



2005 Annual Report
Grant Program



**DAIRY
DEVELOPMENT &
PROFITABILITY
ENHANCEMENT**

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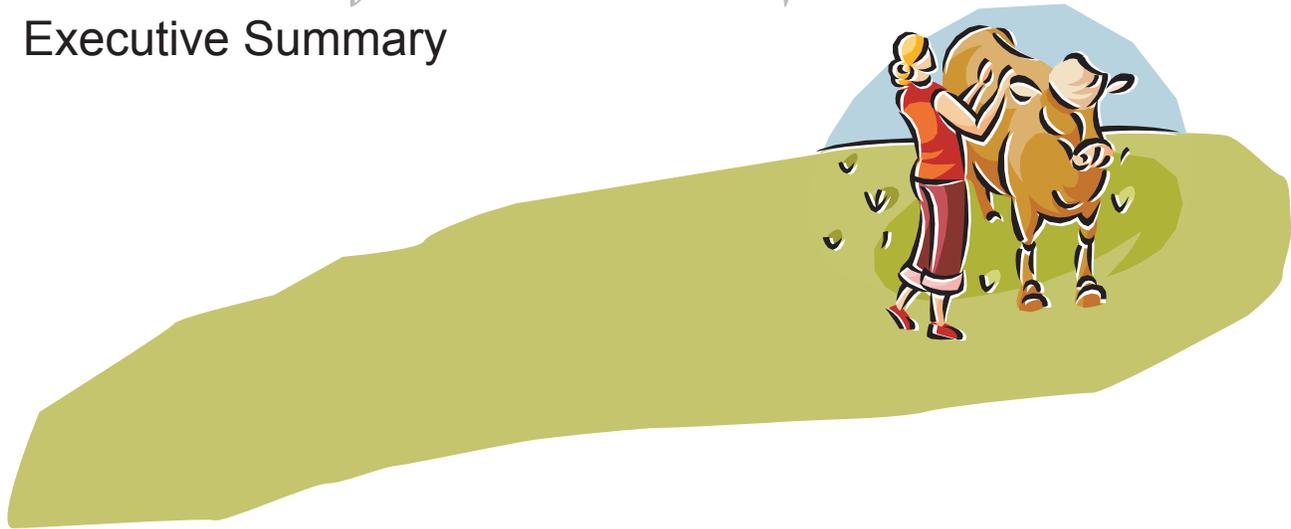
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2004 Legislative Report

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 a 7.3:1 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 \$913,108 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.

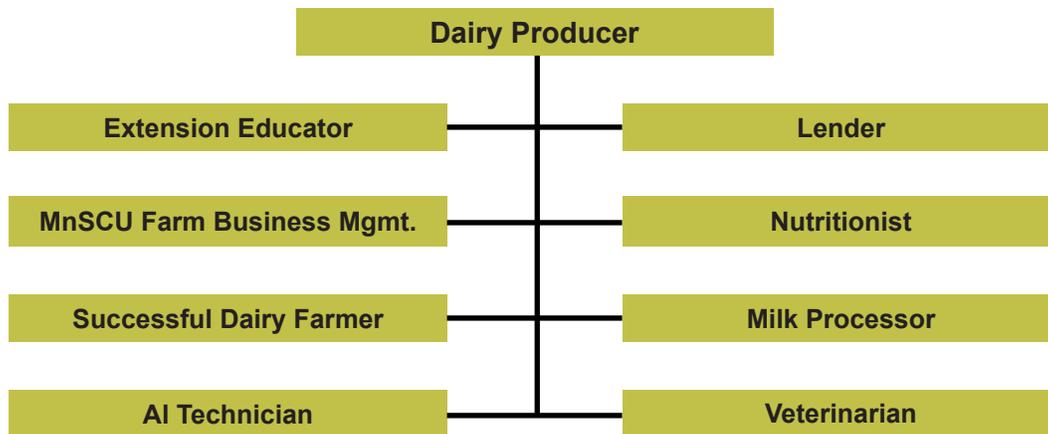
Legislation

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 state-wide 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 2004, a total of \$705,000 was granted to the program partners.

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.

Dairy Development and Profitability Enhancement Team



Above is one 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.

