

STATE MILK COMMISSIONS
And
SUPPORTIVE DAIRY ORGANIZATIONS
To
GROW THE DAIRY INDUSTRY

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*State Milk Commissions & Supportive Organizations
to Grow the Dairy Industry*

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Executive Summary

The Kentucky Dairy Development Council appreciates the opportunity provided by the Legislators of the Interim Joint Committee on Agriculture to consider addressing the present crisis in Kentucky's dairy industry. The loss of dairy producers, cow numbers and production volume in Kentucky is having an increasingly negative affect on revenues for local communities and the Commonwealth.

In recent years multiple state legislative bodies have instituted *milk commissions* and *stabilization boards* with authoritative oversight of their milk industry. Most have come as a result of comprehensive studies which reveal the Federal Milk Marketing Order pricing system is driven more by an international dairy market which does not adequately consider regional differences in the production costs of raw milk. These studies further reveal an increasing margin spread of the retail price of a gallon of milk compared to the hundredweight price received by dairy farmers.

Dairy producers and allied industry representatives are becoming more educated on the marketing and pricing of milk by organizations such as the KDDC. The Federal Milk Marketing Order pricing and over-order premiums system is very complicated. Over-order premiums are paid by processors to cooperatives above the Federal Milk Marketing "Order" price and are used at the discretion of the cooperatives. A portion of these premiums are being used to subsidize the hauling of milk. It is perceived that these subsidizes are placing local producers at a competitive disadvantage to out of state producers possibly as much as \$1.50 to \$2.00 per hundredweight.

An additional advantage of using premiums to subsidize hauling allows the cooperative to make a yearly contract agreement with producers making them member-owners of the cooperative. As a member-owner the cooperative is not obligated by law to pay the producer point of delivery price, however the price must be competitive to gain the producer's milk supply.

A Kentucky Milk Commission Board comprised of dairy industry stakeholders from consumers to producers could provide much needed transparency and accountability to a market system which is mired with ambiguity and misconceptions. It could provide authoritative leadership for recommendations to revitalize Kentucky's dairy industry.

The KDDC is working directly with producers to provide resources for increasing milk production and quality, business management skills, market information, human resource management and programs for young dairy producers. KDDC also works closely with other leading organizations such as the Governor's Office of Agricultural Policy, Kentucky Agricultural Finance Cooperation, Kentucky Farm Bureau, The Kentucky Soybean Board, Farm Credit Services of Mid-America, Alltech International and many other agricultural groups to promote Kentucky's dairy industry.

This paper provides references of how states have worked collectively with producers, allied industries, government agencies and legislators to stabilize and invigorate their dairy industry. KDDC epitomizes the first step in the above process with dairy producers, allied industries and government working together. The next step is to work cohesively with Kentucky's legislators to positively affect the economic climate and provide incentives for growth and modernization. We are asking that legislation be drafted to institute a Milk Commission to provide oversight of Kentucky's dairy industry.

North/Northeast

Wisconsin – Ed Jesse, Professor and Extension Dairy Marketing and Policy Specialist, Department of Agricultural and Applied Economics, University of Wisconsin-Madison Extension recently wrote about factors instrumental in stabilizing and invigorating the dairy industry in Wisconsin. In his November 21, 2008 paper, # 96 on *Growth and Transition in Wisconsin Dairying*, he breaks down the steps taken to “direct change” to the number one agricultural industry in Wisconsin. The opening of his paper states:

Between June 2002 and December 2004, the College of Agricultural and Life Sciences, UW-Madison, and Cooperative Extension, UW-Extension, published an 8-leaflet series with a common title, *Rethinking Dairyland*.2... Between 1985 and 2001, Wisconsin milk cow numbers had fallen from 1.9 million to 1.3 million, a loss of 38,000 cows per year... In the way of a quick summary, the sobering trend projections of declining Wisconsin milk production did not materialize. Indeed, Wisconsin cow numbers have stabilized, yield gains have accelerated, and, as a result, the state is poised to break the previous annual milk production record of 25 billion pounds that was set 20 years ago. Wisconsin’s dairy sector is in a positive state of growth and transition. ¹

The USDA numbers in Table 1 substantiates Dr. Jesse’s report and demonstrates what is possible when producers, industry and government works collaboratively to address challenging issues in a mature and transitioning industry.

