

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 4, 2019

**Presented by Glenn Stoltzfus
Dairy Farmer, Pennwood Farms
Chairman, PFB Dairy Committee**

Introduction

This testimony is offered on behalf of Pennsylvania Farm Bureau, an organization representing the 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, in Berlin, Somerset County. We milk just shy of 700 Holsteins. We also raise and feed all of our approximately 250 heifer calves. 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 1,700 acres (1,200 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 and hay.

As mentioned at previous hearings, our farm business operates differently from what many would consider to be typical Pennsylvania dairy farms. We need to generate levels of income that financially support four families. So, in addition to having a larger herd size for milk production, we're engaged in other income-

producing enterprises such as custom cropping and dairy breeding and livestock sales.

In addition to helping operate and manage Pennwood Farms, I currently serve on Pennsylvania Farm Bureau's Board of Directors, as well as chairing Farm Bureau's State Dairy Committee.

Farm Bureau would like to thank the Pennsylvania Milk Marketing Board (PMMB) for providing the opportunity to offer testimony regarding the level of over-order premium. The objective of our testimony today is to offer evidence in support of our recommendation that the Board maintain the base level of Class I over-order premium at \$1.00 per hundredweight for six months, with 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. Pennwood Farms incurred an annual average cost of \$18.37 per hundredweight in 2018 for production of milk. Based on our farm's financial history and my understanding of operations, I would expect our farm's annual average cost of production for 2019 to be very similar to our average for 2018.

While cost of production is helpful indicator of how well we're managing our farm, other measures give us a clearer understanding of how profitable our farm is really operating. Income over feed costs (IOFC) is a more helpful indicator of the profit margin that the farm is getting from dairy production.

Table 1 (Page 9) shows the estimated monthly averages of IOFC per cow for Pennwood Farms during the first six months of 2019. And **Table 1a** (page 10) shows IOFC for the same months in 2018. As you can see, our farm's IOFC for January started off at \$7.75. Over the six-month period in 2019, this number fell slightly in February and March, then began rebounding in April. June ended with an IOFC that was 44 cents higher than January.

As I testified at the March over-order premium hearing, 2018 was a rough financial year for our farm. And you can certainly see that reflected when comparing our farm's 2019 monthly IOFC averages with the same six months in 2018. Each month-to-month comparison of IOFC for 2019 was higher. We started off in January with an IOFC that was 60 cents higher than the same month in 2018, and we ended in June with an IOFC that was \$1.70 higher. I sure hope that other dairy farmers are seeing similar trends with their IOFC.

As I've testified previously, when milk prices are low, we must make hard decisions on the farm. Over the last few years, we've really been in survival mode. We looked for ways to cut expenses and make the most of the much lower income we were receiving on our milk. We have been living lean on our farm – and this means we continue to look for ways to be better at what we do. This includes our dairy herd, field work and managing our employees, making even small tweaks to ensure we are running our farm in the most efficient and effective way possible.

Some of the tough decisions we've had to make during these past several years include not hiring replacement workers, delaying or simply performing minimal repairs instead of the fixes that are really needed, and adjusting feed rations. As we've seen conditions improve we've been able to ease up on our restrictions to a point. We were able to hire some new workers (though not as many as we need), and have performed some of our repairs to equipment and structures over the last few months. But we still have some other major repairs that need to be done.

We've also adjusted feed rations to reduce costs. At the March hearing, I testified that our attempt to adjust our feed rations had a negative impact on our pounds of milk production per cow. Fortunately, we've had excellent haylage recently, so our cows have been performing well once again.

Because of low milk prices we received in 2018, we were not able to prepay most input expenses – such as seed, fertilizer and other inputs – for 2019.

Prepayment of input expenses for the following year allows us to take financial advantage of price discounts and tax benefits for purchases that have to be made every season for production of crops. We are hoping we may be financially able by the end of 2019 to prepay input expenses for the 2020 crop year.

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 11) and **3** (Page 12) show the average of prices paid for feed concentrate and protein during the six-month periods of January through June in years 2013- 2019.

As you can see in **Table 2**, for the first six months of 2019, the average price of feed concentrate was \$625.67 per ton. This figure is seven percent higher than the same period in 2013, and a few dollars less than the same period last year. In **Table 3**, our average January to June protein costs dropped 20 percent from the same period in 2013, and have also decreased about \$40 per ton from 2018.

We did begin contracting ground corn in the short term, which allows us to better plan our expenses and keep our costs down a little more. Looking ahead to fall, it looks like we will have better crops on our farm this year, which will hopefully help our margins as well.

Our farm's insurance costs – for both our property and liability and worker's compensation – have continued to increase significantly. **Table 4** (Page 13) and **Table 5** (Page 14) reflect annual expenses for property and liability insurance coverage and worker's compensation insurance coverage incurred by Pennwood Farms for years 2011 through 2018. As shown in **Table 4**, our property and liability insurance expense has increased by 97 percent, from \$15,776 in 2011 to \$31,131 in 2018. While we did have a fire in 2016, and purchased another farm and buildings, these costs have gone up significantly. And as shown in **Table 5**, our worker's compensation insurance expense has increased by 195 percent, from \$14,582 in 2011 to \$43,027 in 2018.

