

Dairy Margin Coverage Program





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.

Multi-Producer/Dairy Operation

Multi- Producer Operation

A dairy **operation** operated by more than 1 dairy producer

Multi- Dairy Operation

A dairy **producer** that operates more than 1 dairy operation

Separate and Distinct

Dairy Operations that participated in MPP



Will remain as constituted in MPP-Dairy

Dairy Operations that did not participate in MPP



Require a separate and distinct determination



Affiliation rule no longer applies



Not Considered New Dairy Operation

A dairy operation is **not** considered new if the dairy registered in DMC does any of the following:

- changes the name of the dairy operation
- changes dairy TIN for tax purposes
- relocates to another State or county
- adds additional shareholders to the dairy operation
- Family member takes over the dairy operation per 5-PL definition
- Reorganized while containing at least one common member

Sign-Up Period





United States Department of Agriculture

**October 13 through
December 11, 2020**

2021 Coverage
Election Period



Administrative Fee Exemption

Dairy operation must certify exemption on CCC-860 for the following:

- Limited Resource
- Beginning farmer or rancher
- Veteran farmer or rancher
- Socially-disadvantaged farmer or rancher



Eligibility





Eligible Dairy Operation

- Any dairy operation that produces and commercially markets milk produced from cows, as a single unit, and has a production facility in the U.S.
- Must be commercially marketing milk at the time of enrollment in DMC

Eligible Dairy Operation (Continued)

Dairy operations eligible for DMC must:

- Have production history approved for the dairy operation on CCC-800 or previously approved on CCC-781
- Submit a completed CCC-801 agreeing to DMC terms and conditions
- Annually pay administrative fees, **unless exempt**, and premiums, if applicable, for each separate and distinct participating operation



Eligible Producer

Any individual, group of individuals, partnership, corporation, estate, trust association, cooperative, or other legal business enterprise or other legal entity who is, or whose members:

- Are, a citizen of, or legal resident alien in the U.S.
- Directly or indirectly share in the risk of producing milk
- Makes commensurate contributions including land, labor, management, equipment, or capital



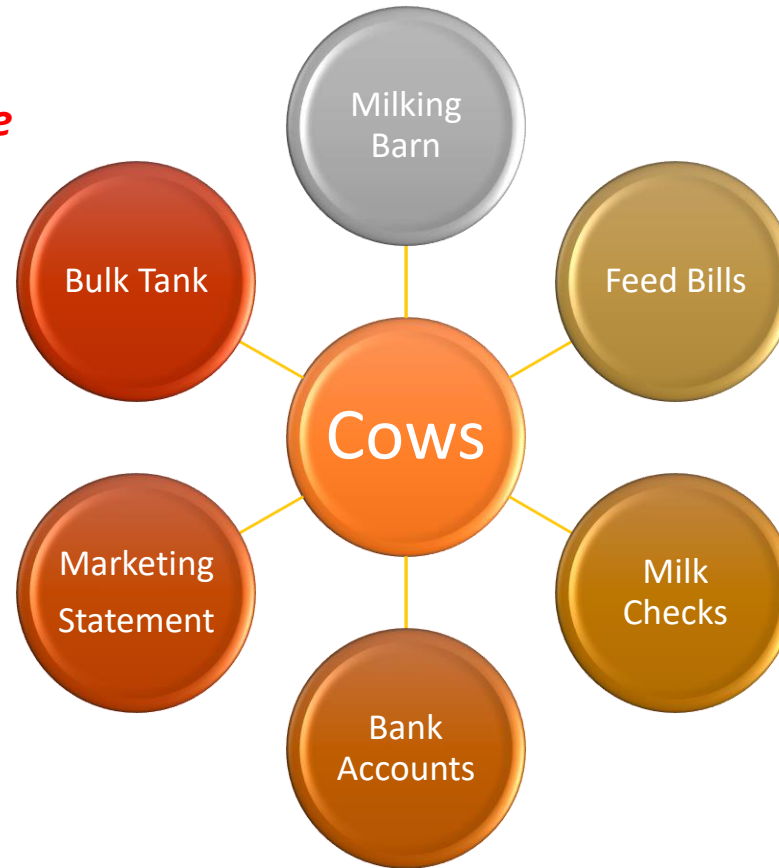
Separate and Distinct

Previous dairy operations that had been determined separate and distinct under MPP will be *automatically* considered separate and distinct for DMC.

