Introduction

History of UDA – Here's who we are, what we do, where we are:

Good Morning, my name is Brent Butcher, I am the Director of Fluid Sales for United Dairymen of Arizona. Founded on January 1st, 1960, United Dairymen of Arizona (UDA) is a Capper-Volstead cooperative association, is qualified to market milk on Federal Milk Market Orders, is a member of NMPF, and supports the Class I pricing differential adjustment. In 1960, UDA consisted of 390 COOP members. Today, our membership consists of only 36 members. Dairy farming in Arizona presents a unique set of challenges that make it a formidable and costly endeavor. The most glaring obstacle is the arid desert climate that dominates the region, resulting in scorching temperatures and water scarcity. These conditions pose a significant challenge to dairy farmers who require abundant water resources to sustain operations. Arizona is facing a severe and prolonged drought that poses serious concerns about water scarcity and long-term water management strategies to address the crisis. These inhospitable elements test the resilience of the animals, farmers, and the critical staff required to operate each dairy. Yet, despite these hurdles, we persist, producing a modest but crucial supply of wholesome and high-quality milk. To understand the complexities and difficulties of dairy farming in Arizona is to appreciate the unwavering determination required to sustain this vital agricultural sector in the face of adversity. UDA's production output remains relatively nominal, with a mere 12 million pounds of milk generated daily to meet the demand of our customers and consumers. To put this into perspective, new dairy processing plants have the capacity to single-handedly process volumes that rival Arizona's entire daily production. UDA is also one of the oldest dairy COOPS in North America and one of a few that still provide full service to our members. Our manufacturing plant, located in Tempe, AZ, balances milk for our Class I bottlers and produces a variety of products like dairy powders, cheeses, butter, powder blends, proteins, and concentrated and condensed dairy products. The Grand Canyon State has seen significant changes over the past two decades. Most notably, Arizona has seen tremendous population growth. Since 2000, Arizona's population has skyrocketed from 5.16 million people to over 7.35 million– a 42% increase! The Metro Phoenix area has seen similar growth and urban expansion creating transportation issues in delivering milk to bottlers. Currently, Phoenix is the tenth largest city in the US. We bear the burdens of these changes. Our land is becoming more expensive, our roads more congested, and competition for resources like water, energy, and labor has become tangible, every-day obstacles. All of the structural changes and competition for resources has had a clear impact: above average increased costs across the board.

UDA Background:

UDA was a participant on the NMPF task force that addressed the Class 1 pricing surface. We participated in the discussions of the Western region group and specifically focused on the FMMO 131 marketing area. The objectives of UDA are consistent with the NMPF proposal. UDA's objectives are: 1) Follow the guidance provided by USDSS model and make adjustments where local conditions warrant a change; 2) Maintain the current pricing relations among competing handlers both within the market and with the surrounding states; 3) Establish a smooth transition of Class 1 pricing from surrounding areas to maintain a consistent "slope" of price changes. We believe the NMPF proposal meets our objectives and should be adopted by USDA.

Proposal:

COUNTY	CURRENT	MODEL	PROPOSED	PERCENTAGE
Apache	$1.90	$2.35	$2.80	
Cochise	$2.10	$2.45	$2.80	
Coconino	$1.90	$2.50	$2.80	
Gila	$2.10	$2.45	$2.80	
Graham	$2.10	$2.45	$2.80	
Greenlee	$2.10	$2.45	$2.80	
La Paz	$2.10	$2.30	$2.90	
Maricopa	$2.35	$2.40	$3.00	27.6%
Mohave	$1.90	$2.65	$2.90	
Navajo	$1.90	$2.40	$2.80	
Pima	$2.35	$2.35	$3.00	
Pinal	$2.35	$2.45	$3.00	
Santa Cruz	$2.10	$2.45	$2.80	
Yavapai	$1.90	$2.50	$2.80	
Yuma	$2.10	$2.15	$2.90	38.0%

There are only two counties in Order 131 marketing area that have pool plants. The majority are in Maricopa County, Arizona, with two distributing plants located in Yuma Arizona. The remaining counties in Arizona have no dairy plants. The proposed increase in the Class 1 Differential from the current rate in Maricopa County is 27.6%. The proposed increase in the Class 1 Differential from the current rate in Yuma County is 38%. And the evidence will show that the current cost to service the Class 1 market has increased more than these percentages.

