

Maine Dairy Task Force Recommendations

11.6.24 DRAFT for Public Comment

Maine's dairy sector is a cornerstone of the state's agricultural economy and infrastructure. In 2022, Maine dairy cattle and milk production accounted for \$146.8 million in direct sales and had a statewide economic impact of \$230 million.¹ Maine's dairy sector directly or indirectly supports 14,600 jobs and provides over \$835 million in total wages. The sector's state tax contribution is \$155 million.²

Maine's dairy farms provide a wide range of essential public goods. The dairy products produced are key components of Maine's local food system and offer broad nutritional benefits to consumers in Maine and beyond in the form of protein, calcium, potassium, Vitamins A, D, and B₁₂, and micronutrients, including zinc and selenium. Maine dairy farms sustainably steward significant farmland and forest acreage that provides important wildlife habitat, stores significant carbon which offsets greenhouse gas emissions, preserves Maine's iconic landscapes, and offers recreational opportunities for the public to enjoy.

Bright spots in Maine's dairy industry exist: automation and robotics are lowering labor costs for farms that can make that investment. The number of artisan cheese makers is expanding rapidly, with products that are gaining regional, national, and international acclaim; this is providing a small but growing new revenue stream for some dairies. Maine consumers are also enthusiastic consumers of the yogurt, butter, ice cream, and more that some farms produce. Beyond milk products, most dairy farms have now diversified so that they are also beef producers. Maine consumers have shown deep loyalty to Maine dairy farms, and this loyalty has carried over to the beef these farms produce.

Yet the combined data of the most recent Ag Census and the 2023 Dairy Industry Cost of Production Study paint a discouraging picture. Milk production costs are high, and federally-determined milk prices are low. Certain markets are shrinking as Americans drink less fluid milk. Maine dairy farms continue to go out of business, and we risk reaching a tipping point where the amount of milk produced falls below what can sustain an industry.

This is concerning not only for Maine's dairy industry but for Maine agriculture as a whole. The dairy sector anchors an agricultural ecosystem upon which most other farms rely. Maine farms, 89% of which produce less than \$100,000 of products annually, likely could not sustain the essential network of agriculture-dependent businesses and service providers without their dairy farming neighbors. Collectively, these businesses are large employers in their rural communities and include milk processors, feed producers, farm equipment dealers and repair shops, large animal veterinarians, fuel and energy suppliers, financial service providers, insurance providers, and more. These businesses have a very direct stake in the success of Maine's dairy industry and in the health of Maine's agricultural sector.

¹ Farm Credit East 2024 Northeast Economic Engine Report (based on 2022 data).

² International Dairy Foods Association, Maine Statistics.

The Dairy Task Force spent much of its time considering the underlying conditions negatively impacting Maine's dairy industry, including market instability, inflation, processing constraints, supply chain disruptions, labor shortages, and more. Together, these conditions have caused a 30-year contraction of Maine's dairy sector from 602 farms in 1994 to 140 today.

In response, the Task Force evaluated innovative dairy technical assistance and funding programs that have been implemented across the Northeast to consider their potential applicability to Maine's dairy sector. It fully considered the recommendations from five prior dairy task forces convened in Maine between 2003 and 2013. It also reviewed legislative actions implemented or proposed over the past decade. **In the end, its most important conclusion is that Maine's Dairy Tier Program works.**

Support for the Tier Program has been the cornerstone of every previous Task Force report, and it is of this report too. The other recommendations that follow will work to strengthen the state's dairy sector **but are wholly dependent on a fully functional and effective Tier Program** to act as a critical safety net.

1. Fully Fund the Tier Program

Maine's Dairy Tier Program is recognized nationally as being among the most innovative approaches to ensuring the future of a state's dairy sector and, by extension, its agricultural economy. Established by the Legislature in 2004, the Tier Program is a rural economic development tool that ties supplemental milk payments to the short-run break-even cost of production rather than relying exclusively on federal milk pricing. In doing so, Maine exercises a vital degree of control and predictability over milk payments, thereby safeguarding the future of dairy farming and, by extension, Maine's rural communities and economy.

