CARES Act:
Implications for Farmers & Ranchers

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CARES Act Training
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Zoom Webinar

TEXAS A&M AGRILIFE RESEARCH | EXTENSION

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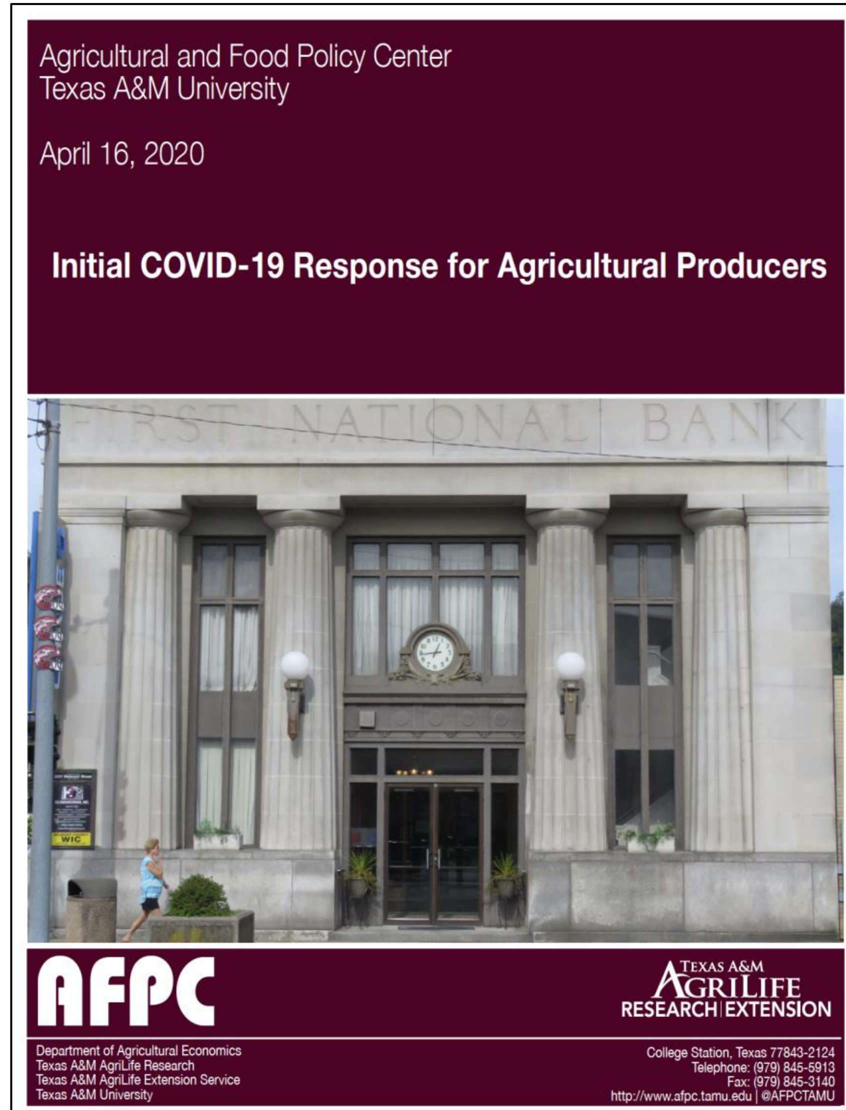
COVID-19 Impact on Texas Production Agriculture

- In the U.S., consumers typically spend slightly less than half of their food expenditures for meals at home and the other half away from home.
- Dramatic shifts in food purchasing has affected agricultural supply chains for many food products, but thus far the effects have been particularly troublesome for producers of livestock, fruits and vegetables and dairy products, including milk.
- If prices do not recover soon for livestock and prior to harvest for row crops, Texas producers could easily see losses in the range of $6 to $8 billion relative to the $22 billion in receipts earned in 2018, if not more.

COVID-19 Response for Agriculture

- Phase 1. On March 4, 2020, Congress passed H.R. 6074, the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020.
- Phase 2. On March 18, 2020, Congress passed H.R. 6201, the Families First Coronavirus Response Act.
- Phase 3. On March 27, 2020, Congress passed H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).
- Phase 4. TBD.


Agricultural and Food Policy Center
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Initial COVID-19 Response for Agricultural Producers

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CARES Act:
General Overview

- Paycheck Protection Program (PPP): loans for small businesses (including farms/ranches) to keep workers paid and employed.

