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

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This testimony is offered on behalf of Pennsylvania Farm Bureau, an organization representing more than 61,400 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 75 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 is not the typical Pennsylvania family dairy operation. Our farm business needs to financially support the four owners and their families. So, in addition to having a larger herd size than what is normally managed on many farms, we've expanded our business activities to other areas to help supplement our income. For example, we do custom crop work for farmers. We also are commercially engaged in production and marketing of cows, and in performing breeding and genetics management, embryo transfer work, and other practices designed to provide high-quality milk cows for other farms. In fact, I'd estimate we've sold between 80 and 120 head per year for purposes other than culling for the last six to seven 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 continue the Class I over-order premium of $1.60 for six months. We also support continuation of the fuel adjuster premium as calculated under the Board's current Order.

The Need for the Requested Premium

Agriculture – including the dairy industry – can be challenging. As a farmer, I've had to learn to manage high levels of volatility in milk prices, input costs, feed costs and weather. We struggled through the lengthy periods of low milk prices. I've seen actions by government agencies to reduce some of the risk and volatility including the PMMB over-order premium, the former MILC program and the Dairy Margin Price Protection Program.

At Pennwood Farms, we've done our best to manage this volatility, by making sensible business decisions, managing our margins to the best of our ability, and utilizing government programs to help our farm avoid economic disaster. My brothers and I are always watching our dairy farm's current profit margins and looking for ways to save in good times. We find that's even more important than the price.

Since margins are so important to farmers, milk premiums, including the PMMB over-order premium, play a very important and helpful part in the financial stability of Pennsylvania dairy farms. Not only does the PMMB premium directly benefit those farmers whose milk qualifies for the premium that the Board requires to be paid, the PMMB premium also indirectly benefits farmers like me who ship to cooperatives. Although our milk is not subject to a "mandated" premium, the premium level established in the Board's pricing orders provides a target that helps us obtain a more adequate level of voluntary premium in neighboring markets.

Today, I'll recap some of my testimony from the last hearing and also offer a look at the cost and price factors on Pennwood Farms to demonstrate the continued need for the over-order premium.

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. I will be comparing the average costs our farm experienced in 2015 with those experienced in previous years. For some costs, the figures represent averages for the entire year. And for others, the figures represent averages for the period of April through September – the most appropriate time period to make cost comparisons between 2015 and previous years. These comparisons should provide the Board with some helpful insight on the effects that costs and cost trends have had on our farm over the last few years.

Prepaying expenses is one of those important lessons we learned over the years. 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. In fact, in 2014, we were able to prepay nearly 70 percent of our crop expenses, which likely had a positive impact on our cost of production numbers for those two years. Unfortunately, prepaying expenses isn't always possible. And, a little later in my testimony, I'll talk about some of the challenges we are facing on the farm.

Income over feed costs (IOFC) provides an excellent way to look at margins on farms. **Table 1** (page 13) provides monthly averages of income and costs per cow experienced by Pennwood Farms for the six-month period of April through September 2015. 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 $7.59, and increased by 56 cents to $8.15 in September. However, for all of the other months in this period, IFOC was at or below April's figures, and were consistent with the changes in average monthly price we received on our milk check.

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 14) and **3** (page 15) contain monthly comparisons of prices paid by our farm to purchase feed concentrate and protein in 2013, 2014 and for the months of April through September.

As you can see in **Table 2**, the average price of feed concentrate during this six-month period has increased from $595 in 2013 to $655 in 2014 before dropping slightly to $650 in 2015, for an overall increase of nine percent.

In **Table 3**, our average April to September protein costs rose from $448 in 2013 to $458 in 2014 before dropping to $417, for an overall decrease of seven percent.

To combat upswings in soybean meal over the last few years, we've switched between using soybean meal and canola meal in our feed rations, depending on which was priced more affordably. While I don't like to switch between feedstuffs for our cows, switching helps us maximize our management of feed costs without adversely impacting milk production and herd health, since canola and soybean has fairly similar protein properties. However, even though canola was often lower in price, we had problems with availability due to transportation from the Midwest.

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 moderated in 2015, the reduction in recent costs have not offset the drastic increases in fuel cost experienced by our farm in previous years. **Tables 4** (page 16) **and 5** (page 17) provide figures for our total annual fuel costs for the previous 5 years (2011 through 2015), and the average price for off-road fuel per gallon experienced for the months of April through

September in each of the previous three years (2013 through 2015). We've been pleased to see our total fuel costs for 2015 drop significantly – by over $68,000 – from the costs we had experienced in 2014. However, the average of costs incurred for fuel for the 5-year period are just slightly below the costs we experienced in 2011. And we experienced sharp increases in total fuel costs in 2013 and 2014, as shown in **Table 4**, with costs jumping by approximately $11,000 (almost 7 percent) in 2013 and more than $19,000 (more than 12 percent) in 2014 from 2011's level.

When our fuel costs are considered beyond 2015 to include the cost increases we experienced in prior years, continuation of the fuel adjuster is still needed to allow us to recoup our costs for those years.

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 2015 by approximately $1.24 or 38 percent. I certainly hope this trend continues.

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 18) and **Table 7** (page 19). Our property and liability insurance has increased significantly each year since 2012. Last year's property and liability cost was $21,330 – more than $5,500 (35 percent) higher than 2011's premium cost of 15,776. Our worker's compensation insurance has also increased by 33 percent, from $14,582 in 2011 to $19,424 in 2015.