Instability in the dairy industry is due to many complex factors, the greatest being that federal milk pricing is highly volatile and is not tied to the actual cost of producing milk. In the past decade, the federally established price of milk has ranged from a high of \$27.72 to a low of \$13.47/hundredweight, with month-to-month price fluctuations of as much as 19%. Over this time, the actual short-run break-even cost of milk production in Maine has climbed steadily from \$17.66/cwt in 2005 to \$28.49/cwt in 2022.

Maine's Tier Program, when fully funded, effectively stabilizes milk payments by ensuring dairy farmers receive payments equal to the short-run break-even cost of production, enabling farmers to manage their debt structure and plan for the future. As Chen et al. note, "the tier program reduces the number of farms that exit and allows farms to remain in business longer."³

The Tier Program has proven to be a crucial economic development tool that invests directly in Maine's rural communities, helping sustain and grow the state's local food system and safeguard

³ Chen, Xuan, Dylan Bouchard, and Gary Anderson. 2018. "Is the Dairy Relief Program Really Working? Evaluating Maine's Tier Payment Program Using a Simulation Approach" *Sustainability* 10, no. 10: 3514.

its rural character. In doing so, the Tier Program also plays a key role in sustaining Maine’s tourism economy, which depends heavily on the state’s iconic agricultural landscape.

Farm Credit East, a farm lending institution that “works with and finances farm-related businesses like equipment dealers, service providers, agronomists, feed companies, farm landlords and other farmers” across the northeast, notes that “all [are] able to provide better products and service because of the volume of dairy farms large and small, that still operate in Maine” as a result of the Tier Program.⁴

In recognition of the central role that Maine’s dairy sector plays in these many aspects of Maine’s economy, the Dairy Task Force’s most important and foundational recommendation is to fully fund the Tier Program to the short-run break-even cost of production as was intended when the Program was established and is essential to achieving the fundamental goal of the Tier Program. This mechanism adds price and income stability and predictability that dairy farmers need to remain in business. When fully funded, this Program goes well beyond safeguarding the future of Maine’s dairy sector by investing in Maine’s rural businesses and communities and safeguarding valuable land resources important to Maine’s climate mitigation strategy and tourism economy.

2. Increase Baseline Funding Predictability for the Tier Program

State biennial budget forecasting protocols require that the Maine Milk Commission provide a 3-5-year cost projection for the Tier Program. While actual Program costs should equal the difference between the federal milk price and the short-run break-even cost of production, predicting this cost with a reliable degree of accuracy is impossible so far in advance, given that Maine has no control over federal milk pricing. Past Program expenditures have proven to be a consistently unreliable method for estimating future needs. In the past ten years, annual estimates compared to actuals have varied by as much as \$7 million in either direction.

Legislative discussions that take place during the review of a new cost of production study have focused on potential budget implications caused by the volatility and lack of predictability of milk prices that determine the cost of the Program.

The Tier Program functions as originally intended only when the funding levels fully cover the gap between the federal milk price and the Maine cost of production. However, when the annual appropriations process has imposed caps or otherwise constrained the allocation of funds to the Tier Program, or when support levels have been set below the short-run break-even production cost, this has added uncertainty and volatility *back* into a process specifically designed to eliminate them.

⁴ Stechschulte, Keith, Ethan Robertson. 2022. Testimony to Agriculture, Conservation and Forestry Committee.

To address this issue, the Task Force recommends establishing a non-lapsing, dedicated annual baseline funding allocation for the Tier Program of a minimum of \$7,500,000⁵ to address this challenge in part. This would greatly reduce the current month-to-month uncertainty regarding the amount of funds needing to be transferred. It would provide the legislature with a greater degree of predictability during its appropriations process while at the same time providing dairy farmers with greater certainty that milk payments will cover costs. Establishing a dedicated account and baseline funding that can be carried over to subsequent fiscal years during years when less funding is needed would also buffer against future volatility in the federal milk price, again creating greater predictability for the legislature. This approach would not eliminate budgeting uncertainty entirely, but it would require consideration of a smaller supplemental allocation to the program during those years when the federal milk price drops significantly below the cost of production.

3. Develop an Additional Funding Source for the Tier Program

The Tier Program's success hinges on consistent and reliable funding that fully covers the gap between the federal milk price and actual production costs. Currently, funding for Tier Program payments is first derived from a 0.5% assessment on the slots revenue generated at the Oxford Casino, and any additional funds needed are then drawn from the state's General Fund. Casino revenues total approximately \$450,000/year, while annual draws on the General Fund over the past two decades have varied widely from \$0 to over \$20 million.

