



STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE

Memorandum 9/17/2018

To: Senator Kitchel, Senate Appropriations Committee
From: Stephen Klein, Joint Fiscal Office
RE: MPP Program Assistance to Dairy Farmers

We have looked at the changes made to the Margin Protection Program in the February 2018 federal budget act and the possibility of subsidizing participation through state reimbursement for part of the premium paid for Tier 1 coverage.

The Dairy Margin Protection Program or MPP...“supports producer margins...and is designed to address both catastrophic conditions as well as prolonged periods of low margins. Under this program, the margin will be calculated monthly by USDA. Simply defined, it is the all-milk price minus the average feed cost. Average feed cost is determined using a national feed ration that has been developed to more realistically reflect those costs associated with feeding all dairy animals on a farm on a hundredweight basis.¹

As we understand it the Act (See attached descriptions):

- **Made coverage retroactive to January 2018.** *Based on February actuals and projections for March the first three months of 2018 pay out would exceed the premium cost by about 50% (see projection chart below).*
- **Substantially reduced premiums for Tier 1 participation and increased the potential payouts. Tier 2 does not have the same financial advantages.**
- **Requires Farmers to sign up from April 9 through June 1, 2018 for 2018. Premium payments are due by September.**
- **Provides greater benefits to smaller dairy farms with the benefit insured at 90% dropping to 35% for larger farms (Over 600 cows)**

Data provided by Wendy Wilton, Executive Director of the Farm Service Agency, indicates a total premium projection for Vermont Producers of \$2.26 million. A potential subsidy on a reimbursement basis would be:

Total Premium	% reimbursed	Cost
\$ 2,264,572	30%	\$ 679,372
\$ 2,264,572	33%	\$ 747,309
\$ 2,264,572	40%	\$ 905,829
\$ 2,264,572	50%	\$ 1,132,286

The Diane Bothfeld of the Secretary of Agriculture indicates there are about 750 active dairy farms. \$750,000 could cover a \$1,000 subsidy per farm.

¹ <http://www.futurefordairy.com/program-details>

The Secretary has yet to take a position on this proposal. we have asked for specific recommendations as to:

- Program implementation issues and costs
- Would they recommend the premium subsidy be on a per-farm basis or a percent of premium or production basis, with a per farm basis benefitting smaller farms
- How the premium subsidy would be implemented.

USDA (FSA) estimates w/o subsidy					
Number of cows	100	200	400	600	800
Premium Projection	\$2,945	\$5,889	\$6,544	\$6,871	\$6,953
<u>3 month pay out est.</u>	<u>\$4,449</u>	<u>\$8,898</u>	<u>\$9,887</u>	<u>\$10,381</u>	<u>\$10,505</u>
<i>NET first three months</i>	<i>\$1,504</i>	<i>\$3,009</i>	<i>\$3,343</i>	<i>\$3,510</i>	<i>\$3,552</i>
Total FY 2018 payout projection	\$ 10,776	\$ 21,552	\$ 23,946	\$ 25,144	\$ 25,443
<i>Net of premium paid</i>	<i>\$ 7,831.36</i>	<i>\$ 15,662.72</i>	<i>\$ 17,402.36</i>	<i>\$ 18,273.17</i>	<i>\$ 18,490.38</i>