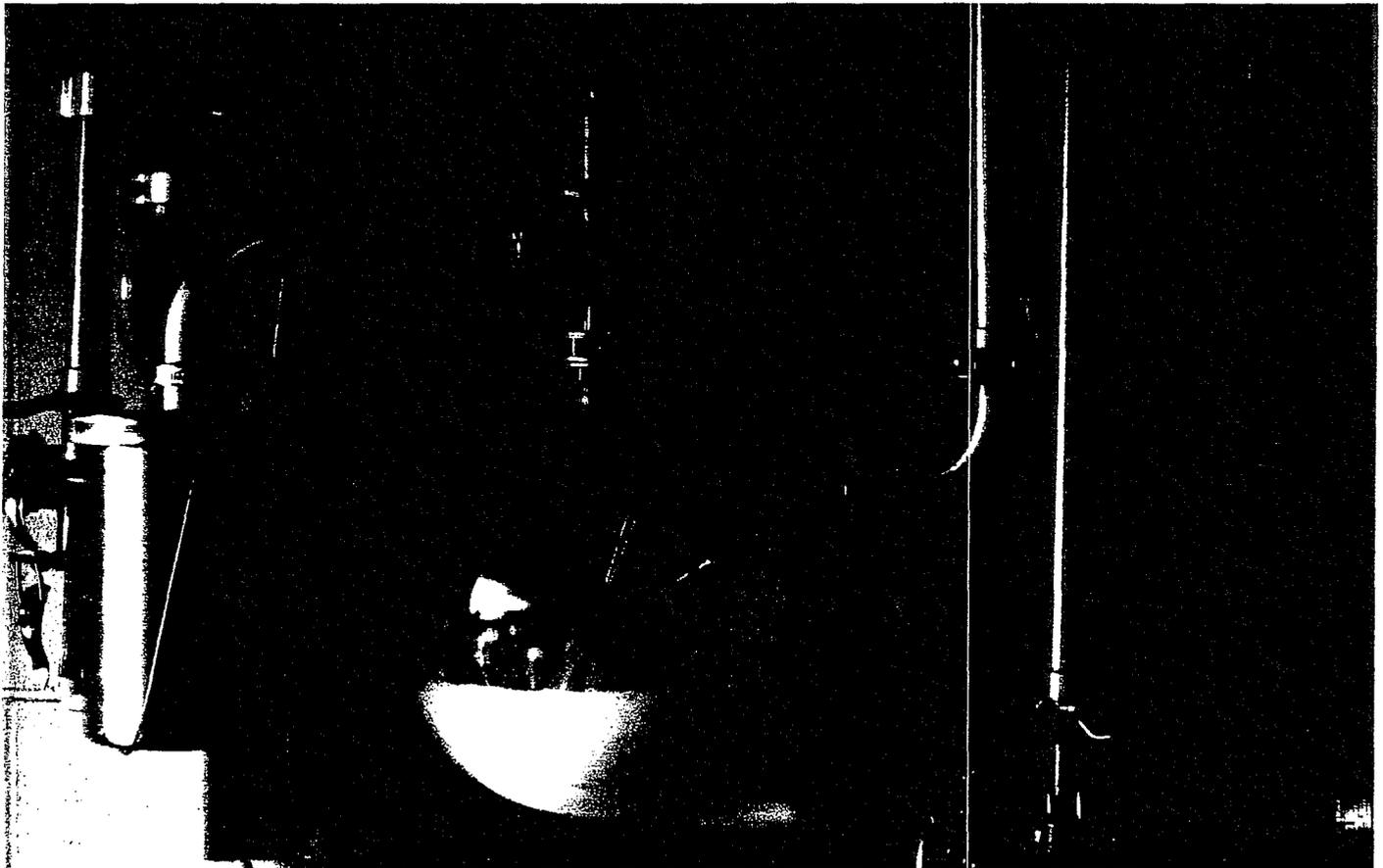


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DEVELOPMENT PROFITABILITY ENHANCEMENT



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2004

LEGISLATIVE REPORT

FY 2003 Dairy Development and Profitability Enhancement

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EXECUTIVE SUMMARY

The Dairy Development and Profitability Enhancement Program has two facets to the program.