	Cor	Milk C	Milk Pro
Milk Cow:		1,344	17,3
Milk Cow:		1,292	17,1
Milk Cow:		1,271	17,3
Milk Cow:		1,256	17,7
Milk Cow:		1,241	17,7
Milk Cow:		1,236	18,5
Milk Cow:		1,243	18,8
Milk Cow:		1,247	19,3

Source: http://www.nass.usda.gov/Data_and_Statistics/Quick_Stats/

Dr. Jesse summarizes in his report the “Drivers of Change” on pages 11 through 14. These pages are included as Appendix A in this report. Jesse states, “Chief among these [drivers for positive change] are the creation of dairy producer organizations that affected dairy producer attitudes and the actions of state government that positively affected the economic climate affection dairy farmers and processors and provided incentive for growth and modernization.” ¹

The Wisconsin Milk Marketing Board, funded by WI dairy producers, has been active since 1983 and helps affect demand for WI dairy products. The board is also legislatively active and has been instrumental in establishing oversight to the marketing of milk in Wisconsin. Their website is available at: http://producer.wisdairy.com/wmmb_info/default.asp

Pennsylvania – Pennsylvania ranks fifth in the nation in total milk production and presently has 8,500 dairy farms according to the USDA. Pennsylvania exports milk and produced 9.93 percent of the milk pooled on Federal Milk Marketing Order 5 in 2007. ²

Pennsylvania's milk market is regulated from retail to producer by the Pennsylvania Milk Marketing Board. The Board uses over-order premiums and a cost of production formula to increase pay prices to dairy farmers over and above the minimum Federal Milk Market Order milk prices.

Similar to Wisconsin, Pennsylvania was declining in numbers of dairies and in total milk production having peaked in 2000 at 11,156 million pounds and then began to decline. The USDA reports by 2003 production had fallen to 10,338 million pounds.

According to the Pennsylvania Center for Dairy Excellence – Pennsylvania Dairy Task Force website:

In 2003, Pennsylvania Governor Edward G. Rendell and Agriculture Secretary Dennis Wolff saw the commonwealth's dairy industry slowly slipping away. Recognizing the value the industry provides in the form of good jobs and substantial local economic impact, they created the Pennsylvania Dairy Task Force and, at the recommendation of the task force, the Center for Dairy Excellence. ³

The Pennsylvania Dairy Task Force's "*Keeping Dairy Green and Growing in Pennsylvania*" brochure states in the key accomplishments section:

Since 2003, the state has grown its annual milk supply by 644 million pounds. This has helped to increase on-farm profits by \$82 million in the dairy sector, generating more than \$185 million in economic impact for the commonwealth. Efforts by the center and task force to coordinate the direction, goals, leadership and resources of the dairy industry have helped to sustain this increase. ⁴

This turn-around and growth of Pennsylvania's dairy industry was a direct result of government, industry, extension educators and producers working together for a common goal. Problem areas were identified and then programs were developed and implemented to foster growth. Some of these programs are listed below:

- **Center for Dairy Excellence website** – Loaded with information, resources, industry contacts and numerous tools to help producers and industry connect.
- **Dairy Expansion Grants** – Made available to 13 dairy farms in nine counties. One example of a grant funded business is Rynd Home Farms, where the grant helped to fund preconstruction costs associated with moving from a 100-cow tie stall facility to a 200-250 cow free stall facility. This provided \$1.4 - \$2 million in economic return to local economy.
- **The Dairy XP (eXtra Production) Program** – A pilot program initiated in specific

counties which provided incentive for producers to increase milk production. A study showed the program increased total milk production by 10 percent bringing \$2.9 million in direct income for dairy producers and another \$1.4 million in indirect economic impact for the region.

- **The Dairy Profit Team Program** – Producers voluntarily form a “profit team” consisting of advisors and a facilitator to assess their operation and seek opportunities for increasing the bottom line. Over 100 dairies participated the first year, increasing net profits \$249 per cow. *(KDDC is using this model to design a similar program for KY dairies)*
- **The Dairy Advocacy & Resource Team** – Provides industry support personnel who interact with producers with valuable information to help their producer clients;
- **Business Planning Grants** – Grants provided to do comprehensive business plans;
- **Capitol Dairy** – The first dairy incubator for beginning farmers;
- **Proposed Dairy – MAX Tax Credits and Incentives** – Tax credits and incentives for modernization and expansion. ⁵

Indiana - Indiana ranks 14th in milk production nationally. Milk is exported from Indiana and contributes 13.5 percent of the total milk pooled in Federal Milk Market Order 5 in 2007. ⁶

Although the number of dairy operations has declined in Indiana, cow population and production per cow has increased. The changes have been significant having increased total production pounds from 2,419 million in 2000 to 3,371 million in 2007 according to USDA data. Much of that increase is delivered daily to the Southeast milk market.

The largest impact on the Indiana dairy industry came in the spring of 1999 when 9,000 acres along I-65 in Jasper County were purchased to establish Fair Oaks Dairy by Arizona Maricopa Associates, L.L.C.