- Economic Injury Disaster Loan (EIDL): loans for working capital (farms/ranches initially ineligible).

  NOTE: *On April 23, 2020, Congress revisited the CARES Act, passing H.R. 266, the Paycheck Protection Program and Health Care Enhancement Act, which provided an additional $310 billion for PPP. It also made "agricultural enterprise[s]…with not more than 500 employees" eligible for EIDL loans.*

- Assistance for Agriculture:

  - Lengthened the maturity of the marketing loan.

  - $9.5 billion for agricultural producers.

  - $14 billion to replenish the Commodity Credit Corporation (CCC).

CARES Act:
Paycheck Protection Program (PPP)

- Initially funded at $349 billion (now $659 billion).
- Builds on SBA's 7(a) loan program. All SBA 7(a) lenders are automatically approved and the CARES Act made others eligible, including Farm Credit institutions.
- The purpose of PPP is to keep workers paid and employed.
- Borrowers must have 500 or fewer employees (whose principal place of residence is in the United States) or meet certain size-based restrictions for that particular industry.
- Borrowers must certify that current economic uncertainty makes the loan necessary to support ongoing operations.

CARES Act:
Paycheck Protection Program (PPP)

- Maximum loan amount must not exceed $10 million.

- Generally, PPP loans are based on 2.5 times monthly payroll costs over the past 12 months.

  - SBA has outlined a list of costs that qualify as "payroll costs," including compensation paid to employees in the form of salary, wages, and commissions and, in the case of sole proprietors, wages, commissions, income, or net earnings from self-employment or similar compensation.

  - The maximum loan amount depends on business type (i.e. legal structure). For example, for agricultural producers filing a Schedule F, they report net farm profit from Line 34.

  - Importantly, in calculating payroll costs, any compensation paid to an employee or any amounts paid to a sole proprietor in excess of $100,000 are excluded. PPP loans must be used for very specific purposes defined by SBA (e.g. payroll costs, mortgage interest payments, rent payments, utility payments, etc).

CARES Act:
Paycheck Protection Program (PPP)

- Interest accrues at a rate of 1%, and the loan matures in two years. Payments on the loan will not have to be made for six months following the disbursement date of the loan, but interest will continue to accrue.

- Entire principal and interest balance are forgivable if certain conditions are met over the eight-week period following the date of the loan, including:

  - At least 75% of the loan must be spent on payroll, and

  - For self-employed individuals, the “owner compensation replacement” is limited to eight weeks (8/52) of 2019 net profit.

CARES Act:
Paycheck Protection Program (PPP)

Example: Sole proprietor (Schedule F) with 2 employees.

- Assume your farm has 2 employees with an annual salary of $45,000 each. Further assume that your net farm profit in 2019 was $54,000 (Schedule F Line 34). Your total "payroll costs" are $144,000 ($90,000 + $54,000). Your employees clearly make less than $100,000 each, and your net profit was less than $100,000, so the entire $144,000 qualifies.

- Your qualifying monthly payroll is $12,000 ($144,000 / 12).

