Massachusetts Dairy Farm Revitalization Task Force

Report to the Legislature

November 9, 2007

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF ENERGY AND ENVIRONMENTAL AFFAIRS
Department of Agricultural Resources
251 Causeway Street, Suite 500, Boston, MA 02114
617-626-1700 fax 617-626-1850 www.Mass.gov/AGR

Massachusetts Department of Agricultural Resources

DEVAL L. PATRICK
Governor

TIMOTHY P. MURRAY
Lieutenant Governor

IAN A. BOWLES
Secretary

DOUGLAS W. PETERSON
Commissioner

November 29, 2007

To: The Honorable William F. Welch, Clerk of the Senate
The Honorable Steven T. James, Clerk of the House of Representatives
The Honorable Pamela P. Resor, Senate Chair, Joint Committee on Env., Nat. Res. and Ag.
The Honorable Frank Israel Smizik, House Chair, Joint Committee on Env., Nat. Res. and Ag.
The Honorable Robert A. Deleo, Chair, House Committee on Ways and Means
The Honorable Steven C. Panagiotakos, Chair, Senate Committee on Ways & Means

C: The Honorable Deval L. Patrick, Governor
The Honorable Senator Therese Murray, Senate President
The Honorable Representative Salvatore F. Dimasi, Speaker of the House

The Dairy Farm Revitalization Task Force respectfully submits the enclosed report. The report contains the findings, recommendations, and suggested legislation as was sought by Section 17 of Chapter 42 of the Acts of 2007.

We would like to express our appreciation for the opportunity to serve on the Task Force and firmly believe that the findings and recommendations enclosed within the report, if adopted, will result in a brighter and more prosperous future for not only the dairy industry but for the Commonwealth as well.

Sincerely,

Scott Soares, Co-Chair
Assistant Commissioner, Department of Agricultural Resources

Philip Griffiths, Co-Chair
Undersecretary, Office of Energy and Environmental Affairs

Enclosure

Lynn Bohan, Appointee,
Processor

Dwayne Breger, Ph.D, Appointee,
Division of Energy Resources

Senator Stephen Brewer,
Senate Majority Member

Representative Daniel Bosley
House Majority Member

Mark Duffy,
Dairy Farmer

Representative Lewis Evangelidis,
House Minority Member

Ellen Fitzgibbons, Appointee,
Department of Public
Health

William Gillmeister, Ph.D, Appointee,
Department of
Agricultural Resources

Senator Michael Knapik,
Senate Minority Member

Representative Stephen Kulik,
House Majority Member

Robert O'Connor, Appointee,
Executive Office of
Energy and Environmental Affairs

Senator Stanley Rosenberg,
Majority Senate Member

David Shepard, Appointee,
Massachusetts Cooperative
Milk Producers Federation, Inc.

Greg Watson, Appointee,
Executive Office of Energy and Environmental
Affairs

Richard Woodger, Appointee,
Massachusetts Association of Dairy Farmers

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Executive Summary

The dairy industry is a cornerstone of the agricultural community as well as an important and integral part of the Massachusetts economy that also benefits Massachusetts residents through the availability of fresh local milk supplies. As a function of the acreage requirements of dairy operations, the Commonwealth's dairy farms serve as working landscapes that also protect valuable open space and support vibrant rural communities. For a variety of reasons, however, the number of Massachusetts dairy farms has dwindled from nearly 5,000 in 1950 to its current number of 180. As a result of converging factors that included high feed and fuel costs, adverse weather and historically low milk prices, which are established by the Federal government and out of the control of the farmer, the Massachusetts dairy industry faced unprecedented economic hardship that led to a declaration of crisis by the Massachusetts Department of Agricultural Resources. In recognition of the 2006 crisis conditions that threatened the viability of the remaining dairy farms in the Commonwealth, the Governor proposed and the Legislature approved (Chapter 42 of the Acts of 2007) $3.6 million in emergency relief for dairy farmers and created the Dairy Farm Revitalization Task Force. Importantly, since the distribution of those funds no dairy farms have been lost. This report includes a detailed record of the information presented to the Task Force at its meetings, the findings of the Task Force, recommendations from subcommittees that were established to further review specific topics, and the final recommendations of the Task Force members.

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 the 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 programs to promote Massachusetts dairy products, in order to reduce the impact of fluctuations in milk prices and costs of production.

Background

The dairy industry, including both fluid milk processing and manufactured dairy products such as ice cream and butter, generates over $500,000,000 for the Massachusetts economy. Milk receipts rank third in value of agricultural production behind cranberry receipts and nursery and greenhouse production. Massachusetts 180 remaining dairy farms generate nearly $50 million in sales and generate an estimated $120 to $150 million in economic activity through the purchase of goods and services. This economic activity provides vital support to the working agricultural economy of Massachusetts and our rural communities.

Massachusetts dairy farms directly maintain approximately 92,000 acres of land in active agricultural production, representing about 20% of land in farms in the Commonwealth. Dairy farms support additional farm land production and ancillary businesses through the purchase of haylage, feed and other products. Much of the land that was actively farmed when Massachusetts had 5,000 dairy farms has been lost to development, and the pressure of increasing land values makes it harder to maintain actively working dairy farms. In fact, for more than a decade, Massachusetts has ranked among the top three states in the country with the highest land values. Obviously, once that open space and working agricultural land is developed it is lost forever.

In 2006 what has been referred to as “the perfect storm” for the dairy farming community, threatened to accelerate the loss of dairy farms in Massachusetts. Dairy farmers in Massachusetts and throughout the country suffered from a steep drop in milk prices, which are established by the federal government, severely adverse weather conditions, and a dramatic increase in production costs. Various legislative efforts to address the problem began in July of 2006, including proposals for fee and subsidy programs, revenue insurance programs and emergency relief. In response to a petition for relief from the dairy industry and subsequent hearings, the Commissioner of the Massachusetts Department of Agricultural Resources declared a crisis in the dairy industry in the spring of 2007.

As a result of the crisis conditions, Gubernatorial and Legislative action yielded Chapter 42 of the Acts of 2007, which provided $3.6 million in emergency relief for dairy farmers to assist them in recovering from the events of 2006 and also established the Dairy Farm Revitalization Task Force (Task Force). The Task Force consists of 17 members including three dairy farmers, six legislators, a representative of milk processors, and (7) various members of the Executive Branch. The Task Force was co-chaired by the Commissioner of the Department of Agricultural Resources and the Secretary’s designee the Undersecretary of the Executive Office of Energy and Environmental Affairs (EEA). The purpose of the Task Force was to:

> *“…investigate short and long-term solutions to preserving and strengthening the dairy farm industry in the Commonwealth. Said investigation shall include methods to promote the innovation in, and the revitalization of, the Massachusetts dairy farming community, including without limitation, investigating the impact of increased fixed costs borne by the dairy farming community including, but not limited to, fuel prices, healthcare and insurance; promoting locally produced milk; and promoting alternative and renewable energy uses for farmers.”*

Findings

1. With the circumstances, characteristics and broad array of interests within the Massachusetts dairy industry, sustainability of the industry will depend upon a variety of measures and support from consumers, dairy farmers, processors, retailers, and government;

2. Dairy farms offer substantial benefit to the citizens of the Commonwealth of Massachusetts not only in terms of the local supply of fresh milk and their contribution to the economic vitality of rural communities, but also as quoted in Article 97 of the Constitution of the Commonwealth of Massachusetts, for the "…natural, scenic, historic, and esthetic qualities of their environment; and the protection of the people in their right to the conservation, development and utilization of the agricultural, mineral, forest, water, air and other natural resources is hereby declared to be a public purpose.";

3. The financial stress on dairy farms in 2006, when farm milk prices were $1.12 per gallon and costs of production were at $1.61 per gallon, threatened the short term viability of the industry as well as its long term stability and jeopardized the benefits the industry offers to the citizens of the Commonwealth in the conservation, development, and utilization of agricultural resources and the protection of open space. The short and long term stabilization of the industry, through the establishment of mechanisms that strengthen and preserve dairy farms and the greater dairy industry is critical to the protection of open space, agricultural diversity and conservation in the Commonwealth and to the viable future and growth of the dairy farms of Massachusetts;

4. In 2007 the economic situation of the Massachusetts dairy farm industry has stabilized from the crisis of 2006. Although the cost of milk production has risen to $1.85 per gallon for many dairy farms, farm price paid for milk has also increased from $1.12 per gallon to over $1.98 per gallon, which has offset the increase in costs. While milk prices and costs of production fluctuate, as they are primarily dictated by national and international market forces and federal controls, dairy industry analysts expect milk production costs to remain at these high levels for the foreseeable future, and expect the price paid to farmers to drop substantially in the future based on identified cyclical dip patterns occurring every three to five years;

5. National solutions, such as The Federal Milk Marketing Orders, while offering certain benefits, are inadequate to address the challenges facing Massachusetts dairy farmers;

6. A safety-net type of mechanism, while not the only solution, needs to be established to help dairy farmers remain economically viable for the periods of cyclical down turns when costs of production exceed milk prices; such a mechanism will provide financial security to dairy farms and ultimately protect working agricultural resources and preserve open space;

7. Energy conservation, collaborative purchasing and selling of energy along with energy saving technologies, offer additional opportunities for cost savings in milk production and creates additional revenue generation possibilities for dairy farms;

8. Statutory and regulatory issues create road blocks to technological adoption and increases costs to dairy farms;

9. The revitalization and sustainability of the dairy farm industry will require technical and financial assistance to maintain the Commonwealth's dairy farmers on the right path and to offer alternative options for sustainability and growth such as, but not limited to, on-farm processing and other direct marketing options.

Recommendations

The Task Force divided its recommendations into four categories that were developed based upon the various presentations and topical areas studied:

1. Alternative and Renewable Energy;
2. Marketing and Promotion of Massachusetts Dairy Products;
3. Technical and Financial Assistance to Dairy Farmers;
4. Financial Safety Net Measures;

1. Alternative and Renewable Energy

A number of alternative/renewable energy options have potential for helping Massachusetts dairy farmers reduce their energy costs and/or contribute to their revenue stream. The Massachusetts Technology Collaborative (MTC) is a quasi-public agency that administers the Renewable Energy Trust. The Renewable Energy Trust has a number of existing programs that most of the Commonwealth's dairy farmers are eligible to take advantage of, such as:

- ***The Small Renewables Initiative:*** provides homeowners rebates for design and construction of solar electric, wind, or hydroelectric energy projects that are up to 10 kilowatts in size. Rebates depend on the characteristics of each project.

- ***Large Onsite Renewables Initiative:*** provides grant funding to assist with feasibility studies and design and construction of renewable energy projects, including wind energy, solar photovoltaics, hydroelectric, and biomass energy.

- ***Out Reach:*** the Massachusetts Department of Agricultural Resources (MDAR) will work with MTC to develop strategies for improving their outreach to the agricultural community, and dairy farmers in particular, to make them aware of the opportunities that exist for installing renewable energy technologies at their farms particularly through the Farm Energy Program.

In addition, the task force recommends pursuing the following specific activities:

- ***Methane Digesters:*** Anaerobic methane digesters have the potential for mitigating environmental pollution and creating a marketable energy product at the same time. We should pursue the feasibility of developing a cooperative similar to those that have emerged in other parts of the country that are designed to aggregate a critical mass of manure and other organic wastes from proximate dairy farms and generate methane gas that can then be distributed through existing natural gas pipelines or used to generate on-site heat and power. The study should include the economics of selling carbon credits through the Chicago Carbon Exchange or as offset allowances in the Regional Greenhouse Gas Initiative.

- ***Bio-crops and Biofuels:*** The Massachusetts agricultural community should seek to develop cooperative arrangements with the Commonwealth's expanding biotechnology sector to explore ways of working together to advance ethanol research and development. While our farms are not of sufficient scale to support the commercial production of crops suitable for conversion to ethanol, dairy farmers could provide sites for field trials of crops and microorganisms that are being developed specifically for this purpose. Representatives from MDAR should meet with representatives from the Massachusetts Biotechnology Council to explore opportunities.

- ***Wind Energy:*** In order to determine which, if any Massachusetts dairy farms have the potential for hosting utility-scale wind projects, a comprehensive detailed mapping exercise that identifies Massachusetts dairy farms and overlays them with wind resource maps should be undertaken and analyzed. The Massachusetts Technology Collaborative should support the erection of wind measurement towers on farms that match up well with suitable wind resources and farmers who are interested in hosting wind projects. Moreover, MTC (in coordination with the MDAR Energy Program) should make a special effort to encourage farmers to explore the feasibility of constructing kW-scale wind turbines to generate electricity that would be used onsite.

- ***On-Site Renewable Energy Projects:*** To reduce the large capital cost associated with renewable energy projects, the Task Force recommends that the MTC Renewable Energy Trust and MDAR explore market opportunities for third-party ownership of on-site renewable energy projects. Under such a structure, a dairy farm would host a project and purchase the energy generated at a small cost savings until the owner is reasonably paid back. After that period, the project ownership can switch to the farm owner, providing substantial energy cost savings. To attract third-party owners of solar and small wind projects, aggregating dairy farms to offer numerous installation opportunities would be beneficial.

- ***Aggregation:*** The Task Force recommends that MDAR, with the assistance of the MA Division of Energy Resources, explore the practicality and potential benefits of aggregating electric loads across dairy farms (and more broadly in the agricultural sector) to enable farmers an opportunity to competitively procure their electricity supplies.

- ***Net Metering:*** Statutory and Regulatory environment should be modified to allow for annual net metering.

- ***Massachusetts Technology Collaborative/Renewable Energy Trust:***
  Finally, the Task Force recommends that the Massachusetts Technology Collaborative/Renewable Energy Trust consider making a pool of consultants available to dairy farmers who could assist them in developing proposals in response to the agencies program solicitations.

2. Marketing and Promotion of Massachusetts Dairy Products

- ***Establishment of a Massachusetts Dairy Promotion Board:*** The Task Force recommends enacting legislation for the establishment of a Massachusetts Dairy Promotion Board to develop promotional, research, and nutrition programs in Massachusetts using funds that farmers already contribute;
- ***Expansion of Agricultural Tourism:*** The Massachusetts Office of Travel and Tourism has agreed to work with dairy farmers in order to expand and increase agri-tourism options for the dairy farmers of the Commonwealth, through the development of marketing plans and the organization of events that would network industry experts from the agri-tourism, travel and culinary sectors to highlight the availability and advantages of working more closely with Massachusetts dairy farms.
- ***International Trade and Foreign Investment Opportunities****:* The Task Force recommends that the Massachusetts Office of International Trade and Investment (MOITI) explore and assist in the identification of foreign opportunities for Massachusetts dairy products and MOITI has committed to continue working with the dairy farmers of the Commonwealth to further these initiatives.

3. Technical Assistance and Financial Assistance to Dairy Farmers

- The Task Force recommends the establishment of a commission consisting of members of the staffs of the MDAR and DEP to review statutory and regulatory issues that create road blocks to technological adoption and increases costs to dairy farms;
- The Task Force recommends inclusion of language to an appropriate legislative action that will allow Agricultural Preservation Restriction (APR) and Farm Viability Programs to provide APR farms access to Farm Viability type funds;
- Establish a Farm Link Loan Program via the State Treasurer to provide low interest loans to dairy farmers who wish to expand current operations or to seek alternative production and marketing operations;

4. Financial Safety Net Measures

- As a safety net measure, establish a Massachusetts Dairy Farm Tax Credit similar to that employed by the state of South Carolina that will be applicable to all eligible Massachusetts Dairy Farms. And further direct the Massachusetts Department of Agricultural Resources to develop appropriate regulations to implement the program based upon the conditions that there be a general fund liability of 0 - $4 million in any given year the distribution of which will be based upon hundred weight production.
- Evaluate and improve through legislative and/or regulatory action several possible general fund revenue sources not limited to re-establishment of an appropriate retailer license fee and reasonable increases to processor licensing fees.
- Work with the federal government to evaluate and improve the federal milk marketing order system to eliminate such wild fluctuations in milk prices.

Report

The Task Force first met on July 27, 2007 at the University of Massachusetts, Amherst. Over the course of its seven meetings the Task Force obtained expert briefings and public comments to facilitate its work. The briefings fell into four categories: costs of production; revenue generating options; alternative and renewable energy options; and alternative marketing and promotion opportunities. A summary of those meetings related to each topical area covered is provided in Appendix A. Appendix E contains the complete minutes from each meeting.

At its October 5, 2007 meeting the Task Force adopted the nine findings that were developed as a result of the expert briefings and are provided in the "findings" section of the *Dairy Farm Revitalization Report to the Legislature*. Also at the meeting on October 5th, the Task Force formed five subcommittees to perform an in depth analysis of the topics of interest and to report recommendations back to the Task Force. The subcommittees were the Energy Subcommittee, Massachusetts Milk Promotion Board Subcommittee, International Trade Subcommittee, Technical Assistance and Low Interest Loan Subcommittee, and the Safety Net Subcommittee. From the reports of the subcommittees the Task Force developed its recommendations, which are summarized in the "recommendations" section of the *Dairy Farm Revitalization Report to the Legislature*. What follows is a fuller description of the recommendations with references to the relevant findings and meeting discussions that lead to the development of the Task Force's recommendations.

1. Alternative and Renewable Energy

On September 7, 2007, a panel of experts in the field of alternative and renewable energy provided a considerable amount of information on energy options for dairy farmers. The panel discussion also provided additional insight. As a result the Task Force Adopted Finding 7 and established the Subcommittee on Energy. The Subcommittee on Energy reviewed and made recommendations for a number of alternative and renewable energy options that have the potential for helping Massachusetts dairy farmers reduce their energy costs, contribute to their revenue stream, or both.

The Massachusetts Technology Collaborative (MTC) is a quasi-public agency that administers the Renewable Energy Trust (RET). The Renewable Energy Trust seeks to maximize environmental and economic benefits for the Commonwealth's citizens by pioneering and promoting clean energy technologies and fostering the emergence of sustainable markets for electricity generated from renewable sources. The Trust has a number of existing programs that most of the state's dairy farmers are eligible to take advantage of. Such recommended programs include:

1.1. ***Small Renewables Initiative***: provides homeowners rebates on a first-come first-served basis for design & construction of solar electric, wind, or hydroelectric energy projects that are up to 10 kilowatts in size. Rebates vary based on the characteristics of each project.

1.2. ***Large Onsite Renewables Initiative*****:** provides grant funding, through a competitive process, to assist with feasibility studies and design and construction of renewable energy projects, including wind energy, solar photovoltaics, hydroelectric, and biomass energy. Projects must have an installed capacity of greater than 10 kilowatts and consume more than 25% of the renewable energy generated by the project onsite. Grant levels vary based on the characteristics of each project.

1.3. ***Outreach*****:** the Massachusetts Department of Agricultural Resources (MDAR) will work with MTC to develop strategies for improving their outreach to the agricultural community, and dairy farmers in particular, to make them aware of the opportunities that exist for installing renewable energy technologies at their farms particularly through the Farm Energy Program. The MDAR Energy Program's primary function is to promote energy knowledge and awareness and to facilitate the implementation of energy related projects for our agri-businesses through energy efficiency, energy conservation and renewable energy applications, as a means to reduce both energy costs and environmental pollution.

Beyond programs that are already available to dairy farms, the Task Force further recommends the following;

1.4. Methane Digesters: Anaerobic methane digesters have the potential for mitigating environmental pollution and create a marketable energy product at the same time. We should pursue the feasibility of developing a cooperative similar to those that have emerged in other parts of the country designed to aggregate a critical mass of manure and other organic wastes from proximate dairy farms and generate methane gas that can then be distributed through existing natural gas pipelines or used to generate on-site heat and power. The study should include the economics of selling carbon credits through the Chicago Carbon Exchange or as offset allowances in the Regional Greenhouse Gas Initiative.

1.5. Bio-crops and Biofuels: The Massachusetts agricultural community should seek to develop cooperative arrangements with the state's expanding biotechnology sector to explore ways of working together to advance ethanol research and development. While our farms are not of sufficient scale to support the commercial production of crops suitable for conversion to ethanol, dairy farmers could provide sites for field trials of crops and microorganisms that are being developed specifically for this purpose. Representatives from MA DAR should meet with representatives from the Massachusetts Biotechnology Council to explore opportunities.

1.6. Wind Energy: In order to determine which, if any Massachusetts dairy farms have the potential for hosting utility-scale wind projects, a comprehensive detailed mapping exercise that identifies Massachusetts dairy farms and overlays them with wind resource maps should be undertaken and analyzed. The Massachusetts Technology Collaborative should support the erection of wind measurement towers on farms that match up well with suitable wind resources and farmers are interested in hosting wind projects. Moreover, MTC (in coordination with the MDAR Energy Program) should make a special effort to encourage farmers to explore the feasibility of constructing kW-scale wind turbines to generate electricity that would be used onsite.

1.7. **On-Site Renewable Energy Projects:** To reduce the large capital cost associated with renewable energy projects. Under such structure, a dairy farm would host a project and purchase the energy generated at a small cost savings until the owner is reasonably paid back. After that period, the project ownership can switch to the farm owner, providing substantial energy cost savings. To attract third-party owners of solar and small wind projects, aggregating dairy farms to offer numerous installation opportunities would be beneficial.

1.8. **Aggregation:** The Task Force recommends that MDAR, with the assistance of the Massachusetts Division of Energy Resources, explore the practicality and potential benefits of aggregating electric loads across dairy farms (and more broadly in the agricultural sector) to enable farmers an opportunity to competitively procure their electricity supplies.

1.9. **Net Metering:** Statutory and Regulatory environment should be modified to allow for annual net metering.

1.10. **Energy Consultants:** The Task Force recommends that the Massachusetts Technology Collaborative/Renewable Energy Trust consider making a pool of consultants available to dairy farmers who could assist them in developing proposals in response to the agencies program solicitations.

2. Marketing and Promotion of Massachusetts Dairy Products

The Task Force evaluated and discussed several marketing options as possible alternatives for dairy farms of the Commonwealth. A marketing alternatives panel provided the Task Force with materials and briefings on such alternatives at its September 7, 2007 meeting. Several alternatives were examined ranging from value added processing, promotional activities, including the promotion of international trade, and converting to organic milk production. This section takes up the marketing and promotional aspects of these alternatives, while leaving the value added and organic milk production to the third set of recommendations regarding technical and financial assistance.

Before turning to those promotional activities that the Task Force explored further, one alternative marketing approach that the Task Force felt had potential was a consumer voluntary contribution program. Such a program, if feasible, would provide consumers of fluid milk an opportunity to contribute a certain number of cents to a fund with the guarantee that the fund would contribute to the financial stability of Massachusetts dairy farmers. As the Task Force learned from the presentation at the September 7th meeting this voluntary contribution concept is supported by several marketing studies.[1]

While the Task Force envisioned potential, it also recognized several limiting issues. First, while the marketing studies may report a willingness of consumers to pay within the context of a marketing study (consumers express a willingness to pay when they are only required to answer a question), when consumers are actually confronted with paying, they often do not follow through. Furthermore, establishing a statutory or regulatory mechanism to allow the consumer contributions to flow to dairy farmers in Massachusetts is problematic

[1] See the Meeting Minutes for the Task Force Meeting on September 7, 2007 for references.

and would require considerable resources to administer, not to mention the logistical burdens that processors and retailers would face. For these reasons, the Task Force refrained from pursuing this alternative further.

At the September 7th meeting, the Task Force learned that dairy farmers are required by Federal Dairy Promotion and Research Order to pay 15 cents per hundred pounds of milk to a national program for national dairy promotion research activities. But a dairy farmer has an option contributing up to 10 cents of the 15 cents to a qualified state or regional program for state or regional promotion and research activities. Currently, Massachusetts does not have a state-qualified program, so many Massachusetts dairy farmers contribute to the New England Dairy and Food Council which is qualified regional program. Consistent with Finding 9, the Task Force concluded that as a part of creating greater opportunities for Massachusetts dairy farmers that a state-qualified milk promotion and research program should be established.

The Task Force also concluded that creating opportunities in international markets and through agri-tourism should be explored. To address these marketing and promotional aspects, the Task Force formed and two subcommittees, Massachusetts Milk Promotion Board Subcommittee and the International Trade Subcommittee, at its October 5, 2007. The Milk Promotion Board subcommittee had the objective of drafting language to establish a state-qualified promotion board while the International Trade Subcommittee had the objective of exploring international marketing opportunities with the Massachusetts Office of International Trade and Investment (MOITI). The Task Force discussed agri-tourism options with the Massachusetts Office of Travel and Tourism (MOTT). From the subcommittee reports of these activities, the Task Force makes the following recommendations:

- **2.1. Establishment of a Massachusetts Dairy Promotion Board:** The Task Force recommends enacting legislation for the establishment of a Massachusetts Dairy Promotion Board to develop promotional, research, and nutrition programs in Massachusetts using funds that farmers already contribute. The draft legislation for the establishment of a Massachusetts Dairy Promotion Board is attached as Appendix (B);

- **2.2. Expansion of Agricultural Tourism:** The Massachusetts Office of Trade and Tourism has agreed to work with dairy farmers in order to expand and increase agri-tourism options for the dairy farmers of the Commonwealth, through the development of marketing plans and the organization of events that would network industry experts from the agri-tourism, travel and culinary sectors to hi-light the availability and advantages of working more closely with Massachusetts dairy farms.

- **2.3. International Trade and Foreign Investment Opportunities**: The Task Force recommends that the MOITI ought to explore and assist in the identification of foreign opportunities for Massachusetts dairy products and has committed to continue working with the dairy farmers of the Commonwealth to further these initiatives.

3. Technical and Financial Assistance to Dairy Farmers

Throughout the Task Force meetings, expert briefings and discussions repeatedly raised technical, regulatory, and financial roadblocks that often prevented the adoption of cost-saving technologies, prevented the ability to carry out business plans, or simply increased the costs of production. Findings 8 and 9 reflect these issues.

To address the regulatory roadblocks the Task Force concluded that a commission be established to review current regulations with the purpose of eliminating such roadblocks. Such a commission should comprise of members of the Department of Agricultural Resources and the Department of Environmental Protection. The Task Force further recommends that a list of regulatory issues be included in this report as an initial set of matters that such a commission shall address. That list is included in Appendix D.