1. Dairy Diagnostic teams

- Based on farm records analysis from last year, these teams produced an 8.6:1 return in the first year for every grant dollar spent.
- Significant returns like this occurred through a variety of cost savings (reduction of feed, interest or labor expense, etc.) and increased profitability (increased milk production, improved milk quality, improved health and other management factors).
- In addition there has been \$774,607.63 of in-kind contributions from industry towards the program

2. Dairy Business Planning Grants

- The Dairy Business Planning Grants Program is assisting producers in positioning themselves for the future.
- This grant by covers 50% of the cost of developing a business plan, up to a maximum of \$5000.
- A number of producers are exploring expanding their herds, while others are investigating transferring the operation to the next generation, managing debt or feedlot fix-up for environmental protection.

"This program got me started doing things I should have been doing for years."

-A West Central producer

LEGISLATION

The Dairy Diagnostic Team Grant Program began on a pilot basis in 1996. The program was then funded by a biennial appropriation of one million dollars. The program expanded in 1997 to five regional groups and one statewide organization. The 2003 Legislature appropriated two million for the FY 04-05 biennium to increase dairy diagnostic efforts and to provide grants to individual farmers for the purpose of doing dairy business planning and modernization activities. For fiscal year 2003, a total of \$705,000 was granted to the program partners. Enclosed with this report is a detailed summary of grant allocations to these organizations (Attachment A).

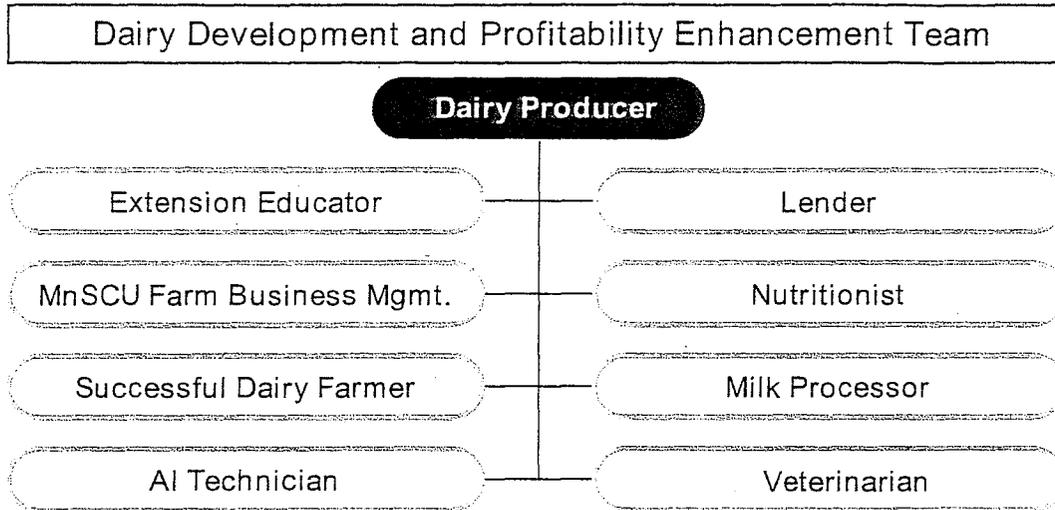
The program is administered as mandated in Minnesota Laws 1997, Chapter 216, Section 7, Subdivision 4, which states: "...To Expand the one-on-one educational delivery team system to provide appropriate technologies, including rotational grazing and other sustainable agriculture methods, applicable to 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 information and technological services." The 2001 First Special Session, Chapter 2, Section 9, Subd. 2a. language expanded the responsibilities of the program. Laws of Minnesota for 2003, Chapter 128 continued these responsibilities.

"Production is up by about 1800 lbs. per cow without much change in costs only change was how we did things.

Life is getting better."