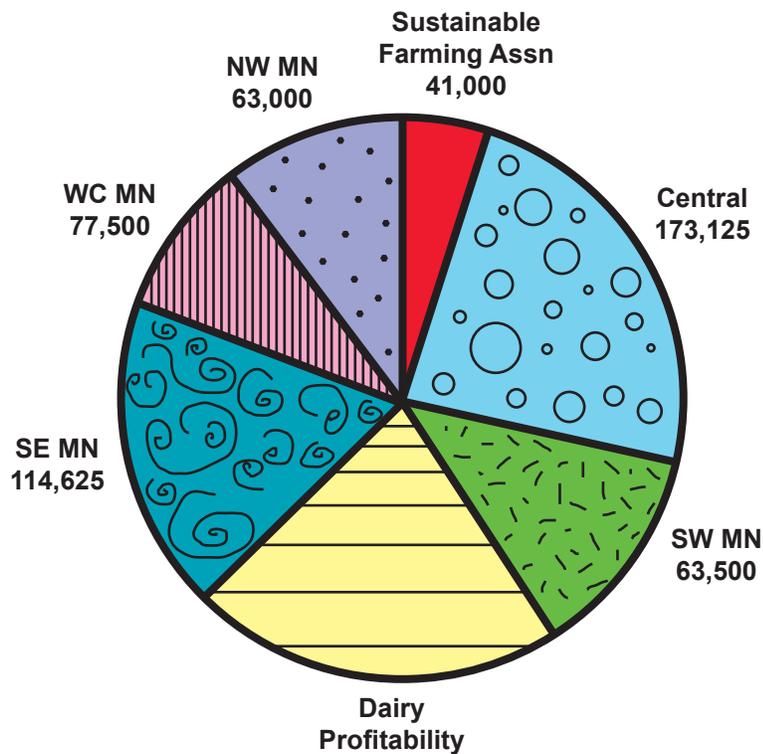
Minnesota Dairy Initiative (MDI)

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

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

ment of Agriculture (MDA), Minnesota Milk Producers Association (MMPA), the University of Minnesota, Minnesota State Colleges and Universities (MNSCU) through Farm Business Management and other industry groups.

The MDI is a federation of the below six regional partners, Sustainable Farming Association (SFA), and several affiliated organizations including, the Minnesota Depart-



The Program Partners

There were 489 dairy farms that participated in the program statewide (see attachment B) in FY 2004. Of this total, 430 farmers were enrolled in the six regional groups with the remaining 59 dairy producers working with the

Sustainable Farming Association. The program is limited to a three year involvement with the team, but the farmers can reapply if they need the team to assist them in their next phase of management.

West Central Dairy Profit Teams

This project's primary objective is to be a vital resource to the 66 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. This includes 9 new farms that are just getting started.

Conservative in-kind contribution for this region is \$23,900.

West Central estimates that the economic impact of their program is \$381,225 through improvements in productivity and profitability on farm.

Testimonials

Otter Tail County producer

"This program (DD) is keeping me in the dairy business!!"

Stearns County producer

"You (DD) got the electric company to correct the problem. I hadn't shipped milk for 6 months because of high SCC (1 million plus). My SCC is now 70- 100,000. I can now add more cows. I plan to add another 40 cows."

Wadena County producer

"All these extra eyes are giving us a very different view of our operation."

Otter Tail County producer

"Thanks for getting us professional help. After dad died, mom and (her son) were yelling at each other even though we had rework the corporation to cover dad's passing."

With MDI's help, a Ottertail County farmer put in a parlor and straw pack barn that not only has kept him in business, but also improved his bottom line. He has also had eight different farmers tour his facilities since he put it in October 2003. The parlor cost him \$13,000 and has saved his knees and his wife's back.

West Central also has 2 new facilities that will most likely be constructing compost barns utilizing sawdust. One will be very low cost with a step up parlor and should be a great model for getting in to dairying at a sensible cost will lots of room for expansion with no additional cost.

West Central also has nine new farms who are either milking less than a year or who are just starting to plan for a new dairy. These farms will need more time and expertise to get started in comparison to an operation that is already successful and doing well. There are also a number of farmers that are on their third year in the program.

Farm business management has been very important to the success of West Central Dairy Profit Teams. Due to

the tuition increasing this may be something we can't assist in, in the future.

