## Coronavirus Food Assistance Program (CFAP) Summary for Upland Cotton
## Updated as of June 8, 2020

USDA established the Coronavirus Food Assistance Program (CFAP) to provide $16 billion in direct assistance to producers to help offset price losses and increased marketing costs associated with the COVID-19 pandemic. USDA is utilizing $9.5 billion in funding from the CARES Act and $6.5 billion in existing Commodity Credit Corporation (CCC) funds for CFAP. The full rule and a recently revised Frequently Asked Questions is available on the NCC's COVID-19 Resources page at http://www.cotton.org/issues/members/covid19/index.cfm?.

Eligible upland cotton producers will receive a payment rate of $0.095 per pound paid on the lesser of: 50% of 2019 total production or the 2019 unpriced inventory as of January 15, 2020. However, in the initial payment, producers will receive 80% of the expected total payment with the remaining portion of the payment (20%) to be dispersed at a later date, subject to funding availability.

Producers who sold or forward contracted all of the 2019 upland cotton crop prior to January 15, 2020 are not eligible for a CFAP payment. However, based on a clarification from USDA, any inventory that was unpriced during any part of January 15 (i.e. 12:05 am) is eligible for CFAP even if all or part of the inventory was priced later that day. Production from failed acres or appraised production that is not harvested is ineligible for CFAP. Unpriced inventory is defined as production that is not subject to an agreed-upon price in the future through a forward contract, agreement, or similar binding document. Unpriced upland cotton harvested after January 15 is CFAP eligible.

Upland cotton producers must provide the following information for CFAP:

- Total 2019 production
- Total 2019 production unsold as of January 15, 2020

At sign-up, producers will self-certify their production and unpriced inventory. Documentation is not required at the time of sign-up, but a producer could be required to provide documentation if requested by the local FSA committee or in the event of an audit by USDA.

**Pool-Marketed Cotton**

USDA recognizes that producers participating in marketing pools retain price risk in the market unless a fixed and final price has been established by the producer or their designated marketer. Cooperatives and other pool marketers manage their upland cotton marketing pools on behalf of their grower members. Pool marketers may report to their members the percentage (or pounds) of the total volume of cotton from the 2019 upland cotton crop that is unpriced as of January 15, 2020, in each pool, regardless of the bale has been shipped, in transit, in storage, etc.--*

**Eligible Contracts**

USDA recently published additional guidance on eligible and ineligible contracts. Producers should use the following USDA chart as a guideline to for CFAP self-certification.

| TYPE OF CONTRACT IN EXISTENCE ON JAN. 15, 2020 | EXPLANATION |
|---|---|
| **CONTRACTS ELIGIBLE FOR CFAP** | |
| Basis Contract | Producer locks in a basis leaving the future price to be set later. |
| Basis Fixed Contract | |
| No Price Established | Producer delivers commodity without setting a sales price. |
| Delayed Price | |
| Deferred Price Contract | |
| **CONTRACTS INELIGIBLE FOR CFAP** | |
| Cash Contract | Producer receives a cash price for a commodity when sold. |
| Fixed Price Contract | |
| Forward Price Contract | Producer receives a cash price for a commodity based on a future delivery. |
| Cash Forward Contract | |
| Minimum Price Contract | Producer locks in the cash price and buys a call option to establish a minimum price. The net cash price will never be less than the original cash value minus the cost of the call option. |
| Option Contract | |
| Window Contract | |
| Hedge to Arrive | Producer locks in a futures price leaving the basis to be set later. |
| Futures Fixed Contract | |
| Futures Contract | |

Producers with questions regarding the amount of unpriced inventory as of January 15, whether marketed through a pool or an individual arrangement, may need to contact their merchandiser for additional information. While merchandisers may be able to provide producers with documentation regarding marketing actions taken as of January 15, final responsibility and liability for accurate reporting of eligible production rests solely with the producer.

