

Cash Flow Budgeting and Margin Protection Program Decisions

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Summary

- Margin Protection Program for dairy producers (MPP) rules and mechanics have been established.
- The web based MPP Decision Tool is operating as an effective and flexible decision aid for selecting coverage level and percentage.
- For some producers that choose to make MPP decisions based upon expected need for a future period, cash flow budgeting can be a valuable approach.

Margin Protection Program for Dairy Producers

See Joan Petzen's article from the September 2014 issue of Ag Focus titled "Farm Bill Implements More Risk Management Choices" for background. Joan did well to emphasize the safety net aspects of the program.

Highlights from a September 9, 2014 training session on MPP include the following.

- Rules and mechanics with respect to eligibility, enrollment, coverage level selection, payments to producers, premiums, and other factors have been established. To learn more, see <www.fsa.usda.gov/mpptool>, Dairy markets and Policy Program <<http://dairymarkets.org/MPP/>>, Joan Petzen's article and, or contact your local FSA office.
- The web based MPP Decision Tool is operating as an effective and flexible decision aid. The tool is 100 percent secure, has 24/7 access, and is 100 percent free. Visit <www.fsa.usda.gov/mpptool>, or <www.dairymarkets.org/mpp>. See how entering a coverage year, and actual production history for your farm generates expected fees and premiums, expected payments (benefits to the producer), and expected net returns (expected payment minus expected fees and premiums) for coverage levels ranging from 4 to 8 dollars per cwt. in \$0.50 increments. The coverage level is understood to reflect a margin between milk income and feed costs.
- Some producers will choose to approach selection based upon expected need, asking the question, "Which coverage level and percentage makes the most sense given expected needs for the future period?" For these producers, budgeting to determine expected future needs from a cash flow perspective will be valuable.

The Cash Flow Budget

A cash flow budget for projecting the business' ability to meet cash obligations in a timely manner for a future period summarizes the expected cash inflows (cash farm receipts, money borrowed, capital sales, non farm income) and outflows (cash farm expenses, principal

payments, capital purchases, withdrawals for family living and other personal withdrawals). For MPP purposes, the projection would help the producer establish the lack of need or need, often projected as an excess or deficit, respectively, for purposes of selecting MPP coverage level and percentage.

Characteristics of effective cash flow budgeting include the following.

- LaDue, Schuelke and Mensah-Dartey offer some basic rules to follow to ensure useful projections (LaDue, Eddy L., Jacob Schuelke and Virgil Mensah-Dartey. 2000. CASHPRO: A Computer Spreadsheet for Projecting Annual Cash Flows and Pro Forma Income Statements.)
 1. Project cash flows from accrual (or accrual adjusted) receipt and expense values.
 2. Exclude unusual occurrences from the base year data used for projections.
 3. Use causal logic in estimating each receipt and expense item.
 4. Be sure to adjust for inflation.
 5. Livestock farms that grow forages or concentrates should carefully assess their forage and, or concentrate balance whenever significant changes are expected in the size or composition of the animal herd or cropping program.
- Sensitivity analysis and critical review of the projections enhance the usefulness and validity of projections.

The CASHPRO electronic spreadsheet with instructions is available at <http://agfinance.dyson.cornell.edu/tools.html>. Monthly, whole farm, cash flow budgeting is also an option. Again, see <http://agfinance.dyson.cornell.edu/tools.html> for a monthly cash flow budgeting tool.

To learn more about developing cash flow projections, visit the team's website at www.nwnyteam.org and type "cash flow budgeting" in the "search our entire site" window and, or contact John Hanchar, or Joan Petzen.