Other witnesses have discussed the USDSS model and its functionality. UDA intends to highlight areas of local deviations that would require an adjustment to the model results to more accurately reflect the economic conditions in FMMO 131. These areas are as follows:

Weather & Climate:

We live in an arid climate - that is our reality out in the desert. And yes, we have had this climate for as long as UDA has been in existence. Lately however, we have been experiencing record heat amid decade long drought conditions. With these hot, dry conditions come more challenges and different priorities than other parts of the country, including how we utilize water, every single day. We have embraced a conservation culture and understand the importance of living a water-efficient life. The Colorado River Basin has been in a prolonged drought. We are experiencing the driest conditions in the basin in more than 100 years – and these conditions are expected to continue well into the future.

The resulting reduced river flows are further stressing the over-allocated Colorado River. The U.S. Secretary of the Interior bases a shortage declaration on the elevation of Lake Mead, which is dependent upon releases from Lake Powell. In fact, both Lake Powell and Lake Mead are approaching critical elevations and will require unprecedented management actions to protect infrastructure in the Lower Colorado River Basins.

A shortage on the Colorado River means a reduction in the supply available to Lower Colorado River water users. This also means UDA pays more for water than it had in the year 2000 and more than almost any other state. These increase water costs also impact our dairymen and their ability to produce milk to service the market. As the impacts of drought persist, there will be additional reductions, almost certainly beyond the currently defined shortage levels. Those reductions are likely to make an impact on UDA's ability to meet projected future milk demand.

Transportation:

First, some background on UDA and the process of servicing our customers. The majority of UDA's customers, and UDA's own plant, are located in western Maricopa County. The vast majority of UDA's members are located in Maricopa County and the collar counties surrounding the Metro Phoenix area. Milk that is produced in the Eastern part of the Phoenix Valley must travel farther

to our customers as well as to UDA's plant. The distance UDA's milk needs to move from farm to customer to service the market is relatively low with most farms transportation distance within 150 miles of its manufacturing destination. But, with urban sprawl and population growth the amount of time it takes to deliver the milk has been steadily increasing.

UDA uses what are commonly called super tankers for about 60 – 70% of its milk deliveries. We have 35 super tankers which hold 76-78 thousand pounds of milk. Super tankers have 4 axles with larger tires to absorb the extra weight. UDA also has 50 regular tankers that hold 48 – 49 thousand pounds of milk. These super tankers cost more than conventional tankers and maintenance costs can also be greater.

In accordance with our commitment to sustainability initiatives, UDA will continue to expand its fleet, with a dedication to continue purchasing more super tankers which reduce overall environmental impacts. Since 2018, the cost of a super tanker has increased by approximately 35%. Truck drivers need to have heavy haul permits to transport super tankers. On average, a super tanker can weigh as much as 40,000 to 44,000 lbs. more than a conventional tanker. The ongoing I-10 construction west of the Phoenix Metro has caused wait times and increased drive time from the dairies. Due to population growth around the Phoenix metro area we have seen drive times continually exceed 30 minutes from 2017 drive times. During rush hour traffic, we can see drive time increased by 1 hour or more depending on road conditions. It normally takes our drivers about 2.25-3.25 hours to get unloaded and washed at the receiving plant.

However, there are times that we experience delays at some of our customers due to plant construction projects, labor constraints and labor licensing restrictions, lab equipment and system failures among a host of other extraneous factors. Plant construction projects are more and more common as they expand to meet new population demand. These construction delays can add an additional 1-4 hours to get unloaded. With UDA's own trucks this wait time is lost productivity. And time is money. With some of our contract haulers, we incur demurrage charges. These demurrage charges have increased by over 60%. When these delays happen, the drivers are forced to wait until they can be unloaded.