-A West Central producer

TYPICAL DIAGNOSTIC TEAM



EXAMPLE OF A DAIRY DIAGNOSTIC TEAM

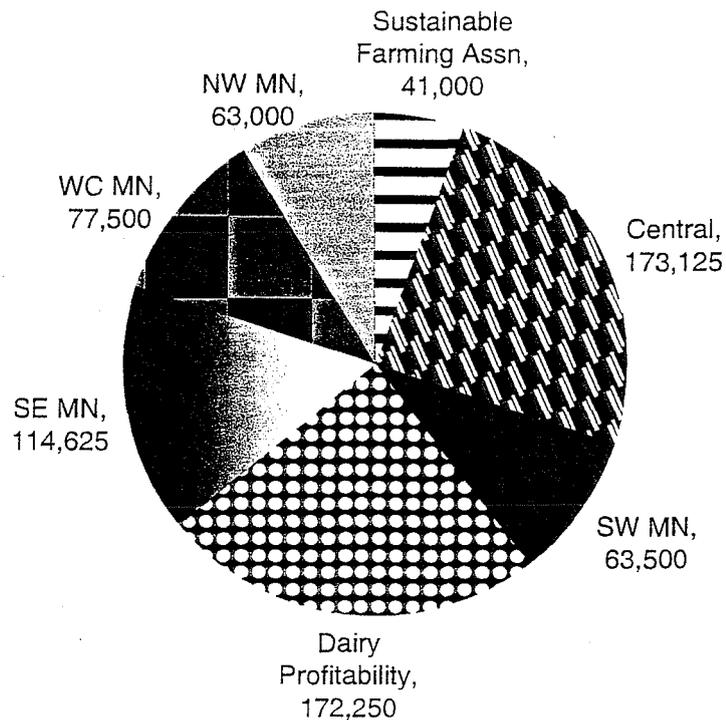
Each team is a combination of individuals with a variety of backgrounds and expertise. They work with the farm family to evaluate the current situation of the farm and what the farm family wants to accomplish. They then form a list of recommendations and prioritize the list to help the family meet their goals and objectives. Working together, the team will know what goals the farmer is working towards and can help to redirect resources into that direction. Some recommendations may take longer than others to implement. No two farms are exactly the same, just as no two team's recommendations are exactly the same. The issues may be similar, but the means by which to solve the issues may be very different.

"The herd average has jumped from 17,000 pounds to 26,000 pounds."

-Carver County producer

GRANT DISTRIBUTION

FY 2003 DAIRY DEVELOPMENT AND PROFITABILITY GRANT ALLOCATION DOLLARS



THE PROGRAM PARTNERS

There were 543 dairy farms that participated in the program statewide (see attachment B) in FY 2003. Of this total, 447 farmers were enrolled in the six regional groups with the remaining 96 dairy producers working with the Sustainable Farming Association. There have been 3,183 farm enrollments in the program since 1996. Accounting for farms that have utilized the program for more than one year, there have been over 1700 individual farms touched by this program.

"I wish I could convince every farmer to try a diagnostic evaluation;

Even the good ones could use some sound advice."

-Veterinarian

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 the below 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.

SOUTHEAST REGION

The primary objective of this project is to offer one-on-one advice to dairy producers through the use of local teams consisting of educators, service providers and industry representatives. Seventy operations are currently enrolled in this program. Some participants are focusing on milk quality issues, while other farms are working through farm transfers, employee management and expansions.

WEST CENTRAL REGION

This project's primary objective is as a vital resource to the 55 herds they currently work with in the West Central Minnesota area. This group is working with a variety of producers in the region. They are focusing their efforts on working with Farm Business Management, DHIA, veterinarians, nutritionists and lenders.

NORTHWEST REGION

There are 39 farms currently enrolled in this project. This project has resulted in team members as well as dairy producers learning together. Feedback from farmers and team members has been very positive. The farmers felt supported by contact with the team and felt encouraged to implement changes to their operation. This group is also working very closely with local nutritionists and balanced rations according to available feeds and with veterinarians to reduce herd health issues. They plan to focus their efforts in upcoming years on Milk Quality, Estate Transfer and Pasture Management.

DAIRY PROFITABILITY AND ENHANCEMENT PROGRAM (DPEP)

This project's mission statement is "To retain dairy farms by increasing profitability and production based on family goals through a coordinated team approach to problem solving and improving quality of family life while continuing to contribute to the local economy." Eighty-five farms in south central Minnesota were enrolled in this project in 2003. The DPEP coordinates with 210 agricultural professionals that serve as team members delivering information to participating farmers. On average, each dairy producer meets with his/her individual team three to five times a year.

