Testimony of Pennsylvania Farm Bureau

Before the House and Senate Agriculture and Rural Affairs Committees

Regarding Chesapeake Bay Phase 3 Watershed Implementation Plan

Presented by John J. Bell
Senior Government Affairs Counsel
Pennsylvania Farm Bureau

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Good morning. I am John Bell and I am Senior Government Affairs Counsel for Pennsylvania Farm Bureau. I am offering this testimony on behalf of Farm Bureau and the more than 62,000 farm and rural families who comprise our membership.

We appreciate the opportunity to discuss matters of interest and concern pertaining to the anticipated development and implementation of Pennsylvania's Watershed Implementation Plan (WIP) for improving water quality pursuant to EPA's Total Maximum Daily Load (TMDL) for the Chesapeake Bay watershed.

Almost seven years ago at Ag Progress Days, I offered testimony to these Committees on behalf of Farm Bureau, which expressed serious concerns with the administrative posture taken at that time by EPA in response to Pennsylvania's effort to plan and implement measures for nutrient and sediment reduction in the Bay. The comments we offered here in 2010 were highly critical of the extreme and highly unfeasible pollution reduction mandates imposed generally on Pennsylvania and more specifically imposed upon Pennsylvania's nonpoint sectors within EPA's subjectively selected deadline of 2025.

Among the criticisms we stated in our 2010 testimony were:

- EPA's failure to understand or meaningfully analyze the costs to be incurred by Pennsylvania in meeting reduction goals with EPA's selected 15-year deadline.

- Negligible effort by EPA to educate state and local decision-makers and stakeholders of the workings of the Chesapeake Bay Model or how the Model can be used in helping state and local officials make sound and effective decisions on water quality improvement programs and projects.

- The continuously moving measurement of "current conditions" and "environmental effects" that resulted from several revisions to the Bay Model.

- A serious lack of commitment of technical personnel or timely analysis to help stakeholders make reasoned assessments or comparisons of benefits or costs among water quality improvement alternatives, leaving stakeholders to essentially make blind guesses about what may effectively and frugally move Pennsylvania toward Bay TMDL goals.

- The persistent threat of sanctions and penalties that Pennsylvania would face if the state didn't "adequately" move its land functions toward TMDL goals.

- Failure by EPA to approve common and professionally accepted methodologies for data collection and reporting of agricultural best management practices as acceptable for inclusion and crediting in the Chesapeake Bay Model.

If I can characterize in a sentence what we believed to be the functions and results of Pennsylvania's WIPs for agriculture and other nonpoint sectors these past several years, they were primarily comprised of abstract and unworkable demands by EPA and blanket guarantees by Pennsylvania. Little time or meaningful effort was made these past several years to determine who will carry out needed functions; what functions should be primarily focused on; where these functions should occur to give the best return on investment; how to nurture effective decision-making among communities; or what specific avenues should be pursued in effectively control costs or manage financing of water quality measures. All of these factors play key roles in Pennsylvania's future ability to make real progress in meeting EPA's TMDL reduction goals.

Looking at the prospects for Pennsylvania's development and execution a feasible and environmentally effective WIP for Phase 3, some progress has been made, relatively speaking, in Pennsylvania's relationship with EPA on Bay issues. Attitudes of EPA officials toward Pennsylvania have seemed to soften somewhat, and with less rhetoric and more positive spirit of helping Pennsylvania make steady and material progress toward achievement of TMDL goals:

While 2025 continues to be the publicly prescribed “deadline” for Pennsylvania and the Bay states, we are hearing some more positive and pragmatic statements from EPA about that deadline and the type of state action that EPA may consider to be complying with the deadline. I note for the Committees a change made to the draft minutes of the May 8 meeting of Pennsylvania’s Phase 3 Steering Committee – a change that was prompted by EPA. EPA asked for a clarification in the minutes of EPA’s representative’s response to the comment by DEP Secretary McDonnell that EPA must recognize the unique challenges faced by Pennsylvania in devising a workable WIP and provide greater flexibility to accommodate those challenges. The response now reflected in the minutes states that EPA will accept more flexible approaches in the WIP if Pennsylvania can show they are “implementable.”