Something especially unique to Arizona is monsoon season. Monsoon season typically starts in June and ends in September. This unique season brings higher humidity, which can lead to thunderstorms, heavy rain, hail, sandstorms, high winds, and increased ponding on roadways. Monsoon season is problematic for our supply chain as road conditions deteriorate and can cause incidents. Also, the hotter weather conditions in the Phoenix Metro Area cause our drive, steer, and trailer tires to crack and break when we see excessive, continued heat conditions. These damages and repairs are costly, and the heat we have seen this summer has been extreme.

Fuel & other costs in Arizona

Since 2000, with an accentuation post Covid-19 effect, we have seen a steady increase in all the peripheral costs of servicing our customers. Going back to 2017, costs like insurance, repairs and maintenance, special permitting, demurrage, wages etc., have increased 38%. Fuel costs are in addition to these cost increases. Statistics from U.S. Energy Information Administration show that diesel fuel costs have risen by 150% over the last 2 decades in the western part of the United States. Since 2017, fuel costs have increased by 80%**.** Due to increased time in delivering milk to our customers, overall fuel usage is up, increasing our costs.

Changes to the Economics of producing Grade A milk

Dr. Erba from DFA provided testimony earlier in the hearing about the current higher costs to produce Grade A milk in the Mideast. UDA would like to add to that testimony with the costs factors we have experienced in Arizona.

The additional requirements created by the FARM program add costs to produce Grade A milk. Overhead to meet the program guidelines, and the management of such compliance, results in additional costs for our Arizona producers.

Even just to meet the requirements of the PMO, many costs have increased. Construction cost for housing of laborers both internally and externally to keep the farm operational have increased. Construction costs for the cow facility and calf barns have increased. The milking parlor design and automation equipment has increased. The on-farm milk storage area has become the equivalent to what manufacturing plants invest in storage capacity. Multiple milk silos with capacity to hold 36-48 hours of milk production is commonplace. The constant cleaning and upkeep of equipment has resulted in the increased use of chemicals and repair charges.

The availability of water, as previously noted, has a profound impact on Arizona dairy operation. Surface water for agricultural use has been restricted or, in some instances, cut off entirely. Wells are in use, but the cost of rehabbing them for an adequate supply of water (deeper or relocating wells) has increased. Due to water availability issues, farms can no longer depend on growing their own feed to supplement their needs. Purchased feed is increasingly the dependent option, and Arizona farmers are facing stiff competition and increased prices to locate feedstuffs. Arizona feed mainly comes from the Midwest. All aspects of transportation costs to deliver feed (rail and truck) have increased. And the dynamics of locating feed has changed with the vast amount of feed being exported. Now, Arizona dairymen are juggling many commodity feed and byproducts to produce a suitable ration, and at most times, not at the best nutritional value.

The cost of farmland in Arizona is now ranging around $30,000 – 40,000 per acre. The ability to expand a production facility or build a new one in Arizona has become increasingly difficult**.** New farms, if anyone is willing, are now locating to more remote areas.

On-farm utility usage and, therefore, utility costs, have also increased. Larger milk pumps are needed to move the milk tonnage through the lines into storage areas. Larger inline chillers are needed to keep milk colder and meet the increasing demand of bottlers for milk. The temperature of milk leaving UDA's farms today is targeted to be 35 degrees. Milk trucks are needing to be flushed out for cooling before loading. Cow comfort costs have increased. Misters, fans, and constructed shaded areas are an absolute necessity.

Dairy farming is considered a capital-intensive business as compared to the full spectrum of businesses in the United States. The consolidation of the banking industry, and increases in inflation, have created a difficult environment for dairymen to acquire credit. New investments in current operations, or new farms starting out, are on the decline.

These costs identified above more than exceed the $2.25 cost that Dr. Erba identified. In order to maintain a Grade A milk supply to service the fluid market in Arizona, Class 1 prices need to increase to the dairymen.

Indexed Information:

The tables below highlight the population and annual percentage change, diesel price change, long-term drought via the Standardized Precipitation Evapotranspiration Index.

