

Farm Service Agency Margin Protection Program 2018 Program Changes

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We LOVE acronyms-we're the Government.

- USDA Farm Service Agency-FSA
 - The majority of New York counties have a County Office.
 - Some counties are combined.
 - (Montgomery-Fulton-Hamilton in Fultonville, Steuben-Yates in Bath)
- Margin Protection Program-MPP
 - Federal, Farm Bill dairy program.
 - Provisions set in place for the duration of the Bill.
 - 2018 Budget allowed for MPP changes.

Before we get into the new MPP changes

- At look back in time.
- The Farm Bill has had dairy programs, maybe always?
- Dairy, like all ag segments, experiences price cycles.
- Historically FSA has provided relief.

A Decade of Dairy Payments-Wyoming County

Payment Code	Program	Payments-In Dollars
06 MILC	2006 Milk Income Loss	181,616
07 MILC	2007 Milk Income Loss	443,758
09 MILC	2009 Milk Income Loss	4,710,985
10 MILC	2010 Milk Income Loss	715,656
12 MILC	2012 Milk Income Loss	2,862,272
13 MILC	2013 Milk Income Loss	1,401,421
05-07 DDAP	Dairy Disaster Assistance Program	1,282
10 DELAP	Dairy Economic Loss Assistance Payment (Losses February 2009-July 2009)	1,678,483
16 MPP	2016 Margin Protection Program	11,157

- DELAP losses were for 2009. We paid around 183 producers.
 - \$6,389,468 total for 2009 losses between DELAP and MILC
- Margin Protection program-for all years. We've paid 6 producers.
- 92 Producers enrolled in Margin Protection. Roughly half of our producers.*
 - Other options-insurance through Risk Management (Livestock Gross Margin)
 - Cost
 - General dislike of the program. If producers could have opted out after the first year, most would have.

*50% is about typical across the Nation.

Hearing there were problems with MPP
Congress Made Changes.

- Completed through the Budget Committee-an atypical approach
- But first, what is MPP?!

Margin Protection Program

The Basics

- Dairy Producers-Bovine Milk
 - Not goat, sheep, almond or coconut
- National program administered through FSA County Offices.
- Intended to provide relief when dairy producers aren't making money over their input (feed) costs.
 - Margin=Difference between milk price and feed price. This is a simplified definition.

(Dairy Producers are price takers.)

More on the Margin

For Each Month We Look at--

- Milk price-national all milk price. Not actually the price anyone in NY is getting paid for their milk.
 - Que Jodi Smith
- Feed price-cost to produce 100 lbs. of milk. Not what it actually costs anyone in NY to feed their cows.
 - Corn-sales tracked on USDA Agricultural Prices Report
 - Soybeans-sales from central Illinois of soybean meal USDA Market News-Monthly Soybean Meal Price Report
 - Alfalfa Hay-sales tracked on USDA Agricultural Prices Report

Milk Price – Feed Price = Margin.

The Protection Part of Margin Protection

- Producers obtain coverage to protect their margin.
 - Is there \$4 left over after you received your check and paid for your feed?
 - Or is there \$8 left over after you received your check and paid for your feed?

Available Levels of Margin Protection		
\$4.00	(Most) Catastrophic Coverage	VERY high deductible
\$4.50	(Less Catastrophic Coverage)	
\$5.00	(Least Catastrophic Coverage)	
\$5.50		
\$6.00		
\$6.50	Initially referred to as “The Sweet Spot”	
\$7.00		
\$7.50		
\$8.00	Cadillac of Coverage	Low deductible

So how do you protect the margin?

- MPP allows producers to **purchase** margin coverage. The cost is referred to as the premium.
 - Cost is per hundred pounds of milk.
 - Cost is based on how many pounds you protect.
 - Referred to as Tier 1 and Tier 2.
 - Tier 1 is up to 5 million pounds of milk
 - Tier 2 is over 5 million pounds of milk
 - Cost varies by the level of protection-the margin-you select. Higher deductible, lower premium. Lower deductible, higher premium.

REMEMBER-all these protections are against national prices. Not local prices.

