



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-1012

Posted: September 22, 2021
Effective October 1, 2021

OVER-ORDER PREMIUM

NOW, this 22nd day of September 2021, the Commonwealth of Pennsylvania, Milk Marketing Board (Board), adopts and issues this official general order pursuant to the authority conferred by the Milk Marketing Law, 31 P.S. §§ 700j-101 – 700j-1204. This order will become effective at 12:01 a.m. on October 1, 2021, and will expire at 12:00 midnight on March 31, 2022.

SECTION I

The attached findings of fact and conclusions of law are incorporated herein by this reference as though fully set forth in this order.

SECTION II

(a) In all milk marketing areas, the calculation of the Class I price for milk produced, processed, and sold in Pennsylvania shall include an over-order premium of \$1.00 per hundredweight effective 12:01 a.m. on October 1, 2021, through midnight on March 31, 2022.

(b) Milk dealers shall show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board over-order premium being paid.

(c) Cooperatives shall show by line item on their monthly statements to members the specific amount of the Pennsylvania Milk Marketing Board over-order premium being paid.

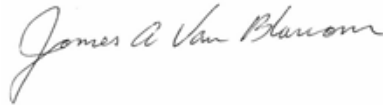
SECTION III

All parts of Official General Order A-893 not inconsistent with this order shall continue in effect.

PENNSYLVANIA MILK MARKETING BOARD



Robert N. Barley, Chairman



James A. Van Blarcom, Member



Kristi R. Kassimer, Consumer Member

Date: September 22, 2021

FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
September 1, 2021

FINDINGS OF FACT

1. On September 1, 2021, the Pennsylvania Milk Marketing Board (“Board”) held a hearing for all milk marketing areas to receive testimony and evidence concerning the level and duration of the over-order premium.
2. Notice of the hearing was published at 51 Pennsylvania Bulletin 3950 on July 17, 2021, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1595, dated July 7, 2021.
3. Wayne Brubaker testified on behalf of Pennsylvania Farm Bureau as an expert in farm business analysis, producer costs of production, and milk pricing. Mr. Brubaker is Consulting Supervisor for MSC Business Services (“MSC”), a division of PFB Members’ Service Corporation. MSC provides business consulting and benchmarking. As part of those services, MSC provides historical cost of production figures and projections. Mr. Brubaker recommended that the over-order premium be set at \$1.00 per hundredweight from October 1, 2021, through March 31, 2022. Mr. Brubaker cited continued high feed costs, relatively flat milk prices, and discontinuation of COVID-related payments as among the reasons for his recommendation.
4. Mr. Brubaker testified that since 2015, yearly net income for MSC dairy clients averaged negative \$37,228, ranging from negative \$515 in 2017 to negative \$89,442 in 2018. From 2015 to 2019 MSC-client dairy farms posted five consecutive years of negative annual income.
5. Mr. Brubaker testified that for 2020 MSC-client dairy farms had a positive net income of approximately \$45,000, which was the second highest of the past decade. However, Mr. Brubaker also testified that the positive net income was overwhelmingly driven by COVID-related government payments. Mr. Brubaker testified that COVID-related payments added roughly \$3.15 per hundredweight to MSC clients’ incomes. Without those payments, the expected net margin would be negative \$2.27 per hundredweight, the worst net margin of the past decade.
6. As COVID-related payments are ending Mr. Brubaker testified that traditional metrics, such as the price of milk and feed expenses, will be critical factors in determining a dairy farmer’s net margin. He testified that feed expenses are by far the single highest expense for dairy farmers, with MSC dairy clients’ feed costs representing almost three times their next highest cost. In 2020 feed expenses rose from \$6.23 per hundredweight to \$6.82 per hundredweight for MSC dairy farm clients, an increase of approximately \$30,000 for the average MSC client. Combined feed and crop expenses equaled 46 percent of the average milk price for MSC dairy clients in 2020. Mr. Brubaker further testified that futures markets predicted corn and soybean prices would remain above historic averages through the end of 2021.

