

## Understanding the MILC Program

The new MILC program was established in the 2008 Farm Bill, and includes a feed adjustor and a higher payment cap through 2012. The Farm Service Agency is hoping that the sign up period will begin shortly. Before signups may begin, the Office of Management and Budget must approve a new form and regulations pertaining to the new adjusted gross income provisions (payees non-farm income cannot exceed \$500,000 for the year in which they receive payment) for the MILC program. Farm Bureau will alert members through Country Focus and Express when the sign up period begins. Signups will be done in your county FSA office.

Below, you will find an overview of how the MILC program will work with the new Feed Adjustor Formula.

### *How the Feed Adjustor Works*

Each month, USDA will calculate the cost of feed for dairy farmers based on the milk-feed index, which includes corn, soybean, and alfalfa hay prices. That feed cost data is then used to increase the base MILC trigger of \$16.94 by a certain percentage. The result is that MILC payments would be made when milk is at a higher price than in the 2002 Farm Bill based on cost of production. This will strengthen the MILC program to help farmers when prices are low relative to their feed costs but still higher than \$16.94.

The feed adjustor sets a baseline feed cost of \$7.35, which is based on the corn, soybeans, and alfalfa hay. Each month, USDA must compute the cost of feed using corn, soybean, and alfalfa hay prices. That monthly calculation is then used to increase the trigger price for MILC by 45% of the percentage increase between the cost of feed for milk production and the base MILC trigger of \$16.94.

### *Additional Details and Scenarios*

The language establishes a feed index of \$7.35 per hundredweight, a starting point based on average prices in 2007. This number represents the weighted average of corn prices (51%) alfalfa prices (41%) and soybeans prices (8%) that USDA currently uses in establishing the Milk-Feed Price Ratio. Each month, USDA will use this formula to produce a new weighted average based on the most current pricing. Based on commodity prices for April 2008, this formula would produce a feed index of \$9.46 per hundredweight.

USDA will then calculate the percentage change between the \$7.35 baseline and the new monthly figure (see example below for calculation). After that, it takes 45% of that percentage increase, and added to the \$16.94 to create a new, higher trigger price.

When feed prices fall below the \$7.35 per hundredweight index, the current \$16.94 per hundredweight MILC target will remain. Thus in the case that commodity prices were to fall, the feed adjustor calculation can *never* decrease the trigger price for any reason.

### *Calculating the MILC Target Price with Feed Cost Adjuster(April 2008 Example)*

(1) National Average Dairy Feed Ration Cost = \$9.46 (based on market prices of corn, alfalfa and soybeans)

(2) Subtract the Monthly Dairy Feed Ration Cost from the Feed Cost Adjustment Trigger from:  
 $\$9.46 - \$7.35 = \$2.11$

(3) Calculate the percentage by which the Feed Ration Cost is above the Trigger:  $\$2.11 / \$7.35 = 28.8\%$

(4) Calculate the Factored MILC Target Price by 45%:  $28.8\% \times 45\% = 12.9\%$

(5) Calculate the factor for increasing the MILC Target Price:  $12.9\% + 100.0\% = 112.9\%$

(6) Calculate the New MILC Target Price:  $\$16.94 \times 112.9\% = \$19.13$  per hundredweight.