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. 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 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.

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. 2019 is the latest year that my farm's income and cost was analyzed and compared through MSC's *Dairy Profitability Comparison*, and the 2020 *Comparison* will be available later this year. 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 2019 on a per hundredweight basis was substantially higher than both comparable sized farms and the top 10 percent. The farm's average price for milk sales in 2019 was $18.97 per hundredweight – 30 cents higher than the price received by comparable size farms, but 19 cents below the price received by the top 10 percent. My total cost to produce milk per hundredweight was $18.54, about $3.39 per CWT less than comparable sized farms, but $2.69 more than the top ten percent.

The average price I received for milk in 2020 was 42 cents higher than I received for milk in 2019. While I didn't see as much recovery as I would have liked to see in 2020, the average price I received for milk was much higher than I received in 2018. 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.

COVID Impacts

As I mentioned in previous testimony, COVID upended the agricultural and dairy markets in 2020. Last year, dairy farmers dumped milk, reduced production, and made difficult decisions. As dairy markets started to recover and prices started to increase, negative producer price differentials (PPDs) offset potential increases as dairy farmers saw large deductions on our milk checks. We still continue to see impacts as a result of COVID, but I hope we may see continued recovery through 2021.

Our farm has been impacted by COVID. For 2020, we were hardest hit in the second quarter (April, May and June) with a 19 percent drop in milk prices. And the huge deductions as a result of negative producer price differentials hurt many dairy farmers, including myself. We are already seeing negative PPDs in January 2021, so this issue continues to be a concern for dairy farmers.

In 2020, in addition to crop insurance and Dairy Margin Coverage, we received the following government payments: Market Facilitation Program (MFP), and Coronavirus Food Protection Program (CFAP) 1 and 2. We also received a Paycheck Protection Program (PPP) loan in 2020, and it was forgiven in early 2021. Several of these payments were designed to help deal with the financial challenges resulting from trade wars (MFP) and COVID (CFAP and PPP), and were an important source of income for our farm, as well as for all dairy farmers who received them. Thanks to the extra income, we were able to stretch our dollars just a little further. Our farm would have operated in the red as a dairy operation if our milk checks had been the only source of income. These payments (not including the PPP loan) equated to 15 percent of my income in 2020. In fact, these program payments were nearly 80 percent higher in 2020 than 2019, partially because there were several new COVID-related programs.

I tried to utilize these payments as capital as much as I could versus focusing on using them to solely pay day-to-day expenses. The extra monies helped me not only make payroll and pay rent and utilities, but also pay off machinery loans, and pay down my credit lines. In fact, at one point in 2020, I was able to pay the credit lines down completely.

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. However, while government programs can be helpful, they don't make a farmer whole. There are also 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. It is also important to note while most dairy farmers were eligible for CFAP or risk management programs, not all farmers chose to utilize them. Additionally, recent changes to the PPP program may finally allow more dairy farmers to take advantage of the program and hopefully that will help, but farmers still need to apply to receive the benefit.

However, we may not see any additional government payments outside the existing risk management programs, and those special COVID programs already in the pipeline such as PPP and CFAP 2.1 (which specifically targets certain segments of agriculture) in 2021. Depending what happens regarding COVID recovery, this could cause additional pain within the dairy industry.

One of the other impacts we've seen from COVID – other than price volatility – has been difficulty in obtaining personal protective equipment such as latex gloves and dust masks. These are items we regularly purchase for our farm but increased demand made these not only harder to find, but more expensive as well.

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 and thoughtful in the way I do business. To financially manage the tough economic times, 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.

As I’ve testified previously, 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 sell cull cows as a potential income stream, and replace cows when their production lags. On the crop and feed side, I stopped buying minerals in bulk, and instead buy bagged amounts monthly. I also tried different silage varieties to increase the component value of my milk. Managing feed and inputs to produce milk has increased levels of more profitable milk components. Right now, my herd is averaging six pounds of component weight per day, which increases my milk check and my margins. The goal is to be efficient and keep my farm as profitable as possible. These two items are important in running a business, and are critical in challenging financial times.

Farmers are definitely concerned about rising input costs. And, due to drought conditions affecting parts of the state in 2020, many farmers may be purchasing more feed than in a typical year. In a sense, my farm has been fortunate because while our yields were down in 2020, we got just enough rain at the right time.

Regardless, last year's drought impacted my crop yields, and they were about two-thirds of my typical crop yield. I knew I would have to buy protein before the end of 2020, and given how input costs were increasing, I made the decision to purchase enough soybean meal for the first half of 2020. This was an increased cost, but I wanted to buy the soybean meal to cap that cost.

Additionally, I only harvested a very small amount of the third, fourth and fifth hay cuttings. As a result, I had to buy hay. I also wasn't able to sell excess hay to increase my cash flow as I've done in recent years.

This lack of hay also led me to reducing my young heifers from 75 head to 60. These heifers replace the cull cows in milk production. I use dry hay and a few pounds of dry grain ration to give my heifers a good rate of weight gain. When I have my own hay, the cost to raise these heifers is low, but it made financial sense this year to reduce the young stock.

Despite the financial challenges over the last few years, by living lean and the addition of some government payments, we have been able to stay financially strong. 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. I was able to make enough money in 2019 to prepay some of my 2020 crop expenses, and 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 will give our farm some breathing room until the 2021 crops begin coming in.

Conclusion

As I indicated earlier in my testimony, drought has impacted many dairies in Pennsylvania over the last year. This has affected the quantity and quality of forages and grains produced in 2020. Just as in my case, farmers may have had to purchase additional feedstuffs to supplement what they may have normally grown themselves. This puts an additional cost squeeze on dairy farms already challenged by COVID-related impacts, including price volatility in 2020.

Additionally, the last time I testified, I mentioned my concern for dairy farmers who were not able to benefit from government payments, or as many as I was able to utilize. I am concerned about the farmers who had a poor crop year and are now facing rising input costs and continued price volatility, and may not have had the same government assistance I have had. Those of us in dairy probably know at least one farmer who has either chosen to exit the dairy business in the last year or so, or who are considering exiting soon. The fact that Pennsylvania lost 370 dairies in 2018, and 470 in 2019, certainly underscores concerns for our dairy industry.

In 2021, I am hoping for a stable crop year. Strong crop yields – especially during a time of rising input costs, volatile milk prices and negative producer price differentials – will be critical for farmers to be profitable. However, we do not yet know what the 2021 crop year will look like, and how COVID will continue to impact us.

In addition to the challenges that I've already discussed, I must also mention other challenges facing dairy farmers, 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 and costs are just a few. The over-order premium can't address or fix these challenges but, 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 during these challenging and unprecedented times. Thank you for the opportunity to testify today. I look forward to answering any questions you may have.