



Steve Troxler
Commissioner

North Carolina Department of Agriculture and Consumer Services

Dairy Aid Program Overview Final Report

The NC General Assembly, through S.L. 2020-97, appropriated \$2 million for this assistance program from the State's portion of the Coronavirus Relief Fund authorized under the federal CARES Act and cited these reasons:

"SECTION 4.15.(a) Findings. – The General Assembly finds that the COVID-19 emergency has resulted in serious and substantial impacts on the food supply chain, including the State's dairy industry. Dairy producers and processors in the State lost more than half of their market with COVID-19 related shutdowns of the school systems and food service industries. This resulted in milk being dumped and a devastating decrease in milk pay prices, which were already at a historical low. The additional bottlenecks caused by shutdowns in the meat processing plants and lack of facilities to process dairy animals for beef left producers with no income options from the sale of cows culled from their herds. The General Assembly further finds that financial assistance to these producers is necessary in order to reduce disruptions in the supply chain for fresh dairy products and to help dairy producers in the State stay in business.

SECTION 4.15.(b) Allocation of Funds. – The funds allocated in this act to the Department of Agriculture and Consumer Services for emergency support of milk producers shall be allocated by the Department to the North Carolina Dairy Stabilization and Growth Fund to provide grants as specified in subsection (c) of this section to compensate eligible dairy producers for losses incurred as a result of the collapse in dairy prices due to the COVID-19 pandemic or to improve the resiliency and adaptability of the dairy supply chain to future pandemics. These funds may only be used for purposes consistent with the Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments provided by the United States Department of the Treasury or with any subsequent act of Congress."

NCDA&CS announced the availability of funding for the NCDA&CS COVID-19 Dairy Aid Program 2020 to producers on September 23, 2020:

<https://www.ncagr.gov/disaster/documents/COVID%20Dairy%20Relief%20Program%20Letter.pdf>

The COVID-19 pandemic resulted in serious and substantial impacts on the food supply chain, including the state's dairy industry. Dairy producers and processors across the nation lost portions of their market due to COVID-19 mandated shutdowns of K-12 school systems, institutions of higher learning and

food service industries. This resulted in lost marketing opportunity for milk, leading it to being dumped on farms before it was sold. This also created a devastating decrease in milk pay prices, which were already at a historical low prior to the pandemic. The additional bottlenecks caused by shutdowns in the meat processing plants and lack of facilities to process dairy animals for beef left producers with no additional income options from the sale of cows culled from their herds.

Aid was based on all fluid cow milk production from Grade A dairies in North Carolina, regardless of the end use of the fluid milk or where producers sell their milk. Eligible dairies were those that were inspected by NCDA&CS Food and Drug Protection Division and qualify for the Grade A Dairy Program. Other eligible producers include North Carolina licensed Grade A Farmstead and on-farm producers of fluid cow milk and N.C. Grade A dairy producers that have gone out of business during the program time frame based on their licensed Grade A fluid milk production. There were 114 total eligible producers who received payments based on these criteria.

Per the legislation, calculation was based on any month in which the baseline price exceeded the announced price. The amount of the payment was the difference between the baseline price (\$20.38) and the Federal Milk Marketing Order (FMMO) 5 announced price, for example, April 2020 - \$20.04 and May 2020 - \$16.35 times the hundredweight of milk produced by the producer for each month beginning with April 2020.

Producers were informed about limited funding available and if available funds were insufficient to make a full payment to a producer in each month, the producer will receive partial aid based on the availability of the funds. Per state legislation, the maximum amount provided to any producer in any month in which the baseline price exceeded the announced price was \$25,000. Per federal guidelines, all funds must be spent by the NCDA&CS by December 30, 2020.

The applications for aid were accomplished online via the NCDA&CS COVID-19 Dairy Aid Portal during a ten-day time period from September 28-October 12, 2020. Each producer was personally contacted by a NCDA&CS employee or county extension agent to ensure producers were aware of the assistance and how to complete the applications.

Following is the award letter sent to the 114 eligible producers (as outlined above) on October 28th, 2020:



Steve Troxler
Commissioner

North Carolina Department of Agriculture and Consumer Services

October 28, 2020

Dear Dairy Producer:

The North Carolina Department of Agriculture and Consumer Services (NCDA&CS) has received and reviewed your application for assistance under the NCDA&CS COVID-19 Dairy Aid Program 2020. I am pleased to inform you that your application has been approved. Enclosed you will find a check made payable to the full legal business name provided on your application for the period of April to June based on the amount of funding available.