This statement suggests – at least to me – that some degree of latitude may be given to the Commonwealth in proposing a WIP that would include a differing timeframe for actual attainment of TMDL pollution goals, provided that the timeframe is considered by EPA to be reasonably certain and timely and EPA is highly confident that attainment of TMDL reductions within the timeframe will be achieved through measures proposed in Pennsylvania's WIP.

There also seems to be a more concerted effort by EPA officials to acknowledge the importance of local involvement and commitment in developing a WIP for Pennsylvania that has the best chance to be meaningfully carried out. One of the directives that EPA identified in its Expectations Document for Pennsylvania's Phase 3 WIP was identification of measures to be performed by Pennsylvania to enhance opportunities for local participation and planning. Farm Bureau has believed for some time that federal mandates alone will not foster the degree of personal and financial commitment and proactive effort among residents and communities needed to achieve TMDL goals. Regional and local needs and challenges have to be considered and accommodated to the greatest extent possible.

EPA has made a better effort than in the past to accept more reasonable alternative protocols to that which strictly limited acceptance and crediting of best management practices in the Model to only those verified by government officials through on-site inspections of individual farms. The methodology recently employed in Penn State's in its farm survey of non-cost-shared BMPs is one of several examples of more statistically based protocols more recently accepted for crediting in the Bay Model.

EPA officials also seem to be making a better effort to provide tools and technical assistance that can help Pennsylvania's sectors and communities make more feasible and timely decisions of activities and infrastructure that should be pursued. The latest version of the Chesapeake Assessment

Scenario Tool (CAST), does a better job than previous versions in enabling communities and stakeholders to understand and compare relative benefits and costs among specific environmental practices and make more capable decisions of which practices make the most positive impact per dollar spent. And EPA has recently promised a commitment of seventeen individuals with extensive technical knowledge and expertise to help Pennsylvania and local communities and citizens make the most reasoned choices in development and implementation of Pennsylvania's Phase 3 WIP.

Make no mistake, though. Pennsylvania still faces very serious challenges in crafting within the next few months a WIP that will be embraced by both EPA officials and Pennsylvanians:

1. While 2017's tools for evaluating relative effectiveness among programs to improve water quality are better than 2010's, Pennsylvania's regions and local communities will have to commit considerable time in learning how to use

these tools and run the number of scenarios that will give them clear direction of what mix of programs should be pursued. The evaluation process will likely involve numerous occasions of trial and error in the effort to identify what may work best or is least costly.

2. Pennsylvania communities have widely differing experiences, means and levels of political effectiveness in engaging individuals and groups in local decision-making and reaching meaningful consensus in a local plan of action to improve water quality. The means used and the officials and stakeholders engaged in Lancaster County to arrive at a plan of action in the region are likely to be very different from those used in other counties within the watershed. Considerable time will likely be needed to coordinate and develop cohesive and highly accepted programs and activities among Pennsylvania's local communities within the Bay watershed.

3. Pennsylvania still falls very short in availability of public funding needed to guarantee Pennsylvania's timely achievement of TMDL goals. You've likely heard this statistic before, but it is worth noting again the estimate made in 2014 by Penn State's Environmental and Natural Resources Institute that $3.6 billion in total costs – or $240 million dollars each year – would need to be incurred by Pennsylvania through 2025, just to initially put in place the nonpoint best management practices and infrastructure needed to attain the TMDL's goals for pollution reduction within EPA's deadline. To both implement and maintain these practices and infrastructure, Pennsylvania would need to incur $378.3 million in cost each year through 2025. However, the total state and federal annual funding available to Pennsylvania for all nonpoint programs (not just the Bay) is just $146.6 million. The gap between needed funding and available funding is huge. I am not aware of any recent proposals for additional

state or federal funding that would appreciably narrow this gap.