Dairy Operations that are creating production history on CCC-800 for the first time for DMC program purposes will have separate and distinct rules applied based on National criteria.

Separate and Distinct National Criteria

Cows that move between farms will be considered ONE dairy operation.



Production History Establishment





DMC PH for Operations Existing Since Jan. 1, 2014

IF the participating dairy operation has... THEN production history is determined from...

- been in operation for 1 year or more but was not in operation before January 1, 2014,

AND

- not previously established a production history

annual milk marketings from any 1 full calendar year.



DMC Production History for New Operations

IF the participating dairy operation is...

a new dairy operation (*in operation for less than 1 year*)

THEN production history is determined from...

either of the following:

- volume of the actual milk marketings for the months the participating dairy operation has been in operation extrapolated to a yearly amount
- an estimate of the actual milk marketings of the participating dairy operation based on the average herd size of the participating dairy operation relative to the national rolling herd average data published by USDA for the year they started producing and commercially marketing milk.

CCC-800
Production History
Establishment





CCC-800 – Production History Establishment

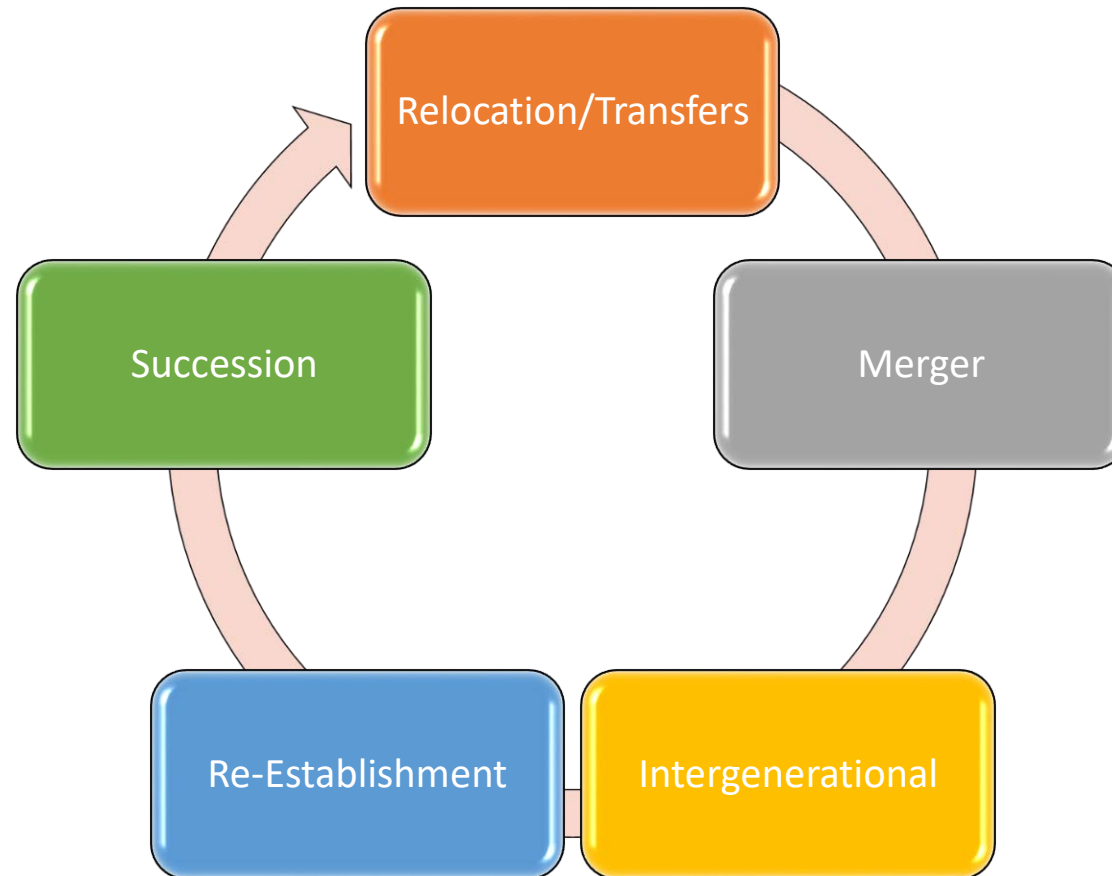
CCC-800 will be used to do the following:

- establish production history for dairy operations participating in DMC that have never established a production history under MPP-Dairy
- make corrections to production history

Production History (PH) Modifications



Types of PH Modifications





Non-Transferable Production History

A DMC participating dairy operation that completes a dissolution on CCC-802 may **not** merge or transfer their production history to that of another participating dairy operation.