Margin Protection Program-2018

Definitely Improved

- Increases catastrophic level of protection
 - From \$4.00 margin to \$5.00 margin (Hence the 3 levels of catastrophic coverage.)
- Increases the amount of milk you can protect at the lower premium rate (Tier 1)
 - From 4 million pounds to 5 million pounds
- Decreases cost to participate
 - Tier 1 only-5 million pounds of milk covered.
- Waives the enrollment fee for eligible producers
 - (Limited applicability.)
- Calculates payments monthly rather than averaging 2 month periods.

Other Good Things

- Retroactive to January 1, 2018
- Producers who “opted in” for 2018 need to make their election again, under the revised rules.
- Enrollment goes through June 1, 2018
 - More time=more knowledge of what the market has done and may do.
- Producers don’t have to pay up front.
 - Administrative fee (\$100) is due by June 1st. Premiums are due September 1st.

Some good changes have been made.

But will it help?

Maybe.

Tier 1 Coverage is Significantly Less Expensive

OLD MPP Coverage Level	Tier 1 Premium per cwt for covered production history at 4 mil lbs. or less
\$4.00	None
\$4.50	\$0.010
\$5.00	\$0.025
\$5.50	\$0.040
\$6.00	\$0.055
\$6.50	\$0.090
\$7.00	\$0.217
\$7.50	\$0.300
\$8.00	\$0.475

NEW MPP Coverage Level	Tier 1 Premium per cwt for covered production history at 5 mil lbs. or less
\$4.00	None
\$4.50	None
\$5.00	None
\$5.50	\$0.009
\$6.00	\$0.016
\$6.50	\$0.040
\$7.00	\$0.063
\$7.50	\$0.087
\$8.00	\$0.142

However, Tier 2 remains pricey.

Coverage Level	Tier 2 Premium per cwt for covered production history over 5 mil lbs.
\$4.00	None
\$4.50	\$0.020
\$5.00	\$0.040
\$5.50	\$0.100
\$6.00	\$0.155
\$6.50	\$0.290
\$7.00	\$0.830
\$7.50	\$1.060
\$8.00	\$1.360

If you're only getting paid \$15.00 per cwt. of milk you've produced and sold can you afford to spend \$1.36 per cwt. to purchase margin protection?

Will payments received be more than the cost of coverage?

Remember-payments to producers are not guaranteed.

Let's look at what it costs.

- Producer's Production History-referred to as APH. We looked at the pounds of milk they sold in 2011, 2012, 2013 and determined which year was the highest. That's their APH. Each year they've participated in MPP we've adjusted that APH a little to keep up with the increase in national milk production.
- So their adjusted APH times the premium rate.
- Coverage is purchased per cwt.
- Producers can cover between 25% and 90% of their adjusted APH.

Determining production for coverage.

- APH is 1,349,782
- Adjusted APH is 1,442,115 (pounds of milk)
- Adjusted APH converted to cwt. (Divide by 100) 14,421 cwt.
- Determine how much of your production you want to cover.
 - This is where it starts to get complicated.
 - We'll assume 90% for this example. That is the most you can cover.
- **So we're looking to purchase coverage on 12,979 cwt.**

(Super easy and straightforward to get there, right?)

What's it cost to cover 12,979 cwt?

Coverage Level	Tier 1 Premium per cwt for covered production history at 5 mil lbs. or less	Cwt We're covering	Cost to the Producer-for the year.
\$4.00	None	12,979	0.00
\$4.50	None	12,979	0.00
\$5.00	None	12,979	0.00
\$5.50	\$.009	12,979	\$116
\$6.00	\$0.016	12,979	\$207
\$6.50	\$0.040	12,979	\$519
\$7.00	\$0.063	12,979	\$817
\$7.50	\$0.087	12,979	\$1129
\$8.00	\$0.142	12,979	\$1843

So, is that a good deal?

- Depends on what the payments are.
- This is where it gets more complicated.
- What will the markets do for the remainder of the calendar year?
- These estimates change every day. Literally.

Estimated Margins for the year.

Received last week.

Today those numbers are different.

Largest difference was \$0.36.

Dairy economists are projecting these. There will always be variations-you're getting someone's prediction on what markets will do.

\$	8.12	January
\$	6.88	February
\$	6.64	March
\$	6.64	April
\$	6.71	May
\$	6.71	June
\$	7.50	July
\$	7.50	August
\$	8.42	September
\$	8.42	October
\$	8.55	November
\$	8.55	December

We'll assume that guy was correct and those were the margins for the year. Did MPP help?

