



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-998

Posted: September 20, 2017
Effective October 1, 2017

OVER-ORDER PREMIUM

NOW, this 20th day of September 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 October 1, 2017, and will expire at 12:00 midnight on March 31, 2018.

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 October 1, 2017, through midnight on March 31, 2018.

(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: September 20, 2017

FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
August 30, 2017

FINDINGS OF FACT

1. On August 30, 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 4065 on July 22, 2017, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1533, dated July 11, 2017.
3. Troye Cooper 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. Mr. Cooper testified that the over-order premium should be \$1.60 per hundredweight through March 31, 2018. He testified that while the Northeast has had an excess milk supply, schools would be going back into session and would require additional milk volumes and that plant expansions were continuing in the Northeast that would further draw upon the area milk supply. Mr. Cooper also testified that PADC members had endured lower milk prices over the past months and those members need every dollar available to pay bills.
4. Mr. Cooper testified that since the end of February 2017 several dairy plants had increased receipts of producer milk: the Lanco Dairy Farms Co-op plant in Hancock, Maryland is receiving additional milk to produce cheese; Dairy Farmers of America is expanding its Middlebury Center, Pennsylvania, plant to manufacture additional dairy products and is expanding its Craigs Station Creamery plant in western New York to begin cheese manufacturing; Albertson’s is planning to begin fluid processing at a plant in Hatfield, Pennsylvania; and Upstate Niagara Cooperative purchased a cheese plant in Campbell, New York.
5. John D. Rutherford, Jr., testified on behalf of PADC as an expert in agricultural economics. Mr. Rutherford testified that the over-order premium should be \$1.60 per hundredweight through March 31, 2018. Mr. Rutherford testified that average milk and feed prices in the coming months should remain consistent with where they were one year prior and that such relative stability in feed costs and milk price should be acknowledged in a similar stability in the over-order premium.
6. Mr. Rutherford testified that June 2017 milk production was the same as June 2016, breaking a string of nine consecutive months of increases. Year-to-date Pennsylvania milk production was up 2.06% compared to 0.15% through June 2016. The recent growth in milk production was due to higher production per cow, which was up 3.02% through June 2017. Mr. Rutherford testified that the number of dairy cows in Pennsylvania decreased 5,000 last year, to 525,000, from July to November. He

testified that, given the timing, the poor supply situation for dairy forages as a result of drought conditions in some areas of the state likely played a role in reducing the Pennsylvania dairy herd.

7. Mr. Rutherford testified that the Pennsylvania all-milk price averaged \$17.15 per hundredweight for 2016, with the price improving in the second half of the year versus the first half. He testified that the Pennsylvania all-milk price for the first six months of 2017 averaged \$18.60 per hundredweight, 13.2% greater than the year prior first six months average of \$16.43 per hundredweight. Mr. Rutherford testified that the feed cost decreased through May 2017, leading to an increase in income over feed cost for the period.
8. Mr. Rutherford testified that futures markets indicated that feed prices through the end of 2017 would be similar to, or slightly lower than, the same period last year. He also testified that the futures-based expectation was for a slightly higher than year-prior Pennsylvania all-milk price. Mr. Rutherford testified that he did not see any indications for a major move in either milk price or feed costs and opined that it was not likely a major change in margin over feed cost would occur for Pennsylvania dairy farmers.
9. Micheal Evanish testified on behalf of Pennsylvania Farm Bureau as an expert in farm accounting and farm business analysis. Mr. Evanish testified that the over-order premium should be \$1.60 per hundredweight through March 2018.
10. Mr. Evanish is the Manager of MSC Business Services (“MSC”). MSC provides an array of services to assist farmers economically manage their farm operations. As part of those services, MSC provides historical cost of production figures and projections. Mr. Evanish testified that MSC clients, on average, have experienced losses in four of the past eight years (2009 – 2016). Mr. Evanish testified that the Board should be concerned with both the level of loss and the length of time that dairy farmers have operated at a loss; losses for the average MSC-client dairy farm continued for both 2015 and 2016. He testified that economic indicators for 2017 were modestly encouraging, but did not suggest that Pennsylvania dairy farms would receive the level of financial recovery needed to recover from losses incurred the past two years.
11. Mr. Evanish testified that 19% of MSC-client dairy farms were profitable in 2016, compared to 35% that were profitable in 2015. He testified that the dismal financial returns received by dairy farmers have a depressing impact on farmers’ subsequent business decisions and enthusiasm toward investing in their businesses. He testified that without enthusiasm for the future, owners were less likely to take on additional financial risk to modernize their operations and were less likely to promote dairy farming as a career to the next generation.
12. 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 livestock sales, but 80% - 90% of the income comes from the operation's milk check. 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.

13. Mr. Stoltzfus testified that he estimated that his cost of production for 2016 would be \$21.65, slightly higher than the 2015's average of \$21.60; he testified that he expected the annual average cost of production for 2017 to be similar to that for 2016. Mr. Stoltzfus testified that cost of production is a good indicator of how he's managing the farm, but that income over feed costs ("IOFC") was a more helpful indicator of the farm's profit margin from dairy production.
14. Mr. Stoltzfus calculated Pennwood Farms' IOFC for each of the first six months of 2017 to be higher than each of the first six months of 2016. The IOFC generally trended downward for each of the months through the period. He testified that because of the serious reduction in income in 2016, his farm was not able to prepay for as many of 2017's inputs as in previous years and that not being able to prepay results in lost discounts and tax advantages.
15. Pennwood Farms grows all of its own corn silage, alfalfa, and hay. Mr. Stoltzfus testified that there is a lot of uncertainty heading into the harvest. He testified that some farmers have had banner years for corn while others have struggled; he testified that the quality and health of his own corn does not appear to be bad but he suspects yield will be lower than normal. He testified that while the farm has produced a lot of hay, he's not sure the quality will be good enough.
16. Mr. Stoltzfus testified that there is potential for the next six months to look brighter for the dairy industry. He testified that more plants will come on line and milk prices will rise due to students returning to schools and increased holiday baking season demand. However, he testified that the recent prolonged period of unprofitable milk prices and the current excess supply relative to demand had not inspired farmers to be optimistic about their future in dairy farming.
17. 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 \$1.00 - \$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.

18. The Board finds that the over-order premium should be set at \$1.60 per hundredweight from October 1, 2017, through March 31, 2018.

In so finding, the Board relies on the persuasive, credible, and uncontradicted testimony of Mr. Cooper, Mr. Rutherford, Mr. Evanish, Mr. Stoltzfus, and Mr. Tewksbury.

CONCLUSIONS OF LAW

1. The August 30, 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

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: September 20, 2017

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