

PFB EXHIBIT 1

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

February 28, 2017

**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 nearly 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.

Pennwood Farms might not be as typical as a traditional Pennsylvania-style average herd sized, one owner operation. Our farm business needs to financially support the four owners and their families. So, in addition to having a larger herd size, we've expanded to other areas to help supplement our income. For example,

we do custom crop work for farmers. We also place a high priority on good genetics, selling top genetics, doing embryo transfer work, etc. In fact, I'd estimate we've sold between 60 and 100 head per year for purposes other than culling for the last eight or so years. These sales are made throughout the year, often to repeat customers and range from breeding age heifers to mature cows.

In addition to my on farm activities, I am a member of the PFB State Board of Directors and I am the Chair of PFB's 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 to \$1.60 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

For background purposes, we reviewed financial records and receipts from Pennwood Farms to compile the base numbers discussed today. Although I am not offering figures related to our farm's total cost of production for 2016, I'd estimate that our average cost of production for this year will be similar to the level we incurred last year.

Prepaying expenses is one of those important lessons we've learned during the hard times when, instead of prepaying expenses we've updated equipment. Now, whenever possible, we try to prepay production expenses, in order to best manage our farm's finances and income tax liability. We were able to prepay a portion of our crop expenses in both 2013 and 2014 for the next year. However, this isn't always possible and, as I testified in September, we were unable to prepay as many of our expenses at the end of 2016 as we have in other years. Not being able to take advantage of prepaying results in lost discounts and tax advantages.

Income over feed costs (IOFC) provides an excellent way to look at margins on farms. **Table 1** (page 8) provides monthly averages of income and costs per cow experienced by Pennwood Farms for the six-month period of April through September 2016. The table also includes the monthly average income per hundredweight that we received on our milk check. **Table 1** shows our farm's IOFC for April was \$7.46. While our IOFC increased to \$9.03 by September, we saw drops to \$6.68 and \$6.63 in May and June, respectively. Our IOFC averaged \$7.63 from April to September.

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

9) and **3** (page 10) contain monthly comparisons of prices paid by our farm to purchase feed concentrate and protein for the months of April through September in 2013 through 2016.

As you can see in **Table 2**, the average price of feed concentrate during this six-month period has decreased overall from \$595 in 2013 to \$582 in 2016. We did, however, see these costs rise to an average of \$655 in 2014 and \$650 in 2015.

In **Table 3**, our average April to September protein costs rose from \$448 in 2013 to \$458 in 2014 before dropping in 2015 and again in 2016, for an overall decrease of 11 percent.

Like all dairy farmers, we also have to take into account other costs which affect our margins. Next, I'll highlight our fuel and insurance costs which also add significantly to our expenses.

Though prices for gasoline have decreased significantly, fuel costs represent a significant portion of our expenses. **Tables 4** (page 11) **and 5** (page 12) provide figures for our total annual fuel cost (\$103,753 in 2016) and off-road fuel costs per gallon between April and September (\$1.65 average in 2016), and demonstrate the continued need for the fuel adjuster. We've been pleased to see our total fuel costs for 2016 continue the downward trend we saw in 2015, dropping significantly – by over \$75,000 – from the costs we had experienced in 2014. However, due to the

high fuel costs from 2011 through 2014, our six-year average is still very high, underscoring the continued need for the fuel adjuster.

During the April through September time period – which happens to be our “busy season” months (see **Table 5**) – our fuel costs have fallen for these months between 2013 and 2016 by approximately half. However, fuel costs have increased per gallon during this six-month period from a low of \$1.49 in April, climbing to \$1.74 in June and July, before ending at \$1.69 in September. However, the six-month average price per gallon (\$1.65) between April and September 2016 is still considerably below the same six-month period average (\$2.05) of 2015. I certainly hope these trends continue.

Our farm’s insurance costs – for both our property and liability and worker’s compensation – have also increased, as you can see on **Tables 6** (page 13) and **7** (page 14). Our property and liability insurance has increased significantly each year since 2012. Last year’s property and liability cost was \$24,405 – more than \$8,629 (55 percent) higher than 2011’s premium cost of \$15,776. Our worker’s compensation insurance has also increased by \$10,821 (74 percent), from \$14,582 in 2011 to \$25,403 in 2016.