- How do you determine the MPP payment?
 - Monthly (remember, that's a change)
- Actual margin-margin you selected for coverage=payment rate.

(Reminder, the actual margin is that milk minus feed we looked at earlier.)

If you selected \$7.50 margin coverage and the actual margin was \$8.32 there is no payment. $7.50-8.32= -0.82$ (negative means the actual margin was ABOVE the level you selected and there will not be a payment.)

If you selected \$7.50 margin coverage and the actual margin was \$7.02 there would be a payment. $7.50-7.02= 0.48$. So your payment rate would be \$0.48.

Ok, so there is a \$0.48 payment rate. What's the actual payment to the producer?

- Back to how many cwt we covered. **12,979 cwt.**
- **These are monthly payments. So we divide that annual production by 12. Unlike the real milk check, we pay on the same number of pounds every month.**
- **$12,979 / 12 = 1,081$ cwt per month**
- **$1,081 \text{ cwt} \times \$0.48 = \$518.88$ payment. Likely to be sequestered. \$484.63**

There was a payment. Was it worth the coverage?

Coverage Level	Tier 1 Premium per cwt for covered production history at 5 mil lbs. or less	Cwt We're covering	Cost to the Producer for the year.
\$4.00	None	12,979	0.00
\$4.50	None	12,979	0.00
\$5.00	None	12,979	0.00
\$5.50	\$.009	12,979	\$116
\$6.00	\$0.016	12,979	\$207
\$6.50	\$0.040	12,979	\$519
\$7.00	\$0.063	12,979	\$817
\$7.50	\$0.087	12,979	\$1129
\$8.00	\$0.142	12,979	\$1843

Cost was \$1129.
Payment was \$518.
The coverage isn't a net gain yet.
But it may be.

What does the year look like?
Remember, subject to change daily.

\$	8.12	January	Actual Margin	No payments
\$	6.88	February	Actual Margin	Payments at \$7.00, \$7.50 and \$8.00
\$	6.64	March	Projected	Payments at \$7.00, \$7.50 and \$8.00
\$	6.64	April	Projected	Payments at \$7.00, \$7.50 and \$8.00
\$	6.71	May	Projected	Payments at \$7.00, \$7.50 and \$8.00
\$	6.71	June	Projected	Payments at \$7.00, \$7.50 and \$8.00
\$	7.50	July	Projected	Payments at \$8.00
\$	7.50	August	Projected	Payments at \$8.00
\$	8.42	September	Projected	No payments
\$	8.42	October	Projected	No payments
\$	8.55	November	Projected	No payments
\$	8.55	December	Projected	No payments

For our example producer.

\$	8.12	January	\$ -	\$ -	\$ -
\$	6.88	February	\$ 1,211.00	\$ 129.00	\$ -
\$	6.64	March	\$ 1,470.00	\$ 389.00	\$ -
\$	6.64	April	\$ 1,470.00	\$ 389.00	\$ -
\$	6.71	May	\$ 1,395.00	\$ 313.00	\$ -
\$	6.71	June	\$ 1,395.00	\$ 313.00	\$ -
\$	7.50	July	\$ 540.00	\$ -	\$ -
\$	7.50	August	\$ 540.00	\$ -	\$ -
\$	8.42	September	\$ -	\$ -	\$ -
\$	8.42	October	\$ -	\$ -	\$ -
\$	8.55	November	\$ -	\$ -	\$ -
\$	8.55	December	\$ -	\$ -	\$ -
			\$ 8,021.00	\$ 1,533.00	\$ -
			\$8 coverage	\$7 coverage	\$6 coverage
		Premium Cost	1843	817	207
		Net after premium and admin fees	\$6,078	\$616	\$ (307.00)
		After Sequester	\$5,676.85	\$575.34	(\$286.74)

So, looks like it could be a good thing.

- But remember Tier 1 and Tier 2? Our example was Tier 1.
- Let's look at a Tier 2 example.
- This producer has an adjusted APH of 10,149,214.
 - You can only cover 5 million lbs. at Tier 1 rates.
 - The remaining 4,134,292 will be at Tier 2 rates.

Tier 1 vs. Tier 2 premium cost.