CENTRAL REGION

This project worked with 171 farms last fiscal year, of which 92 farms had never been on the program before. The focus of this project is to enhance profit-

PROGRESS REPORTS/ECONOMIC IMPACTS

ability and improve attitudes of dairy producers in Central Minnesota. This project, like many of the other regions, is focusing some of their efforts on helping producers reduce their Somatic Cell Counts (SCC) within the Quality Counts campaign. This region also sponsored a number of educational events for producers.

SOUTHWEST REGION

The Southwest region assisted 27 farms last year. The recent hiring of a full time coordinator has really breathed new life into this program. The Southwest region has started a dairy wives peer group, has a number of educational events planned in the upcoming year and will be enrolling additional producers who have expressed an interest in joining the program.

SUSTAINABLE FARMING ASSOCIATION (SFA)

(SFA) assisted a number of producers as they explore converting their operations to grazing and/or organic production. The SFA also worked with producers regardless of size to help them become more profitable and productive.

PROGRESS REPORTS/ECONOMIC IMPACTS

A southeastern farm showed real distress due to low prices and lack of management in about every aspect of the farm. There were many hurdles to overcome for this producer to stay afloat. This farm has been able to reduce their SCC from 450,000 to 190,000 and add a premium to their milk check, reduce the calf death loss and make the working environment on the farm much easier. Without a profitability team this farm would not exist today.

Another southeastern farm was faced with very serious issues. His primary goal was to stop the cow loss ratio from Johnes. Through the assistance of a state veterinarian, protocols were established to deal with this disease. He is very determined to embrace necessary change and stay profitable at all costs.

A Goodhue county farm had a long standing mastitis problem. This 105 cow dairy was able to lower their SCC from 510,000 to 265,000 by following the suggestions on equipment and procedures. This resulted in an estimated dollar gain for the farm of \$21,670 or \$200/cow in one year.

DPEP helped a Sibley county producer increase his bottom line by over \$10,000 per year. This producer was dairying on a farm with an inadequate water supply and a well that would not pass Grade A regulations. The diagnostic team was able to help the producer put together cash flow projections that allowed him to go to a lender with a proposal to purchase a different facility. The producer was able to make the transition and move to a new facility that is now certified Grade A. His SCC has also been reduced by 300,000, resulting in an additional \$3650 per year income to the family.

A Redwood county producer has increased his Rolling Herd Average 6000 pounds since starting the DPEP program 15 months ago. This producer has also added 60 cows to his herd during this time period. This is an increase of \$127,500 to his cash flow. When the diagnostic team started working with this producer,

the lender was unwilling to renew the producer's operating notes. All loans have now been restructured and the lender is financing some capital improvements and the purchase of additional cows.

A Sibley county producer feels that they have been able to stay in the dairy industry as a direct result of the advice that they have received from their DPEP team. They have made a variety of small changes to their operation and have increased their production level by 25 pounds per cow per day with 55 cows milking over the past eight months. This has resulted in increased annual milk sales of \$33,550 based on \$10.00 milk.

A Brown county producer followed the advice of his team and implemented a prefresh ration and arranged his outside lots to make heat detection easier. These changes have improved his breeding program and allowed him to lower the calving interval from 14.1 months to 12.7 months over the past year. This increased income by \$210 per cow on his 50 cow herd for a total increase of \$10,500 annually.

A Sibley county producer has worked with his team over the last year to design an addition to his stall barn that has eliminated the need for the labor intensive switch milking that he had been doing in the past. Manger liners and timed florescent lighting were also installed. Production has increased from 78 to 84 pounds per cow per day with 81 cows milking since the project was completed in early August. This will

result in increased annual milk sales of \$14,783 based on \$10.00 milk. The team has also helped him design a heifer facility that will provide a much improved environment for these growing animals.

A producer from Wright County started on the program in February 2002 with a tank average of 48 pounds per cow. The producer implemented cow comfort suggestions that the team made including mattresses and tunnel ventilation. As a direct result of these changes, the herd's production has increased to 65 pounds per cow and is still climbing. This increase in milk sold will result in an increased income of over \$37,000 annually.

A Scott County dairy farm started in the program in June 2002 with an average somatic cell count of 727,000. By improving cow prep and basic cow cleanliness as suggested by the team, this dairy has decreased their cell count to 256,000. These simple changes would not have been done without the team's suggestions. Lowering the cell count by 471,000 has resulted in an additional income of approximately \$4000 annually.