To evaluate the potential for financial assistance, the Task Force established the **Technical Assistance and Low-interest Loan Subcommittee** (TALL). The TALL Subcommittee engaged the Office of the State Treasurer to explore the possibilities. The State Treasurer, Timothy Cahill, directed his staff to investigate other state programs that provide low-interest loans for agricultural businesses. After a thorough investigation the staff of the Office of the State Treasure provided the TALL Subcommittee with draft legislation for a Dairy Farm Linked Loan Program. Appendix B contains that legislation. This program would allow the State Treasure's Office to make available $100 million from the Commonwealth Stabilization Fund available for below-market-rate- loans to dairy farms for up to $500,000. Such loans would be available for a great many dairy farm projects for upgrading or expanding current production facilities, or to provide investment capital for engaging in value added on-farm processing.

In summary, the Task Force recommends:

3.1. Statutory and Regulatory Review: The Task Force recommends the establishment of the a commission consisting of members of the staffs of the MDAR and DEP review statutory and regulatory issues that create road blocks to technological adoption and increases costs to dairy farms;

3.2. APR farms access to Farm Viability Type funds: The Task Force recommends inclusion of language to an appropriate legislative action for that will allow Agricultural Preservation Restriction (APR) and Farm Viability Programs to provide APR farms access to Farm Viability type funds;

3.3. Farm Link Loan Program: Establish a Farm Link Loan Program via the State Treasurer to provide low interest loans to dairy farmers who wish to expand current operations or to seek alternative production and marketing operations; The draft legislation for the establishment of a Farm Link Loan Program is attached as Appendix (B);

4. Financial Safety Net Measures

Finding 6 requires the establishment of a safety net mechanism as one of the methods stabilizing the dairy industry. The purpose of a safety net mechanism is "…to help dairy farmers remain economically viable for the periods of cyclical down turns when costs of production exceed milk prices; such a mechanism will provide the financial security of dairy farms….” Therefore the mechanism must provide assistance in meeting costs of production during dramatic downturns in the farm price of milk.

The Task Force heard presentations at the August 24, 2007 meeting on three particular mechanisms: the South Carolina Income Tax Credit, a newly developed Gross Revenue Insurance product being offered through the Federal Crop Insurance Corporation, and the Maine tax and stabilization programs. The Task Force spent considerable time discussing these mechanisms. At its September 21, 2007 meeting, the Task Force decided to study further a novel concept of an income tax credit program such as that implemented by South Carolina and the utilization of a stabilization fund from which funds might be drawn and at the October 5th meeting established a Safety Net Subcommittee to conduct that study.

The Income Tax Credit

The Safety Net Subcommittee reviewed the key characteristics of the South Carolina income tax credit model. The essence of the tax credit model relies on a “trigger price” such that when the farm price falls below the trigger price, farmers receive a tax credit. Once calculated, the tax credit is applied to the farmer’s state income tax liability for that year. If the value of the credit is less than the tax liability, the farmer would owe the difference. If the credit is greater than the liability, the farmer receives the difference as a tax credit rebate.

More specifically, if during any month in a quarter, the trigger price falls below the farm price, the farmer receives a tax credit equal to $10,000 for the first 500,000 pounds of annual milk production, and $5,000 for each 500,000 pounds of annual milk production thereafter for that quarter’s milk production. Five hundred thousand pounds of annual milk production amounts to about a 28 cow milking herd and this establishes a minimum milk production threshold. As to the trigger price, the South Carolina program uses a set of factors to establish the trigger price including the average price of the top five surrounding states from which milk is imported, transportation costs of transporting milk from those states, and the costs of milk production in South Carolina.

The Safety Net Subcommittee identified four variables that may require some adjustment for implementation of the tax credit model in Massachusetts. Those variables were as follows: a minimum production amount, the frequency of evaluating the trigger, the trigger price, and the amount of the credits. The South Carolina tax credit has a minimum production level of 28 milking cows. The Subcommittee recognized the reason for a minimum production requirement, but recommends that no such minimum be established.

As stated above, the South Carolina model evaluated the trigger price on a monthly basis, but awarded the credit on a quarterly basis. The Subcommittee recommends evaluating the trigger on monthly basis. Of the trigger price itself, the Subcommittee recognized key differences in market conditions in Massachusetts when compared to South Carolina, thereby requiring a different set of factors for calculation of the trigger. To be consistent with Finding 6, the trigger price ought to include some measure of cost of production.

The Subcommittee went back to the Task Force meeting of August 10, 2007 to its discussion of costs of production and concluded that the Vermont operating costs of production, announced monthly by the US Department of Agriculture, offered the best source for a trigger price. In particular, the Subcommittee decided that the trigger price ought to include the operating costs, hired labor, and some level of the value of unpaid labor. The Subcommittee relied on the economic and business theory that a farm will remain in business as long as it can cover its variable or operating costs. Being able to pay for hired labor is a part of those costs as well as some part of the value of a farmer's unpaid labor.

Regarding the amount of the tax credit, the Subcommittee analyzed the fixed tax credit by incorporating the decisions already discussed while using the base credit of $10,000 if a farm has a certificate of registration and a unit credit of $5,000 per 500,000 pounds of milk production after the first 500,000 pounds. Using data from the Emergency Relief Program administered in the July of 2007, the Subcommittee found that the maximum liability if the farm price fell below the trigger price every single month in a year would be $4.12 million dollars.

Importantly, the Subcommittee recognized that based upon the cyclical nature of milk prices, the worst case scenario for milk prices might occur every 3-5 years, but that during the intervening years there could be an impact of anywhere from 0 to less than $4 million. In fact, considering the high milk prices that have occurred during the calendar year of 2007, it is highly likely that if such a tax credit program were currently in existence the tax rebate liability would be zero. That is to say, the general fund liability will fluctuate from year to year and will range from a minimum of zero liability to a maximum of $4 million.

As to the maximum of $4 million, the Subcommittee reasoned that the tax credit provided to South Carolina dairy farmers (i.e. nearly $3 million for an equivalent volume of milk as Massachusetts) was adequate to stabilize dairy industry retention. The Subcommittee recognized a similar stabilizing impact of the $3.6 million relief payments provided to Massachusetts dairy farmers. Therefore, it concluded that a maximum of $4 million ought to be sufficient.

To get an estimate of the amount of payout during an average year, the subcommittee relied on historical production and price data to develop an estimate of a long-term average tax credit that could be realized by Massachusetts dairy farmers. That is, the Subcommittee developed an estimate of the average of the years where there would have been a low payout and years when there would have been a high payout. The calculations revealed an average of $2.3 million in tax credits annually with an average payout per farm of $12,800. In order to ensure equitable disbursement to all dairy farmers (unlike the South Carolina model that captured farms of 28 head or greater) the Subcommittee recommended that the payout of any tax credit be based on a per hundredweight basis.

Finally, the Subcommittee wanted to emphasize that the current estimates utilize a trigger that could be impacted by improved costs of production that could be realized by other solutions that have been examined by the Dairy Revitalization Task Force (i.e. minimization of energy costs). These impacts will remain unknown until such improvements have been implemented and measured.

Dairy Farm Stabilization Fund

Any safety net mechanism will require a source of funding. At its September 21st meeting the Task Force considered a novel proposal to establish a Dairy Farm Stabilization Fund consisting of various sources of revenue. The proposal is based on the realization that milk price volatility has occurred in 24 to 36 month cycles. These cycles, according to information from Agri-Mark Economist Robert Wellington may have increased in length (i.e. 36 to 60 months). That is, there is approximately 36 to 60 months from peak to peak or trough to trough. A Dairy Farm Stabilization Fund would provide the ability to slowly gather revenue over the peak periods such that, when the next trough occurs, funds will be readily available for safety net payments.

In consideration of the sources of revenue for such a fund, the Subcommittee felt that the source ought to come from a breadth of support since the benefits from maintaining dairy farms impact a broad spectrum of the Commonwealth's citizens as declared in Finding 2. After further review, the Subcommittee recognized the novelty of the proposal, but concluded that such a fund would likely be too problematic. Further, depositing milk dealer fees into such a fund may present some U.S. Constitution questions in line with *West Lynn Creamery v. Healy* (512 U.S. 186 (1994)).

The Subcommittee did, however, recommended that the milk dealer license fees be reviewed with a specific focus on the reestablishment of the retailers milk dealer licensing fee, but that that be pursued through the statutory authority established in M.G.L. c. 94A.

4.1. As a safety net measure, establish a Massachusetts Dairy Farm Tax Credit similar to that employed by the state of South Carolina that will be applicable to all eligible Massachusetts Dairy Farms. And further direct the Massachusetts Department of Agricultural Resources to develop appropriate regulations to implement the program based upon the conditions that there be a general fund liability of 0 - $4 million in any given year the distribution of which will be based upon hundred weight production.

4.2. Evaluate and improve through legislative and/or regulatory action several possible general fund revenue sources not limited to re-establishment of an appropriate retailer license fee and reasonable increases to processor licensing fees.

4.3. Work with the federal government to evaluate and improve the federal milk marketing order system to eliminate such wild fluctuations in milk prices.

Appendix A
Summary of Expert Briefings

I. Market/Industry Overview

Once the various appointing authorities made their appointments, the co-chairs set July 27, 2007 for the organizational meeting. At this meeting the Co-chairs invited Vice President of Economics and Legislative Affairs, Bob Wellington from Agri-Mark, a dairy farmer cooperative in Massachusetts, and Bruce Krupke, President of the New York Dairy and Foods Association to provide an overview and background into the current dairy situation.

Mr. Wellington began by reiterating the conditions of 2006, but then noted how Northeastern states have responded. Northeastern states have provided nearly $70 million in emergency relief to dairy farmers. He compared payments among the various states and said that Massachusetts is above average in the payment rate distributed. He emphasized that although farmers welcomed the emergency relief, direct payments are not a solution to the overall problem.

As to the overall problem, he also noted that milk producing states in the western United States are producing far more milk than their eastern state counterparts and if Massachusetts dairy farms were to completely disappear it would be a blimp on the screen. This puts Massachusetts farmers at the mercy of a national milk market and even international market. He explained that the current run up in farm milk prices is the result of multiple factors on both the supply and demand side of the market. Demand factors include increased demand for milk products, particularly nonfat dry milk in countries such as India and China, favorable exchange rates for U.S. exports. On the supply side comes drought in New Zealand and Australia, and European countries that have decreased exports to the world market. Finally he pointed out the environmental challenges facing, not only Massachusetts dairy farmers, but dairy farmers throughout the country with the primary challenge being manure management.

Mr. Krupke began his presentation by asking task force members to focus on perspective, changes, consolidation, and growth. He noted that milk markets must be considered as regional, national, and global. He emphasized the changes by noting Dr. Kenneth Bailey’s Dairy Outlook report, which stated that there is a decline in the value of the dollar and the demand for products in the world market increases while the rate of production is slowing. The standard of living has increased in other countries, allowing more people to buy powdered dairy products. With such high milk prices, he said that there will likely be some price resistance at the retail level which will reduce demand. He also noted that milk production in Massachusetts is down 11% over the last year. In closing, he agreed with Wellington that prices are going to hold strong for dairy farmers for another year or so.

Through the Panel discussion several potential solutions arose. Representative Bosley identified three separate categories of solutions that had either come in the discussion or that had been brought from outside information. The three categories were 1) policies to address the costs of production, 2) policies to increase revenue, and 3) policies to enhance alternative agricultural activities. The Representative then listed a number of examples for each. Costs of production include cooperative purchase of inputs such as fuel, energy, and feed, net metering, methane digesters, and addressing transportation costs. On the revenue side examples included the Maine Model, income tax credit, promotion voluntary contribution, and revenue insurance. Alternatives include diversification of crops, agri-tourism, and a cooperatively run milk plant to offer alternative direct marketing channel for farm milk. The Task Force did not object to investigating these solutions.

II. Milk Costs of Production

The Task Force received briefings and information on the cost of production, one of the primary factors that have contributed to the weakened state of the dairy industry in the Commonwealth of Massachusetts. The Task Force invited three experts on cost of production for fluid milk, Daniel Lass, Ph.D., Timothy Dalton, Ph.D., and Mr. Robert Smith, VP for Public Affairs and Knowledge Exchange at Pioneer First Credit, to provide presentations to the Task Force in order to further evaluate possible options the Task Force may consider for inclusion in its final report.

Dr. Daniel Lass of the University of Massachusetts, began his presentation to the Task Force by noting that no reliable data on Massachusetts' cost of milk production currently exists and explained his methods for using data from the Agricultural Resource Management Survey of the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS). He proceeded to summarize and compare total costs of production and the major components of those costs across various states in the U.S. For example, the state of Maine has a cost of production of $32.94 per hundredweight of milk (cwt) compared to $14.34 per cwt in California. He also reported other states such as Wisconsin at $21.01 per cwt and Pennsylvania at $24.71 per cwt.

Of the major components of cost, it was noted that feed, both purchased and home grown, labor, both paid and unpaid, and capital recovery costs comprised over 80% of the costs of producing milk. For Maine, feed costs amounted to approximately $11.67 per cwt while California's feed costs amounted to $8.68 per cwt. Dr. Lass noted that an estimate of the unpaid labor a farm family provides amounted to approximately $6.22 per cwt for Maine, $3.20 for Vermont and $0.40 for California.

Using the USDA ERS data, the best guess for costs in Massachusetts was $26.76 per cwt. Dr. Lass noted that this estimate is based on past work that he had done that showed that the costs of production in MA were not statistically different from those of Vermont.

Dr. Timothy Dalton, Ph.D., from the University of Maine, prefaced his prepared presentation by commenting on the USDA, ERS data shown by Dr. Lass. While he noted that Dr. Lass' presentation was well done, his research leads him to conclude that the USDA, ERS data overestimates costs of production considerably and are more reflective of small Maine dairy farms. When he developed costs of production for different farm sizes, he found that the Maine costs came down more in line with Vermont at the $24 per cwt level rather than the $33 per cwt from the USDA numbers, concluding that his costs of production likely reflect Massachusetts' cost of production as well.

In his prepared presentation, Dr. Dalton described the methods and frequency of estimating Maine milk production costs, which occurs every three years. He then provided the Task Force with Maine dairy farm characteristics such as farm size, total milk production per farm, average age of farm owner, number of laborers, off-farm income, etc. It was noted that Massachusetts dairy farms exhibited similar characteristics as those presented for Maine. However, the average herd size in Maine is slightly larger.

In his estimates he noted the similarities in components of costs between Maine's and USDA, ERS components and provided a detailed description of the components in the Maine study. He also described how the Maine survey broke down farms into small, medium-size and large farms. The results compared the total annual costs across farm size in small farms showing a cost of production of $26.93 per cwt, $21.68 per cwt for medium farms and $20.81 per cwt for large farms. Wrapping up his farm size comparisons, Dr. Dalton noted that when the cost components were split into every day costs of doing business (called short-run costs of production) farms could meet their costs and then some. But when capital replacement and longer-run items were added into the costs, dairy farms, regardless of size lost money.

As Dr. Lass had done, Dr. Dalton compared the average cost of production in Maine of $23.40 per cwt with the average northern crescent farm of $21.76 per cwt, that shows that there are more cows per farm in Maine and that the cost per cwt is $1.64 higher in Maine than in the northern crescent. This higher cost is due to higher repair costs, property taxes and higher fuel and utility costs.

Dr. Dalton concluded by presenting a cost of production study performed in a joint effort between the University of Maine, the University of Vermont, and USDA on cost of organic milk production in 2004 and 2005. This study only included cash costs or short-run costs, but not long-run costs. He noted that the costs had increased in 2005 from $21.55 per cwt over 2004 of $19.05 per cwt. The bottom line, however, is that even though organic milk commands a higher price, the costs of production, when ownership withdraws are made, are higher and lead to net farm losses of approximately $2.30 per cwt.

Thirdly, Mr. Robert Smith from First Pioneer Farm Credit and Vice President for Public Affairs and Knowledge Exchange presented information and materials detailing that mid-size farms have been hit the hardest in the past decade because they do not have the high production level while they are full-time farmers and their sole income comes from the farm. He also stated that large farms have lost a lot of money, because cost cutting is limited. He recommended in his testimony that reducing the cost of production will be difficult, because it is mostly determined on a farm-to-farm basis and that the public should pay for programs that are beneficial to the public such as dairy farms. In his closing remarks, he stressed that it is critical that we maintain our dairy farmers, regardless of size, because the dairy industry is at the heart of the infrastructure.

In closing, all three speakers noted the public benefit associated with dairy farms. Dr. Lass recommended that support in the future should be as simple and straight forward as possible, such as the setting of a support price, possibly based on cost of production, and the provision of a direct payment based on that. He further suggested incorporating incentives to increase production efficiency.

Dr. Dalton expressed no issue with convoluted solutions and provided anecdotal information on various innovations being attempted by farmers. One such innovation was alternative feed rations, but further research is required. He noted that a group of farmers were attempting to purchase feeds cooperatively but had no information on the success of that venture. Finally, he noted further research on technological advances in feed rations and organic farming.

Mr. Smith reiterated the public benefits of dairy farming and communicated his sentiment that the public ought to be willing to bear some of the costs. For example, cost sharing for manure management facilities that enhance the environmental stewardship of dairy farms. He further suggested that property tax reform for agricultural operations would be very helpful, particularly in the assessment of buildings. He mentioned that dairy farm access to economic development programs should be assessed as he recounted programs in New York State that, due to rules of the programs, farms could not take advantage of them.

After a change in the program rules through the legislative process, the agricultural sector became one of the largest participants in those programs.

III. Revenue Generating Options

A. South Carolina Income Tax Credit

The Task Force received three briefings presenting revenue generating options currently being used in other states and regions that have contributed a positive impact to farms during the crisis. The Task Force received three speakers for revenue generating options, Mr. Larry Boyleston, to present the South Carolina Income Tax Credit, Bruce Babcock, Ph.D., to present the gross margin insurance option and Mr. Stan Millay who presented the system currently implemented in the State of Maine.

Mr. Larry Boyleston, Assistant Commissioner at the South Carolina Department of Agriculture and Director of its Agricultural Services Division, presented the South Carolina Income Tax Credit program to the Task Force as the first option in consideration for revenue generation in the Commonwealth of Massachusetts. Mr. Boyleston pointed out that the South Carolina Dairy Tax Credit had a somewhat misleading name because many dairy farmers have little to no tax liability. He explained that the program is a refundable tax credit, that is, after the tax liability has been deducted from the tax credit, the remaining portion of the credit is refunded to dairy farmer. He also noted that the actual legislation was quite simple and amounted to less than one page.

Mr. Boyleston provided a PowerPoint presentation on the Dairy Tax Credit. The program is a safety net program that provides a refundable tax credit of $10,000 for the first 500,000 pounds of annual milk production and a $5,000 credit for each 500,000 pounds of milk production afterward. The tax credit is awarded whenever the milk price falls below a minimum price, called the Production Price, during any one month of a quarter. To claim the credit, dairy farmers merely need to perform some rather simple calculations on their annual tax returns and wait for the refund to be deposited into their accounts. In 2005, the program refunded nearly $2.8 million dollars to South Carolina dairy farmers with an average payment of approximately $37,000.[2]

Mr. Boyleston also pointed out some salient features of the program. The program is limited to farms with greater than 500,000 pounds of milk production per year. This amounts to a minimum farm size of about 28 cows. The legislation requires that the program take into account milk prices paid to farmers in surrounding marketing areas. It had to account for transportation costs of hauling milk from outside the area, and finally, the program had to take account of the cost of producing milk. Using these factors, a Production Price was calculated. To determine whether the tax credit applied to a given quarter, the actual price was compared to the Production Price and if the actual price fell below the Production Price for any one month during a quarter, the credit would be applied to an entire quarter's worth

[2] The Task Force meeting minutes of August 24, 2007 state that the average payment per farm was $20,000. This is an error. Mr. Boyleston reported data that supports the $37,000 per farm. However, on a per hundredweight basis, the South Carolina tax credit paid approximately $1.00. This compares to the $1.32 per hundredweight payment to Massachusetts dairy farmers from the $3.6 million emergency relief. It is important to note the while South Carolina dairy farmers produce about the same amount total milk (280,000,000 pounds) as Massachusetts dairy farmers (273,000,000 pounds), South Carolina has fewer (85) but larger (200 cows) farms than Massachusetts (180 farms with an average of 70 cows). Thus, the average payments per farm in South Carolina are much larger than an equivalent amount of funds dispersed in Massachusetts.

of annual production. Mr. Boyleston's presentation included an example to demonstrate the mechanics.

After two years with this program, Mr. Boyleston reports that no one has complained about it. In fact, he claimed that the most recent National Agricultural Statistics Service reported that South Carolina had a very strong increase in milk production during the second quarter of 2007. The original legislation requires a report be submitted to the legislature after two years. The South Carolina Department of Agriculture will be developing that report over the next few months.

B. Livestock Gross Margin Insurance

The second speaker, Bruce Babcock, Ph.D., Professor of Economics and the Director of the Center for Agricultural and Rural Development at Iowa State University, began his presentation by illustrating what livestock gross margin insurance was not. At one end of the spectrum, is a fixed target price support mechanism requiring significant regulatory intervention and funding. He cited the Milk Income Loss Contract program as an example of this type of policy. A middle ground approach is a moving target price that requires somewhat less regulatory intervention and funding and cited the South Carolina tax credit as an example of such a program. Finally, at the other end of the spectrum is a market determined target price, which requires much less regulatory intervention or funds. This is the livestock gross margin (LGM) insurance model.

He then explained that the newly approved livestock gross margin insurance program for dairy. The Board of the Federal Crop Insurance Corporation had just approved this insurance program at the end of July. The policy provides protection against "…unexpected declines in gross margin (market value of milk minus feed costs) on target quantity of marketed milk." This is accomplished by using the Commodity Mercantile Exchange futures prices for milk, corn, and soybeans to determine the expected or anticipated or better still, the guaranteed level of gross margin on the expected quantity of milk to be marketed over a certain period of time. With the expected gross margin locked in, the LGM policy covers the difference between the guaranteed margin and the actual margin realized by the farmer whenever the difference is negative.

Dr. Babcock then described the rules of the policies. The farmer can purchase a policy on any amount of milk during any month of the calendar year for durations of up to 11 months excluding the month just after the purchase of the policy. For example, a farmer may decide to purchase a policy on the sale day in January. The policy does not cover the month of February, but begins coverage in March and lasts for next ten months, or 11 months in all including March. The farmer may choose a shorter period, but the month following the purchase date is not covered.

Taking data for the years 2002 through 2004, he constructed an example of how a policy would work if a farmer purchased it in January. He ran through comparisons of projected and actual milk prices, corn prices, and soybean prices for each of the years. In 2002, actual milk prices fell below the expected price used to calculate the guaranteed margin in the policy, and the corn and soybean prices were higher than expected with the result that the gross margin fell below the guaranteed margin for each of the eleven months of the policy. In the end, the policy would have paid $2.52 for each cwt of insured milk.

In 2003, actual milk prices rebounded after several months of being below the projected price while corn and soybean prices yielded similar tendencies, that is, in some months the expected price was below the actual and others the expected prices were above actual. Therefore, the actual gross margins were above the guaranteed margin and no payment was made, while during other months, the gross margin was below the guaranteed and the policy paid. In 2004 the actual margins ended up well above the guaranteed margin and no payments were made. In some years, the policy will pay while in others it will not.

Dr. Babcock then turned to the premiums of the costs of the policies. The premiums will be higher in times of high price volatility and lower during periods of low volatility. As with any other insurance policy, the higher the deductible on the policy the lower the premium. The deductible in this case is the quantity of milk insured by the policy purchased. Insuring 100% of the milk will result in a higher premium than insuring a lower percentage of the milk. Finally, the longer the term of the policy purchased the lower the premium.

Once again, Dr. Babcock provided an example to illustrate the range of premiums. He assumes a 100 cow heard producing 1,500 pounds per cow per month with 9.4 tons of corn and 7.7 tons of soybeans per month. To insure 100% of the milk, that is, no deduction, the premium would come to just over 80 cents a cwt with a total cost of the policy of just over $12,000. As the deductible increases, that is, the amount of the production insured falls, the premium falls. Therefore, a deductible of $1.00 per cwt, the premium rate falls to just less than 40 cents or $6,000. Similarly, by insuring for longer terms, the premiums fall by an average of about 20 cents per cwt. In terms of price volatility, as volatility increases the premiums increase by as much as 40 cents.

C. Maine Program

Mr. Stan Millay, Executive Director of the Maine Milk Commission, presented to the Task Force the current Maine system for Revenue generation. Mr. Millay has most recently assisted with the Maine dairy crisis of 2006 that led to revisions of Maine's Dairy Support program. He also administers Maine's Milk Control Laws and manages the State's milk pool.

Mr. Millay began by sharing his insights into the impact that the Maine program has had on the Maine dairy industry. He stated that Maine has 350 dairy farms and 30,000 cows that produce 590 million pounds of milk annually. The dairy sector maintains approximately 4,000 jobs. The program has stabilized the dairy industry even through the difficult circumstances of 2006.

He proceeded to describe the background and history of the program as well as how it functions. In 2003, Maine established a Task Force, similar to that of Massachusetts, to investigate the long-term sustainability of the Maine dairy industry. Several recommendations were made in the final report. Maine's response was to establish two separate programs.

First is the Milk Handling Fee. The processor pays this fee, and the amount of the fee is on a sliding scale depending on the Announced Federal Order Class I price in Boston (Class I price). The fee structure recently changed, and Mr. Millay explained that the sliding scale begins when the Class I price falls below $24 per cwt and the fee is two cents a gallon. An additional two cents is added to the fee if the Class I price falls below $23.00 per cwt, that is, the fee is four cents. For each one-dollar drop in the Class I price 2 cents is added to the fee, until it drops below $18.00. Then four cents is added. When the Class I price drops below $17.00, then four cents is added to each 50-cent drop until the Class I price falls below $15.00 per cwt. At that point, the fee increases by six cents for each 50 cent drop in the price below the $15.00. The fee is collected by the Maine State Tax Assessor's Office and is deposited directly into Maine's general fund. In 2006, under the old sliding fee schedule, the Tax Assessor's Office collected $3.3 million dollars.

Second, Maine has established a Dairy Stabilization Program. The program provides a safety-net payment to dairy farmers whenever the farm price falls below a set of Target Prices. The Target Prices are based on costs of production and other factors and are tiered based on farm size. Smaller farms have a higher Target Price and therefore, begin getting payments before larger farms. The Dairy Stabilization Program paid $11.5 million to farmers in 2006, but paid as little as $600,000 dollars in 2005 when market conditions were much stronger.