According to Allen Cummins in his online 2001 comments on the *History of Bogus Island and Fair Oaks Farms from 1850 to 2001*, “land was also purchased along I-65 opposite the Fair Oaks Dairy by the Bos family from El Paso, Texas to start a dairy. Total cow numbers for the two combined dairies is about 27,000 cows.” ⁷

During the time Fair Oaks Dairy began producing milk, a Dutch organization located in Michigan, Vreba Hoff, L.L.C. began recruiting dairy producers from the Netherlands. Vreba Hoff, L.L.C. locates land, typically 80 acres, secures a locally grown feed supply and land mass to handle nutrient management, builds the facility into a turn-key operation and even purchases cows if the new owner desires. Approximately 30 – 40 of these 1,500 – 2,500 cow operations have been built in northeastern Indiana and northwestern Ohio. Dairy Farmers of America Milk Cooperative have also been instrumental in this endeavor.

Producers in Indiana with the involvement of Purdue University Extension Service formed a producer group in the late 1990s. The Indiana Professional Dairy Producers hold regional informative meetings and network to promote dairy in the state. The organization also organizes the Indiana Dairy Conference in Indianapolis every January. The event is well attended.

It has been reported that tax incentives such as state and county no-tax payments for three to ten years, low interest loans of one to two percent and deferred interest payments of three to four years have been used to attract many of these Dutch dairies. This information has not been verified by authoritative agencies.

Another driver for this expansion has been the southeast milk market, available land and feed supply and permitting that is not overly cumbersome. The Southeast milk market is attractive with slightly higher milk prices, hauling agreements through Dairy Farmers of America and premiums based on volume and quality of milk.

Ohio - Ohio ranks 11th in the nation in total milk production. The state contributes only 3.78 percent of the milk for Federal Milk Market Order 5. ⁸

Milk production in Ohio has increased along with cow numbers. Milk production per cow also increased. Ohio has been actively promoting its dairy industry and has attracted a number of Dutch dairies in the Northwestern portion of the state. The Ohio Dairy Producers Association works closely with The Ohio State University and has strong industry support. They also are proactive in educating legislators of dairy issues. Their website is:
<http://www.ohiodairyproducers.org/home.aspx>

The Dutch influence and expansion from local producers can be seen in the growing production and increase in cow numbers and milk per cow. Cow numbers increased 14,000 head while production increased 519 million pounds.

The Ohio Department of Agriculture and State Legislators have been very proactive in support of the dairy industry. They were some of the first advocates in the nation to address the milk labeling issue concerning rBST or recombinant bovine growth hormone.

The Ohio Dairy Producers Association established a Political Action Committee to allow members to have a voice in the political process.

Their Mission is: *To educate candidates, regardless of political party, about the dairy industry by providing them the most current and accurate information regarding issues that impact dairy producers.* ⁹

Maine - Maine Milk Commission - According to the Milk Commission History and Background page on Maine's Department of Agriculture website:

A Maine Milk Control Law was enacted in 1935 to eliminate a number of serious problems confronting the dairy industry and the consuming public. Under the law a Maine Milk Commission was created to arbitrate differences, establish minimum prices in designated areas after proper hearings and exercise general supervision over the milk industry. Its basic function was, and still is, to see that there will be a plentiful supply of pure, wholesome milk available at all times, in all places, at reasonable prices;

At present the Maine Milk Commission is comprised of five members, four of whom are appointed by the Governor and shall serve a term of 4 years. Within its membership shall be the Commissioner of Agriculture, ex-officio and the remaining four members shall have no official business or professional connection or relation with any segment of the dairy industry;

The Maine Milk Commission is financed by a 5¢ per hundredweight fee on milk paid by licensed dealers. The Commission receives no general fund tax monies. Among the specified powers granted by the Legislature, the Commission has the authority to set minimum prices paid to producers as well as minimum retail and wholesale milk prices. The Milk Commission is authorized to audit dealers' books and to determine the utilization of all milk purchased. ¹⁰

In testimony given by Maine's Milk Commission Executive Director, Mr. Stan Millay to the Massachusetts Dairy Farm Revitalization Task Force on August 24, 2007 describing Maine's Milk Commission Handling Fee:

Maine uses a "Milk Handling Fee" paid by processors to help stabilize the milk price to dairy producers. The fee is set up on a sliding scale depending on the Announced Federal Order Class I price in Boston. If the Class I price falls below \$24 per hundredweight the fee is two cents per gallon of milk. An additional two cents is added to the fee if the price falls below \$23 per hundredweight making it now four cents per gallon.

The program provides a safety-net payment to dairy farmers whenever the farm price falls below a set of Target Prices based on cost of production and other factors and tiered based on farm size. Smaller farms have a higher Target Price and therefore begin getting payments before larger farms. ¹¹

Maine has stabilized its dairy industry even as national trends pressure smaller operations out of business. According to USDA figures Maine was on the decrease in cow numbers and total milk output. In 2006 cow numbers fell to 32,000 head and milk production 574 million pounds. In 2007 Maine increased in both categories, up to 33,000 head and 587 million pounds of milk.

