

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**

September 7, 2016

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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 \$1.90 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. I am estimating from review of those records that Pennwood Farms incurred an average cost of \$21.60 per hundredweight in 2015 for production of milk. 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 learned the hard way from the dairy crash in 2009. In the year or so before 2009, instead of prepaying expenses, we updated equipment. Our decision not to prepay our feed, fertilizer and other production expenses hurt us, because during the dairy downturn, we still had to pay off the significant debt we incurred from these production expenses. We faced a significant financial challenge, as we saw our margins shrink. 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, unfortunately, we were unable to prepay our expenses for 2016.

Income over feed costs (IOFC) provides an excellent way to look at margins on farms. **Table 1** (page 9) shows the monthly averages of IOFC per cow for the first six months of 2016. As you can see from **Table 1**, our farm's IOFC for January was \$9.37. Over the six-month period, this number dropped by 29 percent to \$6.63 by June.

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 and 2016.

As you can see in **Table 2**, the average price of feed concentrate during this six-month period has increased from \$586.83 per ton in 2013 to mid-\$600 range in 2014 and 2015 before dropping to \$590 in 2016. In **Table 3**, our average January to June protein costs dropped from \$466.67 per ton in 2013 to \$359.17 per ton in 2016.

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 12) and **5** (page 13) provide figures for our total annual fuel cost (\$110,229 in 2015) and off-road fuel costs per gallon during our busy months (\$1.62 average in 2016), and demonstrate the continued need for the fuel adjuster. Our farm's insurance costs – for both our

property and liability and worker's compensation – have also increased, as you can see on **Table 6** (page 14) and **Table 7** (page 15). Our property and liability insurance has increased by 35 percent, from \$15,776 in 2011 to \$21,330 in 2015. Our worker's compensation insurance has also increased by 33 percent, from \$14,582 in 2011 to \$19,426 in 2015.

I hope these numbers give the Board a snapshot of what conditions we're facing on the farm. I want to highlight however that the downward trends in feed and gas prices don't mean that everything is fine. It's just the opposite. As we often say, margins tell the story. And with a 29 percent drop in income over feed costs from January to June, and further reductions since then, I can assure you that farms are struggling.

We came through 2015 okay. We didn't have any extra money, but because we did everything possible to reduce expenses and maximize feed efficiency, we were fine. In the first half of 2016, we were still doing "okay". We were definitely stretched thin, but we paid the bills, even though we put off updates, improvements and only did repairs that were absolutely necessary. But all that changed in April and May. Suddenly we weren't okay. Our margins took a hard hit – feed costs bumped up and milk checks went down even more. Since we were already operating a tight ship, there wasn't anything else we could do to reduce expenses. We had to call the bank for financial options and to develop a strategy for moving

forward. And, while times have been tough for my farm, I know there are other farmers in dire straits.

And there are still serious questions about the impact of this year's weather conditions will have on production of feed crops around the state. My little corner of Somerset County has been blessed with some very timely rain, giving our farm a very good hay harvest. I believe our farm should have average to above average corn yields as well. But, as you might know, other farmers haven't been so lucky and are facing low to no corn and hay yields this year. This will be a problem if milk prices continue to stay depressed and farmers find themselves needing to buy replacement feed and forage for crops that were wiped out by extreme weather conditions.

We have also been lucky so far this summer in Somerset County by not having too many days above 90 degrees in temperature. This meant that our milk production has remained strong. In other areas of the state, however, the heat and humidity have taken a toll on the cows.

Conclusion

I believe it's clear that Pennsylvania's 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 seriously below what we received during the

high period of milk prices in 2014 and 2015. Many farmers are very concerned that the financial harm from this recent downturn in price will be worse than what they experienced during 2009 price downturn. While it is positive to see projections for some price recovery on the horizon, I wonder if it will be enough. Maybe it will be enough for some dairy farmers, but I fear that the conditions in 2016 may be very challenging for farmers to recover from.

Again, Pennsylvania Farm Bureau strongly recommends that the Board adopt an order that increases the current Class I over-order premium to \$1.90 per hundredweight for the next six months, as well as continuing the Class I premium fuel adjuster established under the Board's current order.

When Farm Bureau's Dairy Committee recommended raising the over-order premium during our meeting in August, we did not make the decision lightly. The current conditions on dairy farms is difficult and some will even say dire. In the past, the Pennsylvania Milk Marketing Board has shown a willingness to raise the premium when conditions warranted it. As you may recall, in 2008, the Board increased the premium from \$1.35 to \$2.65 and it remained in place through the economic downturn when it was lowered in 2010 to \$2.15 again. Over the past few years, it has now dropped to \$1.60, the level it was at during part of 2007. It's time that the premium is raised again. Dairy farmers are counting on the Board to help them financially survive this downturn.

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	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	9.37	8.92	7.26	7.46	6.68	6.63
	Change from January to June	-\$2.74				
	Percent Change from January to June	-29%				

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
January	605	637	634	577
February	605	642	635	593
March	592	640	640	592
April	567	699	655	586
May	576	699	654	591
June	576	683	674	601
Average	586.83	666.67	648.67	590.00
	Change from 2013 to 2016	-\$3.17		
	Percent Change from 2013 to 2016	-0.01%		

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
January	495	435	503	320
February	475	390	435	320
March	472	410	415	310
April	458	410	405	365
May	450	405	380	398
June	450	405	390	442
Average	466.67	409.17	421.33	359.17
	Change from 2013 to 2016	-\$107.5		
	Percent Change from 2013 to 2016	-0.23%		

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
2011	159,346
2012	156,039
2013	170,339
2014	178,768
2015	110,229
Average	154,944
Change from 2011 to 2015	-\$49,117
Percent Change from 2011 to 2015	-31%

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
October	3.29	2.84	N/A	1.78
Average	3.33	3.21	2.17	1.62
	Change from 2013 to 2016	-\$1.71		
	Percent Change from 2013 to 2016	-51%		

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
Average	17,765
Change from 2011 to 2015	+\$5,554
Percent Change from 2011 to 2015	+35%

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	19,426
Average	17,240
Change from 2011 to 2014	+\$4,844
Percent Change from 2011 to 2014	+33%