2018 Farm Bill
Dairy Margin Coverage Overview

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FSA State Executive Director
The Farm Bill Process: USDA

- Bring in Task forces
- Study Farm Bill provisions. What has changed? What is new?
- What requires a decision to be made? Who makes it? Develop matrix of decisions with recommended options.
- Some decisions made by task force team members, others elevated to Deputy Administrator, Administrator, Undersecretary, or Secretary.
- What decisions require Secretary input? Use of premium hay for DMC is an example.
The Farm Bill Process: USDA (continued)

• The mechanics:
  • Get decisions made; meet with FPAC, OGC, OBPA, OMB, Secretary
  • Create timelines
  • Write Federal Register documents
  • Brief Senate and House Agriculture Committees
  • Draft notices/handbooks
  • Develop software
  • Communications plan (brief producer groups, Congress)
  • Issue press releases
  • Develop National training, then train state staff
Major 2018 Farm Bill Dairy Changes

• Rebranding: DMC replaces MPP

• Similar framework but significant changes made that reduce premiums and substantially increase expected payments

• MPP (2014-2017): CCC “made” money on MPP; producers paid $77 million more in premiums then collected in payments (repayments letters to producers sent in May 2019)

• DMC: Payments expected to be more than $1 billion per year
DMC Changes from MPP-Dairy

- Tier 1 (5 million pounds): New coverage levels offered of $9.50, $9.00, and $8.50—keeping pace with milk price increase

- DMC: choice of coverage between 5% and 95% of production history (was 25%-90% under MPP), opens up to mid size and larger producers in tier 1

- 25% premium discount if operation locks-in coverage for 5 years
DMC Changes from MPP-Dairy

• Repayments: If operation paid more in premiums than received in payments: choice of 50% cash or 75% credit to be applied to future premiums

• LGM: if producer was precluded from participating in 2018 MPP because of participation in LGM, producer can retroactively purchase 2018 MPP

• DMC Dairy Tool (University of Wisconsin): Today’s results: Dairy with 8 million pound history and elects $9.50 coverage pays $7,500 in premiums and receives $18,375 in payments. That assumes payments only for the first 6 months
DMC Coverage Levels and Percentages

• CAT level coverage remains at $4

• Higher levels of coverage at the $8.50, $9.00 and $9.50 threshold levels have been added under Tier 1.

• Tier 2 coverage level thresholds remain at the same MPP-Dairy levels ranging from $4 to $8.

• New option: Dairy operations may choose differing Tier 2 coverage if the operation elects a coverage threshold of $8.50, $9.00, or $9.50 in Tier 1.
# 2019 Premium Schedule

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Tier 1</th>
<th>Tier 2</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Premium per cwt for covered production history at 5 mil lbs or less</td>
<td>Premium per cwt, all years for covered production history over 5 mil lbs</td>
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</tr>
<tr>
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<td>$0.150</td>
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DMC Coverage Elections

- Annual Coverage Election decisions
- 5 Year Lock-In Provisions
DMC Coverage Elections Cont.

• MPP-Dairy required producers to make annual coverage elections and participate in the program for the duration of 2014 Farm Bill.

• Under DMC annual participation is not mandatory. Dairy Operations can make annual decisions if they would like to participate.
DMC Coverage Elections Lock-In

- 5 year Lock-In of coverage election 2019-2023

- If locking-in, a 25 percent reduction in the premium is applied
DMC Coverage Elections Lock-In

• Dairy Operations that have an approved PH have until September 20, 2019 to choose the lock-in option

• Dairy Operations that are creating production history for the first time can choose lock-in through the end of the 2022 coverage election period.
Actual Dairy Production Margin

The margin is calculated monthly using:

• National all milk-price

• National average feed cost (corn, soybean meal, and alfalfa).
Anson’s Dairy operation has an approved production history of 5,000,000 million lbs. and is wanting to make a coverage election at the $9.50 level and covering 95% of their production.
Premium Calculation Example (Non-Lock-in)

Annual Calculation:

• $5,000,000 \times 95\% = 4,750,000$
• $4,750,000 \div 100 = 47,500$
• $47,500 \times 0.150 = 7,125$

Annual Premium Total $7125 \times 5 = 35,625$
Premium Calculation Example (Lock-in)