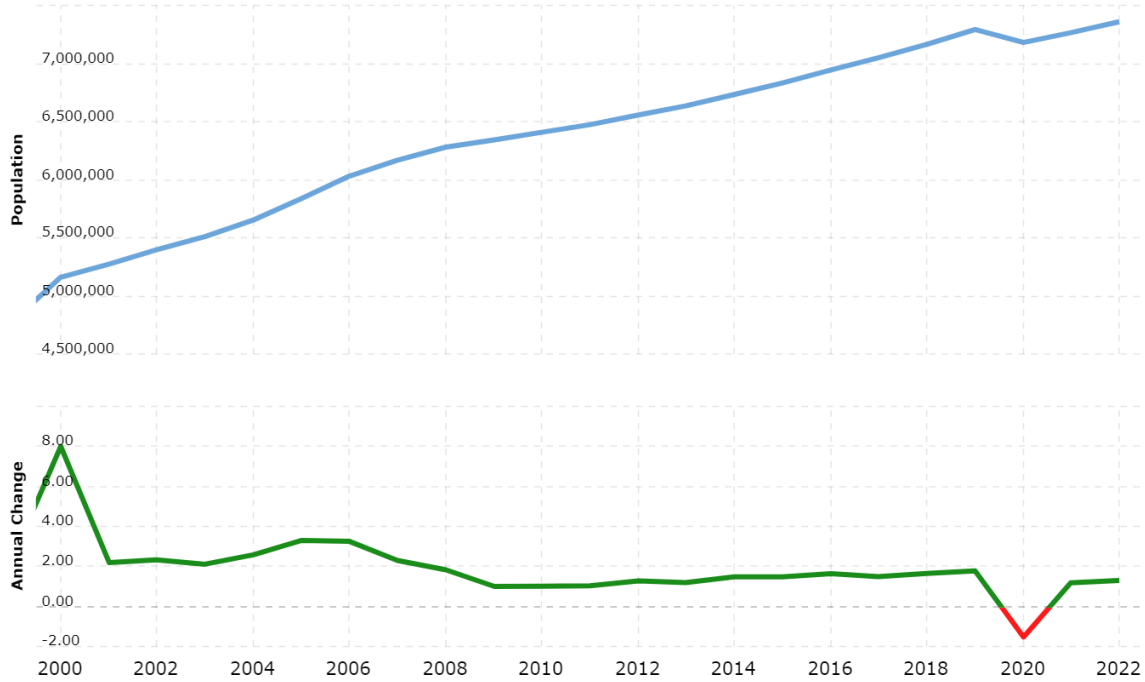

Figure 1. Arizona Population, 2000-2022

2000: 5.16MM people

2022: 7.35MM people

42% population growth in the past 20 years.