Mergers

- Producers of more than one dairy operation that separately participate in DMC may merge the production histories of these dairy operations into one dairy operation
- After production history has been merged it cannot be unmerged, reallocated, or used by another dairy operation
- CCC-800M with merged production history must be signed by all parties



Merger Effective Date

The merger of the combined production history will be effective **January 1** of the calendar year following the applicable annual coverage election period that the combined dairy operation pays the annual administrative fee and applicable premiums.



Ineligible Merger Example

- ABC Dairy participates in DMC, they purchase a second dairy down the road and start producing and commercially marketing milk in the second facility.
- The second dairy operation does not meet separate and distinct rules so it cannot participate in DMC on its own.
- ABC Dairy cannot establish production history on the second dairy operation and merge the 2 together for DMC purposes.



Types of Succession-In-Interest Transfers

Dairy operations that:

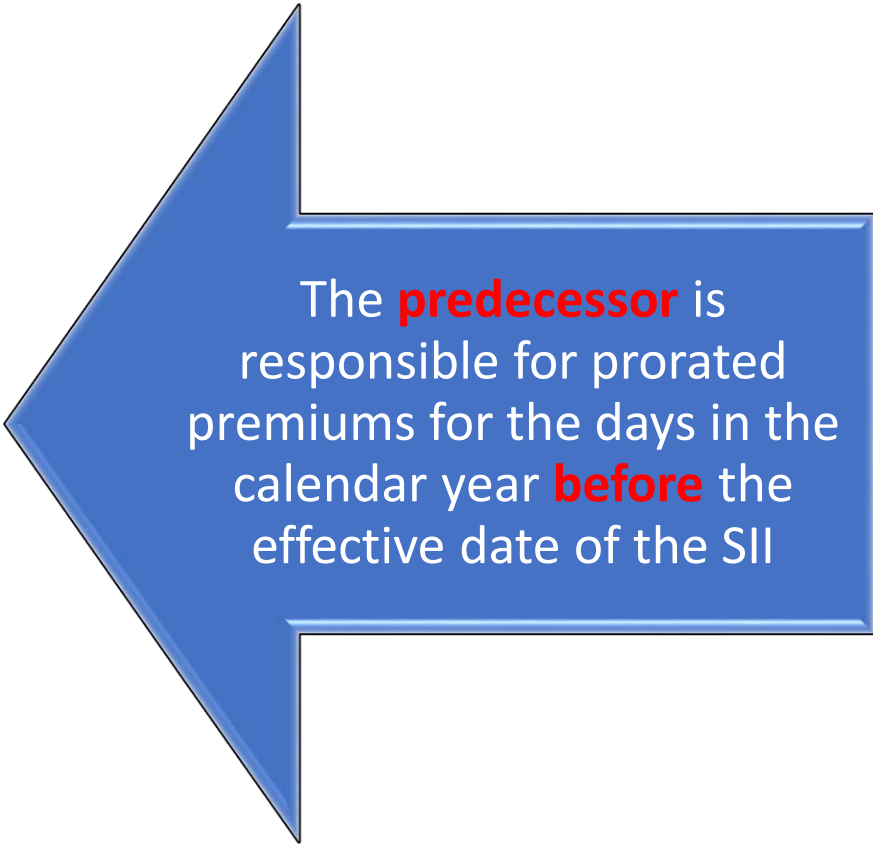
- Transfer ownership through sale or other transfer action to a family member, where there is no break in the commercial marketing of milk
- Restructures or reorganizes with a new tax identification number and there is at least one common member