The Maine Milk Handling Fee was adjusted and signed into statute on June 6, 2007. The emergency act with the sliding scale rate can be seen in Appendix B of this document.

Massachusetts – The Massachusetts Dairy Farm Revitalization Task Force:

In 2006 wholesale milk prices fell to recent historical lows threatening the acceleration of Massachusetts dairy farms going out of business. Governor Patrick and legislative leaders took action in July of 2006 in response to a petition for emergency relief from the dairy industry. Chapter 42 of the Acts of 2007 was enacted which provided \$3.6 million in relief funds for dairy farmers and established The Dairy Farm Revitalization Task Force.

The Task Force consisted of 17 members who represent various interest groups and has a purpose of investigating short and long-term solutions to preserving and strengthening the dairy farm industry. ¹²

In the Massachusetts Dairy Revitalization Farm Task Force Executive Summary on the Report to the Legislature, Mr. Scott Soares, Co-Chair and Assistant Commissioner, Department of Agriculture Resources writes:

With a primary goal of determining long term solutions to preserving and strengthening the Massachusetts dairy farm industry, key findings and recommendations of the Task Force include:

- The long-term revitalization of the Massachusetts dairy industry will require actions and support across a broad base of interests including farmers, processors, retailers, consumers, and government;
- Milk prices, established by the federal government and out of control of the farmer, and costs of production will continue to fluctuate, and , during extended periods when the farm price of milk is below the cost of production, dairy farms will require financial support to remain viable;
- The Task Force recommends the establishment of an income tax credit similar to that employed by South Carolina, with an anticipated impact of \$0 - \$4 million in any given year, as a mechanism for providing assistance when milk prices are below the cost of production;
- The Task Force recommends establishment of a number of programs and policies to reduce costs of production for dairy farmers, such as the use of alternative and renewable energy sources, and program to promote Massachusetts dairy products, in order to reduce the impact of fluctuations in milk prices and costs of production. ¹³

Southeast U.S.

One significant aspect of many southeast states is the decline in numbers of dairy cows and milk production since Federal Milk Market Order Reform in 2000. South Carolina is the exception.

South Carolina:

As stated in the Act: B) The primary duty of the South Carolina Milk Board is to establish a fair market breakeven price for producers and to exercise general supervision over the state milk industry, for the purpose of protecting the availability and affordability of fluid milk consumed in this State by monitoring the consumption and distribution of South Carolina produced milk. Other duties include the authority to mediate differences between producers and buyers. ¹⁴

As illustrated in Table 5. South Carolina’s cow numbers and total pounds of production increased after the implementation of the Dairy Stabilization Act of 2005.

Table 5. South Carolina Data – Dairy Milk Production, Milk Cows, Milk per Cow

	<u>Com</u>	<u>Milk Co</u>	<u>Milk Prod</u>
Milk Cows		23 thc	16,08
Milk Cows		21 thc	17,47
Milk Cows		20 thc	18,20
Milk Cows		19 thc	16,73
Milk Cows		17 thc	16,88
Milk Cows		18 thc	16,00
Milk Cows		17 thc	16,29
Milk Cows		18 thc	17,88

http://www.nass.usda.gov/QuickStats/PullData_US.jsp

According to South Carolina Department of Agriculture *Ag-formation* press release:

On June 9, 2005, the South Carolina Milk Producers Tax Credit program became law. This program, designed to provide assistance to South Carolina dairy producers when prices are low, [became] available beginning with the 2005 tax year;

If for any month the Class I Uniform Production Price falls below the Production Price established by the South Carolina Department of Agriculture, the producer will qualify for a payment or credit that quarter to be issued at the end of the year. The amount of the payment will be based upon the total amount of milk that has been produced and sold during the taxable year.¹⁵

A summary of the 2005, 2007 South Carolina Tax Credit is available in Appendix C.

Arkansas – Over the past 12 years Arkansas has decreased in dairy farms from over 800 to 162. Cow numbers have dropped from 60,000 head to 17,000 and total milk pounds from 729 million to 220 million. This precipitous drop can be seen across the whole southeast. A legislative proposal to slow the total demise of the Arkansas dairy industry took place in 2007. The Arkansas Milk Stabilization Board was voted into law.