IV. Alternative Options

The Task Force also received information on alternative options for promoting alternative and renewable energy uses for farmers as well as se of direct marketing and promotion programs to further enhance the viability and profitability of the dairy sector in the Commonwealth of Massachusetts. Several speakers were invited to introduce these options to the Task Force for evaluation and possible inclusion in those recommendations aimed at preserving and strengthening the dairy farm industry in the Commonwealth.

A. Energy Alternatives

1. Methane Digesters

Robert Hagevoort, Ph.D., Extension Dairy Specialist at the Agricultural Science Center, University of New Mexico presented the “drivers” behind seeking manure management and energy alternatives. Such drivers ranged from environmental considerations to oil and energy price increases. He noted that dairy farmers must realize that the manure must become a part of the revenue stream of the farm. The question he posed was “what is manure worth?”. Since there is no real market for the manure, there is no real method for determining its value. He illustrated a number of possibilities: green energy from methane production; soil amendments from solids; reclamation of water for the liquid effluent; or use the liquid effluent for a fertilizer.

Whatever the end use, Dr. Hagevoort conditioned the discussion on the principle that manure management must be a closed loop system to capture as much value out of the manure as possible. He cited two projects in particular as examples: the Chino Basin Integrated Resources Management and the Pecos Valley Biomass Cooperative. The Chino Basin project consists of 7 dairy farms with a total of 6,250 cows that produce 375 tons of manure a day. The manure is trucked to a mesophilic plug flow digester. The methane generated from the digester is piped to the Chino basin desalination plant that supplies 8,000 gallons of clean water to Chino, Chino Hills, and Jurpa Services district.

The Pecos Valley Biomass Cooperative in the Roswell, New Mexico are consists of 37 dairy farms within an 11 mile radius. The project would locate a digester facility to minimize the transportation costs of moving materials as well as provide a proximity to product output markets. Such output markets include the creation of steam for feed processing, cheese production, or other milk processing facilities. Secondary markets include gas for ethanol production and bio-crude-oil.

Pecos Valley Cooperative has approximately 20,000 cows from which manure would be collected. Feasibility studies have been done for the activities under consideration. They are currently negotiating contracts with an ethanol plant and a cheese plant. They are also looking into syn-gas and other fuel production possibilities.

Dr. Hagevoort notes that manure digesters are not necessarily a panacea. As an illustration, 80% of all manure digesters stand idle, and the reasons vary from low return on investment to the significant management burden. Digesters require 40 to 60 hours a month to operate, which, when added to all the other management requirements on the farm, often becomes unmanageable.

2. Scaleable Methane Digesters

Mr. Bill Jorgenson of SJH and Co. provided a presentation hi-lighting the services provided by SJH and its operations centered on scaleable methane digesters.
SJH currently works with four categories of agents in the renewable alternative energy sector: the buyers and regulators of energy markets; the farms interested adopting the technology; the financial agents such as First Pioneer Farm Credit; and the technology providers.

He then presented the revenue projections for various sized farms. Revenues included the sale of electricity and carbon credits as well as bedding material from the solid by-product of the digester. The revenues ranged from $148,000 for small herds to $2.7 million for midsized farms. In fact the midsized farm generated the highest revenue, and as farm size increased from that point, revenue decreased precipitously.

The amount of capital investment to construct such digesters averaged approximately $1,750 per cow. However, the capital requirements followed the same pattern as revenues relative to farm size. The smallest herds required the least capital, then jumped to the highest at $11 million for herds in the 100 to 199 size category. For herd sized greater than 200, capital costs decreased to $2.9 million for the very largest farms.

Finally, Mr. Jorgenson overlaid a map of the Commonwealth with dairy farms by herd size categories and natural gas pipe lines to demonstrate the areas with the strongest potential. Those areas included the southern Berkshire County, Franklin and Hampshire Counties, and southern Worcester County. Not only did these areas have concentrations of farms but they also had close proximity to natural gas pipelines. With that he reviewed components that required further feasibility studies and the steps needed to pursue those studies.

3. Bio-crops and Bio-fuels

Mark Stephenson Ph.D., from Cornell University provided an overview of energy markets and the incentives for the increased interest in bio-fuels: increased energy prices, reliance on foreign energy supplies, increasing concern over the environment, and government incentives.

He also provided the Task Force with an overview of ethanol production. He noted that once the price of a barrel of oil crossed the $40 mark, ethanol becomes competitive. In addition, the renewable fuel standard created by the Energy Act provided benchmark capacity standards for ethanol production, a blender’s credit of 51 cents a gallon, and farm credit invested heavily in the construction of ethanol plants. As would be expected, the distribution of ethanol production is concentrated in the Corn Belt region of the U.S. That distribution is changing modestly with a significant number of ethanol plants being planned for the northeastern portion of the country. The renewable fuel standard calls for an increase in ethanol production capacity from 4 billion gallons in 2006 to 7.5 billion in 2012. Currently capacity stands at 6.5 billion gallons with another 6.5 billion under construction.

The impacts of such a significant increase in capacity for ethanol production on the dairy industry will be mixed but mostly negative. On the positive side, Dr. Stephenson stated that there may be a decrease in energy costs and quite possibly a cheaper source of feed in distiller's grains. These, however, would be offset by increased corn grain costs and land values. He estimated the net impacts to be on the order of $1 to $2 per cwt increase in costs of production depending on management capabilities.

He summarized by noting that corn may not be the best input for ethanol production when net energy requirements are considered, but since the heavy investment in ethanol refinery plants, it will likely remain for another ten years. Dairy scientists are still low on the learning curve on efficient use of distiller's grains as feed to dairy animals.

4. Wind Generation

Mr. Bill Moore from PPM Atlantic Renewables, presented to the Task Force wind generating options. Mr. Moore presented background information on PPM Atlantic Renewables and the various wind farm projects it has throughout the United States. He highlighted several projects in the northeastern portion of the country, particularly in Pennsylvania and New York.

He highlighted the Maple Ridge project in New York. This project cover a 12 mile by 4 mile area located in the towns Martinsburg, Lowville, and Harrisburg. In all there are 195 1.65 mega watt (MW) turbines, built on 74 different farms. Each 1.65 MW wind turbine powers approximately 600 average households. Mr. Moore noted the benefits of clean power and open space preservation. Open space preservation resulted from the $6,600 to $12,000 paid to farmers in royalties from having the turbines on the farm. The turbines took up less than 2% of the land on these farms and in the construction phase significant efforts were made to preserve the topsoil.

He further noted that Lewis County gained economically through job creation and tax revenues. He claimed that the project generated a $10 infusion into the local economy. It generated 350 jobs over a two-year period in constructing the towers and 15 to 20 permanent operating employees. The project generated $8.5 million in taxes and $2.0 million in royalties to the 85 farms that participated.

PPM Atlantic uses a joint venture business model wherein a utility, under any number of different ownership designations, agrees with a number of land owners to construct and manage the turbines. This includes construction and maintenance of roads and other infrastructure. For the use of the land, the land owner receives a royalty. This particular model takes the risk associated with construction etc, off the back of the farmer.

The Task Force concluded the presentations on renewable energy with many questions and concerns. One of the primary concerns was economies of scale. Whether the scale involves wind, methane digesters, or bio-fuels, the question of whether Massachusetts has enough of the particular resource to make its application viable. Wind power generation is a prime example. When Mr. Moore was asked about the focus of PPM Atlantic's focus on New York and Pennsylvania, he stated that the wind resources are available in parts of those states. And while portions of Massachusetts are well suited to wind power generation, those areas are generally not co-geographical. The North and South Shore of eastern Massachusetts or Cape Cod are examples of areas where winds are conducive of a wind farm, but where agricultural activities, particularly dairy, are minimal. A map of areas with high winds overlaying areas of agricultural activity would be very useful.

Relative to manure digesters, economies of scale are again a significant barrier. Dr. Hagevoort provided examples of some of the large dairy farms in the New Mexico and California. In the Pecos Valley project the average herd size is 540 cows. Massachusetts has few farms that size. Mr. Jorgenson of SJH and Co. shows clusters of farms in various parts of the Commonwealth. There may be an ability to capture economies of scale, but the prospects are dim. Hauling manure to a central location seems limiting and to build a digester on each farm, particularly farms small of size creates significant barriers. However, SJH and Co's proposal Technology Commission may provide further information on feasibility.

Dr. Stephenson's presentation generated similar discussion. The obvious options for bio-fuel lies with the use of distillers grains since little opportunity exists supplying an ethanol plant with corn grain or some other organic matter. Even here, distillers grains are limited by proximity to a steady supply. Most ethanol plants are located in the Midwest and transportation costs are prohibitive unless a rail hub becomes available to Massachusetts. The closest hub terminates in Albany, NY.

Aside from these considerations, discussions turned to various electric utility ownership patterns such as that of PPM Atlantic. That is, opportunities may exist for municipalities to invest in alternative power generation with these alternatives and diary farms. The MTC may provide a conduit through funding and feasibility studies may be conducted. Such opportunities may provide joint venture capital between utilities and farms to induce farms to invest or to participate in such projects.

There seemed to be agreement that net metering standards needed to be addressed. Net metering provides an ability of a power generator to sell excess electricity back to the electricity grid. In essence, net metering allows the meter to run backwards. For any given month where excess power is sent to the grid, the producer of that power gets a credit at the wholesale price for the electricity sold back to the grid. The credits are calculated on a monthly basis.

Currently, net metering is only available to power generation of 60 kwh or less, while many technologies generate 1 mwh or more. Thus, net metering is unavailable to most alternative power generators, but even more critically, monthly net metering saves little for power generating technologies that have seasonal fluctuations such as wind, photovoltaic, or even power generated from a manure digester. At 6 cents a KWH, the credit earned during excess power generating seasons provides minimal benefits. Increasing allowable capacity and annual net metering or kwh banking are two possibilities worth exploring. Furthermore, the value of the electricity in terms of green credits provides a significant benefit to utilities that ought have additional benefits to the producer of the alternative electricity. Annual net metering or KWH banking are two possibilities worth exploring.

B. Direct Marketing and Promotional Programs

1. Value Added Dairy Product Production

Mark Stephenson, Ph.D. presented information to the Task Force on value-added dairy (VAD) product production on the farm. Dr. Stephenson began by providing an overview on the incentives that exist for dairy farmers to invest in VAD and these range from consumer demand for niche products and locally produced food to government incentives for farmers to engage in VAD.

Mr. Stephenson developed an electronic survey instrument to gather information from dairy farms that are involved in VAD and distributed the CD to regulators who regularly interact with VAD farmers. In all, 27 farmers returned information from three states: New York, Vermont, and Wisconsin. Seventeen farms were cows and 10 were goat or sheep. Most were located in Vermont but with an even distribution between New York and Wisconsin. Qualifications to this study include the inability to make general statements about VAD production because it was not a random sample and because of the small sample size. Furthermore, 17 respondents had initiated a VAD production operation within the last 3 years implying that the operation may still be in transition.

With those qualifications, Dr. Stephenson provided some results. Of the 17 dairy cow farms the average size was 42 cows, which is quite a bit smaller than the average for the states involved, but the range was substantial as was the capital investment for the VAD portion of the operation. (Dr. Stephenson reported the results on an enterprise analysis basis. That is, results for milk production and dairy product production were analyzed separately.) He noted that there were considerable labor requirements for VAD production and marketing—a point that many dairy farmers fail to consider.

Marketing and marketing channels is another aspect of VAD that many farmers are unfamiliar with. Often times moving a product through market channels presents a significant challenge because farmers no longer have the simplicity of dealing with a cooperative or other wholesale commodity channels. They now have to deal directly with retailers or wholesale supermarket suppliers or both to get the highest dollar for their product. Furthermore, they have to find other markets for a product that does not move through those channels. His results showed that nearly 30% of VAD production moves through wholesale markets.

The results on income and balance sheets were disappointing. Only one dairy cow VAD operation made a profit on both the milk production and the VAD production enterprise. Most operations reported a profit on milk production but a loss on the VAD enterprise. Furthermore, Dr. Stephenson reported that the breakeven point for the VAD enterprise was $100/cwt, and noted that farmers are often reluctant to charge that kind of price for milk. Therefore, the commodity milk production often subsidized the VAD enterprise, yielding positive results for the operation as a whole. Only four operations had positive returns on VAD assets.

In summary, Dr. Stephenson noted that operations were quite diverse, that making money in VAD production was not a given and that operations could and sometimes do lose money. He advised considerable planning not only in the investment of equipment but also in marketing. Finally, the time commitment is considerable and must be considered in taking such an operation.

2. Organic Dairy Farming

Mr. Ed Maltby, Executive Director of the Northeast Organic Dairy Producers Alliance presented information to the Task Force on organic milk production as a viable alternative.

Mr. Maltby provided background into organic dairy production beginning with the general advantages to organic milk production which include a more stable or predictable price, a better lifestyle, lower debt and capital requirements, and more control over costs and returns. He also noted that the demand for organic milk has increased to a point where it is no longer a niche market commodity. As evidence, Mr. Maltby declared that organic milk comprises 3% of total fluid milk consumption and amounts to a $7 billion industry.

He further itemized the common myths associated with organic milk production such as an ever-weakening market, lack of information to make informed decisions, difficulty in segregating and transporting farm milk, and lack of organic feed. Each of these myths was addressed with data refuting these myths.

Mr. Maltby emphasized lifestyle and better use of pasture resources for rotational grazing. The capital costs associated with rotational grazing are significantly less than conventional milk production. He noted a Cornell University study showing that rotational grazing systems cost, on average, approximately $386 per cow per year less than conventional milk production.

3. Co-packing model

Ms. Deb Duprey from the Pioneer Valley Milk Marketing Cooperative (PVMMC) described the co-packing model. PVMMC incorporated in 1997 with the intention of segregating the milk from several farms transporting that milk to a local processor. The processor would pasteurize and package the milk under the label of Our Family Farms of Western Massachusetts for a fee charged to the PVMMC. The members of PVMMC would then be responsible for distributing the milk.

Under this model, the members of PVMMC would capture the gains from selling at retail. The gains would be distributed to members according to the effort put into marketing the product. Ms. Duprey reported that when Class I prices are high, the returns to the PVMMC are limited, but when Class I prices are low, the returns are considerably higher. She reports that the model has worked reasonably well thus far.

4. Overview of Producer Dealer

John Kokoski, proprietor of Mapleline Farm, described his business as a producer dealer. A producer dealer is a farmer who produces his milk and then pasteurizes and packages that milk for retail outlets. John described how Mapleline Farms has evolved over the years that it’s been in business. He began in much the same way as PVMMC in that he produced his milk, shipped to a small local processor, who pasteurized and packaged the milk for a fee. He would then distribute his own milk. John decided to package his milk in glass bottles.

Over time, it became apparent that he could become more efficient by establishing the processing on his farm. So, he purchased the equipment from the processor he was shipping his milk to and moved it to his own farm. The venture has provided adequate returns. Furthermore, his son has joined the business with a home delivery business that began with 100 customers and has grown to nearly 600 customers.

5. Voluntary Contribution Program

Assistant Commissioner Kent Lage provided an explanation of what is being called a voluntary contribution program. Specifically, he noted that considerable evidence exists that supports the conclusion that Massachusetts milk consumers would be willing to pay an extra 10 or 20 cents for milk if they knew that the funds went directly to assisting local dairy farms.

If a method could be found to allow consumers the ability to make such a contribution on a voluntary basis, then such funds could be used to support dairy farms when milk prices fall below some target level. He showed that if just 20% of the consumers in Massachusetts made such a contribution, dairy farmers could be supported at the rate of a about $1.00 per cwt. The State of Vermont is about to release a report on a study of the willingness of consumers to pay. Acting Commissioner Soares reported that Secretary Allbee will be presenting the results of that study at the next meeting.

6. Dairy Promotion Program

Dr. William Gillmeister, provided the Task Force with a report on his discussion with Mr. Michael Johnson, USDA, for information on the Dairy Promotion and Research Order and whether Massachusetts had the ability to establish a dairy promotion program. Under the Order, each dairy farmer that produces milk and markets that milk must remit 15 cents per cwt to the National Dairy Promotion and Research Board. Farmers my get up to a 10 cent credit if they participate and contribute to a qualified state or regional dairy promotion program. Dr. Gillmeister presented the Task Force with the information Mr. Johnson had provided. If a state passes a law establishing a promotion program, the state may apply to make the program a qualified promotion program. Once it becomes a qualified program, Massachusetts milk producers and possibly others could participate in the state program and have more control over their check-off dollars.

In closing, The Task Force's discussion was wide ranging but centered on some key issues. There seemed to be considerable agreement among the panelists that these alternatives, whether one considers organic milk production or value added, were not for everyone. Contrary to the results of Dr. Stephenson, Mapleline Farm and Our Family Farms continue to perform reasonably well and have been in existence for a considerable period of time. Consistent with Dr. Stephenson's results, the participants agreed that the time commitment is considerable and that the marketing is very important.

Regarding a state-run plant, such a plant would run the risk of coming into direct competition with other producer dealers such as Mr. Kokoski and Mapleline Farms. It was noted that there were approximately 17 producer dealers in Massachusetts, which is a significant number, given its size. Mr. Kokoski noted that there is excess capacity among the producer dealers that currently exists. Mrs. Duprey noted that PVMMC is considering plans to put up their own plant

Appendix B

Draft Legislation for Dairy Farm Linked Loan Deposit Program

Draft - Version 4 - created 11/3/2007 Massachusetts Linked Loan Deposit Program for dairy farmers.

AN ACT ESTABLISHING THE MASSACHUSETTS DAIRY FARM LINKED LOAN DEPOSIT PROGRAM

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same as follows:

SECTION 1.
(a) The general court finds that:

(1) In the past 25 years alone, the number of dairy farms in Massachusetts has gone from a high of 812 to just 187 today;
(2) There is a dairy crisis is that not caused in any way by Massachusetts dairy farmers nor can it be corrected solely by them;
(3) Massachusetts's dairy farms provide diverse products and benefits to the state's citizens;
(4) Dairy farms are the primary stewards of agricultural open space in the state;
(5) They create a diverse working landscape for the recreational and scenic enjoyment of their neighbors and visiting tourists.

(b) The general court further finds that:

(1) The state's dairy industry in its entirety generates more than $500 million in economic activity.

(c) The general court further finds that:

(1) Massachusetts needs a long-term solution to the diary farm crisis that benefits farmers, consumers and those who rely upon this important industry;
(2) Massachusetts has a need to protect and preserve open space and to further develop and maintain the agricultural base, especially dairy farming, in order to support the objectives of balanced growth;
(3) Without sufficient open space and a robust agricultural industry, the state cannot develop and sustain a vibrant economic base.

(d) The general court further finds a dairy farm linked loan program is necessary to address these and related public purposes.

SECTION 2.
Section 2H of chapter 29 of the General Laws, as so appearing, is hereby amended at the end thereof by adding the following paragraph:-

The state treasurer is authorized to invest up to one hundred million dollars in the aggregate from the stabilization fund with the various participating lending institutions issuing loans under the provisions of the dairy farm linked loan program as set forth here in. Investments made by the treasurer, under provisions of the dairy farm linked loan program, are authorized to earn a below market rate of return for the purposes of supporting dairy farms, but at a minimum, must earn a two-percent rate of return. No individual deposit by the treasurer made in support of a linked loan shall exceed five hundred thousand dollars.

SECTION 3.
Chapter 20 of the general Laws is here by amended by inserting the following new section:

Section 27. Massachusetts Dairy Farm Linked loan Program

Unless the context indicates otherwise, when used in this section, the following words and phases shall have the following meaning:

(a) Definitions

“Commissioner” shall mean the commissioner of agricultural resources.

“Dairy farm”, shall mean a place or premises located in Massachusetts where more than two cows are kept and a part or all of the milk produced thereof is sold or delivered for sale to any person, and said premise has been issued a certificate of dairy registration, under Section 16C of Chapter 94 of the Massachusetts General Laws.

“Dairy farmer”, means any sole proprietorship, limited partnership, co-partnership, joint venture, corporation, or cooperative that owns, operates or will own or operate a dairy farm located within Massachusetts.

“Eligible borrower(s)”, in order to be an eligible borrower, all of the following criteria must be met:
(1) The borrower(s) must be a dairy farmer as defined in this section.
(2) The borrower(s) must be a resident of Massachusetts who is at least eighteen years of age.
(3) The borrower(s) must not be party to a pending legal or administrative action, including a contested case proceeding, relating to an alleged violation involving an animal feeding and or care as regulated by the department of natural resources, regardless of whether the pending action is brought by the department or the attorney general.

“Qualified borrower(s)”, In order to be deemed a qualified borrower(s) the following criteria must be met:

(1) The borrower(s) has completed and submitted a dairy farm linked deposit program application to a participating lending institution.

(2) A participating lending institution has approved the loan application as submitted by the borrower(s).

(3) The commissioner has approved the application package of the borrower(s) as submitted by the lending institution.

“Qualified Linked Investment", means an investment in which a certificate of deposit, or other financial instrument of the treasurer’s choice is placed by the treasurer with an eligible participating lending institution under the dairy farm linked loan deposit program, that is equal to the loan being issued.

“Participating Lending Institution”, means a financial institution that agrees to participate in the Massachusetts dairy farm linked loan deposit program, and is eligible to be a depository of state funds.

“Allowable loan use”, linked deposit loan proceeds provided to a qualified borrower must be used for the purposes of operating or expanding a dairy farm business, construction or renovation of dairy farm facilities, purchase of equipment, livestock or new technologies, the production of milk based commodities or to refinance items bought at auction. Linked deposit loan proceeds shall, not be used for the refinancing any existing loans.

(b) There shall be a dairy farm linked deposit loan program established in the department of agricultural resources for the purposes of making linked loans to eligible dairy farmers.

(c) The commissioner of agricultural resources is hereby authorized to promulgate rules and regulations governing loan applications; to disseminate information and to provide dairy farm linked deposit loan packages to the lending institutions eligible for participation in the dairy farm linked deposit loan program.

(d) The borrower shall complete the dairy farm linked deposit loan package before being forwarded to the lending institution for consideration. Any technical assistance in completing the dairy farm linked loan package shall be provided by the department of agricultural resources.

(e) An eligible lending institution that desires to receive a dairy farm linked deposit shall accept and review applications for loans from eligible dairy farm businesses. The lending institution shall apply all usual lending standards to determine the credit worthiness of each eligible dairy farm business. No single linked deposit made to a participating lending institution for in support of an approved dairy farm loan shall exceed five hundred thousand dollars.

(f) Only one linked deposit loan shall be made and be outstanding at any one time to any qualified borrower.

(g) Eligible borrowers shall certify on their loan application that the reduced rate loan will be used exclusively for the purposes outlined in this section.

(h) Participating lending institutions reviewing loan applications shall also give priority to the economic needs of the area in which the dairy is located, and other factors it considers appropriate to determine the relative financial need of the eligible borrower.

(i) The eligible lending institution shall forward to the department of agricultural resources a dairy farm linked deposit loan package, in the form and manner prescribed and approved by the commissioner. The package shall include information regarding the amount of the loan requested by each eligible agricultural business and such other information regarding each dairy farm business that the commissioner of agricultural resources requires. The lending institution shall certify that each applicant is an eligible dairy farmer, and shall, for each eligible borrower, certify the present borrowing rate applicable to each specific eligible borrower.

(j) The institution and applicant shall certify that each applicant is an eligible dairy farmer, that the values used to calculate the ratios of debt to assets have not been changed or manipulated in order to qualify the applicant for the program.

(k) Whoever knowingly makes a false statement concerning a dairy farm linked deposit loan application shall be prohibited from participating in the linked deposit loan program and shall be subject to prosecution under the laws of the Commonwealth.

(l) Upon receipt of a completed dairy farm linked deposit loan package, the commissioner shall review and/or audit the information contained in the completed dairy farm linked deposit loan package. Said reviews shall include, but be not limited to, a review or audit of the values used to calculate the ratios of debts to assets as provided by the applicant and the institution, and the stated purpose of the loan. The commissioner shall review the dairy farm linked deposit loan package to determine if said package qualifies under the provisions of section. The commissioner shall make a written recommendation concerning the loan package within ten (10) business days of receiving the package.

(m) If the commissioner recommends a rejection, a written rejection recommendation shall include the reasons for said rejection. The commissioner shall forward a copy of the rejection notice to the lending institution and the eligible borrower. An applicant may appeal the rejection, in a manner as prescribed by the commissioner, within three business days of receiving the rejection.

(n) The commissioner shall upon any approval, provide a written recommendation of approval to the state treasurer with the reasons for approval. The commissioner shall also forward a copy of the approval notice to the lending institution and the eligible borrower. The written approval that is forwarded to shall include a summary of the applicants intended use of the loan.

(o) Upon receipt of the approval recommendation from the commissioner, the state treasurer shall cause an amount equal to the pending loan, to be deposited with lending institution that is issuing the loan. The deposit instrument used to make the linked deposit shall be the choice of the treasurer. The rate of interest to be paid to the treasury on the linked deposit shall be Libor minus three percent, but in no case shall the interest rate go below two percent. Linked deposits made by the treasurer under this section are not collateral for any the loan made under this section. Deposits shall be made in accordance with the provisions of Section 2H of chapter 29 of the General Laws.

(p) Participating lending institutions shall upon receipt of the treasury deposit issue the approved loan receipts to a qualified borrower no later than the next business day. The maximum rate including closing fees that a participating lending institution can charge to qualified borrower, is limited to no more than three and one half percent above the rate being paid to the treasury for the linked deposit.

(q) The initial linked deposit commitment by the treasurer shall not exceed two (2) years. At the option of the treasurer deposits may be renewed up to three (3) years with each renewal not to exceed one (1) year, for a total duration of five (5) years. Renewals are contingent upon the qualified borrower completing and submitting a program loan compliance report with the commissioner at least 60 days before the end of the first year of the loan, and 60 days prior to the expiration of the first twenty-four month deposit window. Compliance reports must include, but are not limited to, receipts for purchases and other supporting documentation from the qualified borrower presented as evidence of their compliance with the stated loan purposes. The commissioner shall, upon review of the first year compliance report and the loan end compliance report, notify the treasurer in writing within 10 days of receiving any compliance report as to whether the qualified borrower has adhered to the program requirements and allowed uses of the loan proceeds. Failure of a qualified borrower to adhere to the intended uses of the loan at either report date shall be subject to prosecution, and will result in an immediate withdrawal of the supporting treasury deposit from the participating bank.

(r) The commissioner shall keep a chronological list of applications forwarded by the lending institutions for approval with notations as to whether or not they were approved or rejected. The compliance reports shall also be noted on the list.