This program was developed and administered in accordance to S.L. 2020-97. The North Carolina General Assembly appropriated \$2 million for this assistance program from the State's portion of the Coronavirus Relief Fund authorized under the federal CARES Act. The legislation states "*The amount of the payment shall be the difference between the baseline price and the announced price, times the hundredweight of milk produced by the producer for each month beginning with April 2020. If the funds appropriated by this act are insufficient to make a full payment to each producer in any month, the Department may either award a partial grant to each eligible producer calculated based on the ratio of available funds to needed funds. The maximum amount provided to any producer in any month is \$25,000.*" The funds available provided full payments to be issued for April and May, and partial payments for June. The difference between the baseline price (\$20.38) and the Class I prices for April through August follow:

Month (2020)	Class I Price (\$/cwt)	Baseline (\$20.38) – Class I Price (\$/cwt)
April	\$20.04	\$0.34
May	\$16.35	\$4.03
June	\$14.82	\$5.56
July	\$19.96	\$0.42
August	\$23.18	\$-2.80

The amount of your award is based on the information and documentation you supplied with your application. An IRS Form 1099 for miscellaneous income will be issued to your business entity for the tax year 2020. It is undetermined at this time, however there may be state reporting requirements of this funding as per S.L. 2020-4 for auditing purposes that will require us to solicit additional information from you.

Thank you for your tireless work and service to North Carolina's number one industry, agriculture.

Sincerely,

Steven W. Troxler
Commissioner

Affidavit and Notice of Potential Audit:

Only applications received online were eligible for funding consideration. Applicants had to acknowledge that the application was being submitted by the business owner who meets program eligibility and that the application was submitted for eligible aid categories only. Additionally, there was an applicant verification affidavit noting that “1) all statements made in this verification and documentation are made for the purpose of obtaining grant funds from the 2020 NCDA&CS COVID-19 Dairy Aid Program (2020 CRF Dairy Aid); 2) the fluid milk poundage verified and documented was mine; (3) verification and audit of information provided may be made at any time; and 4) institutions will rely on the information provided and I have a continuing obligation to amend the information provided if any of the facts change.”

Through this affidavit, applicants authorized NCDA&CS to have access to all information, files, documents and records kept that pertain to their dairy aid application. This authorization included the release of any information, files, documents, and records deemed confidential and extends to all information, files, documents, and records otherwise considered confidential under any Federal and/or State Privacy Acts. This authorization included, but is not limited to, the right to inspect, copy or otherwise utilize, or obtain clarification opinion regarding said information, files, documents and records, as it is deemed necessary to verify or authenticate information provided in the application for 202 CRF Dairy Aid.

Applicants attested that they understood that if they make false statements or conceal any information in an attempt to falsely obtain 2020 CRF Dairy Aid Program funds, it is a violation of Federal and State laws, which carry severe criminal and civil penalties. The applicants authorized NCDA&CS and/or its representatives, to verify and all information given in the application about fluid milk poundage and any other criteria in order to determine eligibility for the 2020 CRF Dairy Aid Program. Further, applicants authorized and directed all custodians of records of any dairy coop, dairy product buyer or wholesaler, and/or any public or private agency, to release information to NCDA&CS and their representatives upon request as it relates to verifying or authenticating information provided for the 2020 CRF Dairy Aid Program. They were also made aware that there may be additional state reporting requirements of this funding as per S.L 2020-4 for auditing purposes.

Outcomes and Deliverables:

Timely access to economic support is the primary outcome of this program. S.L. 2020-97 became law on September 4, 2020 and within less than a month, NCDA&CS had sent a letter out to producers explaining the process, opened the application period from September 28-October 12, 2020 and awarded almost all available funds to eligible producers by November 1, 2020- less than two months after S.L. 2020-97 passed.

Distribution of funds helped keep most of the eligible producers stay in business based on the registered Grade A dairy producers NCDA&CS has registered within Food and Drug division. The timeliness of producers receiving the funds allocated helped alleviate some of the disruptions in the supply chain.

Dairy producer applicants provided for their intended use of funds for either market losses due to the COVID19 emergency and/or to pay debts as related to the COVID19 emergency. This connected to the General Assembly’s expected outcome for the money in S.L. 2020-97, “*to reduce disruptions in the supply chain for fresh dairy products and to help dairy producers in the State stay in business.*”

As of October 31, 2020, the total amount sent to the 114 (number listed elsewhere – so please verify) eligible dairy producers in North Carolina was \$1,949,997.84.