4. The current economic downturn in agricultural economy has imposed serious challenges upon the ability of Pennsylvania's farm families to viably manage their farms. It is likely that farm families would incur significant additional costs to perform conservation practices and install facilities to the degree that would get Pennsylvania's agricultural sector close to meeting TMDL reduction goals. Yet the economic experience of many farms during the past several years has provided no financial opportunity for these costs to be financed by Pennsylvania's farmers. Appendix 1 to this testimony is a table that was recently prepared for an upcoming Milk Marketing Board price hearing. This table shows the average of costs and income experienced by Pennsylvania's dairy farms who are clients of MSC Business Services (an accounting service affiliated with Pennsylvania

Farm Bureau) between 2009 and 2016. The last row of that table entitled "Yearly Net Margin" shows net income margins in total dollars experienced by MSC-client dairy farms on average each year, as well as the cumulative total of income that these farms netted on average over the entire period eight-year period. That row reveals a sobering picture of the economic challenges these farms have recently incurred, and how economically infeasible it is currently for Pennsylvania farms to finance on their own the additional costs they would likely incur to strictly comply with TMDL reductions. MSC-client farms lost on average more than $92,000 during the previous two years. With this loss, total income received by these farms for the entire eight-year period amounted to just $38,830, or about $4,854 per year.

I hope I have given you an adequate overview of both positive aspects and challenges surrounding Pennsylvania's development of its Phase 3 WIP. Thank you for the opportunity to testify today. I will try to answer any questions you may have.

APPENDIX 1

MSC Business Services

Key Dairy Benchmarks per CWT

		2009	2010	2011	2012	2013	2014	2015	2016	Avg
Income										
	Milk	$13.91	$18.05	$21.87	$19.77	$21.40	$25.57	$18.14	$16.97	**$19.46**
	Livestock Income*	$0.92	$1.11	$1.20	$1.50	$1.48	$1.87	$2.27	$1.61	**$1.50**
	Other	$2.14	$1.36	$1.35	$2.06	$1.59	$1.28	$1.25	$1.55	**$1.57**
Total Income		**$16.97**	**$20.52**	**$24.42**	**$23.33**	**$24.47**	**$28.72**	**$21.66**	**$20.13**	**$22.53**
Expenses										
	Management Labor	$2.17	$2.14	$2.22	$2.20	$2.10	$2.19	$1.92	$1.84	**$2.10**
	Feed*	$5.13	$5.72	$7.07	$6.60	$6.20	$6.97	$6.17	$6.02	**$6.24**
	Hired Labor	$1.54	$1.56	$1.70	$1.84	$1.97	$2.06	$1.99	$2.03	**$1.84**
	Interest	$0.78	$0.77	$0.79	$0.69	$0.63	$0.63	$0.55	$0.59	**$0.68**
	Rent	$0.53	$0.56	$0.59	$0.69	$0.77	$0.84	$0.84	$0.91	**$0.72**
	Milk Marketing	$1.01	$1.02	$1.06	$1.09	$1.11	$1.14	$1.22	$1.24	**$1.11**
	Dairy Expenses	$1.98	$2.05	$2.21	$2.30	$2.23	$2.47	$2.10	$2.11	**$2.18**
	Crops (Seed, Chem, Fert, Fuel)	$1.89	$1.97	$2.43	$2.85	$2.74	$2.89	$2.22	$1.95	**$2.37**
	Depreciation	$2.17	$1.49	$1.53	$1.63	$1.55	$1.62	$1.63	$1.69	**$1.66**
	Other	$2.30	$3.36	$3.78	$3.43	$3.77	$4.33	$3.86	$3.43	**$3.53**
Total Expenses		**$19.50**	**$20.64**	**$23.38**	**$23.32**	**$23.07**	**$25.14**	**$22.50**	**$21.81**	**$22.42**
Net Margin		**-$2.53**	**-$0.12**	**$1.04**	**$0.01**	**$1.41**	**$3.58**	**-$0.82**	**-$1.68**	**$0.11**

*Adjusted for Inventory Change (Livestock Inventory for Livestock Income and Crop Inventory for Feed)

	2009	2010	2011	2012	2013	2014	2015	2016	
Avg # Cows	119	127	132	134	149	164	161	160	
Milk Sold per Cow	19,750	20,061	19,992	20,036	20,466	20,909	20,970	21,236	
									Total
Yearly Net Margin	-$59,461	-$3,057	$27,445	$268	$42,997	$122,761	-$30,321	-$61,802	**$38,830**
									Avg.
									$4,854