The Arkansas Milk Stabilization Board consists of two producers, one consumer, one retailer, and one processor. The proposals to Legislators are:

Implement Tax Credits – Investment tax credits patterned after Wisconsin. It will provide tax credits up to 10 percent of the amount spent by a milk producer on dairy farm modernization and expansion. The maximum credit that may be claimed is \$50,000 per year for 10 years or an overall maximum of \$500,000 per producers;

Production/Quality Incentive – Will provide each producer an opportunity to receive an incentive payment of 50 cents per hundredweight for each hundredweight produced about the producer's average annual production during the previous two years and an additional 50 cents per hundredweight if all milk production contains less than 400,000 somatic cell count. Annual payment to each qualifying producer will be limited to \$50,000 per year;

Milk Stabilization Payments – The board proposes a program to assure Arkansas milk producers they will recover a prescribed percentage of their cost of producing milk. The program will provide a system of payments to Arkansas producers whenever the monthly price of milk received by Arkansas producers is less than 70 percent of the average monthly cost of producing milk in the adjacent states of Missouri and Tennessee as estimated by USDA. Payments would need to be subject to availability of funds and a maximum of five dollars per hundredweight per month and yearly limits of \$85,000 per dairy farm. ¹⁶

Louisiana - Created by ACT 461 of the 2007 Louisiana Legislature, this income tax credit is a direct dollar for dollar reduction against dairy producers' income tax for the taxable year that is filed with the State. The total amount of the tax credit that may be given to Louisiana milk producers is limited to \$2.5 million dollars per year.

Louisiana dairymen may be eligible to receive tax credits ranging from \$5,000.00 to \$30,000.00. The amount of tax credit is based upon the total claims made to the \$2.5 million dollar cap allotment, milk production during the year, milk prices, production costs, and the number of quarters in a year that the USDA Uniform Price drops below the announced production price.

Through the combined efforts of the Louisiana Department of Revenue, LSU AgCenter, Department of Health and Hospitals, and the Federal Milk Market Administrator for Federal Milk Order 7, the Louisiana Department of Agriculture and Forestry will then determine the amount of tax credit that will be administered to producers. ¹⁷

The Louisiana Milk Stabilization Board Handbook can be accessed by the URL link below.

<http://www.lsuagcenter.com/NR/rdonlyres/BE2014A0-820C-47B8-BD94-E8F8B0593C12/50174/ProvisonalHandbookforAdministeringLaMilkProducersR.pdf>

The Arkansas and Louisiana Milk Stabilization Boards have not been active long enough to measure and affects on their state's dairy industry. Both states used other states as models and incorporated their own programs.

Other States with Milk Commissions:

States with milk commission boards, stabilization boards, task forces and producer/industry associations:

California: <http://www.realcaliforniacheese.com/rcm>

Colorado: Colorado Milk Marketing Board – Denver, Colorado – John Larson, phone: 303-757-7418

Minnesota: <http://www.mnmilk.org/>

New Jersey: <http://www.state.nj.us/agriculture/news/hottopics/topics050104.html>

New York: <http://www.agmkt.state.ny.us/DI/dairyassistanceprogram.html>

North Dakota: http://www.governor.state.nd.us/boards/boards-query.asp?Board_ID=71

Vermont: <http://www.vermontagriculture.com/milkcommission/index.html>

Virginia: <http://www.vdacs.virginia.gov/smc/index.shtml>

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9. <http://www.ohiodairyproducers.org/pac.html>
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11. http://www.mass.gov/agr/dairy/taskforce/approved_mtg_minutes_8_24_07.pdf
12. <http://www.massdairyfarmers.com/thedairycrisis.html>
13. http://www.mass.gov/agr/dairy/taskforce/DTF_Report_to_the_Legislature.pdf
14. http://www.scstatehouse.gov/sess116_2005-2006/bills/336.htm
15. <http://www.state.sc.us/scda/pressreleases/archives/2006pressreleases/january/taxcredit.htm>
16. http://www.aragriculture.org/News/dairy_digest/2008/november_december2008.pdf
17. <http://www.ldaf.state.la.us/portal/Offices/AgroConsumerServices/Dairy/DairyProducersRefundableTaxCreditProgram/tabid/420/Default.aspx>

APPENDIX A

Drivers of Change

The changes in Wisconsin dairying noted above can be attributed to several recent developments. Chief among these are the creation of dairy producer organizations that positively affected dairy producer attitudes and the actions of state government that positively affected the economic climate affecting dairy farmers and processors and provided incentives for growth and modernization.

New Producer Organizations

The *Professional Dairy Producers of Wisconsin* (PDPW) was formed in 1992 and has grown to more than 1,500 members. While dairy producer interests were and continue to be a major concern of Wisconsin's general farm organizations, PDPW is distinct in its exclusive focus on dairy and its exclusive dairy farmer membership base.

Among its goals and objectives, PDPW lists:⁶

- Provide educational based program that focus on the business-side of dairying,
- Build more profitable businesses,
- Foster a positive image for the dairy profession both within our industry and externally to the non-agriculture sector, and
- Provide an atmosphere for networking where producers can learn from one another.

