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STATE OF MAINE

ONE HUNDRED AND TWENTY-FOURTH LEGISLATURE

COMMITTEE ON AGRICULTURE, CONSERVATION AND FORESTRY

TO: Senator Bill Diamond, Senate Chair
Representative Emily Cain, House Chair
Joint Standing Committee on Appropriations and Financial Affairs

FROM: Senator John M. Nutting, Senate Chair
Representative Wendy Pieh, House Chair
Joint Standing Committee on Agriculture, Conservation and Forestry

DATE: January 20, 2009

RE: Recommendations to the Cost of the Dairy Stabilization Program in FY09

At the conclusion of the joint public hearing on LD 45, the supplemental budget bill, Senator Diamond asked for the ACF Committee's input regarding payments under Maine's Dairy Stabilization Program. For the next 4 months, the basic price of milk is projected to be lower than the target price for each of the 3 production tiers. Payments under the Maine Dairy Stabilization program are calculated based on the difference between the basic price and target prices. Target prices are estimates of the short-run break-even cost for producers at 3 different levels of production. These estimates are based on periodic cost of production studies conducted by the University of Maine.

With the falling price of milk, stabilization payments will exceed earlier estimates for fiscal year 2009. Although it is difficult to predict the exact impact on the General Fund, the ACF committee is recommending temporary changes in the disbursement of payments under Title 7, section 3153-B and suspension of payments under the Maine Milk Income Loss Contract as established in section 3153-C. We offer these recommendations in recognition of cuts being made throughout state government and in many, many programs.

The dairy stabilization program was initiated to provide a safety net to Maine dairy farmers during tough economic times. Times are very tough with fuel and feed costs high and milk prices low. The changes we are recommending will reduce the statutory obligations for funding between now and June 30, 2009. For many farmers payments will not provide the intended safety net. We want to stress that what we are proposing

are stop-gap measures to help balance the budget for fiscal year 2009. We plan to continue examining the stabilization program and to develop adjustments that will fairly provide a safety net for Maine's dairy farms well into the future.

Attached please find two sets of recommendations to realize an estimated reduction of \$4.8 million in demand on the General Fund for the dairy stabilization program in fiscal year 2009. The two reports differ in one element, presented as recommendation 2 in each report.

The committee voted on the substance of these recommendations on January 20th. Eleven members were present. A twelfth voted after the meeting. The vote of Jan. 20th is reflected at the bottom of each report.

Two members of the committee who voted for Report B on Tuesday, upon further consideration, are supporting the recommendations in Report A. The committee has not met since Tuesday's vote. Rep. Pieh and Rep. Edgecomb have not been able to ask for reconsideration and formally change their votes.

cc: Members, Joint Standing Committee on Appropriations and Financial Affairs
Members, Joint Standing Committee on Agriculture, Conservation and Forestry

**Joint Standing Committee on Agriculture, Conservation and Forestry
Recommendations to
the Joint Standing Committee on Appropriations and Financial Affairs
Dairy Stabilization Program**

REPORT A

Recommendation 1. Suspension of payments under the Maine Milk Income Loss Contract (Maine MILC). Notwithstanding Title 7 section 3153-C, after payments disbursed in January of 2009, all payments under the Maine Milk Income Loss Contract as provided in Title 7, section 3153-C are suspended until after June 30, 2009. The amounts certified by the administrator and transferred by the State Controller under Title 7, section 3153-D must reflect this suspension.

The savings from this action is estimated at \$483,000 for the remainder of FY09. Report A and Report B are identical in this recommendation.

Recommendation 2. Reduce payments under the tiered dairy stabilization program by 29%. Notwithstanding Title 7, section 3153-B, for distributions made in February, March, April and May, the administrator of the Maine Milk Pool shall **reduce each payment distributed under section 3153-B by an amount equal to 29% of the payment calculated in accordance with section 3153-B.** The amounts certified by the administrator and transferred by the State Controller under Title 7, section 3153-D must reflect these reductions.