Appendix C

Draft Legislation for Massachusetts State Dairy Promotion Board

AN ACT ESTABLISHING THE MASSACHUSETTS STATE DAIRY PROMOTION BOARD

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same as follows:

SECTION 1. The Massachusetts General Law Chapter 10 shall be amended by inserting after M.G.L. Chapter 10, Section 48, the following section:

"Section 48A. There shall be established on the books of the Commonwealth a Dairy Promotion Fund, which shall not be subject to further appropriation. Said fund shall be expended for the purposes set forth in Chapter94A, Section 14B.

"The Dairy Promotion Board, established pursuant to Chapter 94A, Section 14B shall have exclusive authority to receive and expend monies pursuant to Chapter 94A, Section 14B.The state treasurer shall receive and deposit all monies transmitted from said Board and shall invest the Dairy Promotion Funds held for said Board in a manner that will insure the highest interest rate available consistent with the safety of said Dairy Promotion Fund.

"The books and records of the Dairy Promotion Fund shall be subject to an annual audit by the state auditor."

SECTION 2. Chapter 94A of the Massachusetts General Laws is hereby amended by inserting after the current Section 14A the following section:

"DAIRY PROMOTION BOARD

"Section 14B. Creation, Members, Terms, Purpose, Fees, and Duties and Responsibilities.

"Section 14B. (a) There shall be a Board called the Massachusetts Dairy Promotion Board. The Board shall consist of eight members as follows: 1 shall be appointed by the Massachusetts Cooperative of Milk Producers Federation, 1 shall be appointed by the Massachusetts Producer Dealers Association; 2 shall be appointed by the Massachusetts Dairy Farmers Association; 2 shall be appointed by Agri-Mark Cooperative, 1 shall be appointed by the Massachusetts Food Association; and the Commissioner of the Department of Agricultural Resources.

"(b) With the exception of the Commissioner, Board members are appointed to 3-year terms. The initial terms shall be staggered as follows: The members appointed by Massachusetts Cooperative of Milk Producers Federation and the Producer Dealer Association shall serve for a full three-year term; one member each of the Massachusetts Association of Dairy Farmers, Agri-Mark, and Massachusetts Food Association shall serve a three year term and the remaining members shall serve one year terms. A vacancy must be promptly filled by the appointing authority for the vacated position. A producer member who changes the market in which the member sells milk is considered to have vacated membership if the change continues in excess of 6 months. Fifty-one percent of the members of the Board constitute a quorum and the affirmative vote of at least 51% of members present at a meeting is necessary to transact all business and carry out the purpose of the Board. The Board will conduct its business by following Roberts Rules of Order.

"(c) The Board shall have the purpose of developing and increasing the consumption of dairy products in the Massachusetts and New England markets. Such programs may include but are not limited to promotional activities such as paid advertising, sales promotion, and publicity to advance the image and sales of, and demand for, dairy products generally; research activities such as studies testing the effectiveness of market development and promotion efforts, studies relating to the nutritional value of milk and dairy products, and other related efforts to expand demand for dairy products; and education which includes those activities intended to broaden the understanding of sound nutritional principles, including the role of milk and dairy products in a balanced diet.

"(d) With the approval of the Board, the Commissioner is authorized to administer any programs and to issue and make effective such administrative rules and regulations and interpretations as may be authorized and necessary to carry out the purposes of the Board.

"(e) Board shall assess a fee of 10 cents per hundredweight upon milk delivered by producers and shall be collected as follows (1) A dealer, who purchases milk directly from producers, shall withhold from each Massachusetts milk producer a fee of 10 cents per hundredweight on all milk produced and shall forward that fee to the Board no later than the last day of the month following the month in which the milk was produced; (2) All producer dealers shall pay to the Board a fee of 10 cents per hundredweight on all milk produced by the producer dealer no later than the last day of the month following the month in which the milk was produced.

"(f) The Board may receive and expend funds from any source, public or private that it determines necessary to carry out its purposes. The monies collected and deposited into the Dairy Promotion Fund shall be controlled exclusively by the Dairy Promotion Board.

"(g) The Board shall keep books, records and accounts of all its activities, which must be open to inspection. The State Auditor shall conduct an annual audit of the Board's books. The State Auditor shall present the results of the audit to the Board, the Commissioner, the State Treasurer and the Legislature. The Board shall also prepare an annual report that must include a summary of all receipts and expenditures, including expenditures for specific promotional, educational, or research programs; a description of the various promotional, educational or research programs operated, contracted or sponsored by the Board; and directory of current Board members, including their affiliation and term of office and shall provide a copy of the to the Legislature and Executive office of Administration and Finance."

Appendix D

Farmer Task Force member recommendations submitted pursuant to Task Force Request (List of Initial Regulatory Issues for Review)

1. The ability of farmers to use “viability funds” on farms encumbered with Article 97 restrictions or other conserved land.

2. Provide “Grants” or low interest loans available to farmers for capital improvements directly related to agricultural pursuits.

3. **Preempt municipalities from regulating agricultural activities that are performed pursuant to industry recognized best management practices.

4. Establish a state tax credit allowing such credit to include all excise taxes on animals, machinery and equipment primarily used for agriculture.

5. Exempt multi-purpose equipment vehicles and machinery primarily used for agriculture from sales tax.

6. Allow farms to pay estimated income tax on money actually received on date estimated quarterly payments are due to be filed.

7. Amend G. L. c. 59, §8A to allow corporations the same excise tax exemptions allowed to other “persons.”

8. Reestablish a “Dairy Commission” within the DAR.

9. **Milk room waste or milk waste generated on a farm shall be treated in the same manner as other animal waste.

10. **Silo leachate shall be exempt from state or local waste disposal, provided such leachate is managed or disposed of pursuant to best management practices of the Natural Resources and Conservation Service of the U.S. Department of Agriculture.

11. Farm-wide net metering for agriculture.

12. **Regulatory issues concerning small temporary slaughtering facilities include fee structure, site assignment, and regulatory requirements.

Appendix E

Massachusetts Dairy Farm Revitalization Task Force

Meeting Minutes

Massachusetts Dairy Farm Revitalization Task Force

Meeting Minutes

July 27, 2007

University of Massachusetts Amherst

Campus Center Auditorium

Task Force Present:

Ms. Lynne Bohan, processor representative;

Representative Daniel Bosley, House of Representatives;

Mr. Dwayne Breger, Jr., designee for Commission Giudice, Division of Energy Resources;

Senator Stephen Brewer, Senate;

Mr. Mark Duffy, farmer representative;

Representative Lewis Evangelidis, House of Representatives;

Ms. Ellen Fitzgibbons, Department of Public Health designate;

Dr. William Gillmeister, appointee, Department of Agricultural Resources;

Undersecretary Philip Griffiths, EEA Secretary's designee;

Senator Michael Knapik, Senate;

Representative Stephen Kulik, House of Representatives;

Senator Stanley Rosenberg, Senate;

Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation representative;

Mr. Scott Soares, Commissioner Department of Agricultural Resources;

Mr. Greg Watson, appointee, Energy and Environmental Affairs;

Mr. Richard Woodger, Massachusetts Association of Dairy Farmers representative.

Public: Members of the public were present at the meeting

9:30 Call to Order

Undersecretary Phillip Griffiths called the meeting to order at 9:46 AM. He welcomed the task force members and the public by stating that the dairy industry faced difficult circumstances in 2006 and that this task force was created to sustain the state's dairy industry and to reduce the likelihood of a similar situation occurring again. The main business of the meeting is to establish a task force framework regarding what needs to be done and how it is going to be done.

Introductions: All members present introduced themselves.

9:46 Purpose of the Task Force

Acting Commissioner Soares reviewed a timeline of events associated with the dairy crisis, beginning with the "perfect storm" of bad weather, low milk prices, and increasing costs leading to the "Petition for Relief" and subsequent investigation and hearings all culminating in a Declaration of Crisis, emergency relief of $3.6 million, and the creation of this task force.

Mr. Soares then summarized the purpose of this task force which is to investigate short and long term solutions to sustain the state's dairy industry, and that based upon the Task Force's enabling legislation must also consider fuel prices, healthcare/insurance costs, promoting 'locally grown' dairy products, and promoting alternative and renewable energy uses for farmers to offset production costs. Acting Commissioner Soares commented that during the course of the investigation associated with the Petition for Relief, the MDAR looked at how other states, particularly Maine and South Carolina dealt with similar situations and what models those states have implemented in dealing with this matter.

Rules of Order

Acting Commissioner Soares sought consensus on the use of rules of order to conduct the business of the Dairy Revitalization Task Force. No objections or any questions were raised and the meeting proceeded.

10:00 Background and Update on Distribution of Relief Payments and Status of Massachusetts Dairy Industry

SCOTT J. SOARES, ACTING COMMISSIONER OF THE DEPARTMENT OF AGRICULTURAL RESOURCES

The Acting Commissioner described the distribution of the $3.6 million in dairy farm relief. One hundred and eighty farms of 184 that applied received a payment. The $3.6 million in relief was distributed over 272.7 million pounds which amounted to $1.32 per hundredweight of milk. The average payment was just under $20,000. The checks went out on July 19, 2007. As of the date of this meeting, no problems have arisen.

Presentations

Mr. Soares introduced one of the two-featured speakers Mr. Robert Wellington, A Senior Vice President for Economics, Communications, and Legislative Affairs at Agri-Mark, Inc.

Mr. Wellington began by reiterating the conditions of 2006, but then noted how Northeastern states have responded. Northeastern states have provided nearly $70 million in emergency relief to dairy farmers. He compared payments among the various states and said that Massachusetts is above average in the payment rate distributed. He emphasized that although farmers welcomed the emergency relief, direct payments are not a solution to the overall problem.

As to the overall problem, he also noted that milk producing states in the western United States are producing far more milk than their eastern state counterparts and if Massachusetts dairy farms were to completely disappear it would be a blimp on the screen. This puts Massachusetts farmers at the mercy of a national milk market and even international market. He explained that the current run up in farm milk prices is the result of multiple factors on both the supply and demand side of the market. Demand factors include increased demand for milk products, particularly nonfat dry milk in countries such as India and China, favorable exchange rates for U.S. exports. On the supply side comes drought in New Zealand and Australia, and European countries that have decreased exports to the world market. Finally he pointed out the environmental challenges facing, not only Massachusetts dairy farmers, but dairy farmers throughout the country with the primary challenge being manure management.

Mr. Soares then introduced the second presenter Mr. Bruce Krupke, Executive Vice President, New York State Dairy Foods, Inc.

Mr. Krupke began his presentation by asking task force members to focus on *perspective, changes, consolidation* and *growth.* He noted that milk markets must be considered as regional, national and global. He emphasized the changes by noting Dr. Kenneth Bailey's Dairy Outlook report which stated that there is a decline in the value of the dollar and the demand for products in the world market increases while the rate of production is slowing. The standard of living has increased in other countries, allowing more people to buy powdered dairy products. With such high milk prices, he said that there will likely be some price resistance at the retail level which will reduce demand. He also noted that milk production in Massachusetts is down 11% over the last year. In closing, he agreed with Wellington that prices are going to hold strong for dairy farmers for another year or so.

Discussion: Members of the Task Force then took the opportunity to ask questions on various aspects of what Mr. Wellington and Mr. Krupke said as well as to gain a further understanding of the dairy industry in Massachusetts. Topics ranged from transportation costs, the farmer's share of the retail dollar, western milk supply to producer processing. Senator Rosenberg and Representative Evangelidis both sought suggestions from Mr. Wellington and Mr. Krupke for solutions to the price volatility of milk. Mr. Griffiths then moved to the next item on the agenda.

10:45 New Business.

a. Framework for Evaluation of Long Term Options

Through the Panel discussion several potential solutions arose. Representative Bosley identified three separate categories of solutions that had either come in the discussion or that had been brought from outside information. The three categories were 1) policies to address the costs of production, 2) policies to increase revenue, and 3) policies to enhance alternative agricultural activities. The Representative then listed a number of examples for each. Costs of production include cooperative purchase of inputs such as fuel, energy, and feed, net metering, methane digesters, and addressing transportation costs. On the revenue side examples included the Maine Model, income tax credit, promotion voluntary contribution, and revenue insurance. Alternatives include diversification of crops, agritourism, and a cooperatively run milk plant to offer alternative direct marketing channel for farm milk. The Task Force did not object to investigating these solutions.

b. Meeting Schedule

Undersecretary Phillip Griffiths proposed the Task Force members meet every two weeks up to the October 1, 2007 deadline to consider the topics itemized by Representative Bosley. The two week meeting schedule would begin on August 10, 2007, with subsequent meetings on the 24^{th} of August, 7^{th} of September and the 21^{st} of September. All appreciated the UMASS location if it's available.

11:30 Public Comment

Kyle Bostrom, the Farm Manager at University of Massachusetts invited members of the task force to attend the field day event scheduled for August 1, 2007, which will focus on alternative feeds and biofuels. Mr. Bostrom, who is also a dairy farmer from Greenfield went on to praise the commission for all its efforts. Mr. Bostrom was the only individual from the audience to address the task force members.

Motion to Move to Adjourn Meeting:

Representative Kulik motioned to adjourn which was seconded by Ms. Fitzgibbons. The vote was unanimous and the meeting adjourned at 11:50 AM.

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF ENERGY AND
ENVIRONMENTAL AFFAIRS
Department of Agricultural Resources
251 Causeway Street, Suite 500, Boston, MA 02114
617-626-1700 fax 617-626-1850 www.Mass.gov/AGR

DEVAL L. PATRICK
Governor

TIMOTHY P. MURRAY
Lieutenant Governor

IAN A. BOWLES
Secretary

SCOTT J. SOARES
Acting Commissioner

Dairy Farm Revitalization Task Force

Approved Meeting Minutes

August 10, 2007

Fuller Conference Center

Old Sturbridge Village

Sturbridge, MA

Task Force Members Present:

Ms. Lynne Bohan, processor representative;
Representative Daniel Bosley, House of Representatives;
Mr. Jay Kuhlow, Senator Stephen Brewer, Senator's designee;
Mr. Mark Duffy, farmer representative;
Representative Lewis Evangelidis, House of Representatives;
Ms. Ellen Fitzgibbons, Department of Public Health designee;
Dr. William Gillmeister, appointee, Department of Agricultural Resources;
Undersecretary Philip Griffiths, EEA Secretary's designee;
Mr. Peter Miller, Senator Michael Knapik, Senator's designee;
Senator Stanley Rosenberg, Senate;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Mr. Greg Watson, appointee, Energy and Environmental Affairs;
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers representative.

Public: Members of the public were present at the meeting

1. Call to Order:

Acting Commissioner Scott Soares called the meeting into order at 9:41 AM. He asked task force members to introduce themselves.

2. Approval of July 27, 2007 Meeting Minutes:

Motion: Dr. William Gillmeister made a motion to approve the minutes. Representative Bosley seconded the motion.

Discussion: Various members noted minor typographical and grammatical corrections. Mr. Shepard noted that his and Mr. Woodger's affiliation had been reversed.

Vote: Unanimous with changes.

3. Old Business:

a. Review of Framework for Evaluations

Acting Commissioner Scott Soares began by pointing out the paper with the Summary of July 27, 2007 Task Force Meeting Regarding Future Actions and asked that the members consider the table at the bottom of the page. It listed several items on which the Task Force should focus, including having bi-weekly meetings and setting the last two meetings aside for considering drafts of a report. Acting Commissioner Soares noted that today's meeting is on cost of production. Task Force members also discussed various other topics including federal milk marketing orders and funds generated from the milk promotion checkoff program. The Task Force believed that contacting Gary Wheelock from the New England Dairy Promotion Board may be appropriate as well as Eric Rasmussen, the Market Administrator for the Northeast Federal Milk Marketing Order to discuss how the Federal milk marketing order works. The members agreed that inviting Mr. Rasmussen or someone from his staff would be appropriate in case the Task Force had some questions regarding federal marketing orders, but that a full description of the federal marketing orders would not likely be fruitful. Members also suggested contacting other states through the Council of State Governments or other departments of agriculture to see what other states are doing.

Motion: Dr. Gillmeister moved which Representative Bosley seconded that the Task Force proceeds as outlined by the Summary of July 27, 2007.

Discussion: None

Vote: Unanimous

i. Presentation on Milk Costs of Production

(1) Daniel Lass

Acting Commissioner Soares stated that today's meeting would focus on cost of production, which is one of the primary factors that have brought the industry to its weakened state. He then proceeded to introduce Dr. Daniel Lass from the University of Massachusetts, who holds a Ph.D. from Pennsylvania State University and whose research focuses on farm-family decisions, from production to off-farm employment. Dr. Lass has also analyzed the impacts of the Northeast Dairy Compact on retail milk prices and the costs of production for fluid milk in the northeast.

Dr. Lass began by noting that no reliable data on Massachusetts costs of milk production exist and explained his methods for using data from the Agricultural Resource Management Survey of the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS). He proceeded to summarize and compare total costs of production and the major components of those costs across various states in the U.S. For example the state of Maine has a cost of production of $32.94 per hundredweight of milk (cwt) compared to $14.34 per cwt in California. He also reported other states such as Wisconsin at $21.01 per cwt and Pennsylvania at $24.71 per cwt.

Of the major components of cost, Dr. Lass noted that feed, both purchased and home grown, labor, both paid and unpaid, and capital recovery costs made up over 80% of the costs of producing milk. For Maine feed costs amounted to approximately $11.67 per cwt while California's feed costs amounted to $8.68 per cwt. Dr. Lass noted that an estimate of the unpaid labor a farm family provides amounted to approximately $6.22 per cwt for Maine, $3.20 for Vermont and $0.40 for California.

Using the USDA, ERS data, Dr. Lass' best guess for Massachusetts costs was $26.76 per cwt. He noted that this estimate is based on past work that he had done that showed that the costs of production in MA were not statistically different from those of Vermont.

(2) Timothy J. Dalton

Acting Commissioner Soares introduced the next speaker, Dr. Timothy Dalton from the University of Maine, who holds a Ph.D. in Agricultural Economics from the University of Illinois at Champaign-Urbana. Dr. Dalton conducts research on dairy production and processing in the state of Maine.

Dr. Dalton prefaced his prepared presentation by commenting on the USDA, ERS data shown by Dr. Lass. While he noted that Dr. Lass' presentation was well done, his research leads him to conclude that the USDA, ERS data overestimates costs of production considerably and are more reflective of small Maine dairy farms. When he developed costs of production for different farm sizes, he found that the Maine costs came down more in line with Vermont at the $24 per cwt level rather than the $33 per cwt from the USDA numbers, concluding that his costs of production likely reflect Massachusetts costs of production as well.

In his prepared presentation, Dr. Dalton described the methods and frequency of estimating Maine milk production costs, which occurs every three years. He then provided the Task Force with Maine dairy farm characteristics such as farm size, total milk production per farm, average age of farm owner, number of laborers, off-farm income, etc. It was noted that Massachusetts dairy farms exhibited similar characteristics as those presented for Maine. However, the average herd size in Maine is slightly larger.

In his estimates he noted similarities in components of costs between Maine's and USDA, ERS components and provided a detailed description of the components in the Maine study. He also described how the Maine survey broke down farms into small, medium-size and large farms. The results compared the total annual costs across farm size in small farms showing a cost of production of $26.93 per cwt, $21.68 per cwt for medium farms and $20.81 per cwt for large farms. Wrapping up his farm size comparisons, Dr. Dalton noted that when the cost components were split into every day costs of doing business (called short-run costs of production) farms could meet their costs and then some. But when capital replacement and longer-run items were added into the costs, dairy farms, regardless of size lost money.

As Dr. Lass had done, Dr. Dalton compared the average cost of production in Maine of $23.40 per cwt with the average northern crescent farm of $21.76 per cwt, and it shows that there are more cows per farm in Maine and that the cost per cwt is $1.64 higher in Maine than in the northern crescent. This higher cost is due to higher repair costs, property taxes and higher fuel and utility costs.

Dr. Dalton concluded by presenting a cost of production study performed by a joint effort between the University of Maine, the University of Vermont, and USDA on cost of organic milk production in 2004 and 2005. This study only included cash costs or short-run costs, but not long-run costs. He noted that the costs had increased in 2005 from $21.55 per cwt over 2004 of $19.05 per cwt. The bottom line, however, is that even though organic milk commands a higher price, the costs of production, when ownership withdraws are made, are higher and lead to net farm losses of approximately $2.30 per cwt.

(3) Robert Smith

Acting Commissioner Soares introduced the final speaker, Mr. Robert Smith from First Pioneer Farm Credit. Mr. Smith is the Vice President for Public Affairs and Knowledge Exchange.

In his brief presentation Mr. Smith presented materials detailing that mid-size farms have been hit the hardest in the past decade because they do not have the high production level while they are full-time farmers and their sole income comes from the farm. He also stated that large farms have lost a lot of money, because cost cutting is limited. He recommended in his testimony that reducing the cost of production will be difficult, because it is mostly determined on a farm-to-farm basis and that the public should pay for programs that are beneficial to the public such as dairy farms. In his closing remarks, he stressed that it is critical that we maintain our dairy farmers, regardless of size, because the dairy industry is at the heart of the infrastructure.

b. Panel Discussion and Recommendations:

Dr. Lass, Dr. Dalton, and Mr. Smith were asked to comment on or make recommendations for policy options that the Task Force may consider to alleviate farm financial stress due to costs of production. All three noted the public benefit associated with dairy farms. Dr. Lass recommended future support with as administratively simple a method as possible. Set a support price possibly based on cost of production and provide a direct payment based on that. He did suggest incorporating incentives to increase production efficiency, but aside from that, the method of support should be as simple and straight forward as possible.

Dr. Dalton expressed no issue with convoluted solutions. He did provide anecdotal information of various innovations being attempted by farmers. One such innovation was alternative feed rations, but further research is required. He noted that a group of farmers were attempting to purchase feeds cooperatively but had no information on the success of that venture. Finally, he noted further research on technological advances in feed rations and organic farming.

Mr. Smith reiterated the public benefits of dairy farming and that as such, the public ought to be willing to bear some of the costs. For example, cost sharing for manure management facilities that enhance the environmental stewardship of dairy farms. He further suggested that property tax reform for agricultural operations would be very helpful, particularly in the assessment of buildings. He mentioned dairy farm access to economic development programs ought to be assessed as he recounted programs in New York State that because of the rules of the programs farms could not take advantage of them. After a change in the rules through the legislative process, the agricultural sector became one of the largest participants in those programs. He finally noted that farms of all sizes were important, to which Mr. Woodger agreed, noting that he operates a large farm by Massachusetts standards and smaller farms rely on his farm for some of their feed inputs.

5. Public Comment

Acting Commissioner Soares took Public Comment out of order, with no objection, because the meeting was running long and wanted to give members of the public an opportunity to comment.

Mr. Nate L'Etoile from the Massachusetts Farm Bureau Federation commented that 61A law just went through a significant revision and noted that further revisions may be necessary. In particular, farms in Worcester County are paying the same property taxes on their homes, even if they can't afford to live in their big farmhouses. It is fair that a farmer should pay residency taxes but he/she should not be required to live at the farm to get a property tax break.

Doug Dimento from Agri-Mark noted that his company looked at California cost of production in 2006 and that the average farm had 1000 cows, thus making comparisons irrelevant because of such different sized farms.

4. New Business:

Acting Commissioner Soares noted that the task force has been invited to Allan's Dairy Farm in Sheffield by the Northeast Organic Dairy Producers Alliance on August 17th and 18th.

6. Adjourn

Motion: Dr. Gillmeister motioned to adjourn the meeting. The motion was second by Greg Watson.

Vote: Unanimous.

The Meeting adjourned at 12:29 P.M.

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SCOTT J. SOARES
Acting Commissioner

Dairy Farm Revitalization Task Force

Approved Meeting Minutes
August 24, 2007
Lord Jeffrey Inn
Amherst, MA

Task Force Members Present:
Ms. Lynne Bohan, processor representative
Representative Daniel Bosley, House of Representatives
Mr. Dwayne Breger, Department of Energy Resources designee:
Mr. Jay Kuhlow, Senator Stephen Brewer, Senator's designee;
Mr. Mark Duffy, farmer representative
Ms. Ellen Fitzgibbons, Department of Public Health designee;
Mr. William Gillmeister, Ph.D. appointee, Department of Agricultural Resources
Undersecretary Philip Griffiths, EEA Secretary's designee;
Representative Stephen Kulik, House of Representatives
Senator Michael Knapik, State Senator
Senator Stanley Rosenberg, Senate;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers representative

Members of the public were also present

1. Call to Order:

Acting Commissioner Scott Soares called the meeting into order at 9:44 AM. He asked the members to introduce themselves.

2. Approval of August 09, 2007 Meeting Minutes

Motion: Dr. William Gillmeister made a motion to approve the minutes. Representative Bosley seconded the motion.

Discussion: None

Vote: Unanimous

3. Old Business:

a. Draft Report Scheduling

Acting Commissioner Scott Soares reviewed and proposed a schedule and rough outline for drafting the report. After the meeting on September 7, the introduction and activities of the Task Force will drafted. This portion will include the options considered and the information that was gathered at each of the three meetings of August 10, 24, and September 7. This introduction and considered options will be drafted in time for review and public comment during the morning portion of the meeting on September 21. The afternoon portion of the meeting will focus on making a decision as to what specific options the Task Force will include in its recommendation. Once the Task Force makes that decision, the draft report will be completed with those recommendations incorporated into it. One week later, on September 28th, a draft of the final report will considered by the Task Force for final approval to be submitted to the legislature.

No objections were made to this proposal.

b. South Carolina Income Tax Credit

Acting Commissioner Soares then broadly introduced the topics for the remainder of the day's agenda as focusing on revenue generating options, the first of these being the S.C. refundable income tax credit.

To present this program, Acting Commissioner Soares introduced the first speaker, Mr. Larry Boyleston. Mr. Boyleston holds a BS and MS degree in Agricultural Economics from Clemson University. He is presently the Assistant Commissioner at the South Carolina Department of Agriculture and Director of its Agricultural Services Division. He also assists Hugh Weathers, the South Carolina Commissioner of Agriculture with agricultural policy, legislative issues and administration.

In his introductory comments, Mr. Boyleston pointed out that the South Carolina Dairy Tax Credit had a somewhat misleading name because many dairy farmers have little to no tax liability. So what good is a tax credit where there is no tax liability? He explained that the program is a refundable tax credit, that is, after the tax liability has been deducted from the tax credit, the remaining portion of the credit is refunded to dairy farmer. He also noted that the actual legislation was quite simple and amounted to less than one page.

