

PFB EXHIBIT 1

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

September 5, 2018

**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, in Berlin, Somerset County. We milk just shy of 700 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 1,700 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 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 75 cents 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 \$18.58 per hundredweight in 2017 for production of milk. Based on our farm's financial history and my understanding of operations, I would expect our farm's annual average cost of production for 2018 to be similar to our average cost of production for 2017.

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 averages of IFOC per cow for Pennwood Farms during the first six months of 2018 and **Table 1a** (page 10) shows IFOC for all of 2017. As you can see, our farm's IOFC for January of this year was \$7.15, which was down nearly \$3 from our IOFC for January of 2017 (\$10.04). Our IFOC dropped significantly in February and March. February's average was \$5.81. And March's was \$5.98. Monthly averages for April through June were slightly higher from those experienced in February and March, with June being the "best" of the three months (\$6.49). Still, June's monthly average IFOC was 9 percent below January's monthly average.

Comparing our monthly IFOCs of January through June of 2018 with those of January through June of 2017 should provide the Board with a clearer picture of the serious economic stress we've had on our farm. When I testified before the Board in last August, I did not provide a Board a very positive statement of our farm's economic situation. IFOC averages of January through June demonstrate our farm's situation has worsened – and significantly – from last year. Our farm's monthly average IOFC for June is 35 percent below that of January 2017.

February's average is 42 percent under January 2017. And every month's IFOC averages for 2018 were well below the monthly averages for 2017. February's was \$3.44 below February of 2017. And monthly IFOC averages for March through June were \$2.61 (March), \$1.39 (April), \$1.13 (May) and \$1.59 (June) less than 2017's.

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 has not been kind to our farm. To be frank, we've been in survival mode, and I am not the only dairy farmer in this situation.

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 better at what we do. 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. We are not updating equipment, and we are making do with bare bones labor – not replacing lost workers. And, I can tell you, these changes have resulted in decreased employee morale.

One major change we are in the process of making is raising our own heifers starting this October. Unfortunately, we had to build a barn – and because of the low prices we had to borrow money. Spending money to save money isn't always the ideal solution – especially when you don't have that money to spend. But, sometimes in dairy farming, that's what you have to do.

We also learned during an earlier period of low milk prices that prepaying expenses for inputs for the next year was helpful for our farm's bottom line. We have not been able to prepay as many expenses in 2017 as we would have liked. And, unless something changes drastically, it will be difficult to prepay expenses in 2018. This results in lost discounts and tax benefits.

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 January through June in years 2013 - 2018.

As you can see in **Table 2**, for the first six months of 2018, the average price of feed concentrate was \$628.67. 2018's average price is the highest since 2015, and is more than \$35 per ton (6 percent) above the average feed concentrate prices for 2016 and 2017.

In **Table 3**, our average January to June protein cost was \$14.17. This is also the highest cost since 2015, and is at least \$55 per ton (15 percent) more than average costs for 2016 and 2017.

Looking ahead to fall, I am expecting a below average to average harvest. Because of all the rain, we struggled to get our crops in during the spring, and it's been wet all summer. I know harvest projections vary across the state, as some farmers are anticipating good harvests, while others have been dealing with flooding and heavy rains.

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 2017. As shown in **Table 4**, our yearly property and liability insurance expense has increased by 93 percent, from \$15,776 in 2011 to \$30,508 in 2017. 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 150 percent, from \$14,582 in 2011 to \$36,541 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 I provided at the over-order premium hearing in February of last year.

Conclusion

As I indicated earlier in my testimony, we are in survival mode on our farm and this is mirrored on many dairy farms across Pennsylvania. Since 2016, dairy farmers have been facing serious financial challenges and I'm sorry to say, I don't see that changing very soon.

In early 2018, I was optimistic that, by fall, we'd be seeing higher prices. In May and June, I was less optimistic, but still hopeful. Now, I fear what may happen with not only milk prices, but also the impact of this prolonged period of low prices on my farm. Today, the milk price I am receiving has gotten worse, not better and there doesn't seem to be a lot of great news on the horizon.

The dairy industry is in dire straits, and Farm Bureau would like to ask for a higher premium, but we are also realistic to the challenges of moving milk. We understand that the market can't handle a higher premium right now. With that in mind, Pennsylvania Farm Bureau strongly recommends that the Board maintain the current base level of Class I over-order premium at 75 cents per hundredweight for

the next six months, along with maintaining the current formula for determining the fuel premium 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 Costs – 2018¹
Pennwood Farms

2018	January	February	March	April	May	June
Milk Check	15.48	13.84	14.07	14.56	14.68	14.92
Milk Income per Cow	12.38	11.07	11.26	11.64	11.74	11.94
Feed Cost per Cow	5.23	5.26	5.28	5.42	5.45	5.45
Income Over Feed Costs for 2018	7.15	5.81	5.98	6.22	6.29	6.49
	Change in IOFC from January to June	-\$0.66				
	Percent Change in IOFC from January to June	-9%				

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 – 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

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.

**Table 2 – Feed Concentrate³ for Select Months
*Pennwood Farms***

Month	2013	2014	2015	2016	2017	2018
January	605	637	634	577	582	598
February	605	642	635	593	590	625
March	592	640	640	592	596	632
April	567	699	655	586	596	633
May	576	699	654	591	599	640
June	576	683	674	601	594	644
Average	586.83	666.67	648.67	590.00	592.83	628.67
	Change from 2013 to 2018	+\$41.84				
	Percent Change from 2013 to 2018	+7%				

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
January	495	435	503	320	345	370
February	475	390	435	320	346	390
March	472	410	415	310	360	435
April	458	410	405	365	350	425
May	450	405	380	398	362	440
June	450	405	390	442	360	425
Average	466.67	409.17	421.33	359.17	353.83	414.17
	Change from 2013 to 2018	-\$52.50				
	Percent Change from 2013 to 2018	-11%				

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
Average	20,534
Change from 2011 to 2017	+14,732
Percent Change from 2011 to 2017	+93%

For 2018, insurance costs for property and liability through July are \$15,529.

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
2017	36,541
Average	21,164
Change from 2011 to 2018	+\$21,959
Percent Change from 2011 to 2018	+150%

For 2018, insurance costs for worker’s compensation through July are \$21,404.