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Economic Assistance Available for Dairy Farms

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For Buckeye Dairy News & Ohio Ag Manager

One hundred and fifty days. In only 150 days we have gone from anticipating a solid year of recovery for the dairy industry to seeing an April Class III price of \$13.07 per cwt, the lowest Class III milk price in 10 years, with May announced at \$12.14 on June 8th. In that same time period major market disruptions occurred for nearly every commodity with impacts all along the food chain. The response to the anticipated economic impact at the farm level has been swift, with a variety of options available to assist dairy farms. We will touch on a few of them here, including links for additional information. Every farm should review these options and see if there are opportunities to assist with cash flow shortfalls.

PPP- Paycheck Protection Program

At the end of May, there were still funds available for the PPP. This low-interest loan program, authorized by the **CARES** Act (Coronavirus Aid, Relief and Economic Assistance Act) is administered through the **SBA** (Small Business Administration) to assist small businesses, including farms. The maximum loan amount is calculated as up to 2.5 months of qualifying payroll expenses as well as sole proprietor income. While loan proceeds can be used for any business expense, if it is used for specific expenses including payroll, utilities, mortgage interest or some rental payments within a specified time period, some portion or all of the loan may be forgiven. Farms must apply through an SBA approved lender. Find approved lenders and more information at <http://sba.gov>. Recipients must apply for loan forgiveness. Applications for forgiveness are now available, but specific guidance on eligible items and time periods continues to be announced.

EIDL – Economic Injury Disaster Loan

This is another CARES-authorized SBA program which is currently open only for farm applications at the sba.gov website. Farm businesses and agricultural cooperatives with no more than 500 employees may apply for EIDL, which gives loans up to \$2 million for businesses that suffer economic injuries due to COVID-19. An “emergency advance” component provides an advance of up to \$10,000 even if the loan is not approved. The advance may be forgiven if the farm does not also have a PPP loan that is forgiven. Clarification is pending. Approved loans will incur 3.75% interest for terms up to 30 years. Collateral will be required for larger loans. Applications taken on-line only. Find more information at <http://sba.gov>.

CFAP – Coronavirus Food Assistance Program

The intent of this program is to directly assist farms impacted by the effects of the COVID-19 outbreak. Sign-up began at your local FSA (Farm Service Agency) office on Tuesday, May 26th and continues through August 28th. FSA offices currently work with clients via email, fax, and phone by appointment.

Two funding sources are being used for this program, CFAP (\$9.5 billion), and CCC, the Commodity Credit Corporation, (\$6.5 billion). The sources and uses are being tracked separately by FSA, but the payments will be combined and distributed to farms as a single payment. Payment limits have been raised for this program only, to \$250,000 per farm or up to \$750,000 for farms that are set up as corporations, limited liability companies, or limited partnerships (corporate entities). If these entities have up to three shareholders who meet eligibility requirements, they may be eligible for up to \$750,000 of assistance. Eligibility requirements include gross farm income levels, wetland, and conservation compliance, and for individuals involved in multiple-shareholder situations, time spent actively working or managing in the farm business. Once a farm has been approved, they will receive a first payment of 80% of the total calculated payment up to \$200,000 per entity (80% of the \$250,000 payment limitation). If there are still funds available, the remaining 20%, or a prorated amount based on remaining funds available, will be paid at a later time.

The CFAP program is based on the change in futures prices between the weeks of January 13 – 17, and April 6 – 9, 2020. Commodities that experienced a decline of greater than 5% are included in this program. For dairy, that decline was around 33%, or \$5.88 per cwt., calculated by USDA as the weighted average of the Class III price (60%), and the Class IV price (40%) which was selected as a reasonable representation of the trend of the US all-milk price. Dairy markets took a severe beating since January and only recently trended upward in June – and will only actually settle at decent price levels going forward if supply aligns with demand. We cannot keep milking more and more cows.

The program's dairy (milk) section will yield the greatest assistance to qualifying farmers. Cull cows, bull calves and dairy steers are included in the cattle section. Farms that sell qualifying grain crops which were subject to price risk in the first quarter of 2020 will also find assistance in that section.

