

**United States Department of Agriculture
Before The Secretary of Agriculture**

**In re: [Docket No. 23-J-0067; AMS-DA-23-0031]
Milk in the Northeast and Other Marketing Areas**

Hearing beginning August 23, 2023

**Testimony Presented By:
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Hello, my name is Kristine Spadgenske, and I am a dairy farmer from Menahga, MN. On our family farm we milk around 350 cows and farm 1,000 acres of corn and hay that we feed to our animals. Growing up on a dairy farm, and with my husband and I starting our own dairy in April of 1994, I have come in second to cows my whole life. Since growing up on the farm and now working on my own dairy, I have seen significant changes in the industry including consumer preferences of dairy, expenses on the dairy and in plants and the components of milk.

While my farm and family keep me plenty busy, I have a passion for being involved in the industry and promoting the goodness of dairy. My husband, Mark, and I have been farmer-owners of our milk marketing cooperative, Dairy Farmers of America (DFA) since starting the dairy in the mid-1990's. I currently serve on DFA's Central Area Council and Corporate Board of Directors. Additionally, I am very involved in the promotion arm of the dairy industry where I chair the Minnesota Division of Midwest Dairy and reside on Midwest Dairy's Corporate Board. Outside of dairy, I have been the clerk of Runeberg Township since 2005 and serve on the Todd-Wadena Electric Cooperative board.

My husband and I have four children and a daughter in law. We are thankful for the opportunity to raise our children on the farm where they have learned the meaning of hard work, perseverance, and sacrifice. Each of our children have embraced farm life and have an active interest in working on the farm and/or the agricultural community. My family is actively involved in our church, community, and school including 4-H and FFA.

In addition to our community involvement, our farm is always open to public tours. We host around 90 first graders on the dairy each spring where they can learn about how we care for our cows and the nutritious milk they produce. From serving on industry boards to hosting farm tours, it remains a top priority for me to highlight the importance of dairy and work to ensure a future for dairying for the next generation, like my children.

I appear today on behalf of DFA, in support of the proposals submitted by National Milk Producers Federation (NMPF). While a compromise, the comprehensive NMPF proposed package aims to create balance, considering the needs of both dairy farmers and processors, to ensure a healthy and stable dairy industry for years to come.

This has been a challenging year on our dairy farm. Since December 2022, the All-Milk Price has declined by more than \$5.00 per hundredweight, which is in line with the decline in my milk check so far this year. For our farm, along with many other dairy farms, costs of production have not declined to the same degree as the milk price. Dairy farmers operate on slim margins already, so when facing low milk prices and high costs, it's nearly impossible to be profitable right now.

We have faced significant inflation in our input costs since 2020. For instance, feed, fertilizer, seed, fuel, and equipment costs and repairs have doubled or tripled in cost over the last 3 years. Because of increased input costs on our dairy, we need a pay price of at least \$20.00 per hundredweight just to break even. For comparison, I ask each of you to consider cutting your income in half, but retain the same expenses, and tell me how you are going to pay for the mortgage, utilities, and groceries?

Our dairy employs 4 full-time workers. To retain responsible employees, we must compete with the increasing labor costs, as well. In total, the cows on our dairy provide an income for 6 families. The imbalance between milk price and costs makes our financial situation unsustainable for my family and the families we employ going forward. In all honesty, our farm cannot survive much more added financial pressure.

All things equal, even a small increase in make allowances can detrimentally decline farmer milk prices. I understand that make allowances are an important aspect in determining Federal Order Class Prices and from time to time there is a regulatory need to adjust them. I ask that in doing so that the USDA consider the impact on dairy farm operations' milk prices, and more importantly, the impact on dairy farm profitability. The more modest changes proposed by NMPF, which they have indicated will lower farm milk prices by about \$0.50 per hundredweight, all else equal, is a troublesome but acceptable change. The significant changes proposed by the International Dairy Foods Association and the Wisconsin Cheese Manufacturers Association would be much more detrimental to my milk price and should be rejected.

Cheese manufacturers can pass on their higher costs when they sell their cheese. I do not have the ability to do that. Milk buyers at manufacturing plants also have other means to cover their operating costs – including lowering over-order premiums and using revenue from Federal Order de-pooling. I strongly object to allowing manufacturers to double dip by continuing to have other means to cover their production costs and to take additional money out of my milk check. For this reason, a more modest make allowance adjustment approach is appropriate.

I understand that the proposal to change the skim milk component factors is based on dairy farm component test increases. In 2022, my milk tests averaged butterfat of 3.94, protein of 3.09 and other solids of 5.71. Our components have steadily increased since 2013. Factors such as genetics, good soil health, and high-quality feed have led to an increase in these levels, and I only expect them to go higher as we utilize more advanced research.

We currently utilize risk management tools on our dairy. You see, we used to be able to ride the highs and lows of the milk price, but increased costs and shrinking profit margin has made that increasingly more difficult to do. Because of this, we do forward contract feed, fuel, and milk. Our current milk forwarding contract ended in May. We are looking at options to extend coverage through 2024 while also utilizing the Dairy Revenue Protection Program. Generally, I begin covering my milk price risk during the third quarter of the year prior to producing and delivering the milk.

It is important to the success of my risk management programs that the Federal Orders do not change the formulas for transactions I enter well before the knowledge of the change and the timing of its implementation. Ideally, I would like an 18-month delay. That said, I recognize the broader needs of the dairy industry and support an earlier implementation, this time, for the changes to the make allowances, Class I Mover, and the protein price formula. However, the component change and any future changes to the skim milk component factors should be delayed 12 months or more. Additionally, any future changes to the make allowances should be delayed 12 months or more.

I close by repeating my support for the NMPF proposals including to change the Class I mover, eliminate barrel prices from the Class III protein price formula and updating of the Class I differential and producer price surface. Others from DFA will be speaking more directly to these three issues.

Spadgenske Dairy is not just a business, it is our livelihood. It is where we live and raise our children. It's who we are. Thank you for allowing me to testify today on these issues that are very important to my family and the future success of our dairy business.