In early 1998, a father and son team were looking toward improvement and expansion. They were milking 58 cows giving 77 pounds of milk. Their SCC was between 650,000 and 750,000. The elevated SCC was caused by *staph aureus*. With assistance from DPEP, they designed and built a four row freestall barn and a flat parlor. Over the past five years they

have increased cow numbers to 160, with a vision of continued growth. Their current production is at 94 pounds per cow with a cell count in the mid-200,000 range. Staph aureus has been all but eliminated from the herd. The team has also helped them deal with sensitive issues relating to ownership transfer, which will allow this dairy to be viable for many years to come.

PARTICIPANT COMMENTS

A farmer who started shipping organic milk to CROPP-Organic Valley, "I might have stopped milking if I had not switched to organic production."

"I feel the Minnesota team concept is exceptional and wish we had it in Iowa."

- Bev Meade, Ag Source DHI Cresco Iowa.

"The team pointed out small changes that we could make that had a large impact on our dairy operation - lights, rations, water availability, herd health."

-McLeod County producer

"We are at a crossroads in our farming practices and this is making us see all our options."

-Washington County producer

"Thanks to the Dairy Enhancement, our farming operation is turning around and we are starting to see the light at the end of the tunnel."

-A West Central producer

"The team seemed to help get him off dead center and get his finances in order for future growth."

-A Farm Business Management Instructor

"The farmers have certainly gotten more involved in the Johnes testing program because of the Dairy Enhancement Program."

- Veterinarian

"I have been talking vaccination programs until I am blue in the face. Along come the teams and we are setting up vaccination programs right and left on the farms."

-Veterinarian

"Thanks to the State Johnes Program and Dairy Enhancement we are making some good inroads into herd health."

- Veterinarian

"This program has really helped this family not only financially but has also strengthened the family structure."

-Lender

"The team has been excellent in providing recommendations that don't encumber high costs to make the changes. Working with the team has bolstered optimism and attitude along with offering specific ideas for improvement."

-Pennington producer

ENVIRONMENTAL IMPACTS

"We would not have been able to make the improvements if it hadn't been for the teams' assistance."

-Polk producer

"The program helped us get through a very difficult time; they helped us meet our financial goals. This is a wonderful program and we look forward to participating again if the opportunity will allow."

-Producer

"The team leaders are very helpful and it was very worth while to have them come. It is always good to share ideas and goals with someone you respect."

-Producer

"The team has kept us very focused on our goals. We have met many of our farms goals and we know we wouldn't be as far without this program as we are today."

-Producer

"The team was very helpful in helping us to secure the finances to buy our farm."

-Producer

"This is a great program. It allows you to get the help you need to produce high quality milk."

-Producer

"Thanks to the State Johnes Program and Dairy Enhancement we are making some good inroads into herd health"

-Veterinarian

ENVIRONMENTAL IMPACTS

Minnesota Dairy Initiatives also had the opportunity to join forces with the Environmental Quality Assurance Program that is just taking off in the state of Minnesota. This has brought valuable resources to our area to assist farms with environmental issues, and helping these farms become certified as Five-Star Dairies. This will help promote the dairy industry and also educate the public and improve our image as a positive and necessary part of every community in the state of Minnesota and across the Midwest, reported a SE MN coordinator.

DAIRY BUSINESS PLANNING GRANTS

The Dairy Business Planning Grants Program has granted \$128,877 to producers exploring making some change to their operations. The grants are capped at \$5000/producer with a requirement of a one to one match by the applicant. A number of the producers are looking at expansion, while others are improving their environmental stewardship or refinancing their debt. There are also a few applicants that are exploring transferring the operation to the next generation. The end result must be a business plan that thoroughly explores making a change. If only 75% of all the grant recipients over the past two years decide to go forward with their plans, there would be an additional 14,000 cows added to the state. At a modest production (18,000 lbs./cow) and conservative milk price (\$12/cwt) \$30,242,000 of gross income will be added to the economy of rural Minnesota. In addition, this will also result in an additional 277 jobs @ 50 cows/FTE. Appendix C is a map of the 31 producers that have applied for and received the dairy business planning grant to date.

CHALLENGES

"Increasing milk quality on farms enrolled in our program."