Northwest Dairy Profit Teams

There are 27 farms currently enrolled in this project. This group has refocused some of their efforts to assist producers in developing grazing plans and work to improve the operation from within. Veterinarians, nutritionists, lenders, MnSCU farm business management instructors and U of MN Extension Regional educators have worked together and taken on some special projects including milker training and calf care.

Conservative in-kind contribution for this region is \$121,963.00.

Northwest estimates that the economic impact of their program is \$687,204 through improvements in what the producer received in overall productivity and profitability on farms in the Northwest region of the state.

Testimonials

From Mahnomon County producer

"We have increased forages as recommended by our team and cut down on grain. This has helped our herd health and production lots. Our herd size has increased and we quit growing corn for grain as a cash crop."

From Red Lake county producer

"I got a refinancing plan with FHA that lowered my interest rate. I have also lowered the SCC by using quarter milkers as recommended. Tunnel ventilation was implemented as was recommended."

From Marshall County producer

"I have rented out cropland to give more time for the dairy business. FSA has refinanced our operation so my loans are much easier to work with."

From Norman County

"We have been able to use the financial information to purchase some needed equipment. The farm visits have made us aware of some of the farms shortcomings and also pointed out our strengths. We probably would not have made these improvements without the teams input."

From Koochiching County

"Several changes have occurred because of the team's input. They have helped us step closer to our goals of increased milk productions, decreasing SCC, and growing more quality feed."

For Clearwater County

"We worked on establishing and developing grazing cells, improved barn facilities for cow comfort. We would not have grazed without the team. The team also helped us work on cash flow."

From Beltrami County

"We look forward to the visits and learn more each time they come. We used the team's help to start a rotational grazing program. We probably would not have done it without the help of the team. The team has also helped with increasing good cow health."

From Beltrami County

"The team gives lots of information! We just have to follow-up. Communication takes place between family members when the team helps facilitate. The team is helping steer us toward our goals."

Dairy Profitability Enhancement Program (DPEP)

This program'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-nine farms in DPEP were enrolled in this project in 2004. The DPEP coordinates with 230 agricultural professionals that serve as team members delivering information to participating farmers.

\$381,100 of in-kind contributions were made to the dairy industry in the DPEP region.

DPEP estimates that the economic impact of their program is approximately \$2,047,231.40.

Economic Impact Statements

A Stearns county producer formed a DPEP team in August of 2003. In the past year he has implemented treatment, vaccination, and breeding protocols, in addition to improving his dry cow and pre-fresh rations. The combination of these changes has increased the herd's RHA by 3,000 lbs. His SCC has been reduced by an average of 330,000 resulting in an increase in the producer's annual income by \$5250. This producer is also in the process of expanding his herd to a total of 120 milking cows. His team and the DPEP Dairy Resource Specialist, Vern Oraskovich, have been an integral part of the design process of his new loose housing and milking parlor.

A Renville county farm family has remained focused on all areas of their operation with the encouragement of their team. This increased focus has already paid dividends and improved the herd's performance in several areas (peak milk, milk quality, reproduction and youngstock management) over the last 12 months. The total annual economic impact on this one farm is \$26,490.

A Douglas County farm family made building modifications which included adding mattresses to improve cow comfort. As a result of these changes, the herd's production level has increased by 10 pounds per cow per day over the past 12 months and is averaging 89 pounds per cow per day. This has resulted in increased annual milk sales of \$25,575 based on \$13.00 milk.

A Blue Earth County producer has taken the advice of their DPEP team and installed tunnel ventilation to their existing tie-stall barn. The cows were producing 45 pounds of milk a day, but after adding the ventilation system, the cows increased production to 55 pounds per day. The improvements have resulted in an increased annual income of \$24,674, based on \$13.00 milk.

A Redwood County producer formed a DPEP team in August of 2002. This 48 cow milking herd was averaging 57 lbs per day in 2002 and has risen 21.5 lbs per day to 78.5 lbs per day. He changed feed companies and made nutritional changes that have resulted in an increase in the herd's milk production. This has resulted in \$33,024 of additional income for the farm per year. Herd health has also improved. Prior to these changes, their death loss was 12 cows per year; now it is just 2 cows per year.

