

PFB EXHIBIT 2

**Testimony Offered for
Pennsylvania Farm Bureau
Before the Pennsylvania Milk Marketing Board
Regarding the Level of Over-Order Premium**

March 8, 2019

**Presented by Glenn Stoltzfus
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Chairman, PFB Dairy Committee**

Introduction

This testimony is offered on behalf of Pennsylvania Farm Bureau, an organization representing more than 62,000 farm and rural family members throughout Pennsylvania. Dairy farmers are the largest segment of producers within Farm Bureau membership.

My name is Glenn Stoltzfus. I operate Pennwood Farms in partnership with my three brothers, in Berlin, Somerset County. We milk just shy of 700 Holsteins. We also raise all of our heifer calves. Our milk production per cow averages 80 pounds per day. We ship our milk to Maryland & Virginia Milk Producers Cooperative Association, Inc. Eighty to ninety percent of our income comes from our milk check.

My brothers and I farm approximately 1,700 acres (1,200 owned acres), growing corn, soybeans, alfalfa and grass hay. We grow all of our forages and high moisture corn, and we often sell our excess corn and hay.

As mentioned at previous hearings, our farm business operates differently from what many would consider to be typical Pennsylvania dairy farms. We need to generate levels of income that financially supports four families. So, in addition to having a larger herd size for milk production, we're engaged in other income-producing enterprises such as custom cropping and dairy breeding and livestock sales.

In addition to helping operate and manage Pennwood Farms, I currently serve on Pennsylvania Farm Bureau's Board of Directors, as well as chairing Farm Bureau's State Dairy Committee.

Farm Bureau would like to thank the Pennsylvania Milk Marketing Board (PMMB) for providing the opportunity to offer testimony regarding the over-order premium. The objective of our testimony today is to offer evidence in support of our recommendation that the Board increase the Class I over-order premium by 25 cents for a premium of \$1.00 per hundredweight for six months. We also support continuation of the fuel adjuster premium as calculated under the Board's current Order.

Conditions on Pennwood Farms

At the September over-order premium hearing, I offered testimony that our farm's average cost for production of milk in 2017 was \$18.58 per hundredweight, based on our review of financial records. I wasn't able to provide the Board our farm's average cost of production 2018 by the deadline for submission of my testimony. Since then, we were able to complete and review our farm's financial records for 2018. I can now testify that our farm's average cost of production for 2018 was \$18.37 per hundredweight. I do not expect our farm's average cost of production for 2019 to be much different from 2018.

While cost of production is helpful indicator of how well we're managing our farm, other measures give us a clearer understanding of how profitable our farm is really operating. Income over feed costs (IOFC) is a more helpful indicator of the profit margin that the farm is getting from dairy production.

Table 1 (Page 9) shows the estimated monthly IOFC per cow for Pennwood Farms for the period of April and September 2018. This period is a similar monthly period to the period that the Board is likely considering in determining the level of mandated over-order premium. Our farm's average monthly income over feed cost for this time frame was \$6.36. As you can see, April's monthly average of income over feed cost was \$6.22 per hundredweight. Over the six-month period, the monthly average of IOFC fell to \$5.98 in July, before climbing to \$6.97 in September.

Table 1a (Page 10) the estimated monthly averages of IOFC per cow for Pennwood Farms in 2017. That year, our farm's average monthly IOFC for the period of April and September was \$8.12.

When comparing 2017 and 2018, our farm's average monthly IOFC for April through September 2018 was \$1.76 per hundredweight (nearly 22 percent) less than the average for the same period in 2017.

Like the testimony I presented at last September's over-order premium hearing, comparing 2017's figures with 2018's clearly demonstrates the serious and negative impact that the continued price downturn has had on our farm, and our farm's margins. And, as you can see by those numbers, 2018 was a rough year, and we continue – just like many other dairy farmers – to be in survival mode.

As I've testified previously, when milk prices are low, we must make hard decisions on the farm. Over the last few years, we looked for ways to cut expenses and make the most of the much lower income we were receiving on our milk. We have been living lean on our farm – and this means we continue to look for ways to be efficient. This includes our dairy herd, field work and managing our employees, making even small tweaks to ensure we are running our farm in the most efficient and effective way possible.