With that introductory comment, Mr. Boyleston provided a PowerPoint presentation on the Dairy Tax Credit. The program is a safety net program that provides a refundable tax credit of $10,000 for the first 500,000 pounds of annual milk production and a $5,000 credit for each 500,000 pounds of milk production afterward. The tax credit is awarded whenever the milk price falls below a minimum price, called the Production Price, during any one month of a quarter. To claim the credit, dairy farmers merely need to perform some rather simple calculations on their annual tax returns and wait for the refund to be deposited into their accounts. In 2005, the program refunded nearly $2.8 million dollars to South Carolina dairy farmers with an average payment of approximately $20,000.

Mr. Boyleston pointed out some salient features of the program. The program is limited to farms with greater than 500,000 pounds of milk production per year. This amounts to a minimum farm size of about 28 cows. The legislation requires that the program take into account milk prices paid to farmers in surrounding marketing areas. It had to account for transportation costs of hauling milk from outside the area, and finally, the program had to take account of the cost of producing milk. Using these factors, a Production Price was calculated. To determine whether the tax credit applied to a given quarter, the actual price was compared to the Production Price and if the actual price fell below the Production Price for any one month during a quarter, the credit would be applied to an entire quarter's worth of annual production. Mr. Boyleston's presentation included an example to demonstrate the mechanics.

Two years with this program, Mr. Boyleston reports that no one has complained about it. In fact, he claimed that the most recent National Agricultural Statistics Service reported that South Carolina had a very strong increase in milk production during the second quarter of 2007. The original legislation requires a report be submitted to the legislature after two years. The South Carolina Department of Agriculture will be developing that report over the next few months.

Task Force members asked a significant number of questions.

c. Risk Management: Livestock Gross Margin-Daily

Acting Commissioner Soares introduced the next speaker, Dr. Bruce Babcock, professor of economics and the Director of the Center for Agricultural and Rural Development at Iowa State University. Dr. Babcock holds a Ph.D in agricultural and resource economics from the University of California at Berkley. Dr. Babcock's research interests primarily focus on understanding agricultural commodity markets, the development of innovative risk management strategies for farmers, agricultural and trade policy analysis, and impacts of biofuels on U.S. and world agriculture.

Dr. Babcock began by illustrating what livestock gross margin insurance was not. At one end of the spectrum, is a fixed target price support mechanism requiring significant regulatory intervention and funding. He cited the Milk Income Loss Contract program as an example of this type of policy. A middle ground approach is a moving target price that requires somewhat less regulatory intervention and funding and cited the South Carolina tax credit as an example of such a program. Finally, at the other end of the spectrum is a market determined target price, which requires much less regulatory intervention or funds. This is the livestock gross margin (LGM) insurance model.

He then explained that the newly approved livestock gross margin insurance program for dairy. The Board of the Federal Crop Insurance Corporation had just approved this insurance program at the end of July. The policy provides protection against "…unexpected declines in gross margin (market value of milk minus feed costs) on target quantity of marketed milk." This is accomplished by using the Commodity Mercantile Exchange futures prices for milk, corn, and soybeans to determine the expected or anticipated or better still, the guaranteed level of gross margin on the expected quantity of milk to be marketed over a certain period of time. With the expected gross margin locked in, the LGM policy covers the difference between the guaranteed margin and the actual margin realized by the farmer whenever the difference is negative.

Dr. Babcock then described the rules of the policies. The farmer can purchase a policy on any amount of milk during any month of the calendar year for durations of up to 11 months excluding the month just after the purchase of the policy. For example, a farmer may decide to purchase a policy on the sale day in January. The policy does not cover the month of February, but begins coverage in March and lasts for next ten months, or 11 months in all including March. The farmer may choose a shorter period, but the month following the purchase date is not covered.

Taking data for the years 2002 through 2004, he constructed an example of how a policy would work if a farmer purchased it in January. He ran through comparisons of projected and actual milk prices, corn prices, and soybean prices for each of the years. In 2002, actual milk prices fell below the expected price used to calculate the guaranteed margin in the policy, and the corn and soybean prices were higher than expected with the result that the gross margin fell below the guaranteed margin for each of the eleven months of the policy. In the end, the policy would have paid $2.52 for each cwt of insured milk.

In 2003, actual milk prices rebounded after several months of being below the projected price while corn and soybean prices yielded similar tendencies, that is, in some months the expected price was below the actual and others the expected prices were above actual. Therefore, the actual gross margins were above the guaranteed margin and no payment was made, while during other months, the gross margin was below the guaranteed and the policy paid. In 2004 the actual margins ended up well above the guaranteed margin and no payments were made. In some years, the policy will pay while in others it will not.

Dr. Babcock then turned to the premiums of the costs of the policies. The premiums will be higher in times of high price volatility and lower during periods of low volatility. As with any other insurance policy, the higher the deductible on the policy the lower the premium. The deductible in this case is the quantity of milk insured by the policy purchased. Insuring 100% of the milk will result in a higher premium than insuring a lower percentage of the milk. Finally, the longer the term of the policy purchased the lower the premium.

Once again, Dr. Babcock provided an example to illustrate the range of premiums. He assumes a 100 cow heard producing 1,500 pounds per cow per month with 9.4 tons of corn and 7.7 tons of soybeans per month. To insure 100% of the milk, that is, no deduction, the premium would come to just over 80 cents a cwt with a total cost of the policy of just over $12,000. As the deductible increases, that is, the amount of the production insured falls, the premium falls. Therefore, a deductible of $1.00 per cwt, the premium rate falls to just less than 40 cents or $6,000. Similarly, by insuring for longer terms, the premiums fall by an average of about 20 cents per cwt. In terms of price volatility, as volatility increases the premiums increase by as much as 40 cents.

As Dr. Babcock concluded his presentation, Task Force members asked questions about various aspects of the insurance policy. Some questioned the applicability of the policy to Massachusetts on a number of grounds. Ultimately, Dr. Babcock noted that the policy is revenue neutral in the sense that farmers who purchase the insurance and do so over a long period of time, eventually get back out of the policy what they've paid in premiums. That is the way it was designed.

d. Maine Program

Acting Commissioner Soares introduced the next speaker, Mr. Stan Millay. Mr. Millay holds a B.S. degree in Public Administration from the University of Maine. He is presently the Executive Director of the Maine Milk Commission and most recently assisted in dealing with the Maine dairy crisis of 2006 that led to revisions of Maine's Dairy Support program. He also administers Maine's Milk Control Laws and manages the State's milk pool.

Mr. Millay began by sharing his insights into the impact that the Maine program has had on the Maine dairy industry. He stated that Maine has 350 dairy farms and 30,000 cows that produce 590 million pounds of milk annually. The dairy sector maintains approximately 4,000 jobs. The program has stabilized the dairy industry even through the difficult circumstances of 2006.

He proceeded to describe the background and history of the program as well as how it functions. In 2003, Maine established a Task Force, similar to that of Massachusetts, to investigate the long-term sustainability of the Maine dairy industry. Several recommendations were made in the final report. Maine's response was to establish two separate programs.

First is the Milk Handling Fee. The processor pays this fee, and the amount of the fee is on a sliding scale depending on the Announced Federal Order Class I price in Boston (Class I price). The fee structure recently changed, and Mr. Millay explained that the sliding scale begins when the Class I price falls below $24 per cwt and the fee is two cents a gallon. An additional two cents is added to the fee if the Class I price falls below $23.00 per cwt, that is, the fee is four cents. For each one-dollar drop in the Class I price 2 cents is added to the fee, until it drops below $18.00. Then four cents is added. When the Class I price drops below $17.00, then four cents is added to each 50-cent drop until the Class I price falls below $15.00 per cwt. At that point, the fee increases by six cents for each 50 cent drop in the price below the $15.00. The fee is collected by the Maine State Tax Assessor's Office and is deposited directly into Maine's general fund. In 2006, under the old sliding fee schedule, the Tax Assessor's Office collected $3.3 million dollars.

Second, Maine has established a Dairy Stabilization Program. The program provides a safety-net payment to dairy farmers whenever the farm price falls below a set of Target Prices. The Target Prices are based on costs of production and other factors and are tiered based on farm size. Smaller farms have a higher Target Price and therefore, begin getting payments before larger farms. The Dairy Stabilization Program paid $11.5 million to farmers in 2006, but paid as little as $600,000 dollars in 2005 when market conditions were much stronger.

Acting Commissioner Soares noted that it was just after 12:00 PM, and called for a motion to recess for lunch.

Motion: Dr. Gillmeister motioned to recess the meeting for lunch. Richard Woodger seconded the motion.

Vote: Unanimous.

The meeting recessed at 12:01 P.M.

Acting Commissioner Soares called the meeting back to order at 1:21P.M.

e. Panel Discussion on Maine Model

Mr. Soares proceeded to introduce Stan Millay, Brian Houghton, John Blake and Galen Larrabee who were each invited to make a 5-minute statement of introduction.

<u>Mr. John Blake (Consultant, H.P. Hood):</u> Mr. Blake began by stating that milk processors are worrying about the decline in sales as prices rise, despite milk showing a great elasticity. He also noted that we have seen a shift in more private labels of milk. Also, there is increased competition

among beverages with other/similar health claims. Mr. Blake went on to state that Maine's newest handler fee is untested; the old fee (1-12 cents) versus the new fee (2-36 cents). This new fee caps out at $15/cwt. $13 milk would have a $0.60/gallon premium and that would constitute a big disparity among sister states. Maine also regulates its wholesale and retail sales, so you need to make sure processors are on board and not about to fiddle with prices. Mr. Blake believes that before looking to adapt a similar program in Massachusetts, we should take a close hard look at a regional approach instead.

Mr. Brian Houghton (Massachusetts Food Association): Discussed what affects the Maine program has had on its members. He also noted that some cost increases have occurred. He also stated that members have sensed a problem along Maine's border areas; because a loss in sales is seen when prices rise in comparison to neighboring communities/states, which his association feels has been applied fairly across the board. Non-retailers are concerned that one specific commodity (class I) is receiving a subsidy, but all products should receive subsidies especially if we are trying to save the dairy industry as a whole. Retail prices do not affect what producers are getting. He also stated that non-retailers need to deal with more regulations because states are coming up with their own individual programs that need to be kept up with.

Mr. Galen Larrabee (Maine Dairy Farmer): Began by stating that the dairy industry in Maine would have been significantly different if they had not implemented this program, especially as their costs are dramatically higher than in other areas of the U.S. He went on to say that the Maine program provides stability and that a new generation of young farmers has flourished in the state. He also described how the program originated and that presently both government and its citizens are happy with this program. Mr. Larrabee also noted that in a recent statewide survey of 600 people, 95% of the people in Maine wanted dairy to stay in the state. He finished by stating the Maine system is based on our costs; it's a three-tier system based on farm size. The program does not guarantee us a profit, but we ought to be in the same category and not settle for 'barely getting by.

Significant discussion occurred after Mr. Larrabee finished his comments. Topics included retail price increases, sales and demand for fluid milk and other products, as well as price gouging, and the movement of milk produced in Maine to other states. Recent retail price increases due to the rapid and unprecedented milk price increases raised several concerns, not the least of which is whether such price increases will result in a decrease in demand. The panel seemed to think that some response would result, although it was too early to determine. Mr. Blake and Mr. Houghton saw general trends in milk consumption versus other beverages as an issue rather than just simply price impacts. Ms. Bohan stated that she may be able to get studies on elasticities. A point was also made that fluid milk consumers are carrying the burden of supporting the dairy farmer, while consumers of other products such as cheese and butter do not. This raises the question of whether to consider a broader tax than on just fluid milk.

Discussions of why retail milk prices seemed to have risen more than that justified by the farm milk price increases raised several points. One point is that if retail prices have moved strongly but have not seriously impacted consumption, then a three or four cent charge on milk to assure dairy farmers a living wage would not seem to be unreasonable.

Price gouging was another topic that arose regarding retail milk prices. New York's price gouging law was discussed and Mr. Millay stated that he thought that Cornell was in the process of a study to determine whether price gouging laws assisted farmers in any way. This lead to Dr. Ron Cotterill's price collar model. That model, which was first proposed several years ago, would set a markup threshold of say 180% of the mark milk price. If the retail markup rose above the threshold, then a certain portion of the excess would go back to the farmer. Various concerns were raised about Dr. Cotteril's model ranging from administration of such a program to interstate commerce clause issues. Furthermore, Mr. Blake noted that the likely response from retails would be to limit price markups on milk to 180%. This, of course, leads to nothing being returned to the farmer.

In the discussion, panel members brought up the fact that 50% of the milk produced and subsidized, through the dairy stabilization program, was being shipped outside of Maine. That would be a concern in Massachusetts, but not likely to arise because Massachusetts is a milk deficit state not a surplus state such as Maine. That is, little farm milk produced in Massachusetts leaves Massachusetts.

Finally, Mr. Blake noted that the new set of fees for Maine had not been in place long enough to determine the impacts. He suggested that there may be some resistance to these new fees once milk prices begin to fall and the fees are assessed.

4. New Business:

Acting Commissioner Soares stated that he does not have any new business. The only other task force member who introduced new business was Mark Duffy who requested that Dr. Ron Cotterill be present at one of the upcoming meetings if possible.

5. Public Comment:

Acting Commissioner Soares opened discussion up to the public. Mr. Warren Facey noted that to place a fee on other dairy products such as cheese and butter would be too difficult to track. Assistant Commissioner Kent Lage asked a few questions regarding the importance of the minimum prices set by the Maine Milk Commission. Mr. Millay stated that the such minimum prices are an integral part of the process.

6. Adjourn:

Noting no other business or public comment, Acting Commissioner Soares called for a motion to adjourn.

Motion: Dr. Gillmeister motioned to adjourn the meeting. Undersecretary Griffiths seconded the motion.

Vote: Unanimous

The Meeting Adjourned at 3:32 P.M.

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SCOTT J. SOARES
Acting Commissioner

Dairy Farm Revitalization Task Force

Approved Meeting Minutes
September 7, 2007
Fuller Conference Center
Old Sturbridge Village
Sturbridge, MA

Task Force Members Present:

Ms. Lynne Bohan, processor Representative;
Representative Daniel Bosley, House of Representatives;
Dr. Dwayne Breger, Massachusetts Division of Energy Resources;
Senator Stephan Brewer, State Senate;
Mr. Mark Duffy, farmer Representative;
Ms. Mary Fudeman, Representative Lou Evangelidis, House of Representatives;
Dr. William Gillmeister, appointee, Department of Agricultural Resources;
Senator Michael Knapik, State Senate;
Ms. Mary Jane Bacon, Senator Stanley Rosenberg, State Senate;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Mr. Greg Watson, appointee, Energy and Environmental Affairs;
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers Representative;

Members of the public were present at the meeting

1. Call to Order:

Acting Commissioner Scott Soares called the meeting into order at 9:50 AM. He asked task force members to introduce themselves.

2. Approval of August 24, 2007 Meeting Minutes

Motion: Representative Stephen Kulik made a motion to approve the minutes. Mr. Greg Watson seconded the motion.

Discussion: None

Vote: Unanimous

3. Old Business:

a. Energy Alternatives

i. Robert Hagevoort Extension Dairy Specialist, Agricultural Science Center, University of New Mexico: Methane Digesters;

Dr. Hagevoort began by discussing the "drivers" behind seeking manure management alternatives and energy alternatives. Such drivers ranged from environmental considerations to oil and energy price increases. He noted that dairy farmers must realize that the manure must become a part of the revenue stream of the farm. The question he posed was what is manure worth. Since there is no real market for the manure, there is no real method for determining its value. He illustrated a number of possibilities: green energy from methane production; soil amendments from solids; reclamation of water for the liquid effluent; or use the liquid effluent for a fertilizer.

Whatever the end the use, Dr. Hagevoort conditioned the discussion on the principle that manure management must be a closed loop system to capture as much value out of the manure as possible. He cited two projects in particular as examples: the Chino Basin Integrated Resources Management and the Pecos Valley Biomass Cooperative. The Chino Basin project consists of 7 dairy farms with a total of 6,250 cows that produce 375 tons of manure a day. The manure is trucked to a mesophilic plug flow digester. The methane generated from the digester is piped to the Chino basin desalination plant that supplies 8,000 gallons of clean water to Chino, Chino Hills, and Jurpa Services district.

The Pecos Valley Biomass Cooperative in the Roswell, New Mexico are consists of 37 dairy farms within an 11 mile radius. The project would locate a digester facility to minimize the transportation costs of moving materials as well as provide a proximity to product output markets. Such output markets include the creation of steam for feed processing, cheese production, or other milk processing facilities. Secondary markets include gas for ethanol production and bio-crude-oil.

Pecos Valley Cooperative has approximately 20,000 cows from which manure would be collected. Feasibility studies have been done for the activities under consideration. They are currently negotiating contracts with an ethanol plant and a cheese plant. They are also looking into syn-gas and other fuel production possibilities.

Dr. Hagevoort notes that manure digesters are not necessarily a panacea. As an illustration, 80% of all manure digesters stand idle, and the reasons vary from low return on investment to the significant management burden. Digesters require 40 to 60 hours a month to operate, which, when added to all the other management requirements on the farm, often becomes unmanageable.

ii. Bill Jorgenson, SJH and Co. Scaleable methane digesters

Acting Commissioner Soares then introduced Bill Jorgenson of SJH and Co. Mr. Jorgenson provided a presentation and began by describing SJH and its services. He noted that SJH works with four categories of agents in the renewable alternative energy sector: the buyers and regulators of energy markets; the farms interested adopting the technology; the financial agents such as First Pioneer Farm Credit; and the technology providers.

He then presented the revenue projections for various sized farms. Revenues included the sale of electricity and carbon credits as well as bedding material from the solid by-product of the digester. The revenues ranged from $148,000 for small herds to $2.7 million for midsized farms. In fact the midsized farm generated the highest revenue, and as farm size increased from that point, revenue decreased precipitously.

The amount of capital investment to construct such digesters averaged approximately $1,750 per cow. However, the capital requirements followed the same pattern as revenues relative to farm size. The smallest herds required the least capital, then jumped to the highest at $11 million for herds in the 100 to 199 size category. For herd sized greater than 200, capital costs decreased to $2.9 million for the very largest farms.

Finally, Mr. Jorgenson overlayed a map of the Commonwealth with dairy farms by herd size categories and natural gas pipe lines to demonstrate the areas with the strongest potential. Those areas included the southern Berkshire County, Franklin and Hampshire Counties, and southern Worcester County. Not only did these areas have concentrations of farms but they also had close proximity to natural gas pipelines. With that he reviewed components that required further feasibility studies and the steps needed to pursue those studies.

iii. Mark Stevenson, Professor, Cornell University: Bio-crops and bio-fuels

Acting Commissioner Soares then introduced Dr. Mark Stephenson from Cornell University who came to present some aspects of bio-fuel production and integration with dairy farm production. Dr. Stephenson provided an overview of energy markets and the incentives for the increased interest in bio-fuels: increased energy prices, reliance on foreign energy supplies, increasing concern over the environment, and government incentives.

He then provided the Task Force with an overview of ethanol production. He noted that once the price of a barrel of oil crossed the $40 mark, ethanol becomes competitive. In addition, the renewable fuel standard created by the Energy Act provided benchmark capacity standards for ethanol production, a blender’s credit of 51 cents a gallon, and farm credit invested heavily in the construction of ethanol plants. As would be expected, the distribution of ethanol production is concentrated in the Corn Belt region of the U.S. That distribution is changing modestly with a significant number of ethanol plants being planned for the northeastern portion of the country. The renewable fuel standard calls for an increase in ethanol production capacity from 4 billion gallons in 2006 to 7.5 billion in 2012. Currently capacity stands at 6.5 billion gallons with another 6.5 billion under construction.

The impacts of such a significant increase in capacity for ethanol production on the dairy industry will be mixed but mostly negative. On the positive side, Dr. Stephenson stated that there may be a decrease in energy costs and quite possibly a cheaper source of feed in distiller’s grains. These, however, would be offset by increased corn grain costs and land values. He estimated the net impacts to be on the order of $1 to $2 per cwt increase in costs of production depending on management capabilities.

He summarized by noting that corn may not be the best input for ethanol production when net energy requirements are considered, but since the heavy investment in ethanol refinery plants, it will likely remain for another ten years. Dairy scientists are still low on the learning curve on efficient use of distillers grains as feed to dairy animals.

iv. William Moore, PPM Atlantic Renewables: further alternative energy options

Acting Commissioner Soares introduced Bill Moore from PPM Atlantic Renewables to present wind generating options. Mr. Moore gave some background PPM Atlantic Renewables and the various wind farm projects it has throughout the United States. He highlighted several projects in the northeastern portion of the country, particularly in Pennsylvania and New York.

He highlighted the Maple Ridge project in New York. This project cover a 12 mile by 4 mile area located in the towns Martinsburg, Lowville, and Harrisburg. In all there are 195 1.65 mega watt (MW) turbines, built on 74 different farms. Each 1.65 MW wind turbine powers approximately 600 average households. Mr. Moore noted the benefits of clean power and open space preservation. Open space preservation resulted from the $6,600 to $12,000 paid to farmers in royalties from having the turbines on the farm. The turbines took up less than 2% of the land on these farms and in the construction phase significant efforts were made to preserve the topsoil.

He further noted that Lewis County gained economically through job creation and tax revenues. He claimed that the project generated a $10 infusion into the local economy. It generated 350 jobs over a two-year period in constructing the towers and 15 to 20 permanent operating employees. The project generated $8.5 million in taxes and $2.0 million in royalties to the 85 farms that participated.

PPM Atlantic uses a joint venture business model wherein a utility, under any number of different ownership designations, agrees with a number of land owners to construct and manage the turbines. This includes construction and maintenance of roads and other infrastructure. For the use of the land, the land owner receives a royalty. This particular model takes the risk associated with construction etc, off the back of the farmer.

b. Panel Discussion on Energy Alternatives: Dr. Hagevoort, Mr. Jorgenson, Dr. Stevenson, Mr. Moore

The discussion ranged significantly because of the diverse topics involved. One of the primary concerns was economies of scale. Whether the scale involves wind, methane digesters, or bio-fuels, the question of whether Massachusetts has enough of the particular resource to make its application viable. Wind power generation is a prime example. When Mr. Moore was asked about the focus of PPM Atlantic's focus on New York and Pennsylvania, he stated that the wind resources are available in parts of those states. And while portions of Massachusetts are well suited to wind power generation, those areas are generally not co-geographical. The North and South Shore of eastern Massachusetts or Cape Cod are examples of areas where winds are conducive of a wind farm, but where agricultural activities, particularly dairy, are minimal. A map of areas with high winds overlaying areas of agricultural activity would be very useful.

Relative to manure digesters, economies of scale are again a significant barrier. Dr. Hagevoort provided examples of some of the large dairy farms in the New Mexico and California. In the Pecos Valley project the average herd size is 540 cows. Massachusetts has few farms that size. Mr. Jorgenson of SJH and Co. shows clusters of farms in various parts of the Commonwealth. There may be an ability to capture economies of scale, but the prospects are dim. Hauling manure to a central location seems limiting and to build a digester on each farm, particularly farms small of size creates significant barriers. However, SJH and Co's proposal before the Massachusetts Technology Commission may provide further information on feasibility.

Dr. Stephenson's presentation generated similar discussion. The obvious options for bio-fuel lies with the use of distillers grains since little opportunity exists supplying an ethanol plant with corn grain or some other organic matter. Even here, distillers grains are limited by proximity to a steady supply. Most ethanol plants are located in the Midwest and transportation costs are prohibitive unless a rail hub becomes available to Massachusetts. The closest hub terminates in Albany, NY.

Aside from these considerations, discussions turned to various electric utility ownership patterns such as that of PPM Atlantic. That is, opportunities may exist for municipalities to invest in alternative power generation with these alternatives and diary farms. The MTC may provide a conduit through funding and feasibility studies may be conducted. Such opportunities may provide joint venture capital between utilities and farms to induce farms to invest or to participate in such projects.

There seemed to be agreement that net metering standards needed to be addressed. Net metering provides an ability of a power generator to sell excess electricity back to the electricity grid. In essence, net metering allows the meter to run backwards. For any given month where excess power is sent to the grid, the producer of that power gets a credit at the wholesale price for the electricity sold back to the grid. The credits are calculated on a monthly basis.

Currently, net metering is only available to power generation of 60 kwh or less, while many technologies generate 1 mwh or more. Thus, net metering is unavailable to most alternative power generators. But even more critically, monthly net metering saves little for power generating technologies that have seasonal fluctuations such as wind, photovoltaic, or even power generated from a manure digester. At 6 cents a KWH, the credit earned during excess power generating seasons provides minimal benefits. Increasing allowable capacity and annual net metering or kwh banking are two possibilities worth exploring. Furthermore, the value of the electricity in terms of green credits provides a significant benefit to utilities that ought have additional benefits to the producer of the alternative electricity. Annual net metering or KWH banking are two possibilities worth exploring.

Motion: Mr. Greg Watson motioned to recess the meeting for lunch. Representative Bosley seconded the motion.

Vote: Unanimous

The meeting recessed at 12:01 P.M.

Acting Commissioner Soares called the meeting back to order at 1:45 p.m.

c. Direct Marketing and Promotion

i. Mark Stevenson, Professor, Cornell University

Acting Commissioner Soares, again, introduced Dr. Mark Stephenson to present information on value-added dairy (VAD) product production on the farm. Dr. Stephenson presented his study on VAD and began by providing the incentives that exist for dairy farmers to invest in VAD and these range from consumer demand for niche products and locally produced food to government incentives for farmers to engage in VAD.

Dr. Stephenson developed an electronic survey instrument to gather information from dairy farms that are involved in VAD and distributed the CD to regulators who regularly interact with VAD farmers. In all, 27 farmers returned information from three states: New York, Vermont, and Wisconsin. Seventeen farms were cows and 10 were goat or sheep. Most were located in Vermont but with an even distribution between New York and Wisconsin. Qualifications to this study include the inability to make general statements about VAD production because it was not a random sample and because of the small sample size. Furthermore, 17 respondents had initiated a VAD production operation within the last 3 years implying that the operation may still be in transition.

With those qualifications, Dr. Stephenson provided some results. Of the 17 dairy cow farms the average size was 42 cows, which is quite a bit smaller than the average for the states involved, but the range was substantial as was the capital investment for the VAD portion of the operation. (Dr. Stephenson reported the results on an enterprise analysis basis. That is, results for milk production and dairy product production were analyzed separately.) He noted that there were considerable labor requirements for VAD production and marketing—a point that many dairy farmers fail to consider.