Project total final expenditures (including dairy study): \$1,999,997.84

Amount unused: \$2.16

Dairy Aid Study Information:

In addition to the dairy aid language, the NC General Assembly, through S.L. 2020-97, allowed up to \$50,000 of the dairy appropriation for a study:

“SECTION 4.15. (f) Study. – Up to \$50,000 of the funds allocated by this section may be used by the Department to study issues arising from the COVID-19 pandemic with transportation and product diversification within the North Carolina dairy industry. The Department shall report its findings and any recommendations for legislative action to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources and the Fiscal Research Division no later than April 1, 2022. Nothing in this subsection shall be construed as allowing the expenditure of funds from the Coronavirus Relief Fund past December 30, 2020.”

The North Carolina Dairy Producers Association (NCDPA), which represents all dairy farmers in the state, requested \$50,000 to support the evaluation of milk movement and transportation issues related to the Appalachian and Southeast Federal Milk Marketing Orders, particularly those that limited milk movement in and out of the market area during COVID-19, resulting in dumped milk (Study #1, \$30,000). Additionally, NCDPA will work with NCDA&CS and other state dairy organizations to better understand how current policy may limit flexibility of dairy product processing and, as evident during the COVID-19 pandemic, reduce market availability for dairy farmers (Study #2, \$20,000).

The timeliness of NCDA&CS’s award to NCDPA helps quickly study issues arising from the COVID-19 pandemic with transportation and product diversification within the North Carolina dairy industry and recommendations that would mitigate these issues in the future.

NCDA&CS notified NCDPA about the appropriation on October 1, 2020. NC Dairy Producers association proposed a study and submitted a proposal to NCDA&CS. NCDA&CS issued a reward letter of the study on October 16, 2020. A request for proposal was issued on November 18, 2020 to the NCDPA.

NCDA&CS anticipates receiving the final reports for both studies by XXXX (insert date) and will share findings with the NC General Assembly at that time. *(or, you could hold submission until the final reports for the studies are received and include those as attachments to the report).*

Dairy Study Supplemental Information

NCDA&CS Dairy study notification letter



Steve Troxler
Commissioner

North Carolina Department of Agriculture and Consumer Services

October 1, 2020

N.C. Dairy Producers Association

Attn: Mr. Reid Smith, President

2228 N Main Street

Fuquay-Varina, NC 27526

Dear N.C. Dairy Producers Association:

The North Carolina Department of Agriculture and Consumer Services (NCDA&CS) is pleased to announce funding in the amount of \$50,000 for the proposal submitted by the N.C. Dairy Producers Association to study issues related to the COVID-19 pandemic in regards to transportation concerns and product diversification within the N.C. dairy industry.

The COVID-19 pandemic resulted in serious and substantial impacts on the food supply chain, including the state's dairy industry. Dairy producers and processors across the nation lost portions of their market due to COVID-19 mandated shutdowns of K-12 school systems, institutions of higher learning and food service industries. This resulted in lost marketing opportunity for milk, leading it to being dumped on farms instead of being sold, creating a devastating decrease in milk pay prices, which were already at a historical low prior to the pandemic. The additional bottlenecks caused by shutdowns in the meat processing plants and lack of facilities to process dairy animals for beef left producers with no additional income options from the sale of cows culled from their herds.

The NC General Assembly, through Section 4.15.(f) of S.L. 2020-97, earmarked up to \$50,000 for a study from the State's portion of the Coronavirus Relief Fund authorized under the federal CARES Act.

The language in Section 4.15.(f) of S.L. 2020-97 states:

“Study. – Up to \$50,000 of the funds allocated by this section may be used by the Department to study issues arising from the COVID-19 pandemic with transportation and product diversification within the North Carolina dairy industry. The Department shall report its findings and any recommendations for legislative action to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources and the Fiscal Research Division no later than April 1, 2022. Nothing in this subsection shall be construed as allowing the expenditure of funds from the Coronavirus Relief Fund past December 30, 2020.”

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NC Dairy Producers Association

October 1, 2020

Reporting requirements:

Since NCDA&CS is required to report to the General Assembly on the use of these funds, please submit a copy of the signed contract to conduct the study via email to Laura Kilian, NCDA&CS Legislative Director, at laura.kilian@ncagr.gov no later than December 1, 2020. Federal guidelines for the Coronavirus Relief Fund require all funds to be expended by December 30, 2020. We also request that you send us continuous updates on the status of the study and the final report with recommendations of action by January 15, 2022. Please note that although not determined at this time, there may be additional state reporting requirements of this funding as per S.L. 2020-4 for auditing purposes.

Thank you for your willingness to help the state's dairy industry and for your partnership with NCDA&CS.