The savings from this action is estimated at \$2.70 million in FY09. Report A and Report B differ in this recommendation.

Recommendation 3. Delay payments scheduled for disbursement in June for May production until after June 30, 2009. Notwithstanding Title 7, section 3153-B, the State Controller may not transfer and the administrator of the Maine Milk Pool may not disburse payments for milk produced in May of 2009 until after June 30, 2009. Disbursements made after June 30, 2009 for milk produced in May of 2009 are not reduced by 29%.

The savings from this action is an estimated \$1.66 million in FY09. Both Report A and B calculate payments for milk produced in May according to statutory provisions except for the delay in payment.

Report A - Total estimated reduction on demand from General Fund in FY09 = \$4.85

1-20-2009 7 members on Report A

Sen. Sherman, Rep. Gifford, Rep. Cray, Rep. Pratt, Rep. Kent, Rep. O'Brien & rep. McCabe

**Joint Standing Committee on Agriculture, Conservation and Forestry
Recommendations to
the Joint Standing Committee on Appropriations and Financial Affairs
Dairy Stabilization Program**

REPORT B

Recommendation 1. Suspension of payments under the Maine Milk Income Loss Contract (Maine MILC). Notwithstanding Title 7 section 3153-C, after payments disbursed in January of 2009, all payments under the Maine Milk Income Loss Contract as provided in Title 7, section 3153-C are suspended until after June 30, 2009. The amounts certified by the administrator and transferred by the State Controller under Title 7, section 3153-D must reflect this suspension.

The savings from this action is estimated at \$483,000 for the remainder of FY09. Report A and Report B are identical in this recommendation.

Recommendation 2. Institute a cap of 7 million pounds on milk for which payment is made and reduce payments under the tiered dairy stabilization program by 23%. Notwithstanding Title 7, section 3153-B, the administrator of the Maine Milk Pool may not disburse payments to a producer in February, March, April or May for milk produced in excess of 7 million pounds since June 1, 2008.

Notwithstanding Title 7, section 3153-B, for distributions made in February, March, April and May, the administrator of the Maine Milk Pool **shall reduce each payment distributed under section 3153-B by an amount equal to 23% of the payment calculated in accordance with section 3153-B.** The amounts certified by the administrator and transferred by the State Controller under Title 7, section 3153-D must reflect these reductions.

The savings from this action is estimated at \$2.61 million in FY09. Report A and Report B differ in this recommendation.

Recommendation 3. Delay payments scheduled for disbursement in June for May production until after June 30, 2009. Notwithstanding Title 7, section 3153-B, the State Controller may not transfer and the administrator of the Maine Milk Pool may not disburse payments for milk produced in May of 2009 until after June 30, 2009. Disbursements made after June 30, 2009 for milk produced in May of 2009 are not reduced by 23%. Disbursements made after June 30, 2009 for milk produced in May of 2009 include payment for milk produced in May in excess of 7 million pounds.

The savings from this action is an estimated \$1.66 million in FY09. Both Report A and B calculate payments for milk produced in May according to statutory provisions except for the delay in payment.

Report B - Total estimated reduction on demand from General Fund in FY09 = \$4.76

1-20-2009 5 members on Report B
Sen. Nutting, Rep. Pieh, Rep. Edgecomb, Rep. Percy, & Rep. Smith

Language to include in both Report A and Report B

Adjustment of percentage reductions to reflect additional support for milk producers at the federal level.

Those most familiar with the dairy industry believe that the federal government may soon increase payments under the Federal Income Loss Contract or establish another program to complement it. Increased funding at the federal level will translate to reduced payments from Maine's dairy stabilization program. We are recommending that our committee staff work with staff from the Office of Fiscal and Program Review to develop language that directs the administrator of the Maine Milk Pool to increase the payments disbursed in any of the months affected by the percentage reduction (February, March, April and May) based on the increased federal subsidy. The administrator will calculate and disburse payments using a percentage that is less than the temporary reduction percentage that we are proposing for the supplemental budget.