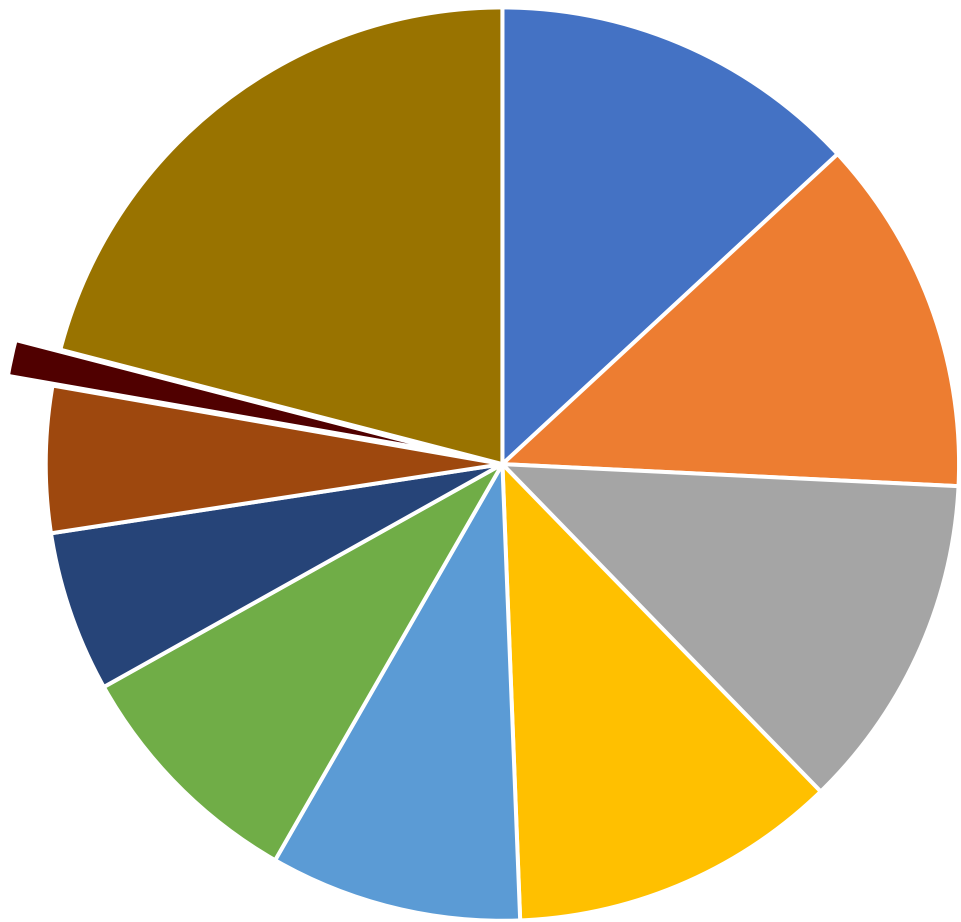
- Your PPP loan amount is $30,000 ($12,000 x 2.5).

- As long as you spend $22,500 ($30,000 x 75%) on payroll costs over the eight weeks following disbursement of the loan (with the remaining amount spent on other authorized expenses), the entire $30,000 loan balance (and any accrued interest) would be eligible for forgiveness as long as all other conditions are met.

- In this example, forgiveness for "owner compensation replacement"—as a component of payroll costs—would be limited to $8,307.69 ($54,000 x 8 / 52).

CARES Act:
Paycheck Protection Program (PPP)

Approved Loan Value by NAICS Subsector as of 12PM EST on April 16, 2020 (prior to replenishment under H.R. 266).



- Construction (13.12%)
- Professional, Scientific, and Technical Services (12.65%)
- Manufacturing (11.96%)
- Health Care and Social Assistance (11.65%)
- Accommodation and Food Services (8.91%)
- Retail Trade (8.59%)
- Wholesale Trade (5.69%)
- Other Services (except Public Administration) (5.17%)
- **Agriculture, Forestry, Fishing and Hunting (1.28%)**
- Other (20.97%)

CARES Act:
Paycheck Protection Program (PPP)

Ongoing Issues:

- Some lenders have reported long delays in the approval process for becoming an approved lender.
- While H.R. 266 established a set-aside of SBA PPP funds for small size financial institutions, Farm Credit institutions apparently are ineligible.
- While SBA has clarified the treatment of Schedule F income, the natural disasters in 2019 left many farmers and ranchers with no net profits to report on Schedule F. Industry is asking for profits from farm equipment trades and breeding livestock that are reported on Form 4797 and other IRS forms to determine annual profits be included in the calculation of income.
- Despite additional clarification from SBA, it is still not clear if/how H-2A wages can be incorporated in PPP loan applications.

CARES Act:
Economic Injury Disaster Loan (EIDL)

- Loans of up to $2 million for working capital expenses including "fixed debts, payroll, accounts payable and other bills that can't be paid because of the disaster's impact."

- Unlike with PPP, borrowers apply through SBA.

- Borrowers can request a $10,000 advance (form of a grant) that will be subtracted from PPP forgiveness amounts.

- The interest rate is 3.75% for small businesses. The interest rate for non-profits is 2.75%. Unlike PPP, neither the principal nor interest are forgivable.

- Loan terms are determined on a case-by-case basis, based upon each borrower's ability to repay, and may be up to a maximum of 30 years.

- With passage of H.R. 266, agricultural enterprises (with 500 or fewer employees) are now eligible.

