

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**

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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 Dave Graybill. With my wife Marie, I operate Red Sunset Farms in in Mifflintown, Juniata County. I currently serve on Pennsylvania Farm Bureau's Board of Directors, representing District 10, which is comprised of Huntingdon, Mifflin and Perry Counties, as well as Juniata County. Earlier this year, I was appointed to chair 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.

Summary of Red Sunset Farms' Dairy Operation

My dairy farm operation is significantly different in size and function from Farm Bureau's previous Dairy Chair, Glenn Stoltzfus. My operation is comprised

of approximately 400 acres, all of which are rented from landowners who live in the Washington, D.C. area. I am currently milking around 64 registered Holsteins, as well as raising around 75 replacement heifers. In addition to milk production, I produce corn, soybeans, hay and small grains. Approximately 64 percent of the crops produced are used for feeding my dairy cattle, and the rest I sell on the open market. My business is organized as a sole proprietorship. I have one full-time and two-part-time employees.

Like other Pennsylvania dairy farmers, I try hard is to operate my dairy operation as profitably and efficiently as I can. But I also place a high priority in managing an environmentally friendly farm operation as well. For the past several years, I served as Chair of Farm Bureau's Natural and Environmental Resources Committee. I currently serve on the Chesapeake Bay Partnership's Agriculture Workgroup. And I served on the Agriculture Workgroup to the Steering Committee responsible for developing Pennsylvania's Chesapeake Bay Watershed Implementation Plan for Phase 3.

I am constantly trying to add and improve conservation practices, and reduce my farm's environmental footprint. For example, I maintain buffer strips along waterways throughout my farm, implement contour farming, maintain 15 acres of trees as wildlife habitat, and have 30 colonies of bees as pollinators. I have made numerous structural improvements on my farm to substantially reduce runoff from

barnyards and animal concentration areas. I have also added a large volume manure storage tank with a leak detection system and a compost system. These provide me with higher manure storage capacity, and greater ability to manage and land apply manure from our livestock to achieve higher efficiency in crop intake of nutrients and minimize nutrient runoff to local streams. And I have replaced nearly all of the incandescent light bulbs on my farm with LED lights, and installed a water cooled plate system for cooling milk with the water recycled to cows for drinking. All of these changes come at an additional cost, but I believe a farm can be operated profitably while conserving and protecting our natural resources.

My farm does have one common feature with Pennwood Farms – that is, where my milk is shipped. Like Glenn’s family, my produced milk is marketed to Maryland & Virginia Milk Producers Cooperative Association. About two-thirds of the farm’s gross income in 2019 came from my milk check.

I am a client of MSC Business Services, and my farm fully uses the tax accounting and preparation, business accounting, and business analysis services provided by MSC. Like other clients, I receive the *Dairy Profitability Comparisons*, which analyze how my farm’s yearly average income and cost compares with farms of similar size to mine and with the top 10% of MSC-client farms. 2018 is the latest year that my farm’s income and cost was analyzed and compared through MSC’s *Dairy Profitability Comparison*. And in preparation for

this hearing, I also received financial statements from MSC regarding annual costs incurred and incomes generated by my farm business in 2019.

By comparison with other MSC-client dairy farms, my farm's total income from all sources in 2018 was substantially higher than comparable size farms and the top 10 percent. However, total income from milk production was substantially under the farm's production and administrative costs. The farm's average price for milk sales in 2018 was \$16.69 per hundredweight – about 15 cents above the price received by comparable size farms but more than 20 cents below the price received by the top 10 percent. Annual gross revenue for 2018 was the lowest generated by Red Sunset Farms during 5-year period of 2015 through 2019. In 2018, on a cash basis, the farm's total income from all sources was at a breakeven level, even with additional revenue from streams other than my milk production enterprise.

The average price I received for milk in 2019 was much higher than in 2018 – some \$2.28 per hundredweight higher. Gross revenues from milk sales in 2019 increased 7.5 percent from milk sales in 2018. The increased revenues were a welcome relief from the financial strain of 2018's lower milk prices. In addition, income from crop sales, and payments received from USDA's Market Facilitation and Margin Protection Programs, as well as crop insurance payments – helped the farm reach modest profit in 2019.

Because my farm operation is smaller in size, I have had to learn to become very efficient and thoughtful in the way I do business. To financially manage the tough economic times of the last few years (2016-18), I had to look for ways to “live lean” and be even more efficient, and I’ll share a few key examples in my testimony today.

Crop, Feed and Financial Management of Red Sunset Farms

To help financially manage the stress of 2018’s low milk prices, I needed to rethink numerous crop and feed management practices on my farm. In the spring of 2018, I stopped purchasing minerals in bulk, and began buying the minerals I need (such as calcium, yeast, sodium bicarbonate, and a mineral/vitamin pack) separately on a monthly basis. I now mix in those ingredients for each cart of feed. While I have not done a financial analysis, I believe this change in practice has reduced the cost of purchased minerals (potentially saving \$3,000 per year), and has provided more efficient use of minerals in the feed to meet to the needs of the herd.

Additionally, in response to lowered milk prices, I tried different silage varieties of corn to achieve increased levels of fat and protein content in my cows’ milk, since these components increase the price that dairy producers receive overall for their milk. From my testing of these varieties, I switched the silage I

use to feed my cows to only BMR (brown midrib) silage. I found that the less fibrous part of the stalk contained in BMR improved the cows' efficiency, because the silage was more digestible. Because of this change and other small changes, I saw an increase in the pounds of fat and protein (components) in the herd's milk, and an increase in income from milk production.