For 2018 alone, our costs for property and liability insurance and for worker's compensation insurance were more than \$7,000 higher than costs we incurred for coverage in 2017.

While I am not supplying specific numbers, cost for fuel continues to be a significant component of our farm's overall operation costs, and the level of expenses for fuel we have recently incurred is consistent with the level of fuel expenses discussed in testimony I've offered at previous over-order premium hearings.

Conclusion

The last few years have been incredibly challenging for the dairy industry. Depressed prices, additional trade war impacts, and the weather have all negatively impacted our operations. According to USDA, some 370 Pennsylvania dairy farmers ceased dairying. If things don't really turn around – and do so quickly – I am concerned that this number will climb much higher.

Fortunately, we are starting to see some signs of hope within the industry, and on my farm. More recent increases in our IOFC and steady feed costs have allowed us to lift some of our “living lean” measures – at least for the time being. And the modest but steady increase in recent producer prices helps me see there's possibly a positive light at the end of very dark tunnel for Pennsylvania dairy farmers. But, we're not through the tunnel yet.

The increases in milk checks that we have been getting in 2019 are probably not enough to make many Pennsylvania farmers financially recover from the losses they've suffered since 2015. But many of the factors causing the drastic drops in producer milk prices seem to be going away. And there seems to be a much better balance of supply and demand for milk and milk products in the marketplace than in previous years. Pennsylvania Farm Bureau would like to see these positive trends continue in future months and years.

The Over-Order Premium provides assistance to those producers whose milk qualifies for the premium. We appreciate the increased premium that the Board provided earlier this year, and believe continuing the current premium would continue to be helpful to dairy farmers. And we believe continuation of the current premium will not trigger the drastic conditions in the markets that hurt Pennsylvania dairy producer prices so badly for more than four years.

With that in mind, Pennsylvania Farm Bureau strongly recommends that the Board maintain the current base level of Class I over-order premium at \$1.00 per hundredweight for the next six months, along with the fuel add on.

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 – January – June 2019¹
Pennwood Farms

2019	January	February	March	April	May	June
Milk Check	16.25	16.31	15.83	16.19	16.93	16.94
Milk Income per Cow	13.00	13.04	12.66	12.95	13.54	13.55
Feed Cost per Cow	5.25	5.42	5.40	5.40	5.38	5.36
Income Over Feed Costs for 2019	7.75	7.62	7.26	7.55	8.16	8.19
	Change in IOFC from January to June	+0.44				
	Percent Change in IOFC from January to June	+6%				

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 1a - Income Over Feed Costs – January to June 2018²
Pennwood Farms

2018	January	February	March	April	May	June
Milk Check	15.48	13.84	14.07	14.56	14.68	14.92
Milk Income per Cow	12.38	11.07	11.26	11.64	11.74	11.94
Feed Cost per Cow	5.23	5.26	5.28	5.42	5.45	5.45
Income Over Feed Costs for 2018	7.15	5.81	5.98	6.22	6.29	6.49

² Background: Milk check includes any 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 Concentrate³ for Select Months
Pennwood Farms

Month	2013	2014	2015	2016	2017	2018	2019
January	605	637	634	577	582	598	619
February	605	642	635	593	590	625	617
March	592	640	640	592	596	632	625
April	567	699	655	586	596	633	632
May	576	699	654	591	599	640	633
June	576	683	674	601	594	644	628
Average	586.83	666.67	648.67	590.00	592.83	628.67	625.67
	Change from 2013 to 2019	+\$38.84					
	Percent Change from 2013 to 2019	+7%					

³ 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 Meal⁴ for Select Months
Pennwood Farms

Month	2013	2014	2015	2016	2017	2018	2019
January	495	435	503	320	345	370	385
February	475	390	435	320	346	390	375
March	472	410	415	310	360	435	365
April	458	410	405	365	350	425	368
May	450	405	380	398	362	440	372
June	450	405	390	442	360	425	383
Average	466.67	409.17	421.33	359.17	353.83	414.17	374.67
	Change from 2013 to 2019	-\$92.00					
	Percent Change from 2013 to 2019	-20%					

⁴ We fed canola meal from April 2014 through March 2014. All prices for canola and soybean meal are per ton.

Table 4 – Farm Insurance – Property and Liability
Pennwood Farms

Year	Total
2011	15,776
2012	14,521
2013	17,249
2014	19,947
2015	21,330
2016	24,405
2017	30,508
2018	31,131
Average	21,858
Change from 2011 to 2018	+15,355
Percent Change from 2011 to 2018	+97%

Property and Liability costs from January to June 2019 are \$14,200.

Table 5 – Farm Insurance – Worker’s Compensation
Pennwood Farms

Year	Total
2011	14,582
2012	14,608
2013	20,380
2014	17,206
2015	19,426
2016	25,403
2017	36,541
2018	43,027
Average	23,897
Change from 2011 to 2018	+\$28,445
Percent Change from 2011 to 2018	+195%

Worker’s Compensation costs from January to June 2019 are \$9,421.