

PFB EXHIBIT 2

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

August 30, 2017

**Presented by Glenn Stoltzfus
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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, Don, Dwight and Duane, in Berlin, Somerset County. We milk just shy of 600 Holsteins. We also raise all of our heifer calves and have a custom grower who feeds approximately 250 of those heifers. 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 1,300 acres (700 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.

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 level of over-order premium. The objective of our testimony today is to offer evidence in support of our recommendation that the Board maintain the base level of Class I over-order premium at \$1.60 per hundredweight for six months.

Conditions on Pennwood Farms

For background purposes, we reviewed financial records and receipts from Pennwood Farms to compile the base numbers discussed today. I am estimating from review of those records that Pennwood Farms incurred an annual average cost of \$21.65 per hundredweight in 2016 for production of milk. This is slightly higher average than 2015's annual average of \$21.60 per hundredweight, which I provided to the Board at last year's hearing. Based on our farm's financial history and my understanding of operations, I would expect our farm's annual average cost of production for 2017 to be similar to the average cost for 2016.

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 8) shows the estimated monthly averages of IFOC per cow for Pennwood Farms during the first six months of 2017. As you can see, our farm's IOFC for January started off well at \$10.04. Unfortunately, over the six-month period, this number fell steadily each month before rebounding slightly in June. June's monthly IOFC was 20 percent below January's monthly IOFC, averaging \$8.07.

I thought it would be helpful for the Board to review and compare Table 1's numbers with the numbers I provided for the same period last year. At last September's over-order premium hearing, I offered a table to show the estimated monthly averages of IFOC per cow for the six-month period of January through June 2016. **Table 1a** (Page 9) contains the same figures for 2016 that I provided you at last September's hearing.

Comparing 2016's figures with 2017's pretty clearly demonstrates the serious and negative impact that last year's drop in milk prices had on our farm's margin. The monthly averages of Feed Cost Per Cow for 2017 were consistent

with the averages for 2016. But with the exception of April, our monthly IOFC averages for 2016 were well below 2017's monthly averages, consistent with 2016's serious drop in level of monthly income per hundredweight we received on our milk check.

As I've testified previously, when milk prices are low, we have to make hard decisions on the farm. In 2016, we had to look for ways to cut expenses and make the most of the much lower income we were receiving on our milk. We learned during an earlier period of low milk prices that prepaying expenses for inputs we'll use next year is a very effective tool in managing farm costs and income tax liability. And we have tried to do so whenever possible. Because of 2016's serious reduction in price and income we received, we were not financially able to prepay for nearly as many of 2017's farm inputs as we have in previous years.

Not being able to take advantage of prepaying results in lost discounts and tax advantages. I'm not sure yet if we will have sufficient revenues this year to prepay 2018's production inputs. We'll know better once we see milk prices this fall.

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

10) and **3** (Page 11) show the average of prices paid for feed concentrate and protein during the six-month periods of January through June in years 2013, 2014, 2015, 2016 and 2017.

As you can see in **Table 2**, for the first six months of 2017, the average price of feed concentrate was \$592.83. This figure is just a few dollars off the average for the same period in 2013, which is a relief considering we saw averages in the mid-\$600 range in 2014 and 2015. In **Table 3**, our average January to June protein costs dropped approximately 24 percent from \$466.67 per ton in 2013 to \$353.83 per ton in 2017.

There's a lot of uncertainty as we head toward the harvest. Some farmers have had banner years for corn, while others have struggled. In Somerset County where I live, it's been really wet. Just recently, I spent several hours observing my corn fields. While the quality and health of corn growing on our farm doesn't appear to be bad, I am not seeing as much corn yield as we normally get. I suspect we're going to run out of summer before my corn reaches it's prime because there just hasn't been enough sunshine. On the hay side, at the time of preparing this testimony, our farm is on its third cutting of alfalfa. We have been able to produce a lot of hay. But I'm not sure the quality of the hay will be good enough to meet cows' nutritional needs. Unless we have any harsh weather or climate conditions during the next month, we should have a good fourth cutting in September.

