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 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

I am currently milking around 64 registered Holsteins, as well as raising around 75 replacement heifers. My 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.

In addition to milk production, I produce corn, soybeans, hay and small grains on roughly 400 rented acres. 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 to operate my dairy operation as profitably and efficiently as I can. I also place a high priority in managing an environmentally-friendly farm operation as well. I am constantly trying to reduce my farm's environmental footprint. This includes maintaining buffer strips, implementing contour farming, enhancing wildlife habitat and tending my bee colonies, as well as making structural improvements on my farm, such as reducing nutrient runoff and building enhanced manure storage. While these choices come at an additional cost, I believe a farm can be operated profitably while conserving and protecting our natural resources.

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 yearly from MSC 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 percent 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*. I also have financial statements prepared by MSC which detail annual costs incurred and incomes generated by my farm business in 2019. This information has not changed since I was a witness in March and some of my testimony is the same as a result.

However, since I testified at the March Over-Order Premium hearing, the world – and the dairy industry – has been rocked by COVID, and I will discuss some of these COVID-related impacts as well.

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 the five-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.

COVID Impacts

Like many farmers, I was hoping 2020 would be the year that agriculture and our dairy industry would see recovery. However, this was not the case as COVID upended the agricultural and dairy markets. Over the last few months, dairy farmers have been asked to dump milk, reduce production, and forced to make difficult decisions in a very uncertain situation. Then as dairy markets started to recover and prices started to increase, negative producer price differentials (PPDs) offset potential increases as dairy farmers like myself saw large deductions on our milk checks.

Fortunately, due to a good 2019 crop year, I was able to come into 2020 – and the COVID-19 pandemic – in a relatively strong position. However, I was carrying some debt, which made the low milk checks and market volatility concerning. So far this year, my average monthly gross milk check is less than I received in 2019. In fact, when comparing my milk checks from April, May and June 2019 to 2020 there was a 19 percent decrease. As a result, I suspect we will not show much profit this year, which is not what I had hoped in a year that I earmarked for recovery. Without the government payments, our balance sheets would have been much worse.

While farmers prefer to get their income from the marketplace, there are times – like during the trade wars, and today's COVID pandemic, where we are grateful for some assistance. I was glad to be able to use the payments I received through Dairy Margin Coverage (DMC), the Coronavirus Food Protection Program (CFAP), and the Paycheck Protection Program (PPP) – all federal programs – to help make payroll, pay rent and utilities, and completely pay down my credit lines for the moment.

While government programs can be helpful, they don't make a farmer whole. It is also important to note while most dairy farmers will be eligible for payments through CFAP, this is not the case for PPP and DMC. Moreover, there are limitations in the ability of federal risk management programs to respond to negative PPDs and so even producers who utilize risk management programs are unlikely to recoup PPD-related losses.

And, as a result of 2018's low prices, I suspect there are many farmers like me, who were carrying debt into 2020. I hope many farmers were able to take advantages of the federal programs to pay bills and offset debts.

Living Lean as a Management Tool

As I mentioned in previous testimony, 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 as a result of COVID, that is even more important 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 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 and helped me to better meet the needs of my herd.

Additionally, in response to lowered milk prices, I tried different silage varieties of corn – before settling on brown midrib – 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 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, even if I needed to buy hay later to make up the shortfall. This gave me some much-needed boost in cash flow that I was able to use throughout the year, and I understand other farmers made similar decisions. This underscores the financial challenges we were facing coming out of 2018.

It may seem that 2018 was long ago, but I want to point out that most farmers had barely a year to try to recover before COVID hit. The drought conditions we have seen in Pennsylvania puts further strain on our farmers, as it does on me. I suspect that I will be short on hay and will have to budget funds to purchase hay before I get my first cutting in 2021. This means I may not be able to sell any excess product to increase cash flow should I need it.

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. Due to COVID-related challenges on the processing side, I couldn't move cull cows for a few weeks in May. This resulted in increased feed expenses, and when I was finally able to move these cattle, I received several hundred dollars less than I expected per animal. However, I did receive some compensation through CFAP to offset some costs.

Managing feed and inputs to produce milk has 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. This has helped 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.

COVID has meant that I have been even more conservative on feeding my cattle, carefully considering what it will take to hold my component values steady, keep my herd healthy and maximize efficiency. This makes it harder to reach my goal of increasing my herd's component weight to six pounds per day.

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. In 2019, I had two tractors break down on the same day with major failures, likely because I delayed repairs and maintenance in 2017-18. This year, I was hoping to spend some money to repair and maintain my neglected equipment, and possibly purchase a new baler. Since I had a buyer for my existing baler, I used the capital I received – and applied for a FSA loan – to offset some of the costs. While I would prefer not to take on more debt during uncertain times, I decided it was important to have a reliable piece of equipment to perform a critical task on the farm.

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. In addition to utilizing the small discounts provided through prepaying, I was able to gain a little extra breathing room in the early days of COVID-19, knowing I had already paid for some key input expenses.

Conclusion

There's no question that 2020 has been a year like no other. When I testified back in March, we had no idea of the challenges that were lurking around the corner. At that time, I expressed hope that there was light at the end of the tunnel – and expressed concern that if the trend of increased milk prices didn't continue, or worse, went sharply lower, that the 370 dairy farms the state lost in 2018 would continue in future years. Now we know that in 2019, 470 Pennsylvania dairy farmers ceased dairying, and there is no doubt further dairy farmers will exit the business this year. The only question is how many?

We thought the last few years were hard – and they were – but 2020 has brought challenge after challenge, compressed into a relatively small period of time. I remain concerned about continued market volatility, the condition of my crops due to the dry weather, and the long-term impacts of COVID on my farm, and the greater dairy industry. As I mentioned earlier, the extra government payments I received helped to keep my farm in relatively good financial form, but I know these payments will not be around forever.

I am also very concerned for the dairy farmers who have not been able to benefit from these payments. How will they survive the challenges we are facing right now? And, for the dairy farmers facing crop failures or likely low yields as a result of the dry weather we've been seeing, how will they survive the market volatility *and* a poor crop year?

Aside from COVID and the financial impacts we are dealing with, there are plenty of other challenges which reduce our efficiency and add costs and potential losses to our operations at a time when we can't afford to lose any ground on our margins. One of the biggest challenges result from increased environmental regulations including controlling nutrient and sediment runoff in the Chesapeake Bay Watershed, compliance with future climate change initiatives, municipality-assessed stormwater fees, and more. Labor shortages and the economic effects of trade wars are two additional challenges.

While the over-order premium can't address these challenges or fix the other issues in the industry, it can and does provide assistance to those producers whose milk qualifies for the premium. 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.