Challenges/Concerns

- The ability of team members to commit their valuable time to the team effort, especially when serving on several teams.
- Maintaining effective communication with legislators regarding the program's progress.
- Promoting Farm Business Management as a vital financial tool for dairy producers.
- Continuing to gather support and innovative ideas for producers from our Dairy Resource Specialist.

Central Region

This project worked with 135 farms last fiscal year, of which 35 farms were new to the program. This region also had some special focus areas of Milk Quality, Transferring the farm/Partnership, Expansion and New Start-ups. Central also supported and promoted other educational events throughout the region including a dairy women's seminar, calf care, milk quality and price risk management.

Central region estimate their in-kind contributions to the dairy industry \$240,975.00

Central estimates that the economic impact of their program of \$1,165,887.52.

Testimonials

Producer from Stearns County

Having worked with the team concept before, after my husband's accident, I was better able to handle the expanded role that was expected of me. Knowing about the team's efforts, I was more enabled to call upon the team members for our farms business.

Producer from Morrison County

This program is very effective in pin pointing and addressing specific management and production concerns. I know that my brother and I would not of had the ideas or the teams support. The team has helped us reach our goal and to keep it steady.

Producer from Todd County

The team approach offers Ag professionals that are caring, helpful and easy to talk to. Their ideas have been conservative in cost and have offered good advice that has helped us lower our SCC.

Producer from Benton County

Working with the team has helped us to get our minds on track...To focus on a few things to think beyond tomorrow.

Producer from St. Louis County

Excellent opportunities that shed light on various areas of concerns. Without this program we would not of met our goals, we have made significant advances on our farm.

Producer from Morrison County

Since we began working with the Dairy Profit Teams, our family has sharpened its focus on the problems with somatic cell count. We discovered that the equipment needed more frequent maintenance than was being provided. After culturing the milk, we have isolated cows and will have the problem cleared up shortly.

Producer from Benton County

I have just started with the program, but it has already helped me in starting with the FBM program and helped me get my books up to date and ready for tax time.

Producer from Meeker County

We feel good about the team approach as the team has helped us find and finance the farm we bought.

Producer from Todd County

We began working with the dairy profit team over one year ago. Since then our family has sharpened its focus on the management of our dairy enterprise, as well as, the farm business as a whole.

Producer from Stearns County

This is a very beneficial program. We really like the TEAM concept!

Sustainable Farming Association

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.

There are now over 70 certified organic dairy farms exist in the state as of 2004 with more in transition. This accounts for over 1% of the total operating dairy farms in Minnesota. The trend points towards a declining number of conventional dairies and an increasing number of organic dairies for the near future.

One factor often overlooked in sustainable dairy production is the quality of life of the producer. Even though their net profit may not be significantly better than a comparable-sized conventional dairy, the grass-based dairy often boasts of a less stressful workday and better herd health.

Developed and maintained properly, rotational grazing systems can 1) provide a profitable, low-risk production system, especially suited for capital-poor beginning farm-

ers, that can generate income and employment opportunities on dairy farms 2) reduce sediments and nutrients entering surface waters 3) significantly enhance carbon sequestration, wildlife populations, biodiversity, amenity and aesthetic values, and 4) improve profitability through marketing of dairy products. Grazing dairy production systems provide attractive new options for profitability, while offering substantial economic, social and environmental benefits to the communities and regions in which they are situated.

Slightly more than a quarter of Americans are eating more organic products than they were a year ago, and nearly 10 percent say that they regularly consume organic products, according to a survey of 1,000 Americans conducted for Whole Foods Markets. The study, conducted by Synovate in August 2004, found that the most common impetus for eating organic goods was that they are perceived to be better for the environment (58 percent) followed by a perception that they support small and local farmers (57 percent). Large numbers also said organic foods are better for one's health, are of better quality and taste better than competing products.

Testimonials

Producer in Cass County

"Thought I would drop you a line and let you know that I am milking again. We now have 30 cows and still expanding. Things are going well here. Thank you for the encouragement last winter."

MDI Mentor/Producer in Ottertail County

"MDI helps cover the cost of tuition for enrolling our farm in Farm Business Management. Our grazing dairy is benefiting from good herd health and reduced expenses from a low-input style of production."

MDI Mentor/Producer in Wadena County

"Due to improved efficiencies from grazing, I spend less than 8 hours each day tending the cows."