7. Mr. Brubaker testified that the higher feed costs had led to tightening margins during the first half of 2021. As of June 2021, Dairy Margin Coverage program payments had been triggered for seven consecutive months. Mr. Brubaker also testified that there was no reason to expect the milk price to increase during the next six months. Mr. Brubaker expected feed expenses to remain high and volatile and milk prices to remain flat to lower.
8. David Graybill testified on behalf of Pennsylvania Farm Bureau. Mr. Graybill serves on Pennsylvania Farm Bureau's Board of Directors and chairs its State Dairy and Farm Policy Committee. Mr. Graybill operates Red Sunset Farms in Mifflintown. Red Sunset Farms currently milks around 64 registered Holsteins and raises 60 replacement heifers. Mr. Graybill markets his milk to Maryland and Virginia Milk Producers Cooperative, with 61 percent of his farm's gross income in 2020 coming from his milk check. He also produces corn, soybeans, hay, and small grains, approximately 64 percent of which feed his dairy cattle, with the rest sold on the open market. Red Sunset Farms is a sole proprietorship, with one full time and two part time employees. Mr. Graybill testified in support of a \$1.00 per hundredweight over-order premium.
9. Mr. Graybill places a high priority on managing an environmentally friendly operation and is constantly adding and improving conservation practices to reduce his farm's environmental footprint.
10. Mr. Graybill is a client of MSC Business Services and fully uses the tax accounting and preparation, business accounting, and business analysis services it provides. Mr. Graybill testified that 2020 was the most recent year that his farm's income and costs were analyzed and compared through MSC's Dairy Profitability Comparison. Red Sunset Farms' total revenue from all sources in 2020 was substantially higher than comparably sized farms and the top 10 percent. Mr. Graybill testified that his farm's average net milk price per hundredweight 2020 was \$16.28 per hundredweight, which was 24 cents higher than comparable sized farms but \$1.04 lower than the top 10 percent. Red Sunset Farms' cost of production in 2020 was \$23.23 per hundredweight, which was \$1.80 higher than comparable sized farms and \$9.71 higher than the top 10 percent. Mr. Graybill's revenue from milk sales was nearly the same in 2019 and 2020, with less than \$100 difference between the two years. On a cash basis in 2020 his farm's total income from all sources was at breakeven.
11. Mr. Graybill testified that due to his farm's smaller size he had to learn to become very efficient in the way he does business. To help financially manage the challenges of the past few years, he has made adjustments to herd management and crop and feed management practices on his farm. Mr. Graybill retains aged cows longer, milking more lactations, because the cost of growing replacements has increased, and the price paid for cull cows has decreased.
12. Mr. Graybill testified that input costs, especially feed costs, were a concern both this year and last year. He testified that managing feed and inputs to produce milk has increased the levels of more profitable milk components, which increases his milk

check and his margins. Last year's drought impacted Mr. Graybill's crop yields, as it did for many farmers in Pennsylvania. Mr. Graybill testified that he had about two-thirds of his typical crop yield in 2020 and had to buy protein.

13. Mr. Graybill also testified that his crops this year looked generally good and he anticipated harvesting at or above his five-year average for corn. His soybean crop suffered some slug damage due to early season cool weather and he estimated his soybean crop would be 10 to 15 percent below his five-year average. Mr. Graybill testified that his hay crop would be much better than last year's and that he did not expect to buy hay, other than some dry cow hay, which he typically does purchase.
14. Mr. Graybill testified that extra COVID-related and other government payments and loans he received helped his farm mitigate some of the past year's challenging financial conditions and helped his farm operate in the black. Mr. Graybill also received Dairy Margin Coverage payments.
15. Matt Espenshade testified on behalf of Pennsylvania State Grange. Mr. Espenshade is a seventh-generation dairy farmer, with his family owning and operating the farm since 1867. Mr. Espenshade and his father milk approximately 70 cows, with a 20,400 pound rolling herd average. They farm approximately 260 acres, raising their own forages. The farm raises its own replacement heifers. Mr. Espenshade and his father work the farm with no hired help. Mr. Espenshade testified in support of a \$1.00 per hundredweight over-order premium.
16. Mr. Espenshade is a member of Mt. Joy Farmers Coop (Mt. Joy). He testified that the price he received on his most recent milk check was \$17.13 per hundredweight. That included a volume premium of 10 cents, a quality bonus of 20 cents, and 10 cents for being under contract with the cooperative. Mr. Espenshade testified that members of the cooperative receive the Pennsylvania over-order premium regardless of their milk's utilization. He testified that on his most recent statement he received 4.5 cents labeled as "special premium" and that the over-order premium is also used to subsidize the quality bonuses.
17. Mr. Espenshade testified that Mt. Joy is affiliated with Dairy Farmers of America (DFA) and, as such, was subject to DFA's Base Excess Program. The COVID pandemic caused unprecedented disruption in the dairy supply chain between the farm and the consumer. Mr. Espenshade testified that cooperatives struggled to find outlets for what became an overabundance of raw milk, with the Base Excess Program developed in response. He testified that under the Base Excess Program, farms would receive full payment for the volume of milk which represented 85 percent of the farm's production in March 2020 with volumes above the 85 percent base receiving whatever value could be derived from the market. Like other dairy farms, Mr. Espenshade took steps to curb production, but getting below the 85 percent threshold has been a challenge. Mr. Espenshade testified that his April 2020 milk statement contained a line item called "COVID-19 Cost," which was an 87 cents per hundredweight deduction over all milk. He also testified that the name and the way it has been depicted on his