CFAP Dairy Calculation

Milk produced in January, February, and March (first quarter 2020) that was not priced through a forward contract, is eligible for assistance. The formula for dairy is:

1st quarter milk production (cwt.) x \$4.71/cwt. (CARES act rate)

plus

(1st quarter milk production x 1.014) x \$1.47/cwt. (CCC rate)

- The CARES rate of \$4.71/cwt represents the price loss in Jan, Feb, and March.
- Part two of the equation applies a projected 1.4% production increase.
- The CCC rate represents anticipated price losses in April, May, and June.

Example:

Background Information:

A herd with 100 milking cows ships an average of 80 pounds of milk per cow per day or a total of 7,280 cwt. of milk for the period January – March 2020 (91 days):

Dairy formula

1st quarter milk production (cwt.) x \$4.71/cwt. (CARES act rate)

$$7,280 \text{ cwt} \times \$4.71 = \$34,288.80$$

+

(1st quarter milk production x 1.014) x \$1.47/cwt. (CCC rate)

$$(7,280 \text{ cwt} \times 1.014) \times \$1.47 = \$10,851.42$$

Equals

$$\$34,288.80 + \$10,851.42 = \$45,140.22 \text{ Total}$$

80% or \$36,112.18 will be paid shortly after the application is approved

These program payments are not subject to sequestration deductions.

The increase in payment limitations for this program has increased the assistance available to larger farms. Using the simple example above, a herd with 500 milking cows shipping 80 pounds per cow per day would have a calculated total payment of \$227,050, leaving an opportunity to apply for some assistance based on cull cows and bull calves sold between January 15 and April 15, 2020 before reaching the \$250,000 payment limit.

Cull Cows

Dairy cull cows qualify for assistance in the “Slaughter Cattle – Mature Cattle” category. The definition for these animals is “culled cattle raised or maintained for breeding purposes, but which were removed from inventory and are intended for slaughter.” For animals sold between January 15 and April 15, the payment rate is \$92 per head. The dairy breeding stock herd *is not* eligible for a per-head payment.

Bull Calves, Dairy Steers

These animals, because they are going into beef production channels, qualify as either “Feeder Cattle less than 600 pounds” or “Feeder Cattle more than 600 pounds”. Cull heifers sold for beef production would also be included in these categories depending on weight. Animals less than 600 pounds are eligible for \$102 per head (CARES Act rate) if they were sold between January 15 and April 15. Animals greater than 600 pounds sold in the same time period are

eligible for assistance at \$139 per head (CARES). For farms that finish steers (or heifers for beef) that meet weight requirements of 1,400 pounds liveweight or more with an average carcass weight greater than 800 pounds intended for slaughter are eligible for \$214 per head (CARES rate). The CCC rate applied to these animals is based on the highest inventory between 4/16/2020 and 5/14/2020. If the farm keeps an inventory of animals for beef production, the highest inventory of animals between 4/16/2020 and 5/14/2020 is eligible for a \$33 per head payment. For cull cows, it appears that the highest inventory will be the total number of cows culled between 4/16 and 5/14. For bull calves, the highest inventory between 4/16 and 5/14 would be equal to the largest group of calves sold in that time period.

Feed and Grain

Clarifications issued by FSA indicate that corn silage converted to bushels of grain is eligible for the CFAP program as well. Farms that also sell grain and other eligible commodities can make application for those commodities.

Applying for CFAP

Farm Service Agency offices are working with farms via phone, fax, US mail, and internet. Most FSA offices will ask for supporting documentation for milk and livestock sales at the time of application. Participating farms should also keep records of those sales for at least three years.

At the FSA office, information is collected via a user-friendly spreadsheet found along with additional program information at <https://www.farmers.gov/cfap>. Farmers who have not previously applied for FSA programs can find information for first-time applicants at this web site or call 877-508-8364 for additional assistance. While documentation is not collected at time of application, it may be requested for verification or spot checking during the next three years.

Dairy prices have taken tremendous hits, which were painfully obvious in the April final milk checks. The Class III milk price of \$13.07 is the lowest since April 2010 and even with a positive producer price differential of \$1.15, well below cost of production. May will be more of the same.

These programs will help with some of the resulting cash shortfall. Find more information about all these programs and others that may assist with COVID-19 related employee-related leave and unemployment issues at <http://dairy.osu.edu> and <http://farmoffice.osu.edu>.

Dairy farms are facing huge challenges this spring and have to make many unanticipated decisions. Our OSU Dairy Working Group is responding with DIBS (Dairy Issue Briefs) to help inform those decisions. These “breaking news” DIBS are posted regularly at <http://dairy.osu.edu>