If you should have further questions, or need to email information, please contact:

Laura Kilian, Legislative Director

Laura.Kilian@ncagr.gov

(252) 425-1889

Sincerely,



Steven W. Troxler
Commissioner

NC Dairy Producers Association detailed study proposal:

North Carolina Dairy Producers Association Dairy Policy and Marketing Study Proposal

Recently, the North Carolina General Assembly ratified Session Law 2020-97/House Bill 1105 to provide relief funds related to impacts from the COVID-19 pandemic. Section 4.15 of this law allows for direct payments to milk producers who lost income due to the COVID-19 pandemic and set aside funds “to study issues arising from the COVID-19 pandemic with transportation and product diversification within the NC dairy industry” (HB 1105, Section 4.15 (F), *Emergency Grants for Milk Producers*).

The North Carolina Dairy Producers Association (NCDPA), which represents all dairy farmers in North Carolina, **is requesting \$50,000 to support evaluation of milk movement and transportation issues related to the Appalachian and Southeast Federal Milk Marketing Orders, particularly those that limited milk movement in and out of the market area during COVID-19, resulting in dumped milk (Study #1, \$30,000)**. Additionally, NCDPA will work with NCDA&CS and other state dairy organizations **to better understand how current policy may limit flexibility of dairy product processing and, as evident during the COVID-19 pandemic, reduce market availability for dairy farmers (Study #2, \$20,000)**.

NCDPA is a founding member of the Southeast Dairy Stakeholder Task Force (see pg. 3), which was organized to *examine current conditions and identify market functions affecting the dairy supply chain in the greater Southeast and develop consensus-based recommendations that support a viable dairy industry in the region*. Through that involvement, NCDPA partnered with dairy organizations from other Task Force states to study the impact of historical changes to the Federal Milk Marketing Order (FMMO) system on southeastern dairy farmers over the last 19 years (total study cost was \$25,000). This study was originally commissioned by Tennessee Dairy Producers Association in early 2020 and served as a baseline economic analysis of the Appalachian (which includes North Carolina) and Southeast (which impacts North Carolina) federal milk marketing orders and found the following:

- Average mailbox milk check premiums have declined across the country in the last decade (\$0.92/cwt), but significantly in the Appalachian (\$2.36/cwt) and Southeast (\$2.64/cwt) federal orders. The study indicated that the movement of raw milk and packaged dairy products in and out of the market area significantly contributed to this decline.
- Milk production throughout the region has dropped over the past two decades, while expanding in other areas of the country – likely, incentivized by federal policy. Georgia was the only state with positive milk production growth from 2010-2019, while Virginia and North Carolina were the states with the smallest losses in production.
- Growth in the regional population has supported an increase in the consumption of dairy products since 2000, mostly in the forms of cheese, butter, and cultured dairy products, which are primarily manufactured outside of the Appalachian and Southeast FMMOs. Increased demand for these products in the region may demonstrate opportunity for growth, diversification, and innovation in processing.

Next Steps. The Gould study identified milk supplies from other regions as significant factors affecting local premiums, possibly related to FMMO policies that unintentionally incentivize milk movement from outside the region to internal processors and retailers. *However, that study stopped short of specific analysis on those potential transportation issues and costs to milk producers, and it did not explore the perspectives of processing facilities in the region (predominantly fluid milk) related to diversification, innovation, or issues brought on by the COVID-19 pandemic.* **Additional analysis is needed on these topics, which aligns with two of the focus areas of the Task Force and the language presented in HB1105.** While HB1105 specifically supports information related to NC dairy farmers, it is important to understand that FMMO policy regulates milk movement, which is not bound by state lines, and minimum pricing. Therefore, a robust, relevant study, must consider data that is at least regional in scope.

Proposed Contractors and Proposals

Study #1- Milk Movement and Transportation Policies Impacting Appalachian and Southeast FMMOs. The structure and policies that underpin and govern the nation’s dairy industry present challenges for modern dairy farmers, especially when disruptions like COVID-19 impact the supply chain. Currently, milk pricing is governed by federal milk marketing orders that were originally created in the 1930’s, a time when food security was a high priority issue in the United States. FMMOs were intended to ensure both adequate supply of milk to population centers and equitable payments to dairy farmers for the milk and subsequent products supplied to the market. When the nation’s food security was threatened again, early in the pandemic, weaknesses were highlighted in the dairy supply chain including transportation, processing and distribution. Historically, the Appalachian and Southeast FMMOs have had larger percentages of milk used for fluid milk consumption (Class I) and, thus, higher regulated minimum prices than other regions. However, mailbox prices (what dairy farmers actually receive) in the region have declined significantly, according to the Gould study, while Class I utilization has remained high within the order. This disconnect needs further analysis to determine the causes, particularly related to milk

transportation costs and policies governing milk movement that explains the impact of those policies, as well as their unintended consequences, on dairy operations in North Carolina and throughout the Appalachian and Southeast orders.