The Dairy Task Force analyzed several new funding scenarios that could potentially reduce reliance on General Fund appropriations. Potential sources of revenue directly related to the dairy industry are very limited, and some, like the Milk Handling Fee, cannot legally be dedicated to benefit the Program. The Task Force concluded that the following options were the most viable alternatives to consider: 1) dedicating \$xx⁶ Million in additional gambling revenue to the Tier Program either from the Oxford Casino or a different gambling venue; 2) increasing the tax on adult use marijuana from the current 10% to 13.5% and dedicating this new revenue to the Program, or 3) adding \$0.05/pack to the tobacco tax and dedicating this revenue to the Program.

The following is the rationale for considering these alternatives:

- Since 2010, when the bond proposal establishing Oxford Casino as a Tier Program funding source was approved, gambling opportunities in Maine have dramatically expanded. Today, Maine operates a state lottery, allows participation in regional and national lotteries, allows Bingo and games of chance events, allows betting at in-state horse racetracks and off-track betting facilities, allows the operation of cash-payout slot machines and casino table games, and most recently authorized sports betting at locations in-state and through online platforms. Simply put, there is a substantially large revenue

⁵ This figure is still under evaluation.

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pool today. While of all the gambling enterprises in Maine, the Oxford Casino is the only financial cascade that includes the dairy industry as a beneficiary, there may be opportunities to redirect some of these funding streams, both as an effort to update legislative priorities and to equalize the contribution levels each gambling enterprise makes to the state. Dedicating a larger sum of gambling revenue to the Tier Program would be consistent with the Program's current funding sources.

- Maine currently places a 10% tax on adult use marijuana. According to the [Tax Foundation](#), among the 21 states that levied retail sales taxes on recreational marijuana in 2024, tax rates ranged from 6 to 37%, with an average rate of 13%. Seven of these states tax marijuana at 15% or higher, and only four tax at a lower rate than Maine, with two of those states allowing municipalities to levy additional taxes. These data point to the potential to tax marijuana at a higher rate in Maine. Marijuana is also a growing market in Maine, which suggests a reliable potential source of new funding for the Tier Program.
- Maine currently places a \$2.00/pack tax on tobacco, resulting in \$145 million in revenue in 2023. Given the size of this industry, an incidental \$0.05/pack additional tax would generate \$7.25 million annually. This, too, would serve as a reliable potential source of new funding for the Program.

4. Increase Dairy Technical Service Capacity and Outcomes

The Dairy Task Force recognizes that Maine's dairy sector has a significant need for on-farm technical support. Technical service needs include dairy-specific expertise in dairy and value-added processing, infrastructure improvements and modernization, business/financial planning, grant writing, and succession/transition planning. The Task Force recommends expanding on-farm technical service capacity via the following approaches: 1) by providing additional funding to DACF to expand and engage more dairy farms in the Farms for the Future (FFF) Program (a program that offers tailored one-on-one technical support to existing and new farms, including dairy operations, and pairs this technical assistance with infrastructure grant funding) and increasing the current cap on FFF Phase 2 investment support cash grants; 2) by providing additional funding for Agricultural Marketing Loan Fund (AMLF) and Dairy Improvement Fund (DIF) to be able to provide loans to more applicants annually and to increase the loan caps on both programs (AMLF and DIF do not fund technical support directly but they enable farms to capitalize on prior technical support through actualization of their business plans); 3) by supporting increased technical service capacity UMCE by increasing the number of dairy specialists; and in the near term 4) by securing contractual technical service capacity through agreements with identified regional partners, such as Cornell University, the University of Vermont, or the University of New Hampshire.

5. Support Expansion of On-Farm and Stand-Alone Dairy Processing Capacity

Dairy processing capacity in Maine is limited to two large-scale fluid bottling plants, several medium-scale regional processors, and a range of small value-added on-farm processing

facilities. These processors all play a vitally important role in their regions and especially for the farms they serve. However, they are currently insufficient to process the amount of milk produced in Maine or provide the full range of dairy products desired by Maine consumers.