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.

I think the best way to conclude this testimony is: *What a difference a year makes.* At last September's over-order premium hearing, I spoke about how well we had been doing in late 2014, but then suddenly as we hit the halfway point in 2015, we were barely breaking even. I questioned whether our farm would be able to prepay expenses for 2016, as we were able to do financially in previous years. Unfortunately, our financial situation has not improved over the last six months, and I'm not seeing very promising prices on the horizon.

The concern I expressed in September on our farm's financial ability to manage 2016 costs through advance purchases of farm inputs had become reality. We didn't have sufficient cash to prepay our input expenses this year, as we have been able to do in prior years. We have been fortunate to see that prices for many of the inputs we purchase are lower than prices being charged at the end of last year. I’m pretty certain these prices will again start to increase soon, and we will need to be making purchases on these items to manage this year’s farm costs. Unlike previous years, we will need to use credit, rather than cash, to make these purchases.

We have been significantly benefited in managing our costs by last year’s reduction in prices for feed, fuel and commodities. And this year’s reduction in input prices will certainly help. But, as I’ve mentioned in my testimony, we pay very close attention to our margins, and the fact is the prices for feed, fuel and other inputs just haven’t declined at the same rate as the serious reduction in milk prices we’ve experienced over the past two years. And the federal Dairy Margin Protection Program has not been a factor for the majority of dairy farmers.

At Pennwood farms, we’ve been watching those margins. We’ve been looking for ways to cut costs, smoothing the bumps we’ve felt as prices have dropped. Over the last year, we’ve culled much heavier than normal, selling our less profitable cows where before we might have been more willing to keep them on. Fortunately, we have plenty of young stock coming on and haven’t had to reduce our herd size *yet*, but that is certainly an option we may have to consider. We’ve also been able to sell bred heifers and fresh cows, also helping our cash flow.

We’re also fortunate to have a good relationship with our banker. Our banker is willing to extend our line of credit so we can purchase the inputs we need for spring planting.

It’s also important to remember the other pressures that challenge us. Environmental regulations are a major challenge farmers are facing. For farmers in the Chesapeake Bay watershed, the thought of having to potentially losing 15 to 20 percent of valuable cropland from production to meet the TMDL requirements would be devastating. And the Waters of the U.S. rule recently issued by the federal Environmental Protection Agency, if not blocked and eliminated by our courts, will create a nightmare of additional regulations and restrictions in use of nearly every acre of land that dairy farmers need to produce feed crops for their cows.

As farmers, we’re used to dealing with uncertainty. Milk prices, weather, input prices – the list goes on. So, what does all this mean for dairy farmers? I think it means we’re headed for tougher times again. And, I fear that many of Pennsylvania’s dairy producers are already there. There seems to be some positive signs that milk prices may increase during the second half of the year, especially if exports of dairy products increase as some economists are predicting.

Regardless of what does happen, at Pennwood Farms, we'll continue to watch for every opportunity to cut our costs and reach for additional profits. And, I'm sure other farmers will be doing just the same. We're not quite ready to ask for an increased Over-Order Premium, but there is a definite need for the premium to stay the same.

As a result, 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.

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[1]
Pennwood Farms

2015	April	May	June	July	Aug	Sept
Milk Check	16.68	16.56	16.09	15.89	16.06	17.21
Milk Income per Cow	12.51	12.42	12.06	11.90	12.05	12.90
Feed Cost per Cow	4.92	4.82	4.87	4.85	4.81	4.75
Income Over Feed Costs	**7.59**	**7.60**	**7.19**	**7.05**	**7.24**	**8.15**

Average IFOC for 6-Month Period	**7.47**
Difference and Percent Difference in Avg. 6-Month IFOC from April	**-0.12 (-1.6%)**

[1] Background: Milk check includes quantity and quality premiums paid by our cooperative; based upon an approximate average of 75 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 Concentrate[2] for Select Months
Pennwood Farms

Month	2013	2014	2015
April	567	699	655
May	576	699	654
June	576	683	674
July	620	660	669
Aug	618	590	625
Sept	615	597	620
Average	**595**	**655**	**650**
	Change from 2013 to 2015	**+55**	
	Percent Change from 2013 to 2015	**+9%**	

[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 Meal[3] for Select Months
Pennwood Farms

Month	2013	2014	2015
April	458	410	405
May	450	405	380
June	450	405	390
July	450	390	460
Aug	450	575	440
Sept	430	563	425
Average	**448**	**458**	**417**
	Change from 2013 to 2015	**-31**	
	Percent Change from 2013 to 2015	**-7%**	

[3] We fed canola meal from April 2013 through March 2014. All prices for canola and soybean meal are per ton.

Table 4 – Total Annual Fuel Cost[4]
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%
Average	**154,944**	**-4,402**	**-2.8%**

[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
April	3.49	3.44	2.14
May	3.24	3.39	2.19
June	3.24	3.39	2.19
July	3.25	3.25	2.09
Aug	3.24	3.22	1.84
Sept	3.29	3.17	1.84
Average	**3.29**	**3.31**	**2.05**
	Change from 2013 to 2015	**-1.24**	
	Percent Change from 2013 to 2015	**-38%**	

Table 6 – Farm Insurance – Property and Liability[5]
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	19,424
Average	**17,240**
Change from 2011 to 2015	**+4,842**
Percent Change from 2011 to 2015	**+33%**