Conclusion

My testimony today attempted to provide an overview of Pennwood Farms and hopefully captured some of the conditions dairy farmers in Pennsylvania are facing.

It's no secret that dairy farmers – myself included – are facing extremely difficult conditions on the farm. For more than a year, prices and incomes for dairy farmers have been much below the high milk prices of 2014 and 2015. We weathered most of this price storm adequately, only spending when needed. However, the last six months were a challenge for our farm, particularly when our Income Over Feed Costs fell below \$7.50. This happened to a lesser degree in April, before our IOFC fell sharply in May and June. Unfortunately, this was the time when we had bills to pay, such as fertilizer. Fortunately, we started to see the IOFC for our farm recover in July and continue to increase as we headed toward fall. I hope to see these trends continue in 2017 – and there are some signs that support an overall recovery in producer milk prices in the latter part of this year.

When I testified at the Board's September over-order premium hearing, I indicated that many dairy farmers were concerned about this price downturn. And, the longer this downturn continues, the more difficult it will be for dairy farmers to

recover from this period of low prices. The conditions on dairy farms around the state more than demonstrate the need for the continued premium.

In late January, as Pennsylvania Farm Bureau's State Dairy Committee discussed the over-order premium, this hearing and the overall state of the dairy industry, we thoughtfully considered what our ask today would be. We understand the milk supply challenges facing the Northeast and ask the Board to make a decision which balances the critical price need of dairy farmers, with the challenging marketing conditions in the Northeast.

With that said, Pennsylvania Farm Bureau strongly recommends that the Board adopt an order that maintains the current level of Class I over-order premium at \$1.60 per hundredweight for the next six months, as well as continuing the Class I premium fuel adjuster established under the Board's current order. This premium is needed to help dairy farmers in Pennsylvania make it through the current price challenges.

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

2016	April	May	June	July	Aug	Sept
Milk Check	15.73	14.87	14.85	15.91	16.72	17.48
Milk Income per Cow	12.58	11.89	11.88	12.72	13.37	13.94
Feed Cost per Cow	5.12	5.21	5.25	5.10	5.04	4.91
Income Over Feed Costs	7.46	6.68	6.63	7.62	8.33	9.03
	Average IOFC April - Sept	\$7.63				

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 2 – Feed Concentrate² for Select Months
Pennwood Farms

Month	2013	2014	2015	2016
April	567	699	655	586
May	576	699	654	591
June	576	683	674	601
July	620	660	669	572
Aug	618	590	625	569
Sept	615	597	620	570
Average	595	655	650	582
	Change from 2013 to 2016	-\$13		
	Percent Change from 2013 to 2016	-2%		

² 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 Meal³ for Select Months
Pennwood Farms

Month	2013	2014	2015	2016
April	458	410	405	365
May	450	405	380	398
June	450	405	390	442
July	450	390	460	425
Aug	450	575	440	380
Sept	430	563	425	372
Average	448	458	417	397
	Change from 2013 to 2016	-\$51		
	Percent Change from 2013 to 2016	-11%		

³ We fed canola meal from April 2014 through March 2014. All prices for canola and soybean meal are per ton.

Table 4 – Total Annual Fuel Cost⁴
Pennwood Farms

Year	Total	Cost Difference from 2011	Percent Cost Difference from 2011
2011	159,346	-	-
2012	156,039	-3,307	-2.0%
2013	170,339	10,993	6.9%
2014	178,768	19,222	12.2%
2015	110,229	-49,117	-30.8%
2016	103,753	-55,593	-34.9%
Average	146,412	-12,934	8.1%

⁴ This includes all of our fuel (diesel, on and off road fuel, and propane).

Table 5 – Off-Road Fuel Costs Per Gallon for Select Months
Pennwood Farms

	2013	2014	2015	2016
April	3.49	3.44	2.14	1.49
May	3.24	3.39	2.19	1.62
June	3.24	3.39	2.19	1.74
July	3.25	3.25	2.09	1.74
Aug	3.24	3.22	1.84	1.64
Sept	3.29	3.17	1.84	1.69
Average	3.29	3.31	2.05	1.65
	Change from 2013 to 2016	-\$1.64		
	Percent Change from 2013 to 2016	-50%		

Table 6 – 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 7 – 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
Average	18,601
Change from 2011 to 2016	+10,821
Percent Change from 2011 to 2016	+74%