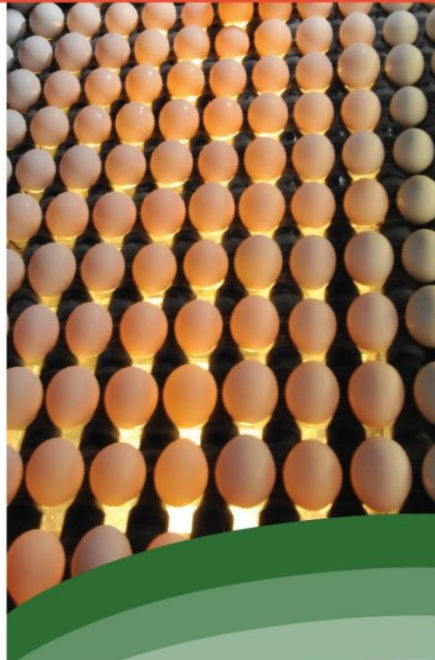




United States Department of Agriculture

# Agricultural Marketing Service

Creating Opportunities for American Farmers and Businesses





# **Agricultural Marketing Service**

*Creating Opportunities for American Farmers and Businesses*

## **Handler Training Module 7: Pooling Decision**

Educational materials  
prepared by USDA AMS Staff

# Pooling Decision

## Content:

- What does it mean to opt out of the pool?
- Logistics
- Considerations:
  - Repooling
  - Pricing
  - Five Areas to Consider

# What Does it Mean?



# Logistics

- Prior notification about pooling status is required by the Market Administrator
- If opting out of the pool, still need to send in report.
- Class I plants can not opt out of the pool.

*Note: not a simple on/off.*

*There are repooling requirements.*

## Considerations: Repooling - Current month pool volume limited as follows:

- 125% of prior month producer receipts (135% in March), plus...
- Increased shipments to pool distributing plants, plus...
- Increase in volume of milk pooled on and “moved” from any other order (must have been continuously pooled in prior 6 months).

# Calculating Handler's Allowable Pool Volume: Step 1

- Multiply producer milk pounds of handler (plant or coop) from prior month by 125%. (135% if prior month is February).
- If this volume is greater than producer milk to be pooled in current month, no further steps required, otherwise...

# Calculating Handler's Allowable Pool Volume: Step 2

Add to the volume calculated in Step 1:

- Any increase in the volume of total milk shipments to pool distributing plants in the current month compared to the prior month.
- If this sum is greater than producer milk to be pooled in current month, no further steps required, otherwise...



# Calculating Handler's Allowable Pool Volume: Step 3

Add to the sum calculated in Step 2:

- Any producers pooled in the current month that have been continuously pooled on any Federal order (allows for supply shifts across orders if milk has not been recently depooled).
- Only producers whose milk has all been pooled on other Federal orders for the prior 6 months.

# Additional Issues

- Handlers are required to determine their own allowable amounts prior to pool.
- Detailed producer info (for exemptions) needed at pool.
- No additional milk will be added after the pool.

# Pooling Decision: Pricing

- Estimate Class and Component Prices
- Estimate the PPD
- Estimate impact on handler obligation

# Estimating Class and Component Prices

- Use projected commodity values to estimate Class and Component Prices

## Basic formula:

(projected commodity \$ - make allowance) x yield

- *Apply to cheese, butter, powder, and dry whey*

# Estimating the PPD

Consider how market-wide depooling will change the Producer Milk, by class.

Apply estimated class/component prices to estimated producer milk.

The difference between the PM Value and the PM Credits is the estimated PPD.

Caution: margin of error depends on assumptions. More precise inputs will result in more precise outputs.



United States  
Department of Agriculture  
Agricultural Marketing Service  
Dairy Program

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**EXAMPLE  
STATISTICAL UNIFORM PRICE ANNOUNCEMENT**

Producer Milk	Percent	Pounds	Minimum Class Price
Class I	15.0	150,000,000	\$18.37
Class II	10.0	100,000,000	\$16.77
Class III	45.0	450,000,000	\$16.24
Class IV	30.0	300,000,000	\$16.05
Total Producer Milk	100.0	1,000,000,000	

Computation of Uniform Price (per cwt @ Los Angeles County, CA)		Component Prices	
Producer Price Differential	\$0.60	Butterfat Price	\$2.6000 /lb
Class III Price (@ 3.5% Butterfat)	\$16.24	Protein Price	2.1000 /lb
Statistical Uniform Price (@ 3.5% Butterfat)	\$16.84	Other Solids Price	0.1500 /lb
Statistical Uniform Price (@ Average Pool Component Tests)	\$18.05	Nonfat Solids Price	0.8000 /lb