Our farm's insurance costs – for both our property and liability and worker's compensation – have continued to increase significantly. **Table 4** (Page 12) and **Table 5** (Page 13) reflect annual expenses for property and liability insurance coverage and worker's compensation insurance coverage incurred by Pennwood Farms for years 2011 through 2016. As shown in **Table 4**, our property and liability insurance expense has increased by 55 percent, from \$15,776 in 2011 to \$24,405 in 2016. And as shown in **Table 5**, our worker's compensation insurance expense has increased by 74 percent, from \$14,582 in 2011 to \$25,403 in 2016.

I am not offering any specific testimony on fuel costs, as the issue of fuel costs will be considered more specifically by the Board in another hearing. I will generally state though that fuel costs 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

There's no question there have been challenges in the dairy industry. Prices remain lower than we'd like, we're facing a tough international trade environment and there's too much milk. I don't ever remember so much milk being dumped.

Specific to the net price our farm is receiving for our milk, in addition to the 2016's serious drop in producer milk prices generally, the quantity bonus we were receiving in previous years was eliminated. And for the first few months of 2017, we were assessed a market adjustment (though that has now gone away). So, we're seeing further price squeezes on our milk check.

I'd say the next six months have the potential to look brighter for the dairy industry. There's the chance of more milk plants coming on line, milk prices will hopefully rise as demand from schools and consumers (during the holiday baking season) strengthens during the fall and winter months. We'll have to see what happens with prices and also the harvest. But the recent level of milk prices, the prolonged period of unprofitable milk prices recently experienced by Pennsylvania dairy farmers, and the current excess of milk supply relative to demand have hardly inspired farmers to be optimistic about their future in dairy farming.

Again, Pennsylvania Farm Bureau strongly recommends that the Board adopt an order that maintains the current base level of Class I over-order premium at \$1.60 per hundredweight for the next six months.

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 Costs – 2017¹
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
	Change in IOFC from January to June	-\$1.97				
	Percent Change in IOFC from January to June	-20%				

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.

Table 1a – Income Over Feed Costs – 2016²
Pennwood Farms

2016	January	February	March	April	May	June
Milk Check	16.62	16.22	15.28	15.73	14.86	14.85
Milk Income per Cow	13.29	12.97	12.22	12.58	11.89	11.88
Feed Cost per Cow	4.92	4.95	4.96	5.12	5.21	5.25
Income Over Feed Costs for 2016	9.37	8.92	7.26	7.46	6.68	6.63
	Change in IOFC from January to June	-\$2.74				
	Percent Change in IOFC from January to June	-29%				

² See note 1.

Table 2 – Feed Concentrate³ for Select Months
Pennwood Farms

Month	2013	2014	2015	2016	2017
January	605	637	634	577	582
February	605	642	635	593	590
March	592	640	640	592	596
April	567	699	655	586	596
May	576	699	654	591	599
June	576	683	674	601	594
Average	586.83	666.67	648.67	590.00	592.83
	Change from 2013 to 2017	\$6			
	Percent Change from 2013 to 2017	1%			

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
January	495	435	503	320	345
February	475	390	435	320	346
March	472	410	415	310	360
April	458	410	405	365	350
May	450	405	380	398	362
June	450	405	390	442	360
Average	466.67	409.17	421.33	359.17	353.83
	Change from 2013 to 2016	-112.84			
	Percent Change from 2013 to 2016	-24%			

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 Liability⁵
Pennwood Farms

Year	Total
2011	15,776
2012	14,521
2013	17,249
2014	19,947
2015	21,330
2016	24,405
Average	18,871
Change from 2011 to 2016	+8,629
Percent Change from 2011 to 2016	+55%

⁵ No claims or major coverage changes.

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

Year	Total
2011	14,582
2012	14,608
2013	20,380
2014	17,206
2015	19,426
2016	25,403
Average	18,601
Change from 2011 to 2016	+\$10,821
Percent Change from 2011 to 2016	+74%