5 Year Lock-In Calculation:

• 5,000,000 x 95% = 4,750,000
• 4,750,000 ÷ 100 = 47,500
• 47,500 x $0.150 = $7,125.00
• $7,125 x 75% = $5,343.75
5 year Premium Total $5,343.75 x 5 = $26,718.75
DMC Payment Calculation Example for 95% and $9.50

- January 2019 margin is $7.99
  - $9.50 - $7.99 = $1.51
  - 5,000,000 x 95% = 4,750,000
  - 4,750,000 ÷ 100 = 47,500 cwt.
  - 47,500 ÷ 12 = 3,958 cwt.
  - 3,958 x $1.51 = $5,976.58
  - 100% Share X $5,976.58 =

- $5,976.58 payment for January 2019 (before 6.2% sequester)
DMC Purpose

DMC offers dairy producers:

• Catastrophic coverage, at no cost, except administrative fee

• Greater coverage at various levels for a premium, in addition to, the administrative fee.

• Provides a payment when “the margin” falls below a specified level.
What is the Margin?

• The Margin is the difference between:

• National All-Milk price
  ➢ *Determined from the average price received per cwt of milk*

• National Average Feed Cost
  ➢ *Determined from the cost of feed used to produce a cwt of milk*
Participating in DMC

Dairy Operation **MUST**:  
- Have Production History Established  
- Register during election period  
- Pay $100 administrative fee, *if applicable*  
- Select coverage level ($4.00 - $9.50) Tier 1  
- Select coverage level ($4.00-$8.00) Tier 2, *if applicable*  
- Select coverage % (5%-95%)
Eligibility

The dairy operation **must**: 

- Produce and commercially market milk from cows in the U.S.
- Not be a Fed/State/Local Government Agency

**Note:** Can be enrolled in LGM-Dairy and Dairy Revenue Protection simultaneously.
June 17 through September 20, 2019

2019 Coverage Election Period
Annual Coverage Election Periods

NO LATE FILE PROVISIONS
2019 Coverage Election Period

A dairy operation may register for DMC:

• Annually

OR

• 1-time Election to Lock In for 5 years
2019 Annual Registration

• Single year contract

• No program obligation to register in any subsequent year
2019 Lock-In Registration (Continued)

• Lock-In Election includes a 25% discount of premiums

• Lock-In Election is available only during 2019 enrollment period

**EXCEPT** for a NEW dairy operation in a subsequent year that is enrolling for the first time in DMC may elect a lock-in operation under New DO Rules until 2022
Premium Payment Due Dates

• Coverage Year 2019 - Due September 20, 2019

• Coverage Year 2020 – Due TBD

• Coverage Years 2021 – 2023 – Due September 1 of applicable coverage year
Premium Discount Lock-In Option

- A dairy operation that elects to lock-in coverage for 2019 – 2023 will receive a 25% premium discount

- A dairy operation that locks in their coverage levels must maintain that level of coverage for 2019 – 2023 coverage years

- Will pay the annual premium by September 1 of each year

- MPP Premium Repayment Cash-Out or Credit decision is separate from premium lock-in discount
MPP Credit Repayment Used for DMC Premium

• A dairy operation eligible to use an MPP calculated repayment credit

• DMC software will apply the MPP calculated repayment to the annual premium due until all credit has been applied

• The dairy operation is responsible to timely pay all remaining premiums due

• A dairy operation that dissolves during a lock-in period is not eligible to receive remaining credit as a “cash out” option
MPP-Dairy Premium Repayment Provisions

• Authorized by the 2018 Farm Bill

• Announced in National Notice MPP-70

• Provides repayments equal to the difference between the total amount of 2014 thru 2017 premiums paid and payments received by the dairy operation for each applicable calendar year
An eligible dairy operation can elect to receive a repayment equal to either:

- 75% of the total repayment as a credit to be used towards future Dairy Margin Coverage (DMC) Premiums (Credit Option)

- 50% of the total repayment as a direct cash repayment (Cash Option)
2019 Repayment Election Period

- May 8, 2019 - September 20, 2019
- Eligible Dairy Operation will make election on form CCC-785
- One time election allowed
DMC Decision Tool

- The MPP Decision Tool has been updated for MPP-Dairy premium repayments and new DMC program coverage levels


- Available for producers to run scenarios