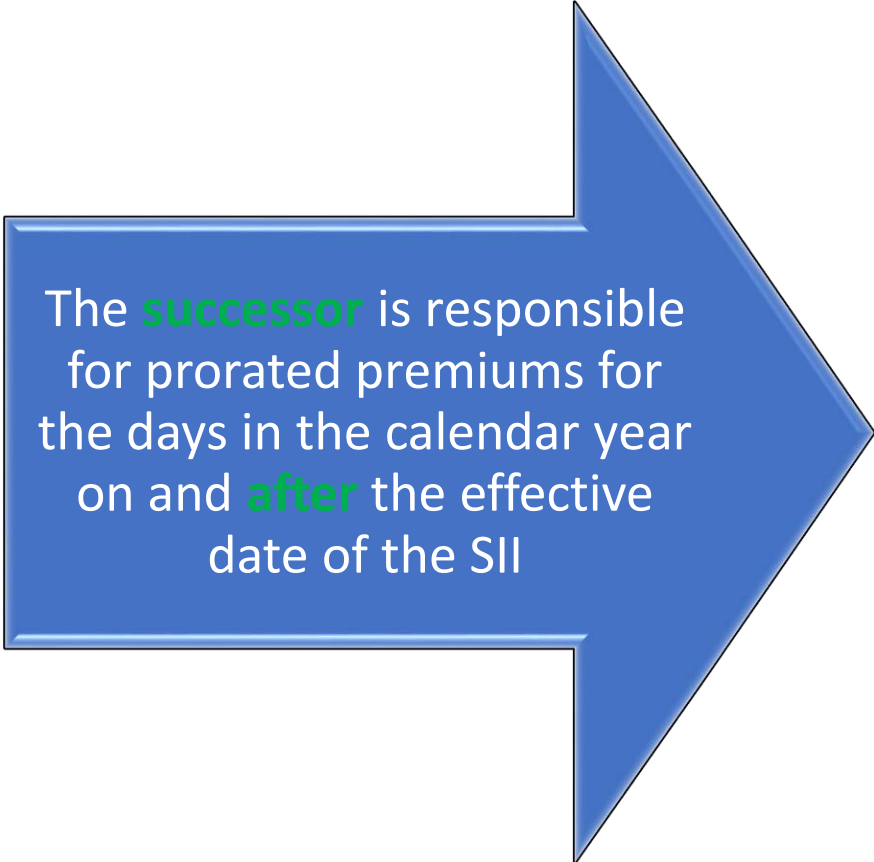
Succession-In-Interest Effective Date

A succession-in-interest becomes effective the date the new dairy operation takes over.

Succession-In-Interest Premiums



The **predecessor** is responsible for prorated premiums for the days in the calendar year **before** the effective date of the SII



The **successor** is responsible for prorated premiums for the days in the calendar year on and **after** the effective date of the SII



Succession-In-Interest Example

John Smith participated in DMC and decided to retire on October 9, 2020. His son, Joe Smith, took over milking immediately following his father's retirement. Joe Smith wants to participate in the DMC program for the remainder of the year.

- The effective date of the succession is October 10, 2020.
- John Smith is responsible for the pro-rated premium from January 1, 2020 through October 9, 2020.
- Joe Smith is responsible for the pro-rated premium from October 10, 2020 through December 31, 2020.

Dissolutions CCC-802





Retirement, Death or Dissolution

Producers of a participating dairy operation or a decedent's estate **must** notify FSA immediately on CCC-802 in cases where a dairy producer dies, retires, or otherwise permanently goes out of business and dissolves.



Retirement, Death or Dissolution (Continued)

Dissolved dairy operations:

- Cannot continue coverage after the date they stop commercially marketing milk
- Must submit documentation proving the last day they commercially marketed milk

Retirement, Death or Dissolution (Continued)

Dissolved Dairy Operations:

- will be responsible for the pro-rated premium based on the days they commercially marketed milk during the calendar year if applicable
- that continue to collect DMC payments for days they did not commercially market milk will be required to refund the payments when the CCC-802 is approved



Prorated Refund For Dissolution

If the annual prorated premium refund is calculated, it **CANNOT** exceed the cash remittance amount submitted by the dairy operation

Note: DMC premium credits are non-refundable as cash

DMC Registration and Coverage Election





What We Will Cover

- Registration Requirements
- Registration and Coverage Election Periods
- Election Options
 - Annual Election
 - Lock-In Election



Registration Requirements

At the time of initial DMC registration a dairy operation must:

- Have a production history established
- Make coverage elections on CCC-801, DMC Contract and Annual Coverage Election form, and submit to the County Office
- Pay \$100 administrative fee annually by the end of the coverage election period, unless waived according to CCC-860 rules.