"The impact that the U of MN Extension changes will have an impact on our program."

"The availability of certain technically skilled team members to commit their valuable time to the team effort, especially when serving on several teams."

"Maintaining effective communication with dairy industry leaders, legislators and other stakeholders regarding the program's effectiveness and accomplishments."

"Maintaining the nonpolitical, nondiscriminatory nature of this program will be increasingly difficult."

BENCHMARKS

Despite the belief by some people, the size of herd is not a predeterminate factor, or benchmark, in the profitability of the dairy enterprise. Figures extrapolated from the 2001 (613 farms) and 2002 (532 farms) Farm Business Management Records indicate that a well managed small farm carrying a small amount of debt can provide a satisfactory level of family living to the dairy person and family. Efficient use of available resources, maintenance of a healthy herd, a base level of \$13.25/cwt of milk and 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, supply and demand for protein supplements and transitional stage of the herd are all variables that can affect the outcome of any given year. The following numbers were derived primarily from the 2001 and 2002 records of MnSCU Farm Business Management Program.

Hired labor	<\$150/cow
Total Interest expenses	<\$100/cow
Total direct expense	\$7.01/cow
Milk produced	+21,000/cow
Cull rate	26%
Turnover rate	33%
SCC	<300,000
Percent of barn capacity	110%
Feed cost/cwt	\$4.70
Milk price & gov't support	\$13.25
Total debt to asset ratio (at cost)	<50%
Debt per cow	<\$3,000
Labor hours per cow	<40

Appendix A
TOTAL GRANT FUNDS ALLOCATED TO PROGRAMS

West Central Minnesota Dairy Diagnostic Project

Fiscal Year 1997	\$25,000
Fiscal Year 1998	\$125,000
Fiscal Year 1999	\$115,000
Fiscal Year 2000	\$33,550
Fiscal Year 2001	\$38,500
Fiscal Year 2002	\$75,900
Fiscal Year 2003	\$77,500
TOTAL	\$490,450

Central Minnesota Dairy Profit Team

Fiscal Year 1998	\$304,300
Fiscal Year 1999	\$82,000
Fiscal Year 2000	\$56,050
Fiscal Year 2001	\$128,000
Fiscal Year 2002	\$169,500
Fiscal Year 2003	\$173,125
TOTAL	\$912,957

Riverland Community College/ Southeast MN

Fiscal Year 1997	\$82,500
Fiscal Year 1998	\$200,000
Fiscal Year 2000	\$16,450
Fiscal Year 2001	\$75,200
Fiscal Year 2002	\$112,200
Fiscal Year 2003	\$114,625
TOTAL	\$600,975

DPEP of Carver County

Fiscal Year 1997	\$42,500
Fiscal Year 1998	\$168,000
Fiscal Year 1999	\$63,000
Fiscal Year 2000	\$26,450
Fiscal Year 2001	\$100,000
Fiscal Year 2002	\$148,200
Fiscal Year 2003	\$172,250
TOTAL	\$720,900

Land Stewardship Project

Fiscal Year 1999	\$45,000
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Minnesota DHiA

Fiscal Year 1999	\$22,500
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Dairy Farm Tour Guide

Fiscal Year 1999	\$11,400
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MN Intensive Grazing Group

Fiscal Year 1999	\$46,000
Fiscal Year 2000	\$10,000
Fiscal Year 2001	\$17,750
Fiscal Year 2002	\$19,400
TOTAL	\$93,150

Northwest Minnesota Dairy Teams

Fiscal Year 1998	\$47,000
Fiscal Year 1999	\$33,600
Fiscal Year 2000	\$25,000
Fiscal Year 2001	\$41,550
Fiscal Year 2002	\$68,600
Fiscal Year 2003	\$63,000
TOTAL	\$278,750

Sustainable Farming Assn. of MN

Fiscal Year 1998	\$25,700
Fiscal Year 1999	\$100,000
Fiscal Year 2001	\$30,000
Fiscal Year 2002	\$34,500
Fiscal Year 2003	\$41,000
TOTAL	\$231,200

Southwest Minnesota

Fiscal Year 2002	\$75,900
Fiscal Year 2003	\$63,500
TOTAL	\$139,400

Appendix D

LEGISLATION LANGUAGE

█ (a) \$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.