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL				
	Product Pounds	Price per cwt/lb.	Component Value	Total Value
Class I— Skim	148,700,000	\$9.50	13,936,500.00	
Butterfat	3,300,000	2.6300	8,679,000.00	
Less: Location Adjustment to Handlers			(375,000.00)	\$22,240,500.00
Class II— Butterfat	5,000,000	2.6070	13,035,000.00	
Nonfat Solids	8,700,000	0.8800	7,656,000.00	20,691,000.00
Class III— Butterfat	16,515,000	2.6000	42,939,000.00	
Protein	14,850,000	2.1000	31,185,000.00	
Other Solids	25,650,000	0.1500	3,847,500.00	77,971,500.00
Class IV— Butterfat	13,500,000	2.6000	35,100,000.00	
Nonfat Solids	26,100,000	0.8000	20,880,000.00	55,980,000.00
<b>Total Classified Value</b>				<b>\$176,883,000.00</b>
Add: Overage—All Classes				10,000.00
Inventory Reclassification—All Classes				50,000.00
Other Source Receipts	50,000 Pounds			2,000.00
<b>Total Pool Value</b>				<b>\$176,945,000.00</b>
Less: Value of Producer Butterfat	38,315,000	2.6000	(99,619,000.00)	
Value of Producer Protein	31,575,000	2.1000	(66,307,500.00)	
Value of Producer Other Solids	57,375,000	0.1500	(8,606,250.00)	(174,532,750.00)
<b>Total PPD Value Before Adjustments</b>				<b>\$2,412,250.00</b>
Add: Location Adjustment to Producers				3,500,000.00
One-half Unobligated Balance—Producer Settlement Fund				500,000.00
Less: Producer Settlement Fund—Reserve				(412,250.00)
<b>Total Pool Milk &amp; PPD Value</b>	1,000,050,000 Producer pounds			<b>\$6,000,000.00</b>
Producer Price Differential		\$0.60		
Statistical Uniform Price		\$16.84		

(Selected pool and price statistics on next page)

# Estimating Handler Obligation

(Sample) COMPUTATION OF HANDLER OBLIGATION

Federal Order No. XYZ	Sample Month					
Sample Manufacturing Plant, City, State						
% UTILIZATION PER CLASS	PRODUCT POUNDS	SKIM POUNDS	BUTTERFAT POUNDS	PROTEIN POUNDS	OTHER SOLIDS	NONFAT SOLIDS
Class I Producer Milk	0.00 %	0	0	0	0	0
Class II Producer Milk	10.00 %	1,000,000	950,000	50,000	33,151	56,901
Class III Producer Milk	60.00 %	6,000,000	5,770,000	230,000	201,349	345,599
Class IV Producer Milk	30.00 %	3,000,000	2,880,000	120,000	100,500	172,500
<b>TOTAL PRODUCER MILK</b>	<b>100.00 %</b>	<b>10,000,000</b>	<b>9,600,000</b>	<b>400,000</b>	<b>335,000</b>	<b>575,000</b>

	POUNDS	BUTTERFAT POUNDS	LB/CWT PRICE	TOTAL DOLLARS
Class I				
Skim Milk	0		\$ 9.50/cwt	\$0.00
Butterfat		0	\$ 2.6300/lb	0.00
Class I Differential at Location				0.00
Class II				
Butterfat		50,000	\$ 2.6070/lb	130,350.00
Nonfat Solids	90,052		\$ 0.8800/lb	79,245.76
Class III				
Butterfat		230,000	\$ 2.6000/lb	598,000.00
Protein	201,349		\$ 2.1000/lb	422,832.90
Other Solids	345,599		\$ 0.1500/lb	51,839.85
Class IV				
Butterfat		120,000	\$ 2.6000/lb	312,000.00
Nonfat Solids	273,000		\$ 0.8000/lb	218,400.00
<b>Total Producer Milk</b>	<b>10,000,000</b>	<b>400,000</b>		<b>\$1,812,668.51</b>
<b>PM Value</b>				<b>\$1,812,668.51</b>
Producer Lbs. X Producer Price Diff.	10,000,000		\$ 0.60/cwt	60,000.00
Butterfat X Butterfat Price	400,000		\$ 2.6000/lb	1,040,000.00
Protein X Protein Price	335,000		\$ 2.1000/lb	703,500.00
Other Solids X Other Solids Price	575,000		\$ 0.1500/lb	86,250.00
Location Adjustment				0.00
<b>TOTAL CREDITS TO HANDLER</b>				<b>\$1,889,750.00</b>

SUMMARY OF ACCOUNTS

	POUNDS ELIGIBLE	ASSESSMENT RATE	TOTAL DOLLARS
Due From Producer Settlement Fund			(\$77,081.49)
Adjustments - Audit			0.00
<b>Net Due From Producer Settlement Fund</b>			<b>(\$77,081.49)</b>
Due To Administrative Fund	10,000,000	\$ 0.035/cwt	\$3,500.00
Adjustments - Audit			0.00
<b>Net Due To Administrative Fund</b>			<b>\$3,500.00</b>
<b>Total Amount Due From Market Administrator</b>			<b>(\$73,581.49)</b>

## What does this mean for my plant?

Combine these pieces to see impact on your handler obligation:

- Estimated changes to your plant's producer milk, by class
- Estimated class/component prices
- Estimated PPD

# Pooling Decision

## *Getting Started: Five Areas to Consider*

- Is my plant eligible to opt out of the pool?
- Are there price incentives to not be pooled?
- Weigh price incentives vs. repooling requirements
- Consider requirements for producer qualification
- Will not pooling affect other plants' pool status?