Shipping Maine milk out of state to be processed adds significant costs to Maine dairy farms. It eliminates revenue-generating opportunities that could be realized if a far greater percentage of Maine milk remained in the state to be processed and sold locally. For example, organic producers account for over one-third of Maine's dairy farms; due to issues of scale, these farms currently have no viable in-state processing option for their organic fluid milk.

Maine dairy farmers have historically experienced significant instability regarding the processing of their milk. Nationally, the past 30 years have seen dramatic consolidations among dairy processors that have resulted in smaller processors going out of business. This is true for Maine, where dozens of local bottlers and processors have either gone out of business or been purchased or absorbed by other processors, often leaving dairy producers little time to find an alternative processor.

A predictable market for milk is essential to ensure a viable future for Maine dairy farms. In recognition of this, the Dairy Task Force supports mechanisms that a) expand on-farm dairy processing capacity, b) help retain existing in-state off-farm processing capacity, and c) create new off-farm processing capacity.

- a. There are 20 small farms in Maine that are engaged in on-farm dairy processing. Some of these facilities may be positioned to expand to process more Maine milk. These successful businesses have a track record of producing and marketing high-quality dairy products and are, therefore, a low-risk investment opportunity. They merit support via a public funding instrument that invests in on-farm processing facility expansion to grow in-state dairy processing capacity. Public investment in on-farm processing decreases the risk profile both for farmers who depend on a guaranteed market for their product and for processing facility owners who require a guaranteed milk supply to justify their investment. The Dairy Improvement Fund could serve this function with modifications that would allow the fund to provide funding that supports processors receiving milk from other farms. The Agriculture, Food and Forest Products Infrastructure Investment Fund is another vehicle that could support this.
- b. Two large-scale commercial dairy processors in southern Maine and several medium-scale processors across the state process milk exclusively from Maine dairy farms. For example, Dairy Farmers of America (DFA), which operates in Maine under the Oakhurst brand, and H.P. Hood's Portland plant provide a stable local market for 2/3rds of Maine's dairy farms. It is critical that these large and medium-scale processors remain in business and that they continue to provide an outlet for Maine dairy farms. The Task Force supports public investment in the form of tax incentives, low-interest capital, or other financial tools for expansion or infrastructure improvements by these processors. These tools should also be available to processors who are headquartered out of state if investments are utilized in-state and for the direct benefit of Maine dairy farmers.

- c. The Task Force also strongly supports new in-state processing capacity. In particular, it supports the development of a mid-sized Maine-based processing facility with the flexibility to process fluid milk and create different value-added processed dairy products (organic and non-organic) depending on market demand. A facility with an alternative ownership model, such as a non-profit, would complement the remaining for-profit processing facilities in Maine and have the potential to increase farm profit margins. A nonprofit status would enable it to leverage public and philanthropic funding that is otherwise not accessible.

In much the same way that fully funding the Tier Program will create milk pricing stability, expanded in-state processing capacity through the above avenues will create market stability.

6. Conduct a Dairy Sector Economic Impact Study

As noted earlier, dairy farms are an integral part of Maine's rural communities, producing very tangible economic benefits for those communities and the broader regions in which they are located. Beyond their role as direct employers, Maine's dairy farms are vital for the survival of many other rural businesses. It is important to understand the interconnectedness between a stable dairy sector and the health of the state's rural economies. An economic impact study of Maine's dairy sector is long overdue and would provide a clear picture of the sector's economic value. The Task Force recommends supporting the preparation of a new economic impact study to more accurately quantify the direct and indirect value of the dairy sector to Maine's overall economy.

7. Improve Cost of Production Study Data Collection and Participation

Maine's Tier Program is tied directly to the results of a triennial study that establishes the short-run break-even cost of dairy production of four farm-size categories or "tiers." The Dairy Task Force recognizes that data collection methodology and farmer participation rates both strongly influence the quality of this analysis. The Task Force recommends that as part of the next cost of production study, data collection methodology be reviewed to identify approaches that will result in greater and more consistent farmer participation and ensure robust and accurate data collection. Funding support is necessary to complete this important work.