PDPW sponsors and organizes educational workshops and conferences that cover a wide range of dairy management issues but that stress business and financial management of dairy farms. PDPW is not directly involved in political lobbying. However the organization actively communicates with members about legislative matters through its monthly *Capitol Links* newsletter. PDPW also aggressively seeks opportunities to provide input into public policy that affects dairying through membership on agency committees and other formal and ad hoc advisory groups.

The *Dairy Business Association of Wisconsin* (DBA), founded in 2001, has a mission similar to PDPW: To Promote the Growth and Success of all Dairy Farms in Wisconsin by Fostering a Positive Business and Political Environment.⁷

Like PDPW, DBA sponsors producer educational forums and provides opportunities for producer networking. But DBA is decidedly more politically active, lobbying for favorable legislation at the state and federal level and maintaining a Political Action Committee. As advantages of membership, DBA lists:

- Funding a dedicated environmental attorney and four DBA registered lobbyists who defend and protect our dairy industry;

⁶ PDPW Web site: <http://www.pdpw.org>

⁷ DBA Web site: <http://www.widba.com>

- Advising members regarding state statutes, regulatory rules and on-farm situations;
- Preparing and revising federal and state legislation; and
- Participating in legal reviews and interpretation of regulatory rules and state statutes.

PDPW and DBA have given Wisconsin dairy farmers a stronger voice in determining their own destiny. These new organizations have changed the focus of producers from a primary goal of getting a higher milk price to goals of improving business management capabilities and improving the competitive position of dairy farmers in the state.

Wisconsin Department of Agriculture, Trade and Consumer Protection (DATCP)

DATCP has recently spearheaded several initiatives supporting Wisconsin dairying, including those leading to the enactment of favorable tax policies (see below). In 2004, DATCP created the *Value Added Dairy Initiative* (VADI) which consists of three elements.

- The *Grow Wisconsin Dairy Team* is a multi-agency collaboration created to: (1) Coordinate and focus resources for dairy farmers modernizing their businesses and (2) Add value to milk produced in Wisconsin by focusing on new marketing opportunities.⁸ Through 2007, the team had provided assistance to more than 800 dairy farmers. Besides offering consulting, the team has provided \$3 million in grants to dairy producers, processors and local dairy groups for modernization, product development, and other dairy development projects.
- *The Dairy Business Innovation Center* supports specialty and artisan cheese makers by offering technical support through a network of 20 consultants. Technical services are provided in the areas of business planning, product development, facilities assessment, packaging and label development, and marketplace development.
- The *Value Added Dairy Initiative Dairy Processor Grant* program offers grants up to \$35,000 on a competitive basis to fund projects that involve processor modernization or product or market development. Recipients must provide matching funds of at least 50 percent.

DATCP was also a driving force in establishing uniform siting rules for dairy farms in the state. These rules, adopted by the state legislature in 2006, impose consistent state-wide procedures and standards for local governments' use in considering the permitting of new or expanding livestock operations with more than 500 animal units.⁹ The standards apply to property line and road setbacks, manure storage facilities, and management of odors, manure, and runoff. The rules also create a state-wide siting review board to address appeals of local permitting decisions. The new rules make the permitting process predictable and guarantee the right to expand as long as standards are met.

⁸ Grow Wisconsin Dairy Team web site: <http://www.growwisconsinmilk.org>
⁹ http://datcp.state.wi.us/arm/agriculture/land-water/livestock_siting/siting.jsp

Wisconsin Department of Commerce (DOC)

DOC administers two important dairy programs under its Dairy 2020 Initiative:

The ***Dairy 2020 Early Planning Grant*** (EPG) program is designed to, "...encourage and stimulate the start-up, modernization, and expansion of Wisconsin dairy farms."¹⁰ EPG grants of up to \$3,000 cover 75 percent of the cost of consultant fees to develop a business plan and other professional services for dairy farm start-up, modernization or expansion. Over the last 10 years, the EPG program has provided more than \$2.5 million to more than 900 Wisconsin dairy farmers to facilitate dairy modernization.

The ***Milk Volume Production*** (MVP) program is a loan program specific to dairy expansions. Its intended purpose is to, "...support Wisconsin's dairy industry by easing the financial burden on dairy farmers who want to modernize and expand their herd size."¹¹ The MVP program provides low-interest loans of up to \$500 per cow for the purchase of up to 400 cows. The loans are written at an interest rate of 4 percent for a 7-year term. Repayment is deferred in year one and interest only payments are required in year two of the loan.

Besides these dairy-specific programs, DOC also administers an ***Agricultural Development Zone*** program that provides state income tax credits to agribusinesses that locate or expand in four designated regions of the state. The stated purpose of this program is to, "...assist Wisconsin in regaining its prominence in the dairy industry and in dairy processing production."¹² Tax credits can be earned for 3 percent of investments in real and personal property and 50 percent of investments in environmental remediation. Credits for job creation depend on the number of jobs and wages and benefits paid. To be eligible for credits, one-fourth of new hires must be from designated target groups.