Coverage Level	Tier 1 Premium per cwt for covered production history at 5 mil lbs. or less	The difference in cost is Billy Fuccillo HUGE.	Coverage Level	Tier 2 Premium per cwt for covered production history over 5 mil lbs.
\$4.00	None		\$4.00	None
\$4.50	None		\$4.50	\$0.020
\$5.00	None		\$5.00	\$0.040
\$5.50	\$0.009		\$5.50	\$0.100
\$6.00	\$0.016		\$6.00	\$0.155
\$6.50	\$0.040		\$6.50	\$0.290
\$7.00	\$0.063		\$7.00	\$0.830
\$7.50	\$0.087		\$7.50	\$1.060
\$8.00	\$0.142		\$8.00	\$1.360

Tier 2 Example. We'll assume 90%, \$8.00 coverage-costs the most but most likely to pay. (Based on current estimates.)

- We split the production.
- Tier 1 cost is \$7100.
- Tier 2 cost is \$56,226. (Remember we're covering less cwt under Tier 2.)

- Now let's look at payments.
- The payments are calculated the exact same way regardless of Tier 1 or Tier 2. The only difference is the cost to purchase coverage.

\$ 8.12	January	\$ -	\$ -	\$ -
\$ 6.88	February	\$ 4,666.00	\$ 500.00	\$ -
\$ 6.64	March	\$ 5,666.00	\$ 1,500.00	\$ -
\$ 6.64	April	\$ 5,666.00	\$ 1,500.00	\$ -
\$ 6.71	May	\$ 5,375.00	\$ 1,208.00	\$ -
\$ 6.71	June	\$ 5,375.00	\$ 1,208.00	\$ -
\$ 7.50	July	\$ 2,083.00	\$ -	\$ -
\$ 7.50	August	\$ 2,083.00		\$ -
\$ 8.42	September			\$ -
\$ 8.42	October	\$ -	\$ -	\$ -
\$ 8.55	November	\$ -	\$ -	\$ -
\$ 8.55	December	\$ -	\$ -	\$ -
		\$ 30,914.00	\$ 5,916.00	\$ -
		\$8 coverage	\$7 coverage	\$6 coverage
	Tier 1 Cost Includes Admin Fee		7100	3150
	Net Tier 1		\$23,714	\$2,666
				800
				(\$900)
\$ 8.12	January	\$ -	\$ -	\$ -
\$ 6.88	February	\$ 3,858.00	\$ 413.00	\$ -
\$ 6.64	March	\$ 4,686.00	\$ 1,240.00	\$ -
\$ 6.64	April	\$ 4,685.00	\$ 1,240.00	\$ -
\$ 6.71	May	\$ 4,444.00	\$ 999.00	\$ -
\$ 6.71	June	\$ 4,444.00	\$ 999.00	\$ -
\$ 7.50	July	\$ 1,722.00		\$ -
\$ 7.50	August	\$ 1,722.00		\$ -
\$ 8.42	September			\$ -
\$ 8.42	October	\$ -	\$ -	\$ -
\$ 8.55	November	\$ -	\$ -	\$ -
\$ 8.55	December	\$ -	\$ -	\$ -
		\$ 25,561.00	\$ 4,891.00	\$ -
		\$8 coverage	\$7 coverage	\$6 coverage
	Tier 2 Cost		56226	34314
	Net Tier 2	\$ (30,665.00)	\$ (29,423.00)	\$ (6,408.00)
	Total Net-Before Sequester		(\$6,951.00)	(\$26,757.00)
				(\$7,308.00)

What does this mean for producers?

- Coverage over 5 million lbs. is VERY EXPENSIVE.
- Current projections do not show a net return on Tier 2.
- Can producers elect only Tier 1 coverage?
 - Sort of and maybe.
 - 25%-90% of production can be covered.
 - Farms over roughly 200 cows will be in Tier 2.
 - Farms with roughly 800 cows will not be able to get all their production in Tier 1. (Over 20 million APH)
 - This is where the real math starts. Figuring out how much to cover and at what level.

In summary-

- MPP changes are positive.
- Average size or smaller producers are likely to benefit the most.
- Larger producers may not benefit at all.
- There are many considerations. Prior programs were more passive. MPP requires a lot of decisions at the producer level.
- We have the benefit a June 1st sign up deadline.
- FSA provides assistance through the County Offices and dairymarket.org resources.