



**Commonwealth of Pennsylvania**  
Milk Marketing Board  
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Official General  
Order No. A-996

Posted:  
Effective

March 21, 2017  
April 1, 2017

### **OVER-ORDER PREMIUM**

NOW, this 21<sup>st</sup> day of March 2017, 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, 2017, and will expire at 12:00 midnight on September 30, 2017.

#### **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, 2017, through midnight on September 30, 2017.

(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

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Luke F. Brubaker, Chairman

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Lynda J. Bowman, Consumer Member

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James A. Van Blarcom, Member

Date: March 21, 2017

**FINDINGS OF FACT AND CONCLUSIONS OF LAW**  
**OVER-ORDER PREMIUM HEARING**  
**February 28, 2017**

FINDINGS OF FACT

1. On February 28, 2017, 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 47 Pennsylvania Bulletin 396 on January 21, 2017, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1525, dated January 11, 2017.
3. 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. Pennwood Farms ships its milk to Maryland & Virginia Milk Producers Cooperative. Mr. Stoltzfus recommended that the over-order premium be set at \$1.60 per hundredweight for six months.
4. Mr. Stoltzfus testified that he estimated that his cost of production for 2016 would be similar to his 2015 cost. Mr. Stoltzfus testified that income over feed costs (“IOFC”) provided an excellent way to look at margins on farms. Pennwood Farms’ IOFC ranged from \$6.63 per hundredweight to \$9.03 per hundredweight from April 2016 through September 2016. Providing further detail, Mr. Stoltzfus testified that Pennwood Farms’ feed concentrate cost, for the April through September period, had overall decreased 2% from 2013 to 2016, while its soybean/canola meal cost had decreased 11% over the same period. Pennwood Farms’ annual fuel cost also decreased from 2013 through 2016. In contrast to these reductions in cost, Pennwood Farms’ workers’ compensation and property/liability costs increased from 2013 through 2016.
5. Mr. Stoltzfus testified that while there were some signs that producer milk prices may recover during the latter part of 2017, it becomes more difficult for dairy farmers to recover from the current period of lower prices the longer the lower prices continue. Mr. Stoltzfus also testified that while Farm Bureau’s State Dairy Committee understands the milk supply challenges in the northeast, the Pennsylvania Farm Bureau strongly recommended that the over-order premium be set at \$1.60 per hundredweight for the next six months. Mr. Stoltzfus testified that this level of premium is needed to help Pennsylvania dairy farmers make it through the current price challenges.
6. Micheal Evanish testified on behalf of Pennsylvania Farm Bureau as an expert in farm business analysis, including analysis of farm cost of production and farm income, at the

September 7, 2016, over-order premium hearing. Mr. Evanish's prepared testimony and tables from that hearing were admitted to the record of this hearing. The Board made the following findings of fact in Official General Order A-995 based on Mr. Evanish's testimony at that hearing:

- a. While 2014 was a very positive financial year for Pennsylvania dairy farms, 2015 was not, with a substantial drop in prices from 2014 to 2015. While prices for the remainder of 2016 were not certain, it was certain that the current price being received for milk did not support current reasonably expected costs of production.
  - b. The current state of the Pennsylvania dairy producer base was one of unprofitability. 35 percent of the dairy farms included in his averages were profitable in 2015 while 65 percent were not profitable. While commodity prices dropped in 2015, that reduction did not help Pennsylvania dairy farmers absorb the milk price reduction experienced in 2015. Purchased feed and crop expenses for MSC client farms represented 46 percent of the average milk price in 2015, compared to 38 percent in 2014.
7. 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 75 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.
  8. Mr. Espenshade testified that because he is a member of a cooperative, he and other members could expect to receive at least 25 to 40 cents per hundredweight from the over-order premium, as it is spread across all members regardless of the milk's class, processor location, and final destination. He testified that on his farm's monthly statements from his cooperative, the over-order premium is included among the bonuses and premiums.
  9. Mr. Espenshade testified that he is beginning to see encouraging signs in his milk checks, with his blend price increasing from \$16.80 per hundredweight to \$18.07 per hundredweight in his most recent check, compared to an average of \$15.54 per hundredweight for 2016. However, Mr. Espenshade testified he was still seeing negative effects of the past summer's heat – increased energy consumption leading to higher electric bills, and fewer pregnant cows leading to a higher overall breeding expense as well as a hole in his calendar next summer where fewer new cows will be coming into milk.
  10. Mr. Espenshade also testified that his cooperative had made notable changes to its quality bonus program. Bonuses for higher quality milk have been lowered and penalties for lower quality milk have increased. He testified that the quality bonuses are a significant motivation and that the financial reward for diligence cannot be overstated.

Mr. Espenshade testified that while producers may be challenged by the quality bonus decision, the steps were necessary to remain competitive in the northeast, where there is an abundant milk supply.

11. Arden Tewksbury testified on behalf of Progressive Agriculture Organization and the National Family Farm Coalition; he is the manager of Progressive Agricultural Organization and the Chairman of the Dairy Sub-Committee of the National Family Farm Coalition. Mr. Tewksbury recommended that the over-order premium be set at \$1.60 per hundredweight. While noting that prices paid to dairy farmers had recovered approximately \$3.00 per hundredweight from the lower prices of 2015 and 2016, Mr. Tewksbury also testified that the current prices were not adequate to cover Pennsylvania farmers' cost of production. He also testified that the recommended level of \$1.60 per hundredweight was near the \$1.50 per hundredweight premium that Readington Farms in Whitehouse Station, New Jersey, pays its dairy farmers, a large majority of whom are Pennsylvania producers. Mr. Tewksbury testified that any lowering of the over-order premium could create unintended consequences for many dairy farmers in Pennsylvania.
12. Gary Gojsovich testified on behalf of Board Staff. Board Staff took no position on the level of the over-order premium, but did provide data regarding income over feed costs for calendar years 2015 and 2016 and January 2017 as reported in Penn State's monthly Dairy Outlook. The data correspond generally to testimony the Board has received from dairy farmers over that time period regarding their individual income over feed costs.
13. The Board finds that the over-order premium should be set at \$1.60 per hundredweight from April 1, 2017, through September 30, 2017.

In so finding, the Board relies on the persuasive, credible, and uncontradicted testimony of Mr. Stoltzfus, Mr. Espenshade, and Mr. Tewksbury. The Board also notes the generally corroborative nature of the data presented by Board Staff regarding IOFC and the IOFCs presented in testimony.

The Board recognizes the challenging nature of the milk supply situation in the northeast and relies on the testimony of the organizations that appeared at the hearing, which all recommended that the over-order premium be set at \$1.60 per hundredweight. The Pennsylvania Farm Bureau, the Pennsylvania State Grange, Progressive Agriculture Organization, and the National Family Farm Coalition, all representing Pennsylvania dairy farmers, all recommended that the over-order premium be set at \$1.60. No testimony from any dairy farmer or other organization offered an alternative level or duration. Therefore, the Board finds that the over-order premium should be set at \$1.60 per hundredweight.

CONCLUSIONS OF LAW

1. The February 28, 2017, 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. 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.
7. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD

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Luke F. Brubaker, Chairman

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Lynda J. Bowman, Consumer Member

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James A. Van Blarcom, Member

Date: March 21, 2017

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