Favorable tax treatment

Dairy farmers received significant economic benefits from Wisconsin's adoption of ***Use Value Assessment***, enacted in 1995 and fully implemented in 2000. Use value assessment links farmland assessments to the earning power of the land in agriculture (the price of corn) instead of to the market value of the property. Prior to its adoption, assessments and related property taxes were heavily influenced by the potential residential and business development value of the land. A Wisconsin Department of Revenue report noted that in 2002, use value assessment resulted in total agricultural land taxes about half the level they would have been if farmland has been assessed at market value.

In 2004, the State enacted a ***Dairy Investment Tax Credit*** program that provided an income tax credit of 10 percent of dairy farmers' investment in working assets such as milking parlors, barns, manure handling equipment, and feed storage structures. The maximum investment eligible for the credit is \$500,000 (\$50,000 tax credit). The tax credits are applied to a dairy

¹⁰ <http://commerce.wi.gov/MT/BD-AG-Dairy2020EPG.html>

¹¹ <http://commerce.wi.gov/MT/BD-AG-MilkVolumeProduction.html>

¹² <http://commerce.wi.gov/MT/BD-ADZ.html>

producer's annual Wisconsin income tax in the tax year the investment is made. Excess credits can be carried forward for up to five years.

The program has been used heavily by dairy producers. According to the Wisconsin Department of Revenue, in 2005 (the second year of eligibility), 8,796 dairy producers claimed Investment tax credits of almost \$42 million.¹³ \$14.5 million was used to offset taxes owed in 2005, and the balance was eligible to be carried forward through 2010. The implied dairy farm investment in 2005 was about \$420 million.

Mirroring the Dairy Investment Tax Credit applicable to dairy farmers, the ***Dairy Manufacturing Facility Investment Credit*** was authorized in 2007. It applies to dairy processors that are not organized as cooperatives. The credit is 10 percent of investment in modernizing and/or expanding dairy manufacturing facilities up to a maximum credit of \$200,000. Unlike the Dairy Investment Tax Credit, there is an annual cap on total credits (\$700,000 in 2008). Consequently, the Department of Commerce certifies eligibility and ranks and allocates tax credits according to specified criteria.¹⁴ In 2007, 14 dairy processors applied for dairy manufacturing facility credits based on reported investments of \$42.4 million.

Synopsis

The last four years have seen an encouraging reversal of the downward trend in Wisconsin cow numbers, accompanied by significant structural and regional changes in dairy farming. Recent industry growth has been stimulated by state actions to encourage innovation, modernization and expansion and producer actions to improve their personal management skills and their ability to be competitive. While it may be too soon to declare a permanent turnaround, the signs are uniformly positive.

¹³ Reported by the Wisconsin Federation of Cooperatives: <http://www.wisconsinagconnection.com/story-state.php?Id=1391&yr=2007>

¹⁴ <http://www.commerce.wi.gov/BD/BD-DMFI.html>

PUBLIC Law, Chapter 269, 123rd Maine State Legislature
An Act To Adjust the Milk Handling Fee

PLEASE NOTE: Legislative Information cannot perform research, provide legal advice, or interpret Maine law. For legal assistance, please contact a qualified attorney.

An Act To Adjust the Milk Handling Fee

Emergency preamble. Whereas, acts and resolves of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, the basic price of milk fluctuates and revised price projections are now available; and

Whereas, adjustment of the rates is needed to better reflect a wide range in potential prices; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 36 MRSA §4902, sub-§1, as enacted by PL 2005, c. 396, §8, is amended to read:

1. Fee. Upon notification by the Maine Milk Commission in accordance with Title 7, section 2954, subsection 16, the assessor shall levy and impose a fee at the rate established in subsection 22-A on the handling in this State of packaged milk for sale in this State. With respect to the handling in this State of a particular container of packaged milk for sale in this State, the fee must be paid by the handler. There is no fee on the handling in this State of packaged milk for sale in containers of less than one quart or 20 or more quarts in volume, or packaged milk that is sold to an institution that is owned and operated by the State or the Federal Government.

Sec. 2. 36 MRSA §4902, sub-§2, as enacted by PL 2005, c. 396, §8, is repealed.