Southwest Region

36 farms participated from this region of the state in the dairy profitability program. This region of the state also put a lot of effort into workshops for producers. This region also is an example of working across state lines, working with both South Dakota and Iowa to deliver educational programs collectively to their producers.

Southwest region estimates their in-kind contributions from the dairy industry \$85,050

Southwest estimates that the economic impact of their program of \$444,082.50.

Testimonials

Pipestone producer

“All the program people have access to so much information and are very willing to share it and find out what they don’t have answers for. Their help has been so much appreciated! The team gave us so much information to help make right decisions about stalls, waters, lights, feeding, alley widths, and more. The team has made milking much easier especially having cows in smaller groups. Once everything is completed in the spring, everything will be so much smoother at chore time.”

Murray county producer

“We became involved with the program about 1 1/2 years ago. If it hadn’t been for their help, we probably wouldn’t be milking cows anymore or farming for that matter! We had a terrible problem with stray voltage and they had an expert come in and help us find out where it was coming from. They also helped with financing to get an FSA guaranteed loan. There are more people around that would greatly benefit from their help!”

Comments from a milk processor

“I have one family in particular that I know would not be in business today, if they had not had a place to turn to for advice, and outside help. Their financial struggles with their lender almost had them to the point of mental breakdowns, and throwing in the towel on a business it took a lifetime to build. The story they were telling me did not add up, and I knew they could be helped, but by who? Finances are not my area. Luckily I knew about your program and suggested they contact you for a “Team” meeting, with finances as the first priority. You enlisted Tim Dolan, and came to their aid, and today our milk processor is still picking up 8,000# of great milk, from two people who are ever so thankful that they had a place to turn for “unbiased” professional help.

I still marvel at the turn around on another farm. The ideas to make work easier, and then the young nephew coming in on the picture, gave that dairy new life!! Today there is a remodeled parlor, and we pick up 10,000# of great quality milk there every other day. Success is always shared, and we can not do things alone in life. We need to work as a team. Thanks!!”

Southeast Region

70 farms participated from this region of the state in the dairy profitability program. This region has put forward a lot of effort in Quality Count\$, a statewide program to improve milk quality in Minnesota. This region has also worked on some stray voltage issues and have been successful in eliminating this on a few farms.

Southeast region estimates their in-kind contributions from the dairy industry \$60,120.

Southeast estimates that the economic impact of their program of \$ 773,555.

Testimonials

A 70 cow dairy was dealing with high Somatic Cell Counts (SCC). After the whole herd was cultured and tested they were able to determine that some small changes in milking procedures and a change in the order the cows were milked would solve their problems. They had reduced their SCC from 521,000 to 109,000 within 6 months.

A 90 cow dairy had issues with high SCC levels. The SCC is under control now with a SCC of below 300,000 and is continuing to improve with time. This herd needed to increase the bedding for the cows as well as keep the cows cleaner in order to reduce their SCC. While this herd is still working to improve their milk quality there is a light at the end of the tunnel for them.

A 550 cow dairy was able to cut in half their SCC in a 7 month period. The owner was now receiving a \$2700 per month premium!!!

A farm started with opening an on farm processing plant. Plant opened recently and when they are really up and rolling, they expect to see an extra \$36,000.00- \$40,000.00 per year.

*A **Winona county** dairy farm is still struggling, but has come a long, long ways from starting the program. The milk production is up and death loss is down significantly. Conservatively this farm should increase their profitability by \$20,000.00 in 2004.*

*A **Wabasha county** dairy is dealing with breeding and reproductive issues, but things have turned the corner and animals are conceiving. They are also looking at a large remodeling project in the next few years.*

*A **Winona county** producer is focusing on environmental issues and challenges to his operation. There are plans to incorporate these changes and get his farm up to 7020 feedlot rules standards. He is one of a number of farmers who will have to make these changes within the next few years.*

*A **Wabasha county** dairy is dealing with some family issues. While it is still early in the process the family issues need to be dealt with before any changes can happen with the farm.*

A heifer raiser was able to make some changes to his operation. These improvements will result in an estimated \$10,000 in additional income for this producer.