Registering a New Dairy Operation

A new dairy operation will:

- Submit a CCC-800, CCC-801 and administrative fee, as applicable within the first **60** calendar days from the date they first started commercially marketing milk
- Elect coverage percentage and margin(s) to begin on the date the operation started commercially marketing milk



Registering a New Dairy Operation (Continued)

If the new dairy operation does not register in the first 60 days of commercially marketing milk:

- No enrollment for current year
- Would be eligible to register in the subsequent year coverage election period.



2021 Coverage Election Periods

- **October 13 – December 11, 2020**



United States Department of Agriculture

Annual Coverage Election Periods

NO LATE FILE PROVISIONS



Coverage Elections

Coverage elections include the following 2 components:

- **Coverage percentage**

AND

- **Coverage margin trigger by Tier, if applicable**





Coverage Percentage

- **Coverage Percentage** is applied/selected first to determine the pounds of production history covered
- **Percent Available:** 5% to 95% (*in 5% increments*)



Coverage Margin Triggers

Once pounds covered is selected, margin triggers are then applied:

Margin Trigger Level:

- Tier 1 (first 5 million pounds) \$4.00 - \$9.50 (*in \$0.50 increments*)
- Tier 2 (over 5 million pounds) \$4.00 - \$8.00 (*in \$0.50 increments*)



Coverage Margin Triggers (Continued)

Margin Trigger is selected first for **Tier 1** (First 5 million pounds)
\$4.00 to \$9.50

Margin Trigger for **Tier 2**:

- **IF** Tier 1 has been selected as **\$4.00 thru \$8.00 THEN** Tier 2 automatically is the same as Tier 1
- **IF** Tier 1 has been selected as **\$8.50 thru \$9.50 THEN** Tier 2 may be any value between \$4.00 thru \$8.00



Changing Coverage Elections

Coverage election changes:

- Can be changed up to the last day of the registration/coverage election period.
- Are **FINAL** as of COB the last day of registration/coverage election period.
- Must be documented on a new CCC-801 and signed by all producers in the dairy operation
- May generate a refund of premium if premium was paid and change occurred



Help with Coverage Elections

County offices will not advise on coverage elections, but may refer and assist with the decision tool:

[Dairymarkets.org/dmc](https://dairymarkets.org/dmc)

DMC Administrative and Premium Fees





Administrative Fee Due

\$100 Annual Fee for participation in DMC

Except if the Dairy Operation qualifies for an exemption based on the following:

- Limited Resource
- Beginning Farmer or Rancher
- Socially Disadvantaged Farmer or Rancher
- Veteran Farmer or Rancher

If exempt, **form CCC-860** must be completed at the time of application



Administrative Fee Due (Continued)

- Due by end of annual election period; if participating
- Per participating separate and distinct dairy operation
- Payable to CCC in the dairy operations Administrative County
- Non-refundable



Administrative Fee for Lock-In Coverage

Dairy Operations that elect the 5-year lock-in option are required to pay the administrative fee *annually* each year through 2023, unless:

- exempt (CCC-860)

OR

- waived by FSA (death, retirement, or permanent dissolution)



Buy-Up Coverage

Dairy Operations must pay a premium for higher coverage levels ranging from **\$4.50 to \$9.50** per cwt, (*in \$0.50 increments*)



Premium Schedule

Coverage Level	Tier 1 Premium per cwt for covered production history at 5 mil lbs or less	Tier 2 Premium per cwt, all years for covered production history over 5 mil lbs
\$4.00	None	None
\$4.50	\$0.0025	\$0.0025
\$5.00	\$0.005	\$0.005
\$5.50	\$0.030	\$0.100
\$6.00	\$0.050	\$0.310
\$6.50	\$0.070	\$0.650
\$7.00	\$0.080	\$1.107
\$7.50	\$0.090	\$1.413
\$8.00	\$0.100	\$1.813
\$8.50	\$0.105	N/A
\$9.00	\$0.110	N/A
\$9.50	\$0.150	N/A