Source: US Census Bureau

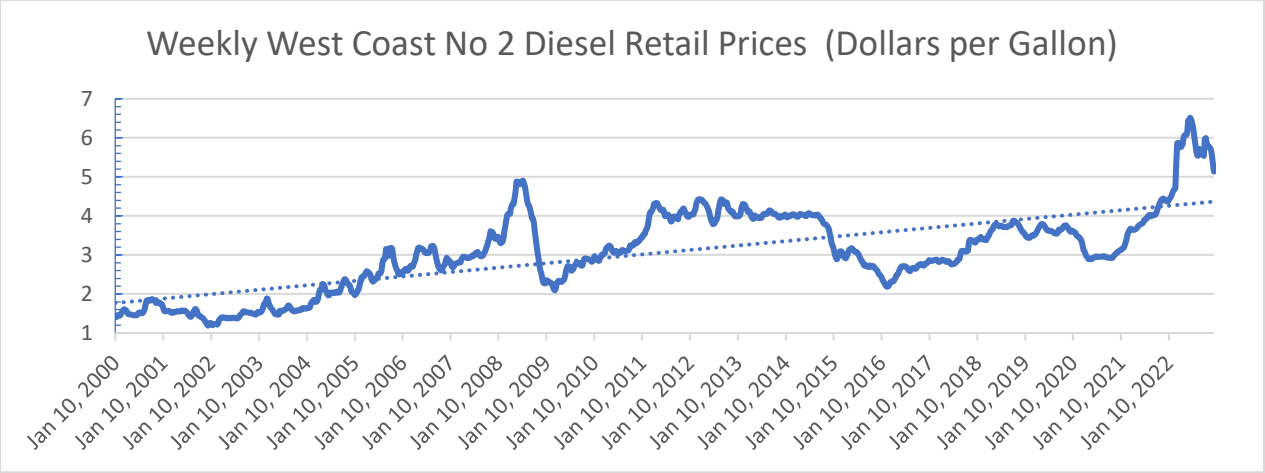

Figure 2. Weekly West Coast No. 2 Diesel Retail Price, 2000-2023

150% increase in Diesel cost in the past 20 years

Source: U.S. Energy Information Administration, Gasoline and Diesel Fuel Update

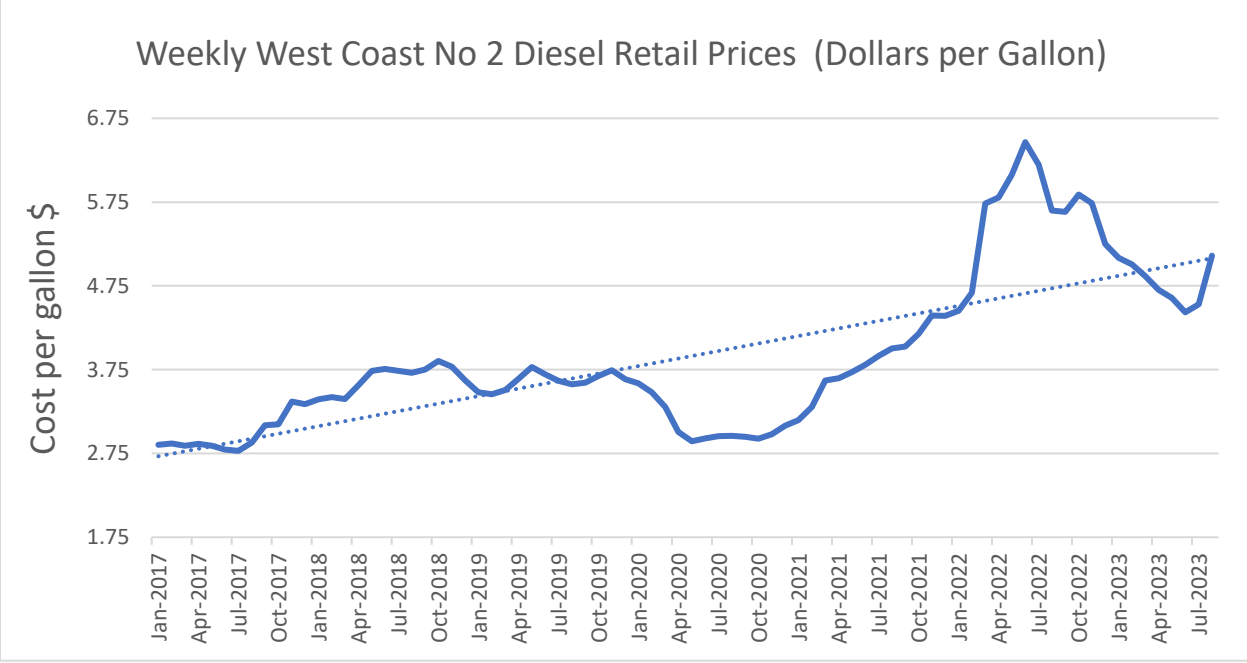

Figure 3. Weekly West Coast No. 2 Diesel Retail Price, 2017-2023

80% increase in diesel cost in the past 6 years

Source: U.S. Energy Information Administration, Gasoline and Diesel Fuel Update

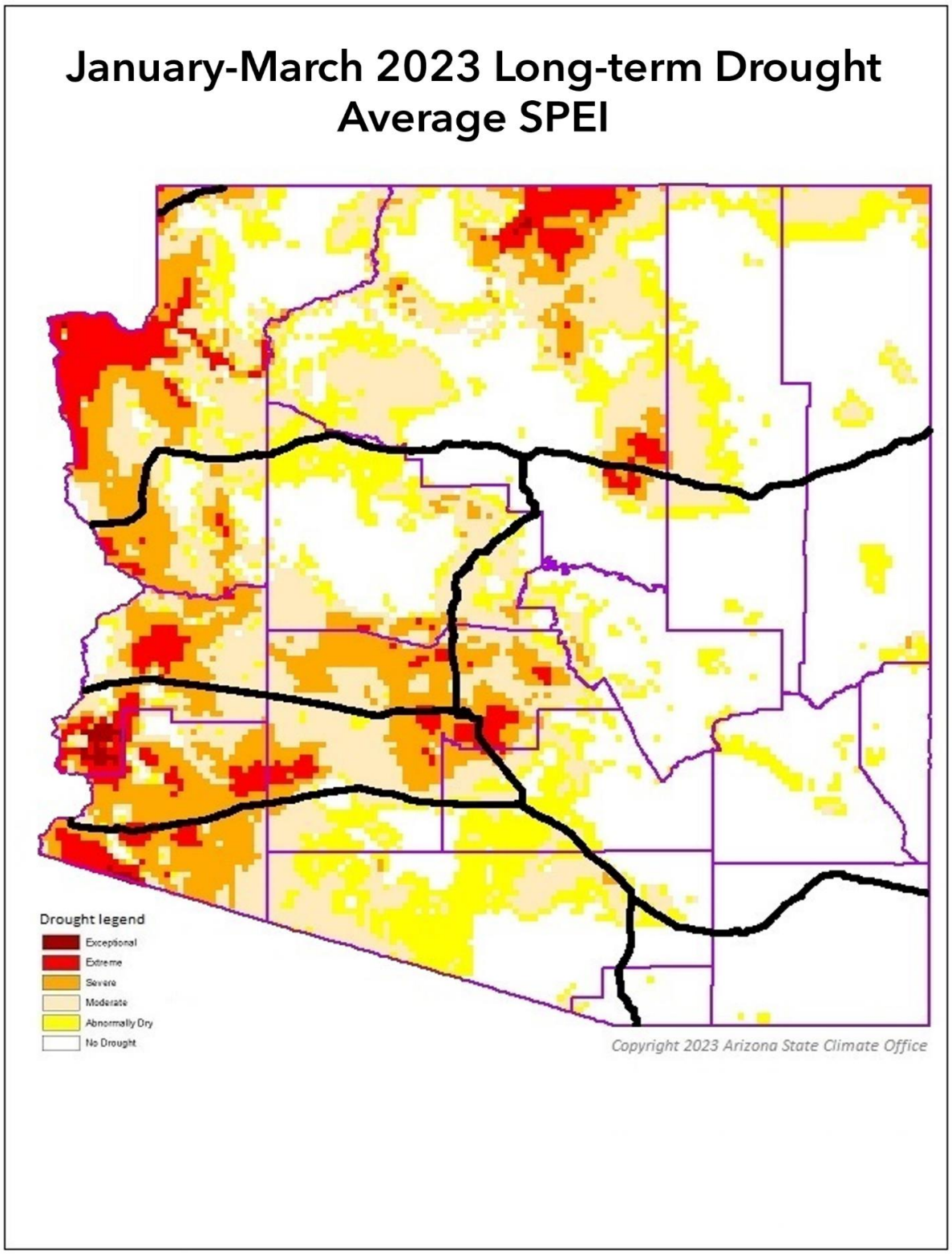

Figure 4. January-March 2023 Long-term Drought Average

Source: Arizona Department of Water Resources

Conclusion:

UDA implores the USDA to adopt each of the NMPF proposals, with an emphasis on the Class 1 pricing differential adjustment currently under discussion.

The need to affect higher prices on behalf of Arizona dairymen is essential to combat the onslaught of increased production costs in one of the fastest growing population states in America. The adoption of this proposal holds immense potential to address critical challenges. It is a move that not only benefits our hardworking dairy farmers but also supports the economic stability of our communities and ensures a reliable supply of high-quality wholesome milk for consumers at an affordable price. If Arizona cannot supply its own population the transportation costs from other states to do so, will be borne by the local customer. Further, the proposal aligns with the evolving needs of the dairy industry. A reduction in farmer income will assuredly put more dairy farms out of business – a preventable outcome *if* this common-sense reform is adopted by the USDA.

In closing, I want to thank the USDA for holding this hearing, for allowing me to testify on the issues that are so integral to sustaining Arizona's milk supply, and for carefully considering the adoption of each NMPF proposal. I look forward to your questions.