**Payment Calculation Example**

CFAP Upland Cotton Payment Formula = Average Payment Rate * MINIMUM(50% of 2019 production, 2019 production unsold as of 1/15/20) Average Payment Rate = $0.095/lb

Total 2019 Production = 1,000 acres * 800 lbs/acre = 800,000 lbs

50% of Total 2019 Production = 50% * 800,000 lbs = 400,000 lbs

Total 2019 Production unsold as of January 15, 2020 = 500,000 lbs

Total CFAP Payment = $0.095/lb * MINIMUM(400,000 lbs; 500,000 lbs)

= $0.095/lb * 400,000 lbs = $38,000

Initial CFAP Payment = $38,000 * 80% = $30,400

**Application Process**

USDA will accept CFAP applications from May 26th through August 28th. A producer will certify the amount of inventory or production of each eligible crop with the Farm Service Agency (FSA). USDA will then make a payment to a producer equal to 80% of the total amount the producer is eligible for (up to the applicable percentage (80%) of the payment limitation). The remaining portion of the payment (20%) will be dispersed at a later date, subject to funding availability. Producers will be subject to potential spot checks by FSA at which time documentation supporting their certification will be required. CFAP applications can be revised after filing, approved and paid prior to the end of the signup period. The reasons for revision can vary. Some reasons may include production, sales, or inventory reported was incorrect or entered in error or additional production, sales, or inventory was not reported on original application.

**Payment Limitations and AGI Tests on Direct Assistance**

CFAP payments are subject to a per person or legal entity payment limitation of $250,000. This limitation applies to the total amount of CFAP payments made with respect to all eligible commodities.

Unlike other FSA administered programs, special payment limitation rules will be applied to participants that are corporations, limited liability companies, and limited partnerships (corporate entities). These corporate entities may receive up to $750,000 based upon the number of shareholders (not to exceed three shareholders) who are contributing substantial labor or management with respect to the operation of the corporate entity.

For a corporate entity with one such shareholder, the payment limit for the entity is $250,000; for a corporate entity with two such shareholders, the payment limit for the entity is $500,000 if at least two members contribute substantial labor or management with respect to the operation of the corporate entity; and for a corporate entity with three such shareholders, the limit is $750,000 if at least three members contribute substantial labor or management with respect to the operation of the corporate entity. If payments are calculated for a corporate entity and those payments exceed the applicable limit of $250,000, $500,000 or $750,000, the reduction will be attributed to all members of the entity to ensure that a net payment to the entity is not in excess of the applicable limitation. A corporate entity may receive more than $250,000 in CFAP payments if the applicant, under penalty of perjury, certifies that two or three members of the corporation each provide at least 400 hours of active personal management or personal active labor, in which case the corporate entity may be eligible to receive up to $500,000 or $750,000, respectively. The sole-member of an embedded LLC or grantor of a revocable trust using an SSN may qualify the corporation, LLC, or LP for the optional increase in payment limitation.

To be eligible for payments, a person or legal entity must have an average adjusted gross income of less than $900,000 for tax years 2016, 2017, and 2018. However, if 75% of their adjusted gross income comes from farming, ranching, or forestry, the AGI limit of $900,000 does not apply. CFAP payments are not subject to sequestration.

**Background of Calculations**

CFAP payments are available for eligible producers (person or legal entity) of non-specialty crops, including upland cotton, who have suffered a five percent-or-greater price decline from mid-January to mid-April 2020 as a result of the COVID-19 pandemic, and who face increased marketing costs for inventories.

To determine payment rates, USDA analyzed information on futures and cash prices for commodities. Prices in mid-January were compared to prices in mid-April to determine the impact of COVID-19 on commodity markets. For upland cotton, an average payment rate per pound was determined based on the decline in the weekly average futures prices between the week of January 13-17, 2020 and the week of April 6-9, 2020. Only the comparison between those two weeks is used.

For upland cotton, CARES Act funds will be used to make a payment for a producer by multiplying 50% of the producer's eligible inventory on January 15, 2020, by 50% of the calculated futures price decline. In addition, CCC funds will be used to make a payment to the producer by multiplying 50% of the eligible inventory by 55% of the price decline. These two separate payments will be issued as one payment to eligible producers.

The combined payment will be equal to the lesser of: 50% of a producer's 2019 total production or the 2019 inventory as of January 15, 2020, multiplied by the commodity's applicable average payment rate. For upland cotton, the average payment rate is $0.095 per pound.

**Other Non-specialty Crops**

In addition to upland cotton, other non-specialty crops eligible for CFAP payments are malting barley, canola, corn, millet, oats, soybeans, sorghum, sunflowers, durum wheat, and hard red spring wheat. Ineligible non-specialty crops include soft red winter wheat, hard red winter wheat, white wheat, rice, flax, rye, peanuts, feed barley, Extra Long Staple (ELS) cotton, alfalfa, forage crops, hemp, and tobacco.