PFB EXHIBIT 2

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 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 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 is not an easy, nor predictable industry in which to make a living – and dairy is no exception. I've been dairy farming since graduating high school in 1984 and, in my years as a dairy farmer, my family has had to manage the farm through 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. Over the years, we've learned key lessons – particularly during the hard times – and I'll talk about some of those lessons through my testimony today.

I don't think you can talk about dairy prices and on farm conditions without talking about 2009. Without question, it was a tough year on our farm. As with many other farm families, the huge losses from low milk prices caused a serious drain on the net equity of our farm. And we were set back at least two years in the business plan we wanted to do to improve the farm business. By 2011, we had gotten ourselves back financially to where we were prior to the crash.

My brothers and I are always watching our dairy farm's current profit margins. Even in the good times, we are always trying to figure out how to save. We find that's even more important than the price. We try to make wise business decisions to control our costs for producing milk, because as we learned in 2009, disastrous prices can come at us pretty quickly.

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 2015, 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. 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.

Income over feed costs (IOFC) provides an excellent way to look at margins on farms. As you'll see on **Table 1** (page 13), our farm's IOFC for January was $8.40. Over the six-month period, this number dropped by 14 percent to $7.19 by June. It's worth noting that our IOFC in December 2014 was $11.29, so a drop of $2.89 in just one month or $4.10 in a half a year is very significant for our farm.

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) show prices of feed concentrate and protein for January through June for 2013, 2014 and 2015.

As you can see in **Table 2**, the average price of feed concentrate during this six-month period has increased from $586.83 in 2013 to $666.67 in 2014 before dropping slightly to $648.67 in 2015, an overall increase of 11 percent.

In **Table 3**, our average January to June protein costs dropped from $466.67 in 2013 to $409.17 in 2014 before rising to $421.33 in 2015. Overall, however, the average price of protein during this six-month period decreased by nine percent from 2013 to 2015.

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 more recently, fuel costs overall are still high. **Tables 4** (page 16) **and 5** (page 17) provide figures for our total annual fuel cost and off-road fuel costs per gallon for select months, and demonstrate the continued need for the fuel adjuster. We've seen our fuel costs rise every year between 2011 and 2014, with the exception of a slight drop in 2012 (**Table 4)**. During this time, we've seen a 12 percent increase ($19,422) for our fuel – this includes on and off road fuel, diesel and propane. During our "busy season" months (see **Table 5**) our fuel costs have fallen for the months in question between 2013 and 2015 by approximately $1.16 or 35 percent. I certainly hope these trends continue – and hope to see our 2015 drop considerably from our 2014 highs.

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 18) and **7** (page 19). Our property and liability insurance has increased by 26 percent, from $15,776 in 2011 to $19,947 in 2014. Our worker's compensation insurance has also increased by 18 percent, from $14,582 in 2011 to $17,206 in 2014. I hope to have updated 2015 totals for you at the next over-order premium hearing.

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.

At the last hearing, I expressed optimism about the lower prices that were projected, saying that I thought it would be short-lived. Unfortunately, I have much less optimism for the fall and the next six-month period of the over-order premium. It looks like we're headed for a period of low prices that we'll all have to work through. There's lots of milk out there and there's not a whole lot we, as dairy farmers, can do to impact that. The current milk prices have been a shot of reality. And, though feed costs have inched down, the price of milk has dropped much more quickly.

All of a sudden, we're barely breaking even. Last year, as I mentioned, we were able to prepay many of our expenses for 2015 which has helped greatly. But if we're looking at another year of lower prices, it will definitely hurt our farm. Particularly, if these lower prices carry into next spring and we're unable to prepay our expenses.

We’ll definitely have to buckle down and look for ways to stretch our margins as much as possible. We’re fortunate on our farm – we have more cows than we need and have been able to make money in the last year, culling cows. I can imagine a scenario where we may need to downsize by 50 to 100 cows as a way to ensure better profitability. It’s harder for farmers without this cushion.

Looking at the crop side, farmers have been seeing varying conditions around the state. For Pennwood Farms, our crop forecast is mixed. We had great emergence of our corn in May, but by June the rains came and we had to purchase more nitrogen than planned. Now, depending on the field, we’re seeing crop yields ranging from very good to very poor. I’m not sure at this point whether this year’s production of corn silage will reach the amount we produce during a normal growing year.