Marketing and marketing channels is another aspect of VAD that many farmers are unfamiliar with. Often times moving a product through market channels presents a significant challenge because farmers no longer have the simplicity of dealing with a cooperative or other wholesale commodity channels. They now have to deal directly with retailers or wholesale supermarket suppliers or both to get the highest dollar for their product. Furthermore, they have to find other markets for a product that does not move through those channels. His results showed that nearly 30% of VAD production moves through wholesale markets.

The results on income and balance sheets were disappointing. Only one dairy cow VAD operation made a profit on both the milk production and the VAD production enterprise. Most operations reported a profit on milk production but a loss on the VAD enterprise. Furthermore, Dr. Stephenson reported that the breakeven point for the VAD enterprise was $100/cwt, and noted that farmers are often reluctant to charge that kind of price for milk. Therefore, the commodity milk production often subsidized the VAD enterprise, yielding positive results for the operation as a whole. Only four operations had positive returns on VAD assets.

In summary, Dr. Stephenson noted that operations were quite diverse, that making money in VAD production was not a given and that operations could and sometimes do lose money. He advised considerable planning not only in the investment of equipment but also in marketing. Finally, the time commitment is considerable and must be considered in taking such an operation.

ii. Ed Maltby, Organic Dairy Farming

Commissioner Soares introduced Ed Maltby, Executive Director of the Northeast Organic Dairy Producers Alliance who presented information on organic milk production as a viable alternative. Mr. Maltby provided background into organic dairy production beginning with the general advantages to organic milk production which include a more stable or predictable price, a better lifestyle, lower debt and capital requirements, and more control over costs and returns. He also noted that the demand for organic milk has increased to a point where it is no longer a niche market commodity. As evidence, Mr. Maltby declared that organic milk comprises 3% of total fluid milk consumption and amounts to a $7 billion industry.

He further itemized the common myths associated with organic milk production such as an ever-weakening market, lack of information to make informed decisions, difficulty in segregating and transporting farm milk, and lack of organic feed. Each of these myths was addressed with data refuting these myths.

Mr. Maltby emphasized lifestyle and better use of pasture resources for rotational grazing. The capital costs associated with rotational grazing are significantly less than conventional milk production. He noted a Cornell University study showing that rotational grazing systems cost, on average, approximately $386 per cow per year less than conventional milk production.

iii. Deb Duprey, Our Family Farms co-packing model

Deb Duprey from the Pioneer Valley Milk Marketing Cooperative (PVMMC) described the co-packing model. PVMMC incorporated in 1997 with the intention of segregating the milk from several farms transporting that milk to a local processor. The processor would pasteurize and package the milk under the label of Our Family Farms of Western Massachusetts for a fee charged to the PVMMC. The members of PVMMC would then be responsible for distributing the milk.

Under this model, the members of PVMMC would capture the gains from selling at retail. The gains would be distributed to members according to the effort put into marketing the product. Ms. Duprey reported that when Class I prices are high, the returns to the PVMMC are limited, but when Class I prices are low, the returns are considerably higher. She reports that the model has worked reasonably well thus far.

iv. John Kokoski, Mapleline Farm, Producer Dealer

John Kokoski, proprietor of Mapleline Farm, described his business as a producer dealer. A producer dealer is a farmer who produces his milk and then pasteurizes and packages that milk for retail outlets. John described how Mapleline Farms has evolved over the years that it’s been in business. He began in much the same way as PVMMC in that he produced his milk, shipped to a small local processor, who pasteurized and packaged the milk for a fee. He would then distribute his own milk. John decided to package his milk in glass bottles.

Over time, it became apparent that he could become more efficient by establishing the processing on his farm. So, he purchased the equipment from the processor he was shipping his milk to and moved it to his own farm. The venture has provided adequate returns. Furthermore, his son has joined the business with a home delivery business that began with 100 customers and has grown to nearly 600 customers.

v. Voluntary Contribution Program

Assistant Commissioner Kent Lage provided an explanation of what is being called a voluntary contribution program. Specifically, he noted that considerable evidence exists that supports the conclusion that Massachusetts milk consumers would be willing to pay an extra 10 or 20 cents for milk if they knew that the funds went directly to assisting local dairy farms.

If a method could be found to allow consumers the ability to make such a contribution on a voluntary basis, then such funds could be used to support dairy farms when milk prices fall below some target level. He showed that if just 20% of the consumers in Massachusetts made such a contribution, dairy farmers could be supported at the rate of a about $1.00 per cwt. The State of Vermont is about to release a report on a study of the willingness of consumers to pay. Acting Commissioner Soares reported that Secretary Albee will be presenting the results of that study at the next meeting.

vi. Michael Johnson, USDA, Dairy Promotion Program

Acting Commissioner Soares then informed the Task Force that Mr. Johnson was unable to attend the meeting. He turned to Dr. Gillmeister for further information on this matter. He reported that Mr. Johnson was invited to provide the Task Force with information about the Dairy Promotion and Research Order and whether Massachusetts had the ability to establish a dairy promotion program. Under the Order, each dairy farmer that produces milk and markets that milk must remit 15 cents per cwt to the National Dairy Promotion and Research Board. Farmers my get up to a 10 cent credit if they participate and contribute to a qualified state or regional dairy promotion program. Dr. Gillmeister presented the Task Force with the information Mr. Johnson had provided. If a state passes a law establishing a promotion program, the state may apply to make the program a qualified promotion program. Once it becomes a qualified program, Massachusetts milk producers and possibly others could participate in the state program and have more control over their check-off dollars.

vii. Brian Houghton, Massachusetts Food Association, Couponing and Promotional Programs

Acting Commissioner Soares reported that Mr. Houghton was unable to attend the Task Force meeting.

c. Panel Discussion on Direct Marketing and Promotion

The panel discussion was wide ranging but centered on some key issues. There seemed to be considerable agreement among the panelists that these alternatives, whether one considers organic milk production or value added, were not for everyone. Contrary to the results of Dr. Stephenson, Mapleline Farm and Our Family Farms continue to perform reasonably well and have been in existence for a considerable period of time. Consistent with Dr. Stephenson's results, the participants agreed that the time commitment is considerable and that the marketing is very important.

Regarding a state-run plant, such a plant would run the risk of coming into direct competition with other producer dealers such as Mr. Kokoski and Mapleline Farms. It was noted that there were approximately 17 producer dealers in Massachusetts, which is a significant number given its size. Mr. Kokoski noted that there is excess capacity among the producer dealers that currently exists. Mrs. Duprey noted that PVMMC is considering plans to put up their own plant.

Recommendations that came this discussion were identified primarily as providing transition assistance as well as resources for planning. Mr. Maltby noted that the transition to organic takes about three years, and financially this is the most difficult period. Assistance during this time is critical. He did note that even processors offer assistance for the transition because the demand for local organic milk is so strong. Dr. Stephenson also stated that collecting resources and information on processing equipment and regulatory activities is important in assisting dairy farmers interested in moving into VAD production. It was noted that current programs such as the Farm Viability Program and USDA cost share programs currently offer assistance such ventures.

4. New Business:

Acting Commissioner Soares stated that a Matrix compromising the Ideas and possible recommendations of the task force is to be made available to the task force before the week ending September 9, 2007. The Task Force will discuss this Matrix with the end goal of making a final recommendation to the legislature from it. This discussion will incorporate a substantial period for public comments.

5. Public Comment:

Since the public was invited to comment during the open discussions, there was no formal public comment period held.

6. Adjourn:

Motion: Mr. Greg Watson moved and Representative Bosley seconded a motion to adjourn.

Vote: Unanimous

The Meeting adjourned: 4:30 p.m.

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF ENERGY AND
ENVIRONMENTAL AFFAIRS
Department of Agricultural Resources
251 Causeway Street, Suite 500, Boston, MA 02114
617-626-1700 fax 617-626-1850 www.Mass.gov/AGR

Dairy Farm Revitalization Task Force

Unapproved Meeting Minutes
September 21, 2007
Lord Jeffery Inn
Amherst, MA
9:30 AM to 5:00 PM

Task Force Members Present:

Ms. Lynne Bohan, Processor Representative;
Representative Daniel Bosley, House of Representatives;
Dwayne Breger, Ph.D., Department of Health Designee;
Senator Stephan Brewer;
Mr. Mark Duffy, Farmer Representative;
Representative Lou Evangelidis, House of Representatives;
Ms. Ellen Fitzgibbons, Department of Public Health Designee;
William Gillmeister, Ph.D., appointee, Department of Agricultural Resources;
Undersecretary Philip Griffiths, EEA Secretary's Designee;
Senator Michael Knapik;
Representative Stephen Kulik, House of Representatives
Mr. Robert O'Connor, appointee Executive Office of Environmental Affairs;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Senator Stanley Rosenberg
Mr. Greg Watson, appointee, Energy and Environmental Affairs;
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers Representative;

Members of the public were present at the meeting

1. Call to Order

Acting Commissioner Scott Soares called the meeting into order at 9:57 a.m.

2. Approval of September 7, 2007 Meeting Minutes

Motion: Representative Bosley made a motion, seconded by Representative Kulik, to approve the minutes.

Vote: Unanimous

3. Old Business

a. Vermont Program

i. Secretary Richard Allbee, Secretary of the Vermont Agency for Agriculture, Food, and Markets;

Acting Commissioner Scott Soares introduced guest speaker Secretary Richard Allbee. Secretary Allbee has over twenty years experience in the dairy sector and with dairy and farm policy at both the state and national level. Secretary Allbee provided a presentation hi-lighting the challenges the dairy sector in Vermont is currently facing and examples of how the Vermont Department of Agriculture is working closely with state, federal and local organizations, as well as the private sector, in overcoming these challenges.

Secretary Allbee stressed the importance of the dairy sector in Vermont along with his firm belief in its sustainability. He also communicated the challenges it shares with Massachusetts. The dairy sector of Vermont currently represents 85% of the total gross farm income. Vermont currently processes 31% of its milk in Massachusetts

The Secretary continued by presenting a graph to the Task Force indicating milk price fluctuations since 1980, highlighting the most current dip. These pricing dips for milk price range from 30 to 35 months. After weathering the most current dip, where milk prices dropped to 12 dollars cwt, the Vermont dairy sector is experiencing a rebound driven by the improvement of environmental factors, an increase in pricing and the assistance provided by the State Legislature through the Vermont Dairy Task Force, where an Emergency Dairy Fund of $11.6 million was appropriated and disbursed to assist the sector through the crisis. These factors, along with a good crop and cuts of hay in 2007, have improved the short-term outlook.

Secretary Allbee indicated that in spite of these improvements, the dairy sector in the Northeast faces serious challenges as the current high cost of production; deeper fluctuations in milk price and the increased demand of world protein from China and other Asian Markets are driving up costs further. Secretary Allbee stressed that market dips must be mitigated. At prices of 12 dollars cwt, producers will be unable to cope and recovery cycles are as long as two years.

He then explained that there are ways that states can moderate some of these issues, as emergency funding is not a sustainable option. The Vermont Dairy Task Force has many initiatives that are currently underway and is working closely with other states and the Federal Government in determining and implementing policies and practices to assist in recovery and sustainability. Vermont currently has an MOU with the states of New York and Pennsylvania to collaborate on dairy issues. The Secretary also described the effective deployment of dairy profitability teams, which use the Pennsylvania model, where the farmer couples with an assistance team to help them in becoming more efficient. He reported that the profitability teams have added up to $250 per cow on some farms in Vermont.

Secretary Allbee spoke some of the alternative energy projects in Vermont. The adoption of methane digester projects is going well in Vermont as 6 are already up and running effectively and 11 are projected to be operational by the end of the year. Algae' farming for oil extraction is also being tested.

However, the Secretary stressed the challenges associated with these value-added initiatives. The Vermont Technical College is currently providing technical and training assistance to Vermont dairy Farmers.

The Secretary also discussed the State's Fair Trade Milk concept and cited a completed marketing report conducted by DSG. The report polled 3000 respondents in five states in the Northeast region and reached, as one of its conclusions, that local produced milk is the big driver, not organic. Twenty-five percent of the households surveyed were willing to pay 30 to 60 cents more for local milk. The report indicated that "knowing where your milk comes from" could witness increased profit of 25% off the .30 to .60 per gallon increase in price, if labeled properly. Respondents in urban areas were willing to pay more than those in rural areas, according to the report.

The Secretary offered a copy of the report to the Massachusetts Task Force after the report has been officially submitted to the Vermont Dairy Task Force.

The Vermont Dairy Task Force is also evaluating the further use and strengthening of Vermont's quality seal program to be utilized to more closely resemble the AOC standards currently used in European viticulture. He also mentioned the necessity of increasing funded marketing programs and evaluating new functional foods such as drinkable yogurt.

Once again the Secretary reiterated the challenges the sector was experiencing and his belief that through proper policies at both the Federal and State levels many of the identified risk factors could be mitigated and that the dairy sector in the Northeast was not dead.

As Secretary Allbee concluded his presentation, Task Force members asked many questions on many aspects of the initiatives currently underway in the State of Vermont. Some questioned the success of methane digester implementations in the State of Vermont based on prior information provided by experts from Cornell and New Mexico on the engineering expertise necessary to efficiently operate these plants. Secretary Allbee disagreed with these opinions and re-iterated the success in VT.

b. Public Comment on Identified Options

i. Ms. Kate Rossiter, Massachusetts Organic Dairy Coordinator for the Northeast Organic Farming Organization (NOFA);

Acting Commissioner Scott Soares opened discussion to the public. Mrs. Kate Rossiter, the Massachusetts Organic Dairy Coordinator for NOFA, delivered a presentation on behalf of the NOFA/NODPA alliance. The presentation encouraged the Task Force to support grass-based grazing and organic milk production in Massachusetts. In her discussion Ms. Rossiter brought up the fact that Massachusetts currently has five certified organic dairies, with three selling certified organic milk in 2007. This is in sharp contrast to neighboring states where the number of grass-based grazing or organic production far exceeds this number. Ms. Rossiter highlighted three main points to increase the number of grass-based or organic production dairy farms in Massachusetts.

First is the provision of educational models that allow dairy farmers to assess the viability of changing their production methods to lower the cost of production and/or increase their return and build the infrastructure necessary to provide technical assistance in their decision-making. Second, is the increase of financial support to dairy farms for adopting new production methods and preserving Agriculturally Productive Open Space and third, the long term support for environmentally sound farming practices.

Ms. Rossiter continued her presentation by reemphasizing the presentation delivered by Mr.Ed Maltby, the Executive Director of the Northeast Organic Dairy Producers Association (NODPA), during the September 7, 2007 Task Force meeting. The presentation included studies and facts that demonstrated the economic gains of grass-based and/or organic milk production.

ii. Ms. Melissa Adams, Agricultural Consultant;

Acting Commissioner Scott Soares continued discussion to the public. Mrs. Melissa Adams, an agricultural consultant currently working with dairy farmers participating in the Farm Viability Enhancement Program (FVEP) and a member of the advisory committee for the proposed dairy processing plant in Franklin County, delivered a presentation in support of NOFA and its mission of organic farming practices and a cleaner environment.

Ms. Adams communicated to the Task Force her hope that continued support will be provided for the funding of technical assistance through the FVEP and that program outreach will increase in order to improve farmer participation. Ms. Adams also expressed her conviction that the Task Force support local cooperative initiatives such as the proposed dairy processing plant in Franklin County. Ms. Adams also proposed the establishment of a mentorship program between farmers in Massachusetts and farmers in other states such as Vermont and New York in order to take advantage of regional expertise in the conversion to alternative means of production.

Senator Brewer asked what the requirements were and how much cost was associated with the FVEP. Deputy Commissioner Kent Lage stated that the current cost to develop the Business Plan is $6,000.00.

iii. Mr. Warren Facey, Massachusetts Association of Dairy Farmers Representative;

Mr. Warren Facey thanked the Task Force for their efforts and expressed his hopes that the solutions forwarded by the Task Force would work out as well as those provided by the Northeast Interstate Dairy Federation Compact in the past.

iv. Mr. Darrell Williams, Dairy Farmer;

Acting Commissioner Scott Soares called upon Mr. Darrell Williams who presented several suggestions to assist with the difficulties that dairy farmers are currently facing and also touched on several regulatory issues that were a concern. He stressed that the dairy farms currently in operation in the Commonwealth of Massachusetts were those that had adopted best practice to survive. He also stressed that the financial assistance needed during pricing drops was necessary to meet cost plus wages only and not to guarantee profitability.

Mr. Williams also mentioned several Federal regulatory issues that are problematic for farmers, in particular EPA regulations associated with concentrated animal feedlot operations (CAFO) and sileage leachate that drive up costs for farmers. He further suggested that reductions in building fees and taxes currently assessed on equipment and animals would also help. He agreed that 61A does help but that further exemptions and/or reductions would be helpful.

v. Mr. Louis Aragi, Dairy Farmer

Mr. Louis Aragi thanked the Task Force for the assistance provided to his farm through the Emergency Dairy Farm Relief that helped his farm during the last crisis. Mr. Aragi discussed the difficulties of an unstable market and asked that assistance be made permanent as future pricing was hard to predict compared to the guarantee of rising costs.

Mr. Aragi also emphasized that all farmers are equal and hoped that programs would not be segregated between organic and traditional operations. Mr. Aragi also received questions concerning the implementation of a methane digester that was funded with $600,000 from the Massachusetts Technical Collaborative (MTC). The implementation was successful and Mr. Aragi is confident that it will be a positive contribution to his operations in the future.

vi. Undersecretary Philip Griffiths, EEA Secretary's Designee

Undersecretary Philip Griffiths recognized Acting Commissioner Scott Soares and his staff, thanking him for their professionalism and effort during the Commissioner's current tenure as Co-Chairman of the Dairy Revitalization Task Force.

Motion: Dr. Gillmeister made a motion, seconded by Representative Kulik, to recess for lunch.
Vote: Unanimous

The meeting recessed at 12:15 p.m.

Acting Commissioner Scott Soares called the meeting back to order at 1:15 p.m.

4. New Business

a. Options and Recommendations

Acting Commissioner Scott Soares reminded Task Force members of the process the Task Force had decided to follow in developing its report. The Task Force had completed its review of various options including those that had been applied in other states. He turned to an options matrix that had previously been distributed to the Task Force that listed draft options for consideration and emphasized that, based on Task Force meetings these were only possible options for discussion relative to their inclusion in the Task Force report to the Legislature. Before turning to the list, Acting Commissioner Soares recognized Representative Bosley who noted a set of resolutions adopted by the Council of State Governments.

Motion: Representative Bosley made a motion, seconded by Representative Kulik, to amend the resolutions passed by the Council of State Governments to make them suitable for adoption by the Dairy Farm Revitalization Task Force.

Discussion: None

Vote: Unanimous

The Acting Commissioner then recognized Senator Rosenberg who submitted a new option for consideration as a potential recommendation by the Task Force. Senator Rosenberg noted his sense that dairy farms offer significant benefits to the Commonwealth and all who benefit ought to contribute to the support of a long-term solution. As those who benefit, the Senator mentioned consumers, retailers, and processors, as well as many other residents of the Commonwealth. He then proposed that the Task Force consider recommending the establishment of a Dairy Stabilization Fund. He noted several potential sources of funds including the Community Preservation Act funds, milk dealer license fees, and possibly other sources. The fund would be to built over time with the primary purpose to provide assistance to dairy farmers when events similar to 2006 arise in the future.

Motion: Senator Rosenberg made a motion, seconded by Representative Kulik, that the Task Force consider recommending the establishment of a Dairy Farmer's Stabilization Fund to be used principally to stabilize dairy farm income for the purposes of open space preservation. The Stabilization Fund shall consist of revenues from the following sources: 1) 10% of the revenues generated under section 8 of the Community Preservation Act; 2) milk dealer license fees; 3) any other gifts or volunteer payments to stabilize dairy farm income. Further, Senator Rosenberg moved that the Task Force review and recommend revisions to the milk dealer license fee including but not limited to rescinding the decision to exempt retail stores from the licensing provisions of MGL c. 94A.

Discussion: The Task Force further discussed the three components that could provide income to the Stabilization Fund, maintaining a shared-contribution posture that would be funded over time. Concern was raised over the utilization of the CPA as a contributory element, as various parties have an interest in the utilization of CPA funds. Senator Rosenberg stressed the contribution from the CPA, in particular, due to the fact that the CPA was not working as intended in rural areas.

Discussion continued on the subject of the revision of dealer fees along with the reinstitution of a retail license fee in the Commonwealth. It was further highlighted that it would be necessary for DAR to review its licensing requirements in order to recommend revisions. Also certain questions arose concerning the milk dealer license fees being put into a fund to stabilize farm income may result in legal complications.

Vote: Unanimous

Acting Commissioner Soares returned to the Options Matrix and proceeded with the first possible option which was the establishment of state milk promotion board.

Motion: Representative Kulik made a motion, seconded by Representative Bosley, that the Task Force develops language for the establishment of a Massachusetts' milk promotion program.

Discussion: None

Vote: Unanimous

The Acting Commissioner then turned to the next item on the list which was energy research investment. At that, Mr. Watson stated that he felt this item and the next, energy efficiency and generation assistance, ought to be combined and that, as with the other options, required further work to refine.

Motion: Mr. Greg Watson made a motion, seconded by Undersecretary Phillip Griffiths, to establish a sub-committee to develop language for a recommendation regarding the provision of funds for research and development of alternative energy production particularly for dairy farms as well as the creation of incentives for the development and adoption of energy efficiency technology and electricity generation on dairy farms.

Discussion: None

Vote: Unanimous

Before turning to the next item, Acting Commissioner recognized Senator Brewer who noted a need to investigate possibilities for the expanded use of agricultural preservation and Farm Viability Funds for
farms currently in land preservation programs.

Motion: Senator Brewer made a motion, seconded by Undersecretary Phillip Griffiths, for statutory and/or regulatory adjustment for the utilization of Farm Viability Funds for farms currently under Agricultural Restoration [Preservation Restriction] Programs or other Conservation Restoration Programs.

Discussion: None

Vote: Unanimous

Motion: Senator Brewer made a motion, seconded by Representative Bosley, that the State Treasurer review the possible creation of a Technical Assistance/Capital Improvement low interest loan program for the farming community of the Commonwealth of Massachusetts to sustain the long term viability of Massachusetts's dairy farms.

Discussion: None

Vote: Unanimous

The Acting Commission introduced the next item as dairy transition assistance. Mr. Duffy expressed concern over the use of the term “transition” in that it placed undue emphasis on that way to converting to organic or to becoming a producer dealer. Dr. Gillmeister noted that these were merely options for further consideration and that term “transition” is not etched in stone.

Motion: Mr. Greg Watson made a motion, seconded by Mr. Mark Duffy, to provide technical, administrative, and financial assistance for dairy farmers pursuing commodity milk production and value-added alternatives.

Discussion: Mr. Duffy defended the motion by once again noting that he supported all farms and the need for assistance should be provided to a broad group of dairy farmers, including those that produce for commodity markets as well as those seeking alternative methods of production.

Vote: Unanimous

Motion: Mr. Richard Woodger made a motion, seconded by Senator Rosenberg, 1) to endorse a position within the Department of Agricultural Resources for regulatory review and tracking; 2) to develop a recommendation for the establishment of a committee within EEA consisting of DAR and DEP and other relevant agencies to evaluate and review options for regulatory streamlining for agricultural businesses; 3) contact Department of Revenue and look into and/or review and report on whether the local option may be adjusted for animals and equipment used for dairy production.

Discussion: Mr. Mark Duffy illustrated the need for a review of regulations by citing his experience with waste-water discharge and a very costly tight-tank system required by DEP on his farm. Commissioner Soares further defined the position as the environmental policy and compliance assistance program coordinator.

Vote: Unanimous

Acting Commissioner then turned to the Livestock Gross Margin Insurance for dairy was discussed. It was noted that the margin insurance policy, while it may be useful to some dairy farmers and would soon be available regardless of the Task Force, was not viewed as a viable option and should be dropped from further consideration. There were no objections.

Acting Commissioner Scott Soares then noted that the next item, the Fair Market Contribution program, showed promise given Secretary Allbee's report earlier in the day. Several members agreed.

Motion: Senator Rosenberg made a motion, seconded by Undersecretary Griffiths, that the DAR to consult with Department of Economic Affairs to develop a recommendation to implement a Fair Trade Market Contribution Program.

Discussion: The presentation by Secretary Allbee prompted further interest and discussion on this program. Task Force members recognized a need to develop a mechanism by which consumers who are willing to pay more to support local farms, may do so.

Vote: Unanimous

Acting Commissioner Soares then brought up items 8 and 9, the Maine tax and subsidy model and the Refundable Income Tax Credit model, in the context of whether to proceed with discussion. The general consensus was that the Maine model worked well in Maine, but may not be a viable option for Massachusetts, and the Task Force dropped this option from further consideration. Next came the South Carolina refundable income tax credit program. General interest remained in this option. Representative Bosley noted that this program could be a stand alone program or could possibly be combined with Senator Rosenberg's proposal as a mechanism for the distribution of funds from the dairy stabilization fund.

Motion: Representative Bosley made a motion, seconded by Representative Kulik, that the Task Force develop a refundable income tax credit for the distribution of Dairy Farm Stabilization funds and if the balance is insufficient that the funds come from the general fund.

Discussion: Considerable discussion occurred pertaining to the flow of revenue into the Stabilization Fund and the method of pay-out from the fund to reimburse the Department of Revenue for an income tax credit for farmers. Other details such as the capping of the fund, revenues for the fund when balances were insufficient, among others, were identified for further address.

Vote: Unanimous

The Acting Commissioner noted that the Task Force had completed the task of selecting options for further considerations and asked if any Task Force member had any other items to add to the list of options for further consideration. Representative Bosley suggested two further options be added. He noted the need to further develop agri-tourism. He also related a visit to the Agri-Mark manufacturing facility in West Springfield. As he toured the facility the export market for the nonfat dry milk produced by that plant was noted. He therefore suggested that foreign trade opportunities be explored.

Motion: Representative Bosley made a motion, seconded by Representative Kulik, to recommend that funds be provided through the Massachusetts Office of Travel and Tourism (MOTT) to further develop and expand agri-tourism.

Discussion: None

Vote: Unanimous

Motion: Representative Bosley made a motion, seconded by Representative Kulik, to contact the Massachusetts Office of International Trade and Development to explore foreign trade and investment opportunities for Massachusetts dairy products.