To reduce cost, we changed our feed in 2018 to a cheaper ration. We were also helped a bit by lower soybean meal prices. Unfortunately, our change in feed ration negatively impacted on our milk production numbers, and we've found it hard to maintain our 80 pounds per cow per day average. I think we're tracking more closely to a 75 pound per day average, which also impacts our margins.

Just the other day, we came to grips with the necessity of replacing many of the tires needed for our equipment, and performing major repairs to equipment that we have been trying to avoid doing to manage costs. We can only delay

maintenance for so long before it has the potential to impact safety and efficiency. We need to address these maintenance issues, but I'm not sure where the money will come from.

For the last decade or so, we have been fortunate to earn income from the sale of cattle. However, we are finding that there is little market for dairy cattle right now, and we have been selling our cows by the pound.

And 2018 was another year that we were not financially able to prepay most input expenses for the upcoming year. In years when producer prices were much better, we were able to purchase seed, fertilizer and other inputs we would need for next year's production of feed crops. Purchasing and prepaying our inputs in the fall and winter allowed us to take advantage of discounts and tax benefits available. As with 2017, we were financially unable to use this effective cost management tool.

As I mentioned earlier, at Pennwood Farms, we grow all of our corn silage, alfalfa and hay. We do however, purchase protein – generally soybean meal – and feed concentrate, along with some other supplements for our herd. **Tables 2** (Page 11) and **3** (Page 12) show the average of prices paid for feed concentrate and protein during the six-month periods of April through September in years 2013 through 2018.

As you can see in **Table 2**, 2018's monthly average cost for feed concentrate was \$634 per ton. 2018's average cost from April through September was \$16 per ton (2.5 percent) higher than the six-year monthly average of \$618. And it is \$52 per ton (nearly 9 percent) and \$44 per ton (nearly 7 percent) higher than the average cost of feed concentrate for the same periods of 2016 and 2017.

As shown in **Table 3**, our monthly average of protein costs for April through September 2018 was \$402 per ton. While slightly below the six-year monthly average of \$414, 2018's average protein cost was slightly above the average cost in 2016 and \$38 (more than 10 percent) above the average cost in 2017.

Our farm's insurance costs – for both our property and liability and worker's compensation – have continued to increase significantly. **Table 4** (Page 13) and **Table 5** (Page 14) reflect annual expenses for property and liability insurance coverage and worker's compensation insurance coverage incurred by Pennwood Farms for years 2011 through 2018. As shown in **Table 4**, our property and liability insurance expense has increased by 97 percent, from \$15,776 in 2011 to \$31,131 in 2018. While we did have a fire in 2016, and purchased another farm and buildings, these costs have gone up significantly. And as shown in **Table 5**, our worker's compensation insurance expense has increased by 195 percent, from \$14,582 in 2011 to \$43,027 in 2018.

While I am not supplying fuel numbers, they remain a significant component of our farm's overall operation costs, and the level of expenses for fuel we have recently incurred is consistent with the level of fuel expenses discussed in testimony I've offered at previous over-order premium hearings.

Conclusion

As I indicated earlier in my testimony, we are in survival mode on our farm and I am not the only one. Profitability continues to be a struggle. Just recently, one of my neighbors has made the tough decision to sell his dairy farm, and I hope we are not the next one. Right now, I think we will be okay, and be able to plant in the spring. However, as prices continue to stay depressed and margins remain tight, I suspect we will be seeing more dairy farmers exiting the business.

The dairy industry is in dire straits, and Farm Bureau recognizes this sad fact. As our State Dairy Committee discussed this upcoming hearing, we were hesitant to advocate for a higher premium. There is no doubt that Pennsylvania farmers need more income from their milk, and they need it now. But there are still supply-demand challenges that exist in the regional marketplace. The last thing we need is to set a state-mandated premium at a level that once again encourages high volumes of out-of-state producer milk into Pennsylvania for use in fluid milk plants.

Given the serious needs within Pennsylvania's dairy industry, an extra 25 cent premium may help those producers whose milk qualifies for receiving the premium. We believe, however, that the Board will take the information shared by the witnesses testifying today, carefully evaluate market conditions, and adjust the premium accordingly.

With that in mind, Pennsylvania Farm Bureau recommends that the Board increase the current base level of Class I over-order premium by 25 cents per hundredweight for the next six months, and continue the fuel add on.