Also, as a result of the rains, we’ve struggled to make dry hay. We have a greater quantity of hay, but not necessarily good quality. We should have sufficient time left in the growing season to make enough hay for at least one more cutting. But if the quality of hay does not improve, we will likely need to make additional purchases of higher quality hay or other feed supplements to provide our cows the level of nutrition they need to maintain their current level of milk production.

As I mentioned at the last hearing, there are other challenges that are important to mention. New technology – software, equipment and other advances – as well as increased regulations certainly have an impact on profit. As we look at the slew of regulations coming at us, I am very concerned. For example, recent regulations issued by the federal Environmental Protection Agency under its "Waters of the U.S." rule could subject as 99 percent of Pennsylvania land to federal regulation. This rule, which goes into effect later this month, has the potential to impose serious permitting requirements and farming restrictions on virtually every acre of land that my family and other farm families use to farm. And, the recent listing of the Northern Long-Eared Bat as threatened under the Endangered Species Act may impact my use of pesticides and how I can use my property. Those two examples alone leave a very big question mark on how regulations may impact my operation.

For my farm, we need to keep moving forward to improve our farm, manage financial and weather-related risks, apply innovative production practices when it makes sense, and comply with increasing governmental regulations, all while paying careful attention to our margins. It's so important to remember that maintaining a positive margin will keep Pennwood Farms in business.

Like many other dairy farms, we need to grow as much feed as possible and additionally purchase feed supplements to balance our cows' nutrition and maintain a level of milk production that will pay our bills and provide our families with a reasonable livelihood. That livelihood is constantly threatened by unpredictable and volatile forces of weather and price. Although our farming operations overall may be more diverse than those of other Pennsylvania dairy farms, we are still largely dependent on our milk check to keep our farm financially stable. The level of premium actually received by dairy farmers is vitally important to the financial stability of Pennsylvania's dairy farms. And PMMB's mandated over-order premium plays a significant role in the level of total premiums that are paid to the Commonwealth's dairy farmers.

Again, 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	January	February	March	April	May	June
Milk Check	17.95	17.33	16.75	16.68	16.56	16.09
Milk Income per Cow[2]	13.46	12.99	12.56	12.51	12.42	12.06
Feed Cost per Cow[3]	5.06	5.03	4.97	4.92	4.82	4.87
Income Over Feed Costs	**8.40**	**7.96**	**7.59**	**7.59**	**7.60**	**7.19**
	Change from January to June	**-$1.21**				
	Percent Change from January to June	**-14%**				

[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[4] for Select Months
Pennwood Farms

Month	2013	2014	2015
January	605	637	634
February	605	642	635
March	592	640	640
April	567	699	655
May	576	699	654
June	576	683	674
Average	**586.83**	**666.67**	**648.67**
	Change from 2013 to 2015	**+$61.98**	
	Percent Change from 2013 to 2015	**+11%**	

[4] 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[5] for Select Months
Pennwood Farms

Month	2013	2014	2015
January	495	435	503
February	475	390	435
March	472	410	415
April	458	410	405
May	450	405	380
June	450	405	390
Average	**466.67**	**409.17**	**421.33**
	Change from 2013 to 2015	**-$45.34**	
	Percent Change from 2013 to 2015	**-9%**	

[5] 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 Cost[6]
Pennwood Farms

Year	Total
2011	159,346
2012	156,039
2013	170,339
2014	178,768
Average	**166,123**
Change from 2011 to 2014	**+$19,422**
Percent Change from 2011 to 2014	**+12%**

[6] 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
October	3.29	2.84	N/A
Average	**3.33**	**3.21**	**2.17**
	Change from 2013 to 2015	**-$1.16**	
	Percent Change from 2013 to 2015	**-35%**	

Table 6 – Farm Insurance – Property and Liability[7]
Pennwood Farms

Year	Total
2011	15,776
2012	14,521
2013	17,249
2014	19,947
Average	**16,873.25**
Change from 2011 to 2014	**+$4,171**
Percent Change from 2011 to 2014	**+26%**

[7] 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
Average	**16,694.00**
Change from 2011 to 2014	**+$2,624**
Percent Change from 2011 to 2014	**+18%**