Study #2- Dairy Product Processing, Diversification, and Innovation. Likewise, when school systems and food service centers shut down as a result of COVID-19 restrictions, local and regional dairy processors were not able to respond to the change in product processing and packaging needs, which led to more than 50% market loss for the Appalachian and Southeast FMMOs. The Gould study reported on FMMO policies that may, unintentionally, incentivize movement of raw milk out of the market area and packaged product back into the area with increased costs to producers and processors. More analysis is needed to determine how these incentives can be corrected without detriment to processors or producers. Additionally, dairy consumption has increased in the form of products not typically processed in the area, confirming the need to explore the potential for conversion of current processing or recruitment of new processing into the market area.

Potential Contractor(s):

Sara Dorland, Ceres Dairy Risk Management
 Calvin Covington; CEO, Southeast Milk, Inc. (Retired)
 Southeast Dairy Stakeholder Task Force
 Gary Cartwright, Dairy Enterprise System, Howling Cow, NC State University (Retired) Phil Plourd
 or other, Blimling & Associates

Proposed timeline. Contracts for studies will be confirmed by October 15, 2020, for work to be completed by March 1, 2021, with final report and recommendations submitted to NCDPA&CS for legislative action by January 15, 2022.

Primary Contact. Reid Smith, NCDPA President and Southeast Dairy Stakeholder Task Force Chair, reid@linwooddairygroup.com, (336) 225-7216

Southeast Dairy Stakeholder Task Force

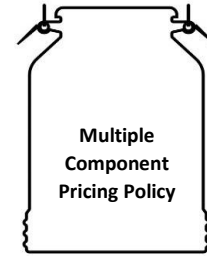
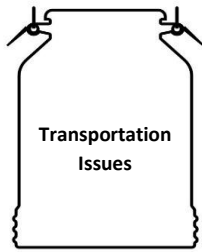
Mission. The purpose of the Southeast Dairy Stakeholder Task Force is to examine current conditions and identify market functions affecting the dairy supply chain in the Southeast and to develop consensus-based recommendations that support a viable dairy industry in the region.

Goals. The goals of the Southeast Dairy Stakeholder Task Force are to communicate with the dairy industry as a whole; identify key areas for further analysis/study/research; and build regional connections throughout the Southeast region.

Membership. Task Force membership was determined based on relevant knowledge/expertise, representation of diverse stakeholders throughout the dairy supply chain and the ability to actively participate. North Carolina dairy farmer, Reid Smith, serves as the Chair, and NC State University Extension faculty members Dr. Stephanie Ward and Brittany Whitmire serve as facilitators.

Southeast Dairy Stakeholder Task Force Members (*Indicates Executive Committee)		
Reid Smith*	North Carolina	Producer President, NC Dairy Producers Association
Roddy Purser	North Carolina	Producer
Farrah Newberry*	Georgia	Executive Director, GA Milk Producers
Matt Johnson	Georgia	Producer
Eric Paulson*	Virginia	Executive Director, VA State Dairyman’s Association
Rena Johnson	Virginia	Producer
Stan Butt*	Tennessee	Executive Director, TN Dairy Producers
Mike Summers	Tennessee	Producer
HH Barlow*	Kentucky	Executive Director, KY Dairy Development Council
Freeman Brundige	Kentucky	Producer
Mike Ferguson*	Mississippi	Producer
Ron Harrell	Louisiana	LA Farm Bureau Federation
Kevin Satterwhite	South Carolina	Producer
Mike Jackson		Director, Appalachian Dairy Farmers Cooperative
Dr. Bill Herndon		Retired, MS State University (non-voting, moderator)

Focus Areas. Since the Task Force was formed in December 2019, it has determined three major areas impacting dairy throughout the Southeast US that need further analysis to determine updates or changes to existing policy needed to support the viability of the dairy industries across its member states. The three areas are summarized visually below:



Balancing Issues & Seasonal Production

Transportation Credits

Location Differentials

Unintended consequences of current policies and regulations

Consumer preferences and demand trends – past, present, future

Increased and/or diverse processing

Unintended consequences of current policies and regulations

Unintended consequences of current policies and regulations

Existing data and impact of MCP

Develop a regional position on MCP