From my perspective, feed inventory of both hay and silage sitting untouched equates to dollars not used. As a result, I try to keep my inventories lower in tough times, and I chose to do so in 2019. I sold \$5,000 in haylage in early May 2019. I knew my supply of hay in 2019 would not be enough to feed my herd through to the time of harvest of my hay in 2020, and I would need to buy some additional hay later to make up for the shortfall in supply. But my sale of haylage last year gave me some much-needed boost in cash flow that I was able to use throughout the year. I understand many other farmers acted similarly last year in selling crops that they would need to replace later through feed purchases in order to manage their farms' cash flow.

The fact that I had to sell a portion of 2019's feed crops to improve the farm's cash flow that I knew would create a shortfall in my feed supplies and I would have to purchase replacement feed later underscores how financially challenging 2018 was.

I also had to increase the debt load of my farm's operating loans in 2019 to financially manage the deficiency in milk income from previous years' lower milk prices. I have budgeted to pay down a portion of this debt load in 2020 if producer milk prices continue to hold this year.

Herd Management on Red Sunset Farms

I look at selling my cull cows as a potential income stream, making sure, whenever possible, I send healthy, high weight cows to market. Because my herd size is inelastic, I regularly replace cows when their production starts to lag. My 40 percent cull rate and livestock sales revenue reflect this.

Additionally, I have 75 heifers on the property to replace the cull cows in milk production. I use a dry hay and feed ration to give my heifers a good rate of weight gain. The cost to raise my heifers is low. And they are ready to produce milk at 22 months of age. I prefer to sell mature cows in their third lactation when they are at 1,600 pounds for maximum sale value.

As I stated earlier, I have focused on managing feed and inputs to produce the type of milk with increased levels of more profitable milk components. As a result of the feed management practices I use for my cows, I've been able to increase my herd's component weight to a current level of five and a half pounds per cow per day. And my goal is to increase this to six pounds to maximize my

profits even more. This has enabled me to increase my milk check, and my margins. I often receive more in income from increasing milk components than from quality premium payments. However, I need and want both.

Equipment Management on Red Sunset Farms

Another way farmers can financially manage lean price years is to put off cost of repairs and preventative maintenance of farm machinery. Unfortunately, while this can save money today, it can also result in more serious costs later – both in paying more money to make more expensive repairs and lost time in equipment use during critical production and harvesting periods. The reduction in my farm’s income in 2017 and 2018 discouraged me from incurring the cost of more routine repairs and maintenance to my farm equipment. In 2019, I had two tractors break down on the same day with major failures. I suspect both breakdowns could have been prevented had I simply done the routine maintenance I skipped to financially manage the lower incomes I received those years. Since I was able to make a little more in 2019, I plan to spend money this year to repair and maintain my neglected equipment, and then pay down additional debt. By making my equipment field ready, I will be able to take maximum advantage of the weather when it is time to plant and harvest, and not worry as much about an unexpected breakdown that might cause lost revenue.

Financial Impacts of My Farm Management Efforts

In 2019, my efforts to increase milk receipts, maximize component value, and reduce my farm's overall spending, have allowed me to see some light at the end of the tunnel financially. And, as my financial tides turned, I was able to make enough money in 2019 to prepay some of my 2020 crop expenses, which helps me benefit from the discounts available for farmers who prepay. It allows me to breathe a small sigh of relief as I head into the spring, not quite as crunched for cash as I have been in previous years.

Conclusion

The last few years have been incredibly challenging for the dairy industry. Depressed prices, economic effects of trade wars, and the weather have all negatively impacted our operations. According to USDA, some 370 Pennsylvania dairy farmers in 2018 – six percent of our dairy industry – ceased dairying. If the current trend of increased milk prices doesn't continue – or worse, if our prices would again become sharply lower as they were in 2018 – I am concerned that this number will climb much higher.

And, there's another threat facing dairy farmers – particularly those in the Chesapeake Bay Watershed – the impact that increased federal regulation will have on cost of milk production. Not only will farmers in the Bay Watershed be expected in the future to do substantially more on their farms to control nutrient

and sediment runoff. Many farmers will additionally have to pay stormwater fees assessed by municipalities to finance their additional costs in complying with federal stormwater requirements. And right now, the federal EPA and the Bay states are developing methodologies to predict, account for, and “manage” land use practices in response to climate change. Common sense should tell you that whatever the methodologies are, they will likely result in farmers having to do even more and incur more cost.

Whether the conservation measures are additional on-farm best management practices, commitment of additional land for forested and grassed buffers, land “management” in response to climate change, or municipal fee assessments, Pennsylvania’s response to the Bay will only add to the economic pressure faced by dairy farmers during a time where profit margins are already squeezed.

Fortunately, we are starting to see some signs of hope within the industry, and on my farm. More recent increases in my Income Over Feed Costs and steady costs for purchased feed have allowed me to lift some of my “living lean” measures – at least for the time being. And, because some of these practices were so successful, they may likely become part of my daily farm operation in the future. Moreover, the modest but steady price recovery gives me hope there may be some positive light at the end of what has been a very dark financial tunnel for many Pennsylvania dairy farmers. But, we’re not through the tunnel yet.

2019's increases in milk checks are probably not enough to make many Pennsylvania farmers recover from the financial 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 increase in premium to \$1.00 per hundredweight that the Board provided in April last 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.