statement has changed in the time since, but his net payment has continued to be lower due to market conditions brought on by the continuing pandemic.

18. Mr. Espenshade testified that he attempts to maximize forage production on his farm, which makes it necessary to purchase supplemental feed to meet his ration's protein and energy requirements. Every three weeks he orders a "complete feed," which is a blend of soybean and corn meals with other additives. Mr. Espenshade testified that this feed cost \$305/ton in August 2019 with the price increasing to \$323/ton by January 2021. In April 2021 the cost had increased over 25 percent, to \$431/ton. Mr. Espenshade's ground corn price increased from \$205/ton in November 2020 to \$275/ton in August 2021.
19. Mr. Espenshade testified that Mt. Joy continues to face challenges finding markets for its members' milk. To help cover balancing costs Mt. Joy members have been assessed a market adjustment fee each month since September 2014. The market adjustment fee has fluctuated and was 40 cents per hundredweight on Mr. Espenshade's most recent statement. The market adjustment fee is in addition to the Base Excess Program overproduction assessment.
20. Mr. Espenshade testified that although businesses, food service, and schools were beginning to return to a somewhat normal routine, the Base Excess Program remained in place, with the base increasing to 88 percent in May 2021. Mr. Espenshade testified that the price fluctuations were "wild" and unpredictable. In March 2021 his farm's milk production was 25,000 pounds over base with the that milk being assessed \$1.25 per hundredweight for a fee of \$311.85. In June 2021 his farm's milk production was 10,000 pounds over base but was assessed \$13.33 per hundredweight for a fee of \$1,359. Mr. Espenshade testified that year-to-date he had received \$6,600 less than normal valuation.
21. The Board finds that the over-order premium should be set at \$1.00 per hundredweight from October 1, 2021, through March 31, 2022.

In so finding, the Board relies on the credible and persuasive testimony of Mr. Brubaker, Mr. Graybill, and Mr. Espenshade. Their testimony raised several issues and concerns supporting a \$1.00 per hundredweight over-order premium. Markets continue to be impacted by the COVID pandemic, milk prices are forecasted to be stable at best, and feed costs continue to increase. Mr. Graybill's and Mr. Espenshade's testimony, in the context of Mr. Brubaker's testimony regarding the adverse financial results for MSC-client dairy farms for the past ten years, support establishing the over-order premium at \$1.00 per hundredweight.

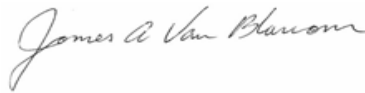
CONCLUSIONS OF LAW

1. The September 1, 2021, over-order premium hearing was held pursuant to the authority granted to the Board in sections 801 and 803 of the Milk Marketing Law (Law), 31 P.S. §§ 700j-801 and 700j-803.
2. The hearing was held following adequate notice and all interested parties were given a reasonable opportunity to be heard.
3. All parts of Official General Order No. A-893 not inconsistent with the attached order will continue in effect.
4. In accordance with Official General Order No. A-894, milk dealers shall continue to show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board's over-order premium being paid.
5. In accordance with Official General Order No. A-894 (Supplemental), the over-order premium will continue to apply only to Class I milk produced, processed, and sold in Pennsylvania.
6. In adopting this order, the Board considered the entire record and concludes that the order is supported by a preponderance of credible evidence and is reasonable and appropriate under sections 801 and 803 of the Law.
7. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD



Robert N. Barley, Chairman



James A. Van Blarcom, Member



Kristi R. Kassimer, Consumer Member

Date: September 22, 2021

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