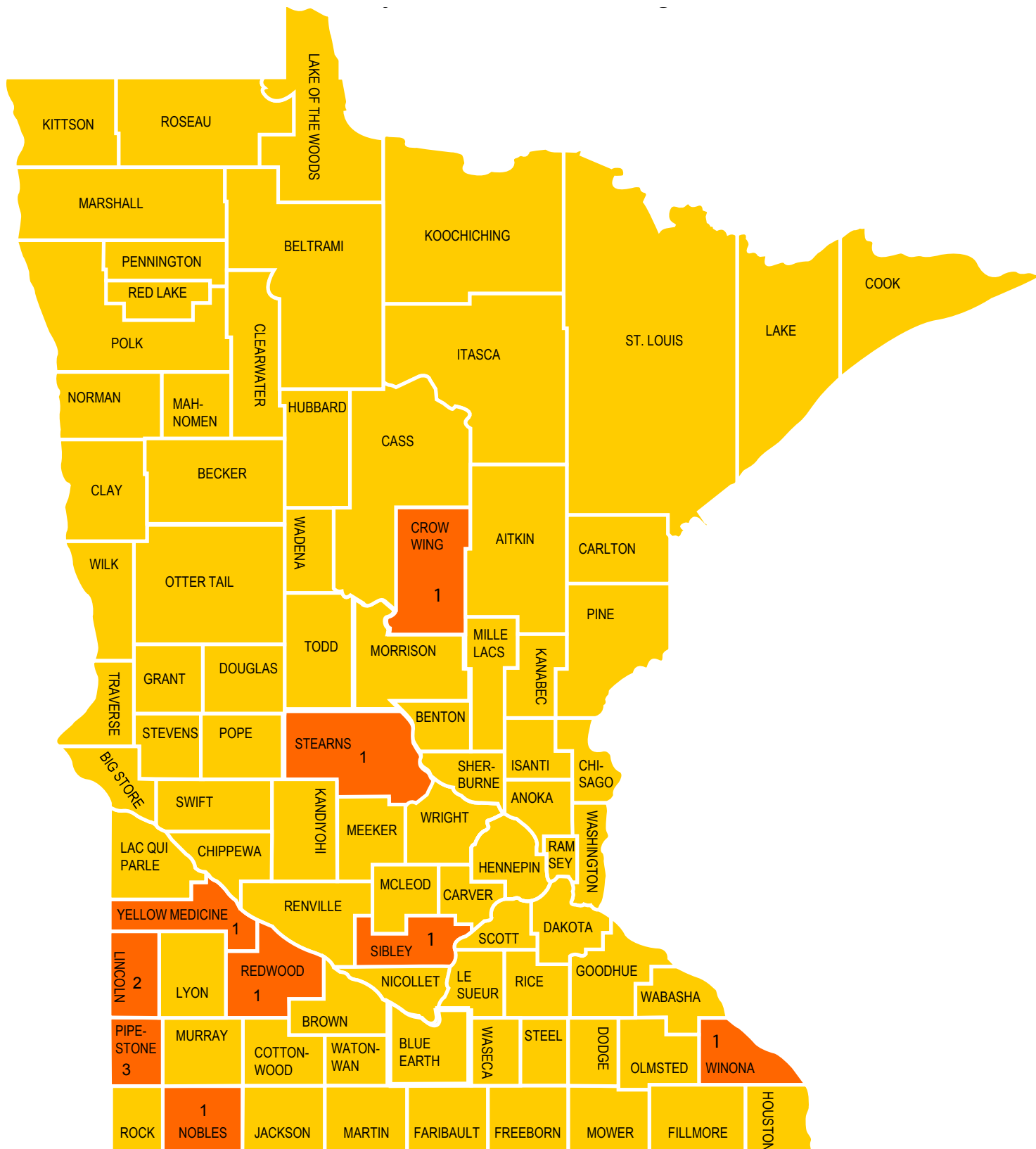
Dairy Development Profitability and Enhancement Teams and Regions



300 teams across the state in FY 2014

Appendix B

MDA FY 2014 Dairy Business Planning Grants



12 Dairy Business Planning Grants distributed \$33,292

Appendix C

Laws 1997, Chapter 216, Section 7, Subdivision 2

1999 Minn. Stat. Chapter 401, Section 6

MN Session Laws 2001, 1st Special Session, Chapter 2, Section 9, Subdivision 2

MN Session Laws of Minnesota 2003, Chapter 128

2005 First Special Session Chapter 1 Article 1 Section 3 Subdivision 5

2007 Chapter 45 Article 1 Section 3 Subdivision 5

MN Laws 2009, Chapter 94, Article 1

MN Laws 2011, Chapter 14, Section 3, Subdivision 5

MN Session Laws, 2013, Chapter 114, Subdivision 5