



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-994

Posted:
Effective

March 23, 2016
April 1, 2016

OVER-ORDER PREMIUM

NOW, this 23rd day of March 2016, 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 April 1, 2016, and will expire at 12:00 midnight on September 30, 2016.

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 \$1.60 per hundredweight effective 12:01 a.m. on April 1, 2016, through midnight on September 30, 2016.

(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's 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

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: March 23, 2016

FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
March 1, 2016

FINDINGS OF FACT

1. On March 1, 2016, 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 46 Pennsylvania Bulletin 631 on January 30, 2016, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1521, dated January 14, 2016.
3. Dean Ellinwood testified on behalf of the Pennsylvania Association of Dairy Cooperatives (“PADC”) as an expert in raw milk marketing, procurement from producers, and sales to handlers. PADC members include Dairy Farmers of America, Inc., Dairy Marketing Services, LLC, Lanco Dairy Farms Co-Op, Inc., Land O’Lakes, Inc., and Maryland and Virginia Milk Producers’ Cooperative Association, Inc. PADC requested that the over-order premium be set at \$1.60 per hundredweight.
4. Mr. Ellinwood testified that Pennsylvania farm milk production had not kept pace with the national average and lost ground over the fourth quarter of 2015. He also testified that Pennsylvania dairy farmers had seen a drastic reduction in price paid to them, with little change expected through the third quarter of 2016. Mr. Ellinwood also noted that the northeast was seeing some plant expansions that would draw upon the area milk supply.
5. John Rutherford testified on behalf of PADC as an expert in agricultural economics. Mr. Rutherford testified in support of PADC’s request to set the over-order premium at \$1.60 per hundredweight for a six month period.
6. Mr. Rutherford testified that the economic conditions that warranted an over-order premium of \$1.60 per hundredweight through the end of March 2016 had not improved for Pennsylvania dairy farmers. Mr. Rutherford testified that it was not reasonable to expect improvement in the margin per hundredweight of milk that would be produced in 2016: he noted that the price of milk declined in 2015 and was predicted to remain depressed in 2016 while any change in feed prices would not be expected to be of a magnitude to offset the predicted lower milk prices.
7. Mr. Rutherford testified that milk prices for 2016 were expected to be flat or even lower for the majority of the year. He also testified that the feed cost outlook was mixed, with the average price of corn expected to remain similar to 2015, the average price soybean meal to be lower in 2016, and the average price of alfalfa hay likely to be greater in 2016.

8. Glenn Stoltzfus testified on behalf of Pennsylvania Farm Bureau. Mr. Stoltzfus is Chairman of Pennsylvania Farm Bureau's Dairy Committee and is a member of the Farm Bureau State Board of Directors. Mr. Stoltzfus operates Pennwood Farms in partnership with his three brothers. Pennwood Farms milks almost 600 Holsteins and raises all of its own heifer calves. Mr. Stoltzfus and his brothers farm approximately 1,300 acres. Pennwood Farms also does custom crop work and genetics work. Mr. Stoltzfus recommended that the over-order premium be set at \$1.60 per hundredweight for six months.
9. Pennwood Farms ships its milk to Maryland and Virginia Milk Producers Cooperative Association. Mr. Stoltzfus testified that the over-order premium plays a very important part in the financial stability of Pennsylvania dairy farms. He testified that in addition to its direct benefit, the over-order premium indirectly benefits farmers like him that ship to cooperatives by helping identify a target that helps obtain a more adequate level of voluntary premium in neighboring markets.
10. Mr. Stoltzfus summed up his testimony with the phrase "what a difference a year makes." He noted that at the September 2015 over-order premium hearing he had testified about how well Pennwood Farms had done in late 2014, only to be barely breaking even by the middle of 2015. At that time he also questioned whether his farm would be able to prepay 2016 expenses, as it had been able to do in previous years. Mr. Stoltzfus testified that his farm's financial situation had not improved over the past six months leading to a lack of sufficient cash to prepay input expenses in 2016. He also testified that he did not see very promising prices for the future.
11. Mr. Stoltzfus testified that feed, fuel, and commodity prices had decreased last year and that reduced input prices for 2016 would help. However, Mr. Stoltzfus also testified that the prices for feed, fuel, and other inputs had not declined at the same rate as the reduction in milk prices he had experienced over the past two years.
12. Michael Evanish testified on behalf of Pennsylvania Farm Bureau as an expert in dairy farm accounting and dairy business analysis at the September 2, 2015, over-order premium hearing. The record of Mr. Evanish's testimony from that hearing was incorporated by reference in the record of this hearing. The Board made the following findings of fact in Official General Order A-991 based on Mr. Evanish's prior testimony:
 - a. Mr. Evanish testified that while the prices received by Pennsylvania dairy farmers in 2013 and 2014 had helped them recover from the devastating financial effects of 2009 and 2010, that two-year period was a serious financial setback that still must be taken into consideration. He testified that the losses experienced during 2009 and 2010 had a depressing impact on subsequent business decisions and enthusiasm about the future, making owners less likely to take on the additional financial risk necessary to modernize their operations.

b. Mr. Evanish also testified that the unprecedented average net margin experienced by MSC-client dairy farms in 2014 was predominantly a reflection of high 2014 prices. He testified that Pennsylvania dairy farmers have seen increased production costs in recent years, and that with those increased production costs and the much lower 2015 producer prices, net margins for 2015 would be considerably reduced.

13. Matthew Espenshade testified on behalf of the Pennsylvania State Grange. Mr. Espenshade is a seventh generation dairy farmer in Lancaster County. Mr. Espenshade and his father milk 85 cows, raise their own replacement heifers, and farm 260 acres. Mr. Espenshade ships his milk to Mount Joy Farmers Co-Op. Mr. Espenshade is the Master of Elizabethtown Area Grange. The Grange requested that the over-order premium be set at \$1.60 per hundredweight.
14. Mr. Espenshade testified that while the blend price he received through the first nine months of 2015 had declined, purchased feed costs remained unchanged. He testified that through the late fall and winter of 2015 there was a rebound in the blend price along with a decrease in purchased feed costs, but that as 2016 began he experienced a sharp decline in milk price. Mr. Espenshade expected that once feed costs were calculated the downward trend in his profit margin would continue.
15. The Board finds that the over-order premium should be set at \$1.60 per hundredweight effective April 1, 2016, through September 30, 2016.

In so finding, we rely on the credible, persuasive, and uncontradicted testimony of Mr. Ellinwood, Mr. Rutherford, Mr. Stoltzfus, and Mr. Espenshade regarding market conditions, producer prices, production costs and conditions on Pennsylvania dairy farms, and the need for the over-order premium.

CONCLUSIONS OF LAW

1. The March 1, 2016, hearing on the over-order premium 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. The record of Michael Evanish's testimony from the September 2, 2015, over-order premium hearing was incorporated by reference into the record of this hearing.
7. 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.
8. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: March 23, 2016

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