8. Address Interstate Dairy Product Sales Barriers

Maine dairy farms that produce their own value-added dairy products face real market constraints caused by unclear or burdensome interstate commerce regulations, particularly with regard to packaging and Grade A milk products. The Task Force is confident these hurdles can be overcome through advocacy, limited technical assistance, and clear guidance coordinated by a qualified regional entity. The Task Force recommends working with other northeast member states (NY, VT, NH, MA, CT, RI, and NJ) to secure leadership by the Northeast Dairy Foods

Association to address the problem of interstate sales constraints faced by dairy farmers across the northeast. This will result in greater opportunities for Maine producers to sell their products out of state.

9. Resource Hub

Technical assistance and funding opportunities relevant to the dairy sector originate from a wide array of entities, including federal and state programs, regional initiatives, community-based tax incentives, and more. The Task Force received farmer feedback indicating that staying current on the many programs that exist and determining which opportunities would be best suited to their particular operation and set of circumstances are significant barriers. Technical service providers experience these same challenges, impeding their ability to provide the best possible support to dairy farmers.

In order to improve access to existing local, regional and national resources for dairy farmers and technical service providers, the Task Force recommends supporting the creation and ongoing upkeep of a centralized interactive resource containing information on programs of benefit to dairy farmers. Information would include a list of technical service providers searchable by their areas of expertise, funding and technical assistance opportunities, applicable tax rebates, mental health support, succession planning support, and other relevant resources. With funding to support necessary staff time and associated costs, this resource could be housed within one of several institutions, including UMCE, DACF, or the Maine Farmer Resource Network. A central resource will provide a singular resource for dairy farmers to assess the applicability of various programs to their particular needs.

10. Farmer Learning Networks

Dairy farmers often learn best from the approaches and successes of their fellow farmers, be it about herd management, feed production, marketing approaches, dairy processing innovation, business planning, or countless other topics. Yet structured opportunities for farmer-to-farmer information exchange are limited. Maine dairy farmers would benefit from more intentional opportunities to interact and share learning with one another. The Task Force supports the establishment of regional farmer-to-farmer learning networks that would include coordination to organize gatherings. The Maine Dairy Industry Association (MDIA) is well-positioned to serve in this capacity with modest resources to provide coordination support and underwrite farmers providing mentorship to others.

11. Support Farm Transfers

The average dairy farmer age in Maine is 54 years old, and even after accounting for farmers working well past the standard retirement age, this fact suggests that significant acreage will transition to new ownership over the next decade. If this land is to remain in agricultural

production, both technical and financial support is needed to design and finance farm transfers. Traditional financing has not proven to be the most effective way to accomplish this.

The Dairy Task Force recommends that the eligibility criteria for the Agricultural Marketing Loan Fund be expanded to enable new farmers to access this funding. The Task Force also recommends that new funding be earmarked for low-interest loans, match funds, and/or loan guarantees to allow dairy farms to pass from one generation to another or to a new producer under conditions that provide retirement security for the farmer and sustainable payment terms for the buyer.

12. Expand Dairy Feed Availability

The ability of dairy farmers to access affordable grain is a growing challenge. The number of grain suppliers is decreasing, and the lack of grain supplier competition has a direct impact on grain pricing. For example, currently, all Maine organic dairy farmers are dependent on one grain supplier based in Vermont. While these farmers are not currently in jeopardy of losing this supplier, there is concern that if Maine were to lose a critical mass of organic farms, it would no longer be viable for the grain supplier to service Maine, leaving remaining organic dairy farms without a source of feed. Organic dairy farmers have been struggling with high grain costs for years. This has led many farms to cut back on the amount of grain fed to their herds, resulting in reduced milk production and income and a downward financial sustainability. Supporting other sourcing of grain or creative storage and bulk buying options, particularly organic grain, are potential ways to address this problem.

13. Endorse a Dairy Bond

To support the many proposed recommendations other than Tier Program funding, the Dairy Task Force recommends introducing a **\$xx million bond**⁷ targeted at dairy sector technical assistance, on-farm infrastructure upgrades, and investments in new technology. A portion of this new funding could be directed to the Dairy Improvement Fund, administered by DACF, with expanded program criteria enabling it to issue grants and support processors receiving milk from other farms. The remaining portion could be directed to the Agriculture, Food, and Forest Products Investment Fund (AFFIF) to supplement General Fund appropriations, with those particular funds earmarked for Maine's dairy sector.

⁷ This figure is still under evaluation.