Discussion: None

Vote: Unanimous

Motion: Senator Rosenberg made a motion, seconded by Representative Bosley, to continue the Dairy Revitalization Task Force.

Discussion: Task Force members recognized the significant progress made toward the developing of a report, particularly within the short time-frame. They also recognized the desirability of obtaining more time for the completion of the report. Accordingly it was considered that the Task Force or a similar body should continue to meet in some fashion.

Vote: Unanimous

Motion: Representative Bosley made a motion to reschedule the Dairy Task Force meeting currently scheduled for September 28, 2007 to October 5, 2007 at 12:00 PM at the Lord Jeffrey Inn, Amherst, Massachusetts.

Discussion: None

Vote: Unanimous

5. Public Comment

Dairy farmer Mr. Ed Lawton voiced his support for the South Carolina model and also recommended that a MOU be established for funding. He also re-iterated the difficulties that farmers face when there are deep pricing valleys and recommended the establishment of mechanisms that would maintain prices paid at or above 16.00 cwt.

6. Adjourn

Motion: Mr. Watson made a motion, seconded by Representative Bosley, to adjourn.

Vote: Unanimous

The Meeting adjourned at 3:35 p.m.

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF ENERGY AND
ENVIRONMENTAL AFFAIRS
Department of Agricultural Resources
251 Causeway Street, Suite 500, Boston, MA 02114
617-626-1700 fax 617-626-1850 www.Mass.gov/AGR

DEVAL L. PATRICK
Governor

TIMOTHY P. MURRAY
Lieutenant Governor

IAN A. BOWLES
Secretary

SCOTT J. SOARES
Acting Commissioner

Dairy Farm Revitalization Task Force

Approved Meeting Minutes
October 5, 2007
Lord Jeffery Inn
Amherst, MA
12:00

Task Force Members Present:

Ms. Lynne Bohan, Processor Representative;
Representative Daniel Bosley;
Dwayne Breger, Ph.D., Department of Health Designee;
Senator Stephen Brewer;
Mr. Mark Duffy, Farmer Representative;
Representative Lewis Evangelidis;
Ms. Ellen Fitzgibbons, Department of Public Health Designee;
William Gillmeister, Ph.D., appointee, Department of Agricultural Resources;
Undersecretary Philip Griffiths, EEA Secretary's Designee;
Senator Michael Knapik;
Representative Stephen Kulik;
Mr. Robert O'Connor, appointee Executive Office of Environmental Affairs;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation Representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Senator Stanley Rosenberg
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers Representative;

Members of the public were present at the meeting

1. Call to Order

Acting Commissioner Scott Soares called the meeting into order at 12:40 p.m.

2. Approval of September 21, 2007 Meeting Minutes

Motion: Senator Rosenberg made a motion, seconded by Representative Kulik, to approve the September 21 Meeting minutes.

Discussion: Mr. Mark Duffy expressed his wish that a change be made to the page 7 discussion section of the motion submitted by Mr. Greg Watson, last paragraph, from the September 21, meeting minutes draft document. Mr. Duffy supports all farms and wants the mention that "too much emphasis is placed on organic" be modified or deleted.

Vote: **Unanimous with change.**

3. Old Business

a. Farm Bill resolutions

Acting Commissioner Scott Soares introduced the next item on the agenda the Farm Bill draft resolutions for review.

Motion: Representative Kulik made a motion, seconded by Senator Rosenberg, to approve the draft resolutions and that the resolutions be forwarded to Northeast representatives and that a cover letter be drafted and sent on behalf of the Secretary of EOEA and/or the Governor to accompany the resolutions.

Discussion: None

Vote: Unanimous

b. Review of draft report

Acting Commissioner Scott Soares introduced the next issue on the agenda, which was a review of the draft interim report to the legislature. He called their attention to the Findings section, page 29, section V, of the draft report document that had been distributed. He then proceeded to review each finding with the Task Force.

Finding 1: Given the circumstances, characteristics and broad array of interest within the Massachusetts dairy industry, sustainability of the industry will depend upon a variety of measures and support from consumers, dairy farmers, processors, retailers, and government.

Discussion: There were no comments on Finding 1

Finding 2: Dairy farms offer substantial benefit to the citizens of the Commonwealth of Massachusetts not only in terms of the local supply of fresh food and their contribution to the economic vitality of rural communities, but also in the aesthetic values they offer in scenic beauty, open space, and tourism;

.

Discussion: Senator Knapik made a recommendation that further reference to the Massachusetts economy be included in the language of the finding and that the figures in the finding be quantified in order to provide a more broad and understandable context to readers of the report.

Senator Brewer recommended that a clear statement that dairy farms preserve open space be included in the opening language of finding 2.

Mr. William Gillmeister made reference to article 97 of the Constitution and suggested that we incorporate this language into the finding.

Mr. Bob O'Connor asked if acreage could be quantified and if so this should be incorporated into the report.

Representative Evangelidis recommended that all of the other sectors that are impacted by dairy such as tourism, and other types of support businesses, be included in the language of finding 2.

Finding 3: The financial stress on dairy farms in 2006—when farm milk prices were $13.00 per cwt and costs of production were at $20.00 per cwt—threatened these benefits and the right of the people to the conservation, development, and utilization of agricultural resources; stabilizing the financial security of dairy farms is critical to the protection of open space;

Discussion: Mr. Mark Duffy recommended the use of gallons as the standard measure to be used not only in finding 3 but throughout the document as most people did not understand cwt as a unit of measure. Representative Kulik and Senator Brewer agreed with this recommendation.

Senator Rosenberg recommended that the finding be expanded to include the aggregate issue. He also asked that data on cycle and dip need to be obtained not only for inclusion in the language of finding 3, but also to identify the real numbers that will be necessary if a fund were to be established. He also made mention that the flavor of the language should indicate the intent that "we do not want to lose another dairy farm in Massachusetts". Senator Rosenberg continued by stressing that the fund needs to be created and that the task to find out how much needs to go in to the fund would be fundamental as it would provide the ability to work back from that number as far as inputs, to determine who contributes to the fund, etc; and at what values.

Senator Rosenberg further recommended that the Department of Agricultural Resources (DAR) needs to do this and not a Subcommittee of the DRTF.

Undersecretary Phillip Griffiths agreed that this was a fundamental piece of information and that DAR should be responsible for this exercise.

Senator Rosenberg also asked that it be determined, as a priority, if 3, 4 or 5 years would be used for the baseline of the dip-cycle.

Mr. Woodger commented that the fund be used not only for dips but also that it should be ensured that there is enough money in the fund so that the industry continues to grow through programs that offer future generations the ability to look to dairy farming as a viable opportunity and career path.

Senator Rosenberg referenced that this may be yet another reason to continue and grow the Dairy Revitalization Task Force.

Senator Knapik made mention that perhaps the future of the Dairy Revitalization Task Force was to ensure that the fund is created, continues and is managed properly.

Mr. Mark Duffy highlighted that the support of the industry was relevant and necessary and that in some cases “We are talking about farms that have passed through generations”.

Finding 4/5: The current, 2007, situation of the Massachusetts dairy farm industry has stabilized from 2006. The cost of milk production has risen dramatically and is well over $22.00 per cwt for many dairy farms, while at the same time, farm price paid for milk has increased dramatically from $13.00 per cwt to over $23.00 per cwt, which has offset the increase in costs;

Milk prices and costs of production are primarily dictated by national market forces and federal controls. Dairy industry analysts expect milk production costs to remain at these high levels for the foreseeable future, but expect the price paid to farmers to drop in the future according to a cyclical pattern of three to five years;

Discussion: It was recommended by Senator Rosenberg and agreed upon by DRTF members to incorporate findings 4 and 5 into one finding.

Undersecretary Phillip Griffiths recommended that finding 4 reflect the cyclical nature of the problem.

Mr. Mark Duffy recommended that the language “farmers should be able to make a living” be included in the language of finding 4.

Senator Knapik recommended that the international issues that are currently affecting the dairy industry of the Commonwealth also be included in the language of the finding. Representative Kulik furthered this recommendation and stated that global and national markets should also be mentioned.

Finding 6: National solutions, such as The Federal Milk Marketing Orders, while offering certain benefits, are inadequate to address the challenges facing Massachusetts dairy farmers;

Discussion: None

Finding 7: A safety-net type of mechanism needs to be established to help dairy farmers remain economically viable for the periods of cyclical down turns when costs of production exceed milk prices; such a fund will provide the financial security of dairy farms and ultimately protect working agricultural resources and preserve open space;

Discussion: Mr. Mark Duffy recommended that we need to include in the language of finding 7 that a safety-net type of mechanism is only a part of the solution.

Mr. Breger recommended that an estimate of finding 7's potential impact be included in the language, adding that pro-active effort is needed from both the government and private sectors.

Finding 8: Energy conservation and generation offer a substantial opportunity for cost savings in milk production and farm revenue generation;

Discussion: Representative Bosley recommended that aggregation should be mentioned and that there was a big opportunity for farmers to save money, with energy in particular.

Senator Rosenberg recommended to go further with a specific recommendation for a feasibility study.

Mr. Mark Duffy made mention that we need to ensure that this is one factor, but feed and other issues are also important.

Senator Brewer recommended and the task force agreed that the word *substantial* be removed from the finding.

Acting Commissioner Scott Soares suggested that the language be sent to Mr. Greg Watson for review and that mention of net metering be included in the language of the finding.

Finding 9: Regulatory inefficiencies create road blocks to technological adoption and increases costs to dairy farms;

Discussion: Senator Knapik recommended and the task force agreed that *regulatory and statutory challenges replace "regulatory inefficiencies"* in the language of finding 9.

Ms. Lynne Bohan recommended and the task force agreed that "*Some" be inserted before regulatory* to be more specific.

Undersecretary Phillip Griffiths made mention that specific Department of Environmental Protection issues that are adversely affecting dairy farms be obtained from farmers.

Finding 10: Revitalizing the dairy farm industry will require technical and financial assistance to get and keep the Commonwealth's dairy farmers on the right paths and to offer alternative paths such as on-farm processing and other direct marketing options;

Discussion: Mr. Mark Duffy mentioned that he likes to think of ourselves on the right path and made the recommendation that the language be made more positive throughout the finding. He further suggested that language such as "*while providing the opportunities*" and "*path to a viable future*" was offered as examples.

Senator Brewer recommended and the task force agreed to insert the language "but not limited to" after "such as".

Finding 11: The Task Force has developed a set of options to address these findings. It is acknowledged that some of these options shall require significantly more effort to provide the level of detail required to generate final recommendations.

Discussion: Senator Rosenberg recommended dropping finding 11. DRTF members agreed, unanimously, to drop finding 11.

Acting Commissioner Scott Soares proposed to the Task Force that a hold be placed on the transmittal of the report as stipulated by the Task Force's enabling legislation for four weeks in order to incorporate final recommendations that the Task Force will work on over the next several weeks.

Acting Commissioner Scott Soares introduced the next issue on the agenda: The review of the motions included in the section new business of the September 21 Meeting Minutes document. Acting Commissioner Scott Soares indicated that he felt it useful to use this review in order to determine action items and identify subcommittees to work on the many issues still necessary to complete the final report. He also recommended that the motions be numbered in order to facilitate their review and future reference. He then proceeded to review each motion with the Task Force.

Undersecretary Phillip Griffiths further mentioned that action items needed to come out of this exercise to fund analysis for the different studies that needed to be conducted.

Motion 1 from 9/21/07 meeting of Task Force: Representative Bosley made a motion, seconded by Representative Kulik, to amend the resolutions passed by the Council of State Governments to make them suitable for adoption by the Dairy Farm Revitalization Task Force.

Discussion: None

Subcommittees/Action Items: There were no subcommittees or action items identified.

Motion 2 from 9/21/07 meeting of Task Force: Senator Rosenberg made a motion, seconded by Representative Kulik, that the Task Force recommends the establishment of a Dairy Farmer's Stabilization Fund to be used principally to stabilize dairy farm income for the purposes of open space preservation. The Stabilization Fund shall consist of revenues from the following sources: 1) 10% of the revenues generated under section 8 of the Community Preservation Act; 2) milk dealer license fees; 3) any other gifts or volunteer payments to stabilize dairy farm income. Further, Senator Rosenberg moved that the Task Force review and recommend revisions to the milk dealer license fee including but not limited to rescinding the decision to exempt retail stores from the licensing provisions of MGL c. 94A

Discussion: The Acting Commissioner asked for Task Force members to form a subcommittee to examine the establishment of a dairy farmer's stabilization fund or safety net. Senator Rosenberg, Representative Kulik, Representative Bosley, Ms. Lynne Bohan, Mr. Mark Duffy and Mr. William Gillmeister will comprise the Safety Net Subcommittee.

Senator Rosenberg recommended that Brian Houghton of the Massachusetts Food Association also be included in the subcommittee.

Ms. Lynne Bohan inquired if anyone should be included from the consumer side. Senator Rosenberg inquired further as to who could be asked. Undersecretary Phillip Griffiths replied that the Department would work to identify a representative with the assistance of Task Force members.

Senator Rosenberg reiterated that the two parts, the number needed in terms of the total fund, and at what level are the inputs, are necessary components that need to be identified by the subcommittee as a first step.

Mr. William Gillmeister made mention that the subcommittee should also examine motions 9 and 10 as well. This was agreed upon by Task Force members unanimously.

Subcommittees/Action Items: *Safety Net Subcommittee*

For the study for the establishment of a Dairy Farm Stabilization Fund-(Motion 2), a review of The Fair Trade Model (Motion 9) and the Refundable Income Tax Credit (Motion 10).

Senator Stanley Rosenberg
Mr. William Gillmeister
Ms. Lynne Bohan, Processor Representative;
Representative Daniel Bosley, House of Representatives;
Representative Stephen Kulik, House of Representatives
Mr. Mark Duffy, Farmer Representative;
Mr. Brian Houghton, Massachusetts Food Association
Consumer Representative (To be named by the Department)

Motion 3 from 9/21/07 meeting of Task Force: Representative Kulik made a motion, seconded by Representative Bosley, that the Task Force develops language for the establishment of a Massachusetts' milk promotion program.

Discussion: The Acting Commissioner asked for Task Force members to form a subcommittee on the establishment of a Massachusetts Milk Promotion Board. Senator Brewer, Representative Kulik and Mr. William Gillmeister will comprise the Massachusetts Milk Promotion Board Subcommittee.

Mr. William Gillmeister recommended that existing legislation from other states could be modified for the Commonwealth's use. The Department will work with the Milk Promotion Board Subcommittee on the modification and submittal of draft legislation for a State Milk Promotion Board.

Subcommittees/Action Items: *Massachusetts Milk Promotion Board Subcommittee*

To develop language for the establishment of a Massachusetts Milk Promotion Board-(Motion 3).

Senator Stephan Brewer
Representative Stephan Kulik
Mr. William Gillmeister

Motion 4 from 9/21/07 meeting of Task Force: Mr. Greg Watson made a motion, seconded by Undersecretary Phillip Griffiths, to establish a sub-committee to develop language for a recommendation regarding the provision of funds for research and development of alternative energy production particularly for dairy farms as well as the creation of incentives for the development and adoption of energy efficiency technology and electricity generation on dairy farms.

Discussion: The Acting Commissioner asked for Task Force members to form a subcommittee on energy. Mr. Greg Watson, Senator Michael Knapik, Representative Lewis Evangelidis, Mr. Dwayne Breger and Mr. Gerry Palano will comprise the Energy Subcommittee.

Undersecretary Phillip Griffiths mentioned a discussion he had with Mr. Greg Watson who, along with the department will accept the crafting of the final language and will try to be as comprehensive as possible.

Subcommittees/Action Items: *Energy Subcommittee*

To develop language for the recommendation regarding the provision of incentive funds for research and development of alternative energy production - (Motion 4).

Mr. Greg Watson
Senator Michael Knapik
Representative Lou Evangelidis
Mr. Dwayne Breger
Mr. Gerry Palano, Department of Agricultural Resources (DAR)

Motion 5 from 9/21/07 meeting of Task Force: Senator Brewer made a motion, seconded by Undersecretary Phillip Griffiths, for the review of possible statutory, regulatory and/or policy adjustment for the utilization of APR and Farm Viability Funds for farms currently under Agricultural Restriction Programs or other related programs.

Discussion: Senator Brewer made mention of the desired transportability from APR and asked for a suggestion on what was needed to be done.

Mr. Bob O'Connor responded by mentioning the difficulties at present with this issue particularly when land is purchased and mentioned the fact that this is a legal issue currently centered on the "public good" wording in the current legislation. He also mentioned the fact that there was an inherent cost of APR to the Commonwealth but recommended that the desired portability could be accomplished through the addition of language to the current legislation and that he would volunteer to send this language.

Representative Kulik mentioned that the legislature had a bill in play right now that dealt with this issue.
Undersecretary Phillip Griffiths mentioned that a summary of this issue was needed for clarification.

Subcommittees/Action Items: *The addition of language to allow APR farms access to FVEP funds.*

Mr. Robert O'Connor
Department of Agricultural Resources
Agricultural Preservation Restriction Program

Motion 6 from 9/21/07 meeting of Task Force: Senator Brewer made a motion, seconded by Representative Bosley, that the State Treasurer review the possible creation of a Technical Assistance/Capital Improvement low interest loan program for the farming community of the Commonwealth of Massachusetts to sustain the long term viability of Massachusetts's dairy farms.

Discussion: The Acting Commissioner asked for Task Force members to form a subcommittee on the establishment of a Technical Assistance and Low Interest Loan Subcommittee. Senator Stephen Brewer, Senator Michael Knapik, Representative Daniel Bosley, Mr. Robert O'Connor and Undersecretary Phillip Griffiths will comprise the Technical Assistance and Low Interest Loan Subcommittee.

The discussion period continued with Mr. Richard Woodger's mention of the possible reduction on the tax decals currently in force for equipment that may be used outside of farm use.

Mr. William Gillmeister stated that this issue was slightly different. However, it is an important matter and should be an action item to further develop in the future. He also mentioned that an extensive discussion, with Ms. Marylyn Brown, Massachusetts DOR, on these matters and there is already a program to reduce the rate on animals and equipment.

Representative Bosley mentioned, that based on his understanding of existing programs/trust funds, his recommendation is to sit with the State Treasurer to see if money currently exists. He also made mention of the use of the "manufacturing designation" applied to dairy producers to open up more programs to dairy farms as many options already exist but are not currently accessible.

Senator Brewer and Senator Knapik volunteered to meet with the State Treasurer along with Representative Bosley. Undersecretary Phillip Griffiths also volunteered.

Representative Bosley also mentioned that the loan guarantee programs that currently exist along with financing options in the private sector should be reviewed.

Senator Rosenberg asked that a starter list be assembled and mentioned that reductions in property taxes may be difficult but that vehicles may be doable.

Mr. Bob O'Connor recommended a review of the sawmill issue that utilizes a Federal tax free bond that generates a loan.

Subcommittees/Action Items: *Low Interest Loan Subcommittee*

To review the possibility of the *State Treasurer review the creation of a Technical Assistance/Capital Improvement low interest loan program (Motion-7)*

Senator Stephan Brewer
Senator Michael Knapik
Representative Daniel Bosley
Mr. Robert O'Connor
Undersecretary Phillip Griffiths

Motion 7 : Mr. Greg Watson made a motion, seconded by Mr. Mark Duffy, to provide technical, administrative, and financial assistance for dairy farmers pursuing commodity milk production and value-added alternatives.

Discussion: Senator Rosenberg asked that a starter list of regulatory issues be created right away if work was going to commence and requested that specifics from farmers on regulatory overkill be assembled and that farmers should work on action items derived from motions 7 and 9.

Mr. Mark Duffy stated that he could work on a list of wants and needs along with Mr. Woodger.

Senator Rosenberg hi-lighted the necessity to integrate this information into the proper sections of the final report.

Subcommittees/Action Items: *Develop a starter list for regulatory modifications*

Develop a list as a starting point for recommendations for regulatory modifications and select other industry members to submit regulatory issues affecting the dairy industry.

Mr. Mr. Mark Duffy
Mr. Richard Woodger
Other Industry Members

Motion 8 from 9/21/07 meeting of Task Force: Mr. Richard Woodger made a motion, seconded by Senator Rosenberg, 1) to endorse a position within the Department of Agricultural Resources for regulatory review and tracking; 2) to develop a recommendation for the establishment of a committee within EEA consisting of DAR and DEP and other relevant agencies to evaluate and review options for regulatory streamlining for agricultural businesses; 3) contact Department of Revenue and look into and/or review and report on whether the local option may be adjusted for animals and equipment used for dairy production.

Discussion: Acting Commissioner Scott Soares stated that the process of establishing and communicating a job code for a position within the Department of Agricultural Resources for regulatory review and tracking was underway and would be completed shortly.

The discussion continued on the matter of the adjustment of the local option and what possibilities, if any, were possible and the establishment of a committee within EEA.

Subcommittees/Action Items: There were no subcommittees or action items identified.

Acting Commissioner Scott Soares mentioned that motion 8 did not include a vote section in the document.

Motion: Representative Bosley made a motion, seconded by Undersecretary Phillip Griffiths, to

amend the September 21 Meeting Minutes document with the discussed changes

Discussion: None

Vote: Unanimous

Motion from 9/21/07 meeting of Task Force 9: Senator Rosenberg made a motion, seconded by Undersecretary Griffiths, that the DAR to consult with Department of Economic Affairs to develop a recommendation to implement a Fair Trade Market Contribution Program.

Discussion: None

Subcommittees/Action Items: There were no subcommittees or action items identified.

Motion 10: Representative Bosley made a motion, seconded by Representative Kulik, that the Task Force develop a refundable income tax credit for the distribution of Dairy Farm Stabilization funds and if the balance is insufficient that the funds come from the general fund.

Discussion: Task Force members were reminded that Motion 10 was to be worked on by the Safety Net Subcommittee along with motion 2.

Subcommittees/Action Items: *Safety Net Subcommittee*

For the study for the establishment of a Dairy Farm Stabilization Fund-(Motion 2), a review of The Fair Trade Model (Motion 9) and the Refundable Income Tax Credit (Motion 10).

Senator Stanley Rosenberg
Mr. William Gillmeister, Ph.D, DAR
Ms. Lynne Bohan, Processor Representative;
Representative Daniel Bosley, House of Representatives;
Representative Stephen Kulik, House of Representatives
Mr. Mark Duffy, Farmer Representative;

Mr. Brian Houghton, Massachusetts Food Association
Consumer Representative (To be named by the Department)

Motion 11 from 9/21/07 meeting of Task Force: Representative Bosley made a motion, seconded by Representative Kulik, to recommend that funds be provided through the Massachusetts Office of Travel and Tourism (MOTT) to further develop and expand Agri-tourism.

Discussion: Representative Bosley recommended the identification and evaluation of agro-tourism funds and volunteered to contact the MOTT Director to discuss this issue. Undersecretary Phillip Griffiths also offered assistance with this issue.

Subcommittees/Action Items: _Contact of the MOTT Director_

Contact the MOTT Director to further evaluate the availability of funds for Agro-tourism.

Representative Daniel Bosley
Undersecretary Phillip Griffiths

Motion 12 from 9/21/07 meeting of Task Force: Representative Bosley made a motion, seconded by Representative Kulik, to contact the Massachusetts Office of International Trade and Development to explore foreign trade and investment opportunities for Massachusetts dairy products.

Discussion: Representative Bosley volunteered to meet with MOITI to inquire if they will do some elementary work on possible programs for export and if international trade can be expanded.

Ms. Ellen Fitzgibbons, Representative Bosley and Representative Lewis Evangelidis will contact the USDA for information on export programs.

Subcommittees/Action Items: There were no subcommittees or action items identified.

Motion 13 from 9/21/07 meeting of Task Force: Senator Rosenberg made a motion, seconded by Representative Bosley, to continue the Dairy Revitalization Task Force.

Discussion: There was discussion on the continuity of the Dairy Revitalization Task Force past the October 1, 2007 deadline and the sentiment that there was necessity in the continuation of the Task Force. Senator Knapik inquired as to whether a letter or communication was required authorizing that some vehicle be created to meet quarterly by the Executive Office. Senator Rosenberg furthered this approach by recommending that this body also be responsible for the stabilization fund.

It was agreed, by Task Force members, that a letter be sent requesting an extension to the term of the Task Force and also to communicate a delay in the submittal of the final report to the Legislature.

Acting Commissioner Scott Soares recommended that a delay of 45 days be requested for the delivery of the report. The Task Force discussed this recommendation in length and agreed to the request for extension.

Senator Rosenberg recommended that a letter from the Co-chairs be sent on behalf of the DRTF to the Speaker, Senate President and the clerks of the Senate and House of Representatives to request a six week extension.

Subcommittees/Action Items: *Letter requesting extension and authorization of body*

Send letter to the Speaker of the House and The Senate President notifying them of the current circumstances and the delay of the report: file legislation

Acting Commissioner Scott Soares
Undersecretary Phillip Griffiths

4. New Business

Acting Commissioner Scott Soares introduced the next issue on the agenda: New Business and asked Task Force members if there was anything new to submit. There were no new issues for discussion.

Acting Commissioner Scott Soares turned the discussion to the scheduling of the next Task Force meetings to take place and the 9th and 16th of November were agreed upon as tentative dates for the next meetings. The meetings are to be held, pending confirmation, at the Lord Jeffery Inn, Amherst, Massachusetts.

5. Public Comment

Mrs. Sherry Hager, Secretary of the MADF, expressed her support of the establishment of a program be set-up long-term in the Commonwealth, similar to the Task Force, and that the establishment of this body was a vital issue for the dairy industry in the Commonwealth of Massachusetts.

Ms. Cris Coffin of the American Farmland Trust, inquired at to whether the Task force had, in a formal way, weighed in on the farm bill legislation and stressed that it was important, in her view, to formally intervene through the Massachusetts delegates in Washington.

Senator Rosenberg suggested, based on Ms. Coffin's comments, that the Task Force possibly pursues other members of Congress in Washington before the debate and recommended a possible trip to Washington D.C. to meet with members of the specific committees involved and with members such as Senator Leahy of VT. The trip could also be used to push other issues of concern.