Sec. 3. 36 MRSA §4902, sub-§2-A is enacted to read:

2-A. Rate. The rate of the fee levied under this chapter is established for each fee period on the basis of the basic price of milk in effect on the Sunday following the first Sunday of the fee period in accordance with this subsection:

A. If the basic price is \$24.00 per hundredweight and above, the rate of the milk handling fee is 0¢ per gallon;

B. If the basic price is \$23.00 to \$23.99 per hundredweight, the rate of the milk handling fee is 2¢ per gallon;

C. If the basic price is \$22.00 to \$22.99 per hundredweight, the rate of the milk handling fee is 4¢ per gallon;

D. If the basic price is \$21.00 to \$21.99 per hundredweight, the rate of the milk handling fee is 6¢ per gallon;

LR 2150, item 1, EMER SIGNED on 2007-06-08 -First Regular Session -123rd Legislature, page 1.

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E. If the basic price is \$20.00 to \$20.99 per hundredweight, the rate of the milk handling fee is 8¢ per gallon;

F. If the basic price is \$19.00 to \$19.99 per hundredweight, the rate of the milk handling fee is 10¢ per gallon;

G. If the basic price is \$18.00 to \$18.99 per hundredweight, the rate of the milk handling fee is 12¢ per gallon;

H. If the basic price is \$17.50 to \$17.99 per hundredweight, the rate of the milk handling fee is 16¢ per gallon;

I. If the basic price is \$17.00 to \$17.49 per hundredweight, the rate of the milk handling fee is 20¢ per gallon;

J. If the basic price is \$16.50 to \$16.99 per hundredweight, the rate of the milk handling fee is 24¢ per gallon;

K. If the basic price is \$16.00 to \$16.49 per hundredweight, the rate of the milk handling fee is 28¢ per gallon;

L. If the basic price is \$15.50 to \$15.99 per hundredweight, the rate of the milk handling fee is 32¢ per gallon; and

M. If the basic price is \$15.00 to \$15.49 per hundredweight, the rate of the milk handling fee is 36¢ per gallon.

If the basic price falls below \$15.00 per hundredweight, for each 50¢ decrease in the basic price, the rate of the milk handling fee increases by 6¢ per gallon.

For any container other than a gallon, the fee is computed on a gallon-equivalent basis.

Emergency clause. In view of the emergency cited in the preamble, this legislation takes effect when approved.

LR 2150, item 1, EMER SIGNED on 2007-06-08 -First Regular Session -123rd Legislature, page 2.

Appendix C

2005 South Carolina Milk Producer Tax Credit Summary

by Beth Crocker
South Carolina Department of Agriculture

This tax credit was first available for the 2005 tax year for South Carolina dairy producers. *See* S.C. Code section 12-6-3590. The South Carolina Department of Agriculture (“SCDA”) certified 79 dairies, and 76 of those dairies qualified for a credit or refund under the program because they produced and sold at least 500,000 pounds of milk throughout the year.

According to SCDA information, \$2,167,500 was available as a refund to dairy producers based upon their annual milk production. The SC Department of Revenue was responsible for issuing all credits and refunds available under this program.

The first, second and fourth quarters of the year qualified for the credit because the USDA Class I utilization price of milk fell below the declared price of \$16.02. SCDA determines the qualifying price based on a formula that considers: a.) avg. price of milk in top 5 states where milk is imported into SC; b.) avg. Transportation cost of shipping in milk from those top 5 areas; and c.) cost of production in SC.

Producers also certified their annual milk production to SCDA, which in turn verified to the SC Department of Revenue that these producers were qualified for the credit/refund when they filed their income tax returns.

For the 2006 tax year, producers have already received their certification forms and are sending them into SCDA. Producers having an annual milk production rate of 500,000 pounds or greater will qualify for the credit. The credit will be issued for all 4 quarters of the 2006 tax year, because every quarter had at least one month that paid below \$16.06, the production price determined by SCDA. The projected payout for the 2006 Milk Producer Tax Credit program will be approximately \$2.8 million (estimate based on amount of milk produced in 2005).

2007 South Carolina Milk Producer Tax Credit Summary

by Beth Crocker
South Carolina Department of Agriculture

July 3, 2008

This tax credit was first available for the 2005 tax year for South Carolina dairy producers. See S.C. Code section 12-6-3590. For the 2007 tax year, the South Carolina Department of Agriculture (“SCDA”) certified 70 dairies for credit or refund under the program because they produced and sold at least 500,000 pounds of milk throughout the year.

According to SCDA information, \$666,250 was available as a refund to dairy producers based upon their annual milk production, which was just under 250,000,000 pounds of milk in 2007. The SC Department of Revenue was responsible for issuing all credits and refunds available under this program.

Only one quarter of the year qualified for the credit because the USDA Class I utilization price of milk fell below the declared price of \$16.61. SCDA determines the qualifying price based on a formula that considers: a.) avg. price of milk in top 5 states where milk is imported into SC; b.) avg. Transportation cost of shipping in milk from those top 5 areas; and c.) cost of production in SC.

Producers also certified their annual milk production to SCDA, which in turn verified to the SC Department of Revenue that these producers were qualified for the credit/refund when they filed their income tax returns.