Thank you for considering our request and for hearing my testimony today. I'd be happy to answer any further questions you might have.

Table 1 – Income Over Feed Costs¹
Pennwood Farms

2018	April	May	June	July	Aug	Sept
Milk Check	14.56	14.68	14.92	14.26	14.53	15.11
Milk Income per Cow	11.64	11.74	11.94	11.40	11.62	12.08
Feed Cost per Cow	5.42	5.45	5.45	5.42	5.40	5.11
Income Over Feed Costs	6.22	6.29	6.49	5.98	6.22	6.97
	Average IOFC April - Sept	\$6.36				

¹ Background: Milk check includes quantity and quality premiums paid by our cooperative; based upon an approximate average of 80 pounds of milk per cow; and we use the actual price we paid for purchased commodities such as distillers grains, soybean meal and feed concentrate, and for items we grow on farm, such as corn silage or hay, we use a price typical for our market. *Note: due to some feeding decisions, we were closer to 75 pounds of milk per cow per day in 2018.*

Table 1a - Income Over Feed Costs – 2017²
Pennwood Farms

2017	January	February	March	April	May	June
Milk Check	18.61	17.72	16.92	15.73	15.62	16.34
Milk Income per Cow	14.89	14.17	13.54	12.58	12.50	13.07
Feed Cost per Cow	4.85	4.92	4.95	4.97	5.08	5.00
Income Over Feed Costs for 2017	10.04	9.25	8.59	7.61	7.42	8.07

2017	July	August	September	October	November	December
Milk Check	16.75	16.92	17.47	17.20	16.49	16.32
Milk Income per Cow	13.40	13.53	13.97	13.76	13.19	13.05
Feed Cost per Cow	5.05	5.06	5.15	5.20	5.21	5.20
Income Over Feed Costs for 2017	8.35	8.47	8.82	8.56	7.98	7.85

Average IOFC between April and September = \$8.12

² Background: Milk check includes any quantity and quality premiums paid by our cooperative; based upon an approximate average of 80 pounds of milk per cow; and we use the actual price we paid for purchased commodities such as distillers grains, soybean meal and feed concentrate, and for items we grow on farm, such as corn silage or hay, we use a price typical for our market. *Note: due to some feeding decisions, we were closer to 75 pounds of milk per cow per day in 2018.*

Table 2 – Feed Concentrate³ for Select Months
Pennwood Farms

Month	2013	2014	2015	2016	2017	2018
April	567	699	655	586	596	633
May	576	699	654	591	599	640
June	576	683	674	601	594	644
July	620	660	669	572	585	644
Aug	618	590	625	569	581	636
Sept	615	597	620	570	585	604
Average	595	655	650	582	590	634
	Change from 2013 to 2019	+\$39				
	Percent Change from 2013 to 2019	+7%				
	Average	\$618				

³ We've had some variability in costs based upon what is in our mix. However, it is fairly consistent overall. All prices are per ton.

Table 3 – Soybean/Canola Meal⁴ for Select Months
Pennwood Farms

Month	2013	2014	2015	2016	2017	2018
April	458	410	405	365	350	425
May	450	405	380	398	362	440
June	450	405	390	442	360	425
July	450	390	460	425	378	382
Aug	450	575	440	380	365	367
Sept	430	563	425	372	368	375
Average	448	458	417	397	364	402
	Change from 2013 to 2018	-\$46				
	Percent Change from 2013 to 2018	-10%				
	Average	\$414				

⁴ We fed canola meal from April 2014 through March 2014. All prices for canola and soybean meal are per ton.

Table 4 – Farm Insurance – Property and Liability
Pennwood Farms

Year	Total
2011	15,776
2012	14,521
2013	17,249
2014	19,947
2015	21,330
2016	24,405
2017	30,508
2018	31,131
Average	\$21,858
Change from 2011 to 2018	+\$15,355
Percent Change from 2011 to 2018	-97%

Table 5 – Farm Insurance – Worker’s Compensation
Pennwood Farms

Year	Total
2011	14,582
2012	14,608
2013	20,380
2014	17,206
2015	19,424
2016	25,403
2017	36,541
2018	43,027
Average	23,896
Change from 2011 to 2018	+\$28,445
Percent Change from 2011 to 2018	+195%