Dairy Business Planning Grants

The Dairy Business Planning Grants Program has granted \$96,090 to producers exploring making some change to their operations in fiscal year 2004. 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 15,500 cows added to the state. At a modest production (18,000 lbs./cow) and conservative milk price (\$12/cwt) \$30,274,400 of gross income will be added to the economy of rural Minnesota. In addition, this will also result in an additional 307 jobs @ 50 cows/FTE. Appendix B is a map of the 24 producers that have applied for and received the dairy business planning grant in fiscal year 2004.

Testimonials

“A farmer in central MN applied for and received a business planning grant, but he later found out that his lender wasn’t interested in working with him on his expansion. He took his business plan to a different lender and his loan was approved.”

Benchmarks

Despite the belief, that the size of a herd is a necessarily predetermined factor, or benchmark, to the profitability of the dairy enterprise. Figures extrapolated from the 2001-2003 Minnesota State Colleges and University (MnSCU) 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, debt load, supply and demand for protein supplements and transitional stage of the herd as well as herd health are all variables that can affect the outcome of any given year.

Hired labor	<\$150/cow
Total interest expense	<\$100/cow
Total direct expense	<\$10/cwt
Milk produced	+21,000/cow
Cull rate	26%
Turnover rate	33%
SCC	<300,000
Percent of barn capacity	110%
Feed cost/cwt	<\$5
Milk price & gov’t support	\$13
Total debt to asset ratio	<50%
Debt per cow	<\$3000
Labor hours per cow	<40

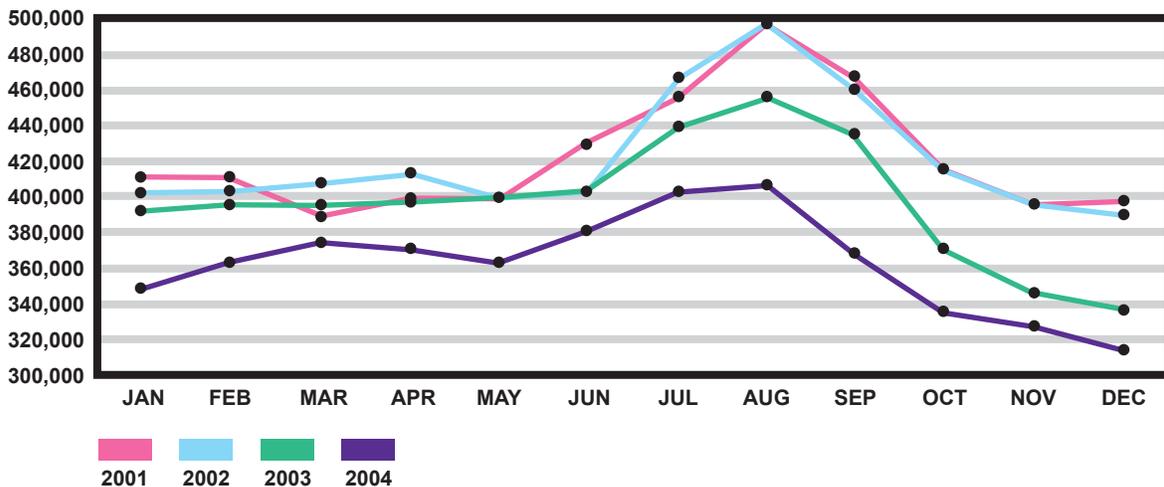
Quality Count\$

Quality Count\$ is 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 MN's public and private dairy organizations. The University of Minnesota Extension Service, Minnesota Department of Agriculture, Minnesota Dairy Initiative Teams as well as Farm Business Management Instructors and Minnesota's Dairy Processors are working together to reduce Somatic Cell Counts to below 300,000 by June 2005. Our average herd SCC for December was at 314,000. This is a decline of 12,500 from our previous all time low last month and is a decline of 21,000 from a year ago.

For calendar 2004, Minnesota's average herd SCC was 362,000, compared to 397,000 for 2003, and 424,000 for 2002. That is a 15% improvement in two years. In addition, average milk production has risen to almost 20,000 pounds per cow in DHIA.

Bruce Dokkebakken, of MN DHIA recently started looking at median SCC as a measure of milk quality that may be more reflective of what is happening at the farm level. There were as many herds below 276,000 in December as there were above that median number. The avg. median monthly SCC for 2004 was 320,000, compared to 355,000 for 2003, and 380,000 for 2002.

SCC Trends by Year



(Source MN DHIA, 1/05)

Appendix C

- 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.



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