Mr. James Larkin and Mr. Jim Larkin, M.A.D. Farmers from Sheffield, Ma, recommended having farmers as part of an ongoing board to identify issues affecting the industry to facilitate modification. He, along with Mr. Jim Larkin, also discussed the USDA numbers and that he had little confidence in these numbers as they did not identify, correctly, the breakdown between owned and rented properties for dairy. He also asked the Task Force that they keep in mind that the dairy farmer's of the commonwealth maintain a tremendous amount of land in the Commonwealth and the USDA numbers do not include pasture or forested acreage that farmers, for the most part, maintain contributing to wildlife management and conservation in the Commonwealth. Mr. Jim Larkin's assumption was there was currently over 70,000 acres in Massachusetts currently used for dairy.

Mr. William Gillmeister responded that the Task Force had already requested these numbers from the USDA and had stipulated that they be separated between owned and rented land.

Mr. Jim Larkin continued by mentioning that, based on his knowledge, that a loan guarantee program if someone does not qualify for farm credit, already exists and the piggy-back of a state program on top of this current structure would have a greater impact. He stressed this impact by the mention that his animals were suffering due to a lack if investment in technology and the lack of specific programs in the Commonwealth that exist in other states.

Mr. Hager, President of MADF, expressed his concern that he did not hear any mention of the profound benefit dairy farms offered to the economy of the Commonwealth as dairy farms were a business supporting other businesses that provided a great economic backbone of the agricultural infrastructure in Massachusetts and this business network was in great danger.

Mr. Warren Facey, read an excerpt from an article from New Hampshire that hi-lighted the misappropriation of Agricultural funds, in some cases, being attributed to deceased farmers. Mr. Facey recommended that this be another message to bring to Washington D.C. through the delegation.

6. Adjourn

Motion: Senator Knapik made a motion, seconded by Representative Bosley, to adjourn.

Vote: Unanimous

The Meeting adjourned at 2:43 p.m.

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF ENERGY AND
ENVIRONMENTAL AFFAIRS
Department of Agricultural Resources
251 Causeway Street, Suite 500, Boston, MA 02114
617-626-1700 fax 617-626-1850 www.Mass.gov/AGR

DEVAL L. PATRICK
Governor

TIMOTHY P. MURRAY
Lieutenant Governor

IAN A. BOWLES
Secretary

SCOTT J. SOARES
Acting Commissioner

Dairy Farm Revitalization Task Force

Unapproved Meeting Minutes
November 9, 2007
Lord Jeffery Inn
Amherst, MA
9:30 to 12:30

Task Force Members Present:

Ms. Lynne Bohan, processor Representative;
Representative Daniel Bosley;
Senator Stephan Brewer;
Mr. Mark Duffy, Farmer Representative;
Representative Lou Evangelidis;
William Gillmeister, Ph.D., appointee, Department of Agricultural Resources;
Undersecretary Philip Griffiths, EEA Secretary's Designee;
Representative Stephen Kulik;
Mr. Robert O'Connor, appointee, Executive Office of Environmental Affairs;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation Representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Senator Stanley Rosenberg;
Mr. Greg Watson, appointee, Energy and Environmental Affairs;
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers Representative;

Members of the public were present at the meeting.

1. Call to Order

Acting Commissioner Soares called the meeting into order at 9:45 a.m.

By unanimous consent Acting Commissioner Soares took up the report of the Safety net subcommittee to accommodate Senator Rosenberg who had a funeral to attend and would not be able to stay for the entire meeting

2. Old Business

a. Subcommittee Reports

5. Safety-Net Subcommittee

Dr. Gillmeister presented the report of the Subcommittee's work and its recommendations. The subcommittee met three times to examine the feasibility of a Dairy Stabilization Fund based on the South Carolina Income Tax credit. Dr. Gillmeister reviewed the cyclical nature of farm milk prices and that the cycle had lengthened to three to five years from peak to trough. The objective of the safety net mechanism is to provide a floor under falling milk prices during the trough of the cycle. The concept of a stabilization fund was to build up a fund during peak periods, so that funds for support would be available during trough periods. The South Carolina income tax credit would be used to distribute support during the trough.

Before addressing the question of the funding level that would provide a sufficient level of support, the Subcommittee evaluated the level of funding that the South Carolina tax credit would generate if applied to Massachusetts. Dr. Gillmeister reviewed the South Carolina tax credit model as to how it works.

The South Carolina income tax credit grants a tax credit to dairy farmers if farm milk prices drop below a certain trigger price. This mechanism is evaluated each month, and the tax credit is granted for milk production of a quarter during which the farm price drops below the trigger during any month in that quarter. At the end of the tax year, the farmer receives a tax credit on annual milk production adjusted for the number of quarters for which the credit is due. Once the credit is calculated, it is applied to a farmers income tax liability. If the tax liability is greater than the credit, then the farmers is obligated to pay the difference. If the credit is greater, the farmer receives what's left.

More specifically, if during any month in a quarter, the trigger price falls below the farm price, the farmer receives a tax credit equal to $10,000 for the first 500,000 pounds of annual milk production, and $5,000 for each 500,000 pounds of annual milk production thereafter for that quarter's milk production. Five hundred thousand pounds of annual milk production amounts to about a 28 cow milking herd and this establishes a minimum milk production threshold. As to the trigger price, the South Carolina program uses a set of factors to establish the trigger price including the average price of the top five surrounding states from which milk is imported, transportation costs of transporting milk from those states, and the costs of milk production in South Carolina.

The Safety Net Subcommittee identified four variables that may require some adjustment for implementation of the tax credit model in Massachusetts. Those variables were as follows: a minimum production amount, the frequency of evaluating the trigger, the trigger price, and the amount of the credits. The South Carolina tax credit has a minimum production level of 28 milking cows. Dr. Gillmeister reported that the Subcommittee recognized the reason for a minimum production requirement as to be sure that only true farms have access to the credit. The Subcommittee recommended that no such minimum be established, but that a dairy farm be required to have a certificate of registration with the Department of Agriculture.

As stated above, the South Carolina model evaluated the trigger price on a monthly basis, but awarded the credit on a quarterly basis. The Subcommittee recommends evaluating the trigger on monthly basis and that the credit be awarded on a monthly basis also. Of the trigger price itself, Dr. Gillmeister related that the Subcommittee recognized key differences in market conditions in Massachusetts when compared to South Carolina, thereby requiring a different set of factors for calculation of the trigger. To be consistent with Finding 6, the trigger price ought to include some measure of cost of production.

The Subcommittee went back to the Task Force meeting of August 10, 2007 to its discussion of costs of production and concluded that the Vermont operating costs of production, announced monthly by the US Department of Agriculture, offered the best source for a trigger price. In particular, the Subcommittee decided that the trigger price ought to include the operating costs, hired labor, and some level of the value of unpaid labor. The Subcommittee relied on the economic and business theory that a farm will remain in business as long as it can cover its variable or operating costs. Being able to pay for hired labor is a part of those costs as well as some part of the value of a farmer's unpaid labor.

Regarding the amount of the tax credit, the Subcommittee analyzed the fixed tax credit by incorporating the decisions already discussed while using the base credit of $10,000 if a farm has a certificate of registration and a unit credit of $5,000 per 500,000 pounds of milk production after the first 500,000 pounds. Using data from the Emergency Relief Program administered in July of 2007, the Subcommittee found that the maximum liability if the farm price fell below the trigger price every single month in a year would be $4.12 million dollars.

Importantly, the Subcommittee recognized that based upon the cyclical nature of milk prices, the worst case scenario for milk prices might occur every 3-5 years, but that during the intervening years there could be an impact of anywhere from 0 to less than $4 million. In fact, considering the high milk prices that have occurred during the calendar year of 2007, it is highly likely that if such a tax credit program were currently in existence the tax rebate liability would be zero. That is to say, the general fund liability will fluctuate from year to year and will range from a minimum of zero liability to a maximum of $4 million, but on average, the payout would amount to $2.3 million a year with an average payout of approximately $12, 800 per farm. Dr. Gillmeister reported that the Subcommittee recommends that the credits be distributed on a per cwt basis to provide equity across all dairy farmers.

He then turned to the question of a dairy stabilization fund. After further review, the Subcommittee recognized the novelty of the proposal, but concluded that such a fund would likely be too problematic. Further, depositing milk dealer fees into such a fund may present some U.S. Constitution questions in line with *West Lynn Creamery v. Healy* (512 U.S. 186 (1994)). Dr. Gillmeister stated that the Subcommittee recommended that the milk dealer license fees be reviewed with a specific focus on the reestablishment of the retailers milk dealer licensing.

In summary, Dr. Gillmeister reported that the Subcommittee recommended that the income tax credit be implemented on a per hundredweight basis, that it be evaluated on a monthly basis, that the trigger be based on the USDA announced operating cost of production plus hired and unpaid labor costs for Vermont, and that the credit be limited to a maximum of $4 million.

Senator Rosenberg reiterated that the recommendation of the Subcommittee is for $4 million dollars adjusted for inflation and inquired if the writing of the necessary legislation could be performed by the Milk Promotion Board. Dr. Gillmeister replied that he did not feel this appropriate and recommended the establishment of a subcommittee to work on the legislation for the income tax credit.

Motion: Senator Rosenberg made a motion, seconded by Representative Kulik, to re-convene the Safety-Net subcommittee to construct the legislature for the income tax credit.

Discussion: Ms. Lynne Bohan, Dr. Gillmeister, Senator Rosenberg, Representative Kulik, Mr. Duffy, Representative Bosley and Mr. Brian Houghton volunteered to work on the Safety-Net Subcommittee. Senator Rosenberg voiced his opinion that this work should not hold up the completion of the report and if the legislation was not completed on time it should be left out of the report and submitted separately when completed.

Vote: Unanimous.

Representative Bosley asked who would review and adjust these details and Dr. Gillmeister responded that the Department of Agricultural Resources, in the form of the Commissioner, has the statutory oversight to make these changes.

Senator Rosenberg reiterated that it was the desire of many people that we do re-establish a retail license fee and adjust the current milk dealer license fees to the appropriate levels.

Representative Evangelidis asked as to where the money would come from and what the current milk dealer license fee structure was. Dr. Gillmeister responded that the money would come out of the general fund and explained the current milk dealer license fee structure and rates.

Mr. Richard Woodger commented that the dairy farmers of the Commonwealth were still sticking it out and still recovering from the losses of 2006. Mr. Woodger further stated that he felt that the farmers of the Commonwealth while appreciative of the effort, in the form of the emergency stabilization fund, did not feel that the $3.6 million in assistance was sufficient. Based on this Mr. Woodger stated that while he was appreciative of the effort and the contents of the report he did not feel that this number should be used in the report.

Acting Commissioner Soares responded by identifying the fact that the members of the Task Force were aware that the scenario in 2006 was the “perfect storm” and that the $3.6 million in assistance was determined adequate to maintain the dairy industry in the Commonwealth and ensure that farms were able to stave off the adverse affects of the crisis of 2006. He further identified that the South Carolina model also offered nearly $3 million in assistance and was adequate to maintain the industry in South Carolina through difficult times.

Senator Rosenberg stated that this was only one element of a larger plan and that there were many more components of assistance for the dairy industry of the Commonwealth which combined would provide stability for the industry. He further mentioned that the proposed safety-net was a last ditch item of assistance and together with the other components of assistance would make a big difference,

Senator Brewer stated that this was a beachhead and that we should remain focused on making inroads in terms of statutory and regulatory modifications and that as his colleague Senator Rosenberg once coined, “we should not let the perfect get in the way of the practical”. Senator Brewer further stated that reality would dictate that if it is not real than it can be re-worked again.

Mr. Duffy responded that he understood this but that he had the responsibility to ensure that the Department of Agricultural Resources as well as the Legislature be made aware of the difficulties the industry is having.

Representative Bosley raised his concern on the $4 million and if this was sufficient to cover all of the dairy farmers in the event of a downturn. He also mentioned that while South Carolina had started at 500,000, Massachusetts was starting at 0. Representative Bosley in closing mentioned that perhaps the fund idea could be re-visited at a later date.

Senator Rosenberg stated that this was something that could be discussed further and that an additional mechanism that would be utilized in the event of a profound dip where the $4 million was inadequate that would allow the augmentation of any cap restriction in an extraordinary situation would be useful.

Undersecretary Griffiths referred to the fact that the declaration of emergency by the Commissioner should cover any increase over the $4 million amount.

Representative Kulik recommended the possible use of the statutory language of the declaration of emergency to petition Administration and Finance in the event of an emergency.

Dr. Gillmeister stated that there was a clear necessity for the further review of these items. Senator Rosenberg asked if there was enough time to conduct this review prior to the release of the report and was unsure if this could be accomplished in short-order.

Mr. O'Connor stated that the tax credit would be good for those times that are not the perfect storm and should cover most dips and accumulated debt moving from one year to the next.

Motion: Senator Rosenberg made a motion, seconded by Representative Kulik, to accept the safety-net subcommittee's report and recommendations for inclusion in the final report to the legislature and to include as an item for the new Subcommittee the task of identifying an emergency mechanism for funds necessary beyond the $4 million maximum already identified.

Discussion: Senator Rosenberg closed discussion by thanking the members of the Subcommittee and the Task Force, both the staff and the co-chairs for their work and professionalism. In particular he thanked Dr. Gillmeister for his work with the subcommittee and Acting Commissioner Soares for his professionalism and effort during his tenure. He also made mention that he felt it important that the mention of the federal issues affecting the dairy industry of Massachusetts be mentioned in the executive summary of the report. He also stated that it is crucial that we bring national resources to the table and communicate industry concerns and work closely with the congressional delegation to make the federal system fair. Before excusing himself from the meeting Senator Rosenberg voiced his strong endorsement of the report of the Task Force to the legislature.

Vote: **Unanimous.**

Acting Commissioner Soares thanked the Senator for his remarks and called the attention of the Task Force to the agenda and asked that they return to the original order business in the Agenda.

2. Approval of October 5, 2007 Meeting Minutes

Motion: Representative Evangelidis made a motion, seconded by Representative Bosley, to approve the October 5 Meeting minutes.

Discussion: None.

Vote: Unanimous.

3. Old Business (cont.)

a. Subcommittee Reports

1. Massachusetts Milk Promotion Board Subcommittee

Dr. Gillmeister presented the work of the Milk Promotion Board Subcommittee. The subcommittee met two times and reached consensus for the recommendation for the establishment of a Massachusetts Dairy Promotion Board and has assembled draft legislation for this purpose. This legislation will identify an 8 member committee and will allow the commissioner and his office to manage the funds of the Dairy Promotion Board. He also stated that the subcommittee discussed the proposed membership and also discussed the 15 cent fee to the national board of which 10 cents can be re-directed to the regional board.

Mr. Duffy expressed his interest in this program and felt it would be positively embraced by dairy farmers.

Motion: Senator Brewer made a motion, seconded by Representative Kulik, to accept the Milk Promotion Subcommittee's report and recommendations for inclusion in the final report to the legislature.

Discussion: None.

Vote: Unanimous.

2. Technical Assistance and Low Interest Loan Subcommittee

Senator Brewer presented the work of the Technical Assistance and Low Interest Loan Subcommittee and its interest in the establishment of a farm linked loan program for dairy farmers. Senator Brewer discussed his meeting with State Treasurer, Mr. Timothy Cahill and thanked the Treasurer and his office for their work on the draft legislation to establish a dairy farm linked loan deposit program. Senator Rosenberg introduced three members of the State Treasurer's Office, Mr. Nick Favorito, Deputy Treasurer, Ms. Cynthia Lydon, Deputy Chief of Staff for the State Treasurer's Office and Mr. Craig Stepno.

Mr. Favorito began his presentation of the program by thanking the Task Force for the invitation and for the opportunity to explain the program to Task Force members. He explained the proposed legislation, based on the research of other state-backed low interest loan programs, would be the first one of its kind in the Commonwealth of Massachusetts. The legislation would grant the Treasurer the authority to invest up to $500 million in below market interest rate investments. The investments would provide funds for low interest loans of up to $500,000.00 per dairy farm. The funds would be available to eligible lenders to make such loans to eligible borrows. The eligible lenders will assemble loan packages and submit these packages to the commissioner of the Department of Agricultural Resources. The commissioner, upon review, would approve or reject the proposal. If approved, the commissioner would transmit the package to the Treasurer for disbursement of funds. Such loans will provide opportunities to dairy farmers that would be otherwise out of reach.

Mr. Duffy thanked Senator Brewer and the Office of the Treasurer for their work on this program as he felt it to be a very useful tool for dairy farmers and inquired if the Farm Credit System would be a participant in this program.

Representative Bosley stated that based on other existing programs that are similar that it is easy for financial institutions to participate if they wish. He also expressed his wish that thanks be sent to the Treasurer's Office for their work.

Motion: Senator Brewer made a motion, seconded by Representative Kulik, to accept the Technical Assistance and Low Interest Loan Subcommittee's report and recommendations for inclusion in the final report to the legislature.

Discussion: None.

Vote: Unanimous.

3. International Trade Subcommittee

Representative Bosley presented the work of the International Trade Subcommittee and the meetings that were conducted on its behalf. Representative Bosley and Representative Evangelidis met with the Director of M.O.I.T.I. to determine their interest and availability to assist the dairy industry of the Commonwealth through the enhancement of international trade efforts and to assist in the identification of export markets. Representative Bosley also reported on a meeting that he had with the Ambassador of South Africa, Mr. Nhlapo. The Ambassador was very interested in exploring possible trade agreements for dairy products and offered his assistance in facilitating a meeting with the South African Minister of Agriculture to explore the importation of Massachusetts's dairy products. Representative Bosley and Representative Evangelidis will continue discussions with these entities.

Representative Evangelidis asked Mr. Duffy if Massachusetts dairy farmers had the installed capacity, particularly in powdered milk, to be able to supply possible export opportunities. Mr. Duffy responded that there was the capacity, in powdered milk, to support any opportunities that may arise.

Motion: Representative Kulik made a motion, seconded by Representative Bosley, to accept the International Trade Subcommittee's report and recommendations for inclusion in the final report to the legislature.

Discussion: None.

Vote: Unanimous.

Representative Bosley continued his report by referring to the action item for Agri-Tourism that the International Trade Subcommittee also worked on. Representative Bosley met with Ms. Betsy Wall of the Massachusetts Office of Travel and Tourism (M.O.T.T.) to explore agri-tourism options and expand existing initiatives to better serve the dairy industry of the Commonwealth. Representative Bosley explained that Ms. Betsy Wall is very interested in assisting the industry through the hosting of informational meetings and discussions with experts on agri-tourism and the culinary industry in order to determine and develop marketing strategies and plans for events that would hi-light the availability and advantages of farm visits.

Representative Bosley further reported that in support of agri-tourism development M.O.T.T. added a website link to the massvacations.com homepage listing Massachusetts's agri-tourism farms provided by the Department of Agricultural Resources. The Agency also added a website link to the discoveries section and family fun sections on the massvacations.com website.

Senator Brewer made mention that both he and Representative Kulik had worked closely with the University of Massachusetts system in the past to promote their purchasing local grown foods and while they had made progress, 20% of their purchases are local-grown, they may be open to increasing this amount through further discussions.

Acting Commissioner Soares mentioned the Farm to School Program as an existing program that may further benefit the dairy industry and assist farmers in cracking larger markets.

Representative Bosley further mentioned the economic bill and that the buy local initiative that was engaged in at the local level should also be applied at the State level as well.

4. Energy Subcommittee

Mr. Watson presented the work of the Energy Subcommittee and their discussions with the Massachusetts Technology Collaborative (MTC) to identify opportunities within existing renewable energy programs and initiatives that would assist farmers in reducing their energy costs and provide new revenue opportunities. Mr. Watson highlighted what the MTC can provide in terms of feasibility studies and made certain that it was understood the dairy farms, owned or rented, do qualify under many of the existing programs. Mr. Watson also discussed methane digester opportunities, cooperative arrangements and wind opportunities for large KW scale initiatives. Mr. Watson concluded by mentioning several legislative initiatives pertaining to net metering and other areas such as wind and solar.

Senator Brewer asked as to why there were not more opportunities. In particular he expressed interest in grants for small scale KW initiatives. Mr. Watson replied that while these were offered for small scale initiatives for solar there were two main reasons why this was not applied to small renewable initiatives in general. First, the lack of resources within the department, and second, the investment necessary for a viable return is much larger.

Representative Kulik discussed the possible inclusion of net-metering for green legislation and inquired if APR farms who wanted to host energy projects were able to do so or if this had changed.

Acting Commissioner Soares replied that this has changed and that wind turbines, if used for the farm itself, are authorized as a part of farm infrastructure.

Motion: Representative Bosley made a motion, seconded by Representative Kulik, to accept the energy Subcommittee’s report and recommendations for inclusion in the final report to the legislature.

Discussion: None.

Vote: Unanimous.

Acting Commissioner Soares introduced the next item on the agenda, a report on the action items identified at the October 5, Task Force meeting.

6. Report on Action Items

Mr. Duffy presented a list of regulatory issues to be used as a starter list for regulatory and statutory changes that would have a positive impact on the dairy farms of the Commonwealth.

1. The ability of farmers to use "viability funds" on farms encumbered with Article 97 restrictions or other conserved land.
2. Provide "Grants" or low interest loans available to farmers for capital improvements directly related to agricultural pursuits.
3. Preempt municipalities from regulating agricultural activities that are performed pursuant to industry recognized BMPs.
4. Establish a state tax credit allowing such credit to include all excise taxes on animals, machinery and equipment primarily used for agriculture.
5. Exempt multi-purpose equipment, vehicles and machinery primarily used for agriculture from sales tax.
6. Allow farms to pay estimated income tax on money actually received on date estimated quarterly payments are due to be filed.
7. Amend G. L. c. 59, §8A to allow corporations the same excise tax exemptions allowed to other "persons."
8. Reestablish a "Dairy Commission" within the Department of Agricultural Resources (DAR).

9. Milk room waste or milk waste generated on a farm shall be treated in the same manner as other animal waste.
10. Silo leachate shall be exempt from state or local waste disposal, provided such leachate is managed or disposed of pursuant to BMPS of the NRCS.
11. Farm-wide net metering for agriculture.
12. Regulatory issues concerning small temporary slaughtering facilities.
    * Fee structure
    * Site assignment
    * Regulatory requirements

Undersecretary Griffiths stated that the Department of Environmental Protection and the Environmental Protection Agency (EPA) was already discussing some of these issues with DAR. Senator Brewer asked if the discussions with EPA regarding number 10 of the list had produced any alternatives. Acting Commissioner Soares responded that Best Management Practices for leachate were being discussed but nothing formal has yet come forth.

Mr. Robert O'Connor discussed the several meetings that he had to discuss the Farm Viability Enhancement Program (FVEP) access to Agricultural Preservation Restriction (APR) entities and the amendment that gives guidance on the disbursement of funds to non-public entities. He further stated that this was a language issue that was in the process of being resolved. He also added that if the APR farms were added to FVEP more money would be needed. Senator Brewer made an inquiry to the bond bill and stated that he felt it important to take care of this before the amendment was filed.

There were no further action items identified for report.

b. Review of Draft Report

Acting Commissioner Soares then turned to the next item on the agenda, the review of the draft report. He explained that what the Task Force has before it is a draft Executive Summary of a yet to be completed Report to the Legislature. Further, the draft Executive Summary contains the Findings, which had already been approved and the recommendations that reflect the subcommittee reports of today and that have been approved. He suggested that the Task Force consider adopting the Executive Summary and provide the Co-chairs the ability to elaborate and complete a full report based on the Findings and Recommendations in the Executive Summary.

Senator Brewer recommended the addition of a signatory page at the end of the report. Acting Commissioner Soares agreed with this recommendation.

Motion: Representative Kulik made a motion, seconded by Representative Bosley, to accept the Executive Summary and to have the Co-chairs complete the report to the Legislature based on the Executive Summary.

Discussion: Representative Kulik suggested that before a vote was taken that the Public Comment portion of the Agenda be taken up at this time to allow members of the public to comment on the findings and recommendations contained in the Executive Summary.

Acting Commissioner Soares, seeing there were no objections, turned to item 5 on the agenda and opened the floor to public comment.

5. Public Comment

Mr. Chip Hager, President of M.A.D.F., thanked the Task Force for all of its work and voiced his concern as to what the next steps were after the report was filed. He felt it was important to keep the ball rolling and ensure that the identified issues are followed through. Representative Kulik responded that these items will move legislation through in short order and that there was the possibility of maintaining the Task Force as the administration was in strong support of agricultural initiatives and that the Governor himself wants these initiatives to happen.

Undersecretary Griffiths stated that the intent was that actions will take place on all of the items identified.

Senator Brewer used the public comment portion of the meeting to thank Acting Commissioner Scott Soars for not only his work as co-chair of the Dairy Revitalization Task Force but also his work as Acting Commissioner for DAR over the past months. He further commended the Acting Commissioner buy stating that he had not been part of a more professional and well run commission than the DRTF. A round of applause was offered by all present on behalf of the Senator's comments.

Acting Commissioner Soars thanked the Senator for his comments and thanked all members of the Task Force and the DAR staff for their effort and assistance throughout his tenure as Acting Commissioner and as Co-chair of the Dairy Revitalization Task Force

Dr. Stephen Major, Veterinarian, explained what financial stress looks like from a dairy cow's perspective. Issues such as disease, bedding, etc; equate to a far less of a product and this is what the consumer sees. He recommended that farms be made sustainable for the benefit of consumers.

Mr. Bill Larkin thanked the Task Force for what has been done and contributed his contention that the processor-cartels pressure down the farmers price and that something must be done in the future to stop their ability to bargain the price down. He further stated that there is far more trouble today bargaining with shared monopolies. He further stated that dairy farming under these conditions is very difficult.

Seeing no one else wishing to provide a public Comment, Acting Commissioner Soares closed the Public Comment portion of the Agenda and returned to the motion that was left on the floor. Hearing no other discussion on Representative Kulik's motion to adopt the Executive Summary and providing the Co-chairs authority to complete the Report to the Legislature motion, Acting Commissioner Soares called for the vote.

Vote: Unanimous.

4. New Business

There was no new business.

Acting Commissioner Soares closed by once again thanking everyone for their effort and re-iterating the wonderful time he had working with everyone involved and for the wonderful learning opportunity afforded to him through the process. He further stated that this was a new beginning for all of the members of the Task Force and for the industry as well.

Undersecretary Griffiths echoed the Acting Commissioner's words and also thanked the member's of the Task Force along with Acting Commissioner Soares for their hard work.

6. Adjourn

Motion: Mr. Richard Woodger made a motion, seconded by Representative Bosley, to adjourn.

Vote: Unanimous

The Meeting adjourned at 11:38 a.m.