CARES Act: Marketing Loan Changes

- Producers of eligible commodities now have up to 12 months [rather than the traditional 9 months] to repay their commodity loans.
- The maturity extension applies to nonrecourse loans for crop years 2018, 2019 and 2020.
- Eligible open loans must be in good standing with a maturity date of March 31, 2020, or later or new crop year (2019 or 2020) loans requested by September 30, 2020.
- All new loans requested by September 30, 2020, will have a maturity date 12 months following the date of approval.
- Eligible commodities include barley, chickpeas (small and large), corn, cotton (upland and extra-long staple), dry peas, grain sorghum, honey, lentils, mohair, oats, peanuts, rice (long and medium grain), soybeans, unshorn pelts, wheat, wool (graded and nongraded); and other oilseeds, including canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sunflower seed, and sesame seed.

CARES Act:
Direct Assistance for Agriculture

- The Act provided **$9.5 billion** "to prevent, prepare for, and respond to coronavirus by providing support for agricultural producers impacted by coronavirus, including producers of specialty crops, producers that supply local food systems, including farmers markets, restaurants, and schools, and livestock producers, including dairy producers."

- Replenished the existing borrowing authority ($30 billion) of the Commodity Credit Corporation (CCC) by **$14 billion** relative to the June 2020 audit report.

- While Section 32 is a popular funding source for commodity purchases, Phase 2 (H.R. 6201) stipulated that "during fiscal year 2020, the Secretary of Agriculture may purchase commodities for emergency distribution in any area of the United States during a public health emergency designation" and the act provided "such sums as are necessary" to carry out the provision.

Coronavirus Food Assistance Program (CFAP): Details

- On April 17, 2020, President Trump announced the creation of the Coronavirus Food Assistance Program (CFAP) which will provide $19 billion in aid.
  - $16 billion in direct support to farmers and ranchers, and
  - $3 billion in commodity purchases and distribution.
- Regarding the $16 billion in direct support, USDA is expected to cover:
  - 85% of the loss on products marketed from January 1 to April 15 (for those commodities that experienced a 5% price decrease), and
  - 30% of expected losses after April 15 (timeframe still unclear).
- Payment limits are expected to be $125,000 per crop and $250,000 per individual or legal entity.
- The rule is expected to go to OMB any day now with payments expected in late May at the earliest.

Coronavirus Food Assistance Program (CFAP): Concerns

- Concerns about payment limits.
- Concerns that paying on losses on unsold goods from 2019 penalizes those who hedged or marketed their crop early.
- Concerns that row crop losses are for 2019 yet all eyes are on financing the 2020 crop. Concerns about how/when/if the $14 billion CCC replenishment will be committed to row crops.

Congress of the United States

Washington, D.C. 20515

April 24, 2020

The Honorable Donald J. Trump
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Trump:

Thank you for your announcement of COVID-19 related relief for our nation's farmers and ranchers. The support is critically needed.

As USDA begins the rule-making process to implement the relief package, we urge you to ensure help is effective and as immediate as possible based on available resources.

In the case of cattle alone, losses have soared to over $13.6 billion since January while available relief under the package is $5.1 billion. This gap between losses and relief is true across the entire spectrum of agricultural producers, including specialty and row crop farmers, dairymen, and pork and other livestock producers.

Given producers will suffer heavy losses even with the help provided under the relief package, we urge that relief not be further reduced by payment limitations that would harm real family farmers (of both specialty and row crops), ranchers, livestock and dairy producers. Pay limits may have a place in Farm Bill debates and may even be necessary in the context of trade aid. But, if the goal of this emergency package is to support critical infrastructure and industry, it needs to flow in proportion to production, risk, and losses.

We further urge that USDA develop a method of paying producers that will not discriminate against producers who marketed their crop or used risk management practices, including hedging and forward contracts. These are crucial to producers managing enormous risks.

We also urge USDA not to exclude producers of any crop from relief. The damage being inflicted by COVID-19 is worsening by the day and relief based on today's level of injury may not reflect needs a month or even a week from now. In addition, the broader agricultural supply chain beyond the farm-gate is also in need of critical relief and should be included in the next assistance package developed by USDA.

Finally, we would note that Congress did approve another $14 billion for the CCC, although this is not the full replenishment you requested and it will not be available until this summer. Nonetheless, we urge USDA to include this amount in this relief package in order to address the concerns we have outlined and offer relief in phases as you did so successfully under

Questions?

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