PFB EXHIBIT 8

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. In 2020, I was appointed to chair Farm Bureau's State Dairy and Farm Policy 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 60 replacement heifers. My milk is marketed to Maryland & Virginia Milk Producers

Cooperative Association. Sixty-one percent of the farm's gross income in 2020 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. 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.

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* from MSC each year, 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. 2020 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 2020 (and past years as well). I reference numbers from my MSC data in this testimony.

By comparison with other MSC-client dairy farms, my farm's total revenue from all sources in 2020 on a per hundredweight basis was substantially higher than both comparable sized farms and the top 10 percent. The farm's average net milk price per hundredweight in 2020 was $16.28 per hundredweight – 24 cents higher than the price received by comparable size farms, but $1.04 below the price received by the top 10 percent. My total cost to produce milk per hundredweight was $23.23, which was $1.80 higher than comparable size farms, and $9.71 higher than the top 10 percent.

The average net price per hundredweight ($16.28) I received in 2020 was 60 cents lower than I received for milk in 2019 ($16.88), but, as an extra point of comparison, was $1.62 higher than 2018 ($14.66). Revenue from milk sales was nearly the same in 2019 and 2020, with less than $100 difference between the two years. In 2020, on a cash basis, the farm's total income from all sources was at a breakeven level.

Farm Management

As I mentioned in previous testimony, because my farm operation is smaller in size, I have had to learn to become very efficient in the way I do business. To help financially manage the stress of the challenges of the last few years, I needed to rethink herd management, as well as crop and feed management practices on my farm. On the herd management side, I have retained aged cows longer, milking more lactations because the cost of growing replacements has increased, and the price paid for cull cows has decreased. Older cows require greater care during their first few weeks after calving. The challenge is to hold vet costs to a minimum and feed a precise dry cow and transition cow ration, so the older cows start well on their new lactation.

Speaking of feeding, we work hard to ensure the milk cow ration has a balance of energy and protein, and that the cows have healthy rate of gain during the lactation period. Milk Urea Nitrogen (MUN) plays a big part in that monitoring. The industry standard for MUNs has dropped to less than 10 compared to 10 years ago when it was above 15. The result is that we are formulating rations that are much more efficient in their use of protein, and less protein is also lost into the environment in the form of nitrogen. The savings potential of a more efficient cow rumen and higher components in milk production has made this management change a win-win scenario.

On the crop side, I have maintained a ration exclusively of BMR corn silage and wheatlage. Ration consistency has results of higher component values in our milk production. Managing feed and inputs to produce milk has increased levels of more profitable milk components, which increases my milk check and my margins. The goal is to be efficient and keep my farm as profitable as possible.

Input costs, especially feed costs, were a concern both this year and last. Last year's drought impacted my crops yields, and did the same for many farmers in Pennsylvania. However, on our farm, we were able to get just enough rain at the right time. Regardless, I only saw about two-thirds of my typical crop yield in 2020 and needed to buy protein.

This year our crops are looking good, and I'd say our corn is looking as good as it ever has. While we still need enough water to finish the crop, I'd estimate three-quarters of our corn crop is grown, and we will likely harvest at or above our five-year average. For our soybean crop, the early season cool weather made for a slow-growing crop which resulted in slug damage. Despite these challenges, I estimate that our crop will only be down 10- to 15- percent of our five-year averages. Additionally, our small grains have grown well, and have finished above our five-year average yield.

On the forage side, I'm grateful to see our hay crop will be much better than last year. We saw almost no growth in our pastures last year due to the drought, and as I testified previously, had to purchase hay. I also chose to sell some of our young heifers to reduce our feed costs and keep us in a better financial position. This year, I do not anticipate having to buy hay, other than some dry cow hay, which I typically do purchase.

In 2019, my efforts to increase milk receipts, maximize component value, and reduce my farm's overall spending, helped us come into 2020 in a strong position. In 2020, I was able to prepay our yearly insurance premium, corn and soybean seeds, six months of soybean meal, and nearly all chemicals for 2021. In addition to utilizing the small discounts provided through prepaying, this gave our farm breathing room until the 2021 harvest. At this point, I am hoping I will be able to make significant prepayments for 2022, once again putting us in a better position as we start the next year.

Special Payments

While we are not out of the woods yet regarding the COVID pandemic, the severe challenges we faced in 2020 seem to be behind us. While we may continue to see impacts, I also hope that we are on track for continued market recovery through the remainder of 2021 and into 2022. The extra government payments/loans we received – Market Facilitation Program, CFAP, and the Paycheck Protection Program – certainly helped our farm mitigate some of the challenging financials conditions of the last year or so, stretch our dollars a little further, and helped our farm operate in the black. I imagine that they did the same for countless other dairy farmers in Pennsylvania and around the country.

Our farm also received significant payments through the Dairy Margin Coverage program again this year, which were needed and helped to keep our farm on an even keel. While farmers prefer to get their income from the marketplace, there are times – like during the trade wars, the COVID pandemic, and during times of low milk prices / high feed costs – where we are grateful for some assistance.

Conclusion

Despite the financial challenges – and a global pandemic – over the last few years, by living lean and the addition of some government payments, we have been able to stay financially strong on our farm. When I testified in March, I stated that this year I was hoping for a stable crop year, and I think that hope has materialized for us. Many areas of the state were impacted by drought in 2020. While this year started out dry for many western counties, today's moisture levels are mostly normal across the state, though some crop yields will be impacted for the year. All in all, our farm is running as normal, and after a year like last year, I'm especially grateful.

However, I remain concerned about what the rest of the year looks like, especially given the high feed costs. Many dairy farmers like myself are hoping for a strong harvest in 2021. A harvest that will allow us to provide for our cows with minimal extra feed purchases, and maybe a little extra to sell.

I also hope that milk prices continue to stabilize, and hopefully rise. However, from what I've read recently, it certainly looks like dairy prices are trending lower again. This is concerning, because after several years of upheaval, dairy farmers need positive market conditions to help pay down debt, rebuild equity and better position themselves for the next rainy day.

In addition to challenging economic conditions, farmers must also contend with other pressures such as increased environmental regulations including controlling nutrient and sediment runoff in the Chesapeake Bay Watershed, compliance with future climate initiatives, municipality-assessed stormwater fees, and labor shortages to name just a few. While the PMMB and its over-order premium can't address these challenges, it can and does provide assistance to those producers whose milk qualifies for the premium.

Continuing the PMMB's over-order premium at $1 per hundredweight plus the fuel adjuster is important. Thank you for the opportunity to testify today. I look forward to answering any questions you may have.