Premium Payment Options and Due Dates





Premium Payment

A participating Dairy Operation that elects dairy margin coverage greater than CAT level is required to pay a premium in addition to the annual administrative fee



Premium Payments

- Required to be paid for each year the Dairy Operation enrolls in DMC and elects buy-up coverage
- Coverage January 1 through December 31
- Calculated on CCC-801
- One premium for the entire covered production history (Tier I and Tier II)



Premium Payment Due Dates

- Coverage Years 2021 – 2023 – Due September 1 of applicable coverage year



Premium Payment Provisions

- May be paid in full at the time of election
- May be paid by assignment
- Will be offset by receivable if applicable
- Receivables will be established if not paid within 30 days of the due date
- A new Dairy Operation registering for coverage after the coverage election period must pay the premium in full at the time of registration

Premium Payment Provisions (Continued)

- Premiums will be calculated using dollars and cents
- A dissolution may result in a:
 - Dairy Operation repayment of an indemnity received
 - Refund of premium previously paid

Failure To Pay Fees





Failure to Pay Administrative Fees

- Administrative Fee is due at the time of enrollment, or by the end of the coverage election period
- For annual coverage elections, failure to pay admin fee by the end of coverage election period will result in no coverage for the year
- A Dairy Operation that locked in coverage for 2019–2023 received the premium discount, and is obligated to pay the Admin. Fee annually
- A Dairy Operation with lock-in that fails to pay the Admin. Fee by the applicable due date will not receive indemnity until the Admin. Fee has been paid in full.



Failure to Pay Premium Fees (Continued)

- Do not approve DMC contracts with outstanding DMC fees
 - Outstanding MPP premiums **do not** affect the approval of a DMC contract
 - Outstanding DMC premiums **WILL** affect approval of future years DMC contracts
- A dairy operation can regain coverage after premiums have been paid current
- A DO that regains coverage by paying all outstanding premiums will be retroactively eligible for DMC payments

Promissory Note

- A Dairy Operation that properly establishes a promissory note for an outstanding premium regains DMC eligibility
- A Dairy Operation with promissory note must remain current in their agreement

DMC Payments





Determining the “Margin”

Determined based on the difference between:

- National all-milk price
- National average feed cost

USDA will determine the actual dairy margin each month using the full-month price for the applicable month



National All Milk Price

Based on the following:

- Average price received per cwt. of milk by dairy operations for all milk sold to plants and dealers in the U.S.
- Published USDA national data from National Agricultural Statistics Service (NASS)



National Average Feed Cost Based on the following:

- Average cost of feed used to produce a cwt. of milk
- National price reported by NASS for corn and alfalfa hay
- Central Illinois price reported by AMS for soybean meal



Feed Cost Calculation

Sum of:

- 1.0728 times the price of corn per bushel, plus
- .00735 times the price of soybean meal per ton, plus
- .0137 times the price of alfalfa hay per ton



DMC Payment Trigger

Whenever the actual dairy production margin for a month is less than the coverage level threshold selected by the participating dairy operation a DMC payment will trigger

Note: Rounded 2 places to the right of the decimal

Determining Payment Amount

Step	Action
1	Determine the amount by which the coverage level selected exceeds the actual dairy margin for the month.
2	Multiply the established production history by the coverage percentage elected by the dairy operation.
3	Divide the result of step 2 by 100 to determine cwt.
4	Divide the result of step 3 by 12.
5	Multiply the result of step 4 by the result of step 1.
6	Multiply the result of step 5 by the producer share on the contract.



DMC Payment Calculation

ABC Dairy operation has an approved production history of 3.5 million lbs. and elected 95% coverage level at the \$9.50 coverage level threshold. The January margin is \$7.99



DMC Payment Calculation Example 1

Step	January Payment Calculation
1	$\$9.50 - \$7.99 = \$1.51$
2	$3,500,000 \text{ lbs.} \times 95\% = 3,325,000 \text{ lbs.}$
3	$3,325,000 \text{ lbs.} / 100 = 33,250 \text{ cwt.}$
4	$33,250 \text{ cwt.} / 12 = 2,771 \text{ cwt.}$
5	$2,771 \text{ cwt.} \times \$1.51 = \$4,184.21$
6	$\$4,184.21 \times 100\% = \$4,184.21$



United States Department of Agriculture

QUESTIONS?





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We Run DMIC