AN152

UNIVERSITY OF FLORIDA

IFAS EXTENSION

The Milk Income Loss Contract Program for Dairy Producers[1]

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The Milk Income Loss Contract (MILC) Program financially compensates dairy producers when domestic milk prices fall below a specified level. The program is authorized by the 2002 Farm Security and Rural Investment Act and has no set funding level. Eligible dairy producers are those who, anytime from December 1, 2001, to September 30, 2005, commercially produce and market cow milk in the United States or produce milk in the United States and commercially market the milk outside the United States. The USDA Farm Service Agency (FSA) administers the program. Their MILC website at http://www.fsa.usda.gov/dafp/psd/milc.htm provides more details.

The MILC program financially compensates dairy producers when the Boston Class I milk price falls below $16.94 per cwt (100 lb). The MILC payments are made on a monthly basis for up to a maximum of 2.4 million pounds of milk produced and marketed by the dairy per fiscal year. The 2005 fiscal year begins October 1, 2004 and ends September 30, 2005.

Payment rate per cwt is determined by multiplying 45% of the difference between $16.94 and the Boston Class I price for that month. For example, The Boston Class I price announced for July 2003 was $13.02. Therefore 45% of ($16.94 – $13.02) is $1.764. MILC payment rate for July 2003 was $1.764 per eligible cwt sold.

Most Florida dairies produce much more than the 24,000 cwt milk that is eligible for MILC payments in the fiscal year. Therefore, only part of the total amount of milk that is produced is eligible for payments. The MILC program allows dairy producers to select which month of the fiscal year payments will begin. The selected starting month will remain the same throughout the duration of the contract, unless it is modified. The starting month is indicated on MILC form CCC-580. Once a starting month is selected, the payments continue for the consecutive months that follow until the 24,000 cwt cap is reached or the fiscal year is ended. Dairy operations that have not designated a starting date on form CCC-580 will be issued fiscal year 2005 payments beginning with October 2004, unless the FSA office is notified that no starting month is yet selected. To select the starting month, or to change the selected starting month, dairy producers must notify their FSA office on or before the 15th of the month before the selected month (September 15th, 2004 if your starting month is October, 2004).

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The highest MILC payments will be received when the Boston Class I milk price is the lowest. One way to predict the largest difference with the Boston Class I milk price for the fiscal year is to look at the Class III or Class IV futures market. Take $16.94 – $3.25 (Boston Class I Differential) = $13.69 and then subtract the Federal Order Class I mover (higher of Class III or Class IV futures values). The payment rate is 45 percent of the difference between $13.69 and the Class I mover.

For example, a dairy chooses as starting month December 2004 for fiscal year 2005. On July 30th, 2004, the Class III and Class IV future values were $12.62 and $12.50, respectively. The Class I mover for December 2004 is 0.45 x ($13.69 – $12.62) = $0.482 per eligible cwt. No payments will be made when the announced Boston Class I milk price for a month i s higher than $16.94. The milk produced in that month is not counted toward the 24,000 cwt cap.

An Excel spreadsheet, FLORIDA_MILC_PAYMENTS.xls, is available on the UF/IFAS dairy extension website at http://dairy.ifas.ufl.edu/spreadsheets.html, which allows users to enter the expected monthly herd size, milk production per cow, and the Class III and IV future values (available daily at http://www.dairy.nu/ddh.htm). Users can select different starting months and see which starting month results in the highest expected total MILC payments.

An important consideration (not included in the spreadsheet) is that any MILC payments received will be added into your farm income for calculating taxes due. So MILC payments received in 2004 will be added to farm income for 2004 and payments received in 2005 will be added to farm income for 2005. Another consideration is that money received earlier is more valuable than money received later, because you can invest that money and earn interest on it (or pay bills).