

Impact of the Coronavirus Food Assistance Program (CFAP) Payment Limit on Specialty Crop Producers in the United States

**Joe L. Outlaw
Bart L. Fischer
Luis A. Ribera**



Department of Agricultural Economics
Texas A&M University
College Station, TX 77843

July 16, 2020

Executive Summary

On January 20, 2020, the Centers for Disease Control and Prevention (CDC) confirmed the first case of novel coronavirus (COVID-19) in the United States. While virtually every sector of the agricultural economy has been impacted, perhaps no sector has been more severely impacted than perishable products, including specialty crops. In response to the COVID-19 outbreak, the U.S. Department of Agriculture (USDA) crafted the Coronavirus Food Assistance Program (CFAP). CFAP covers \$2.88 billion, which is just under 25 percent of the \$12.5 billion in losses faced by specialty crop producers from January 15, 2020 to April 15, 2020. With payment limits imposed, another \$483 million in losses will go uncovered according to USDA's own calculations.

While risk management policies for specialty crop producers typically are not payment limited, CFAP payments are limited to \$250,000 per person or legal entity, with some flexibility provided for certain corporate entities. Drs. Outlaw and Fischer were asked to analyze the impact of CFAP payment limits on specialty crop producers in the United States. Following are the primary findings from this study:

- While CFAP generally covers less than 25 percent of the losses faced by specialty crop producers from January 15, 2020 to April 15, 2020, the payment limit results in further reductions in support. For example, a \$250,000 payment limit would cover the reduction in sales price on about 5 acres of strawberries. This would leave nothing to cover the reduction in sales price on additional acres or to cover losses due to spoilage (both in transit and on the farm).
- Larger farms can see the effective support from CFAP plummet due to the payment limit alone, in some cases by more than 90 percent. Again, this follows on the fact that CFAP was designed to cover less than 25 percent of losses in the first place, assuming the crop is even eligible.
- While support from CFAP will vary by region—depending on growing seasons and average yields, for example—the impact of the payment limit will be felt across the country.
- While flexibility on payment limits for corporate entities (i.e. allowing up to three limits) will help, the effective amount of assistance received by larger specialty crop producers is quite small. Further, because specialty crops do not participate in the traditional Title 1 safety net programs, specialty crop producers have not organized their business structures similar to row crop farmers.
- Given the competitive dynamics across specialty crop farms of all sizes and the depth of market losses sustained by all specialty crop farms due to COVID-19, there is no economic basis for the CFAP payment limitations for specialty crops if the goal is to provide equitable relief for extreme losses and thus sustain family farms, particularly in light of the fact that CFAP was designed to cover less than 25 percent of losses in the first place.

Background

On January 20, 2020, the Centers for Disease Control and Prevention (CDC) confirmed the first case of novel coronavirus (COVID-19) in the United States. While virtually every sector of the agricultural economy has been impacted, perhaps no sector has been more severely impacted than perishable products, including specialty crops. A recent report by the Agricultural & Food Policy Center (AFPC) at Texas A&M University noted that “the sudden loss of most food service outlets [including schools, restaurants, hotels, theme parks, and cruise lines, to name a few] for highly perishable products along with good winter production of fruits and vegetables is causing low prices across most fresh produce commodities. Moreover, changing consumer purchasing habits at the grocery store, demand uncertainty and labor shortages have created the perfect storm for specialty crop producers in Texas and across the United States.”¹

In response to the COVID-19 outbreak, the U.S. Department of Agriculture (USDA) crafted the Coronavirus Food Assistance Program (CFAP). For specialty crop producers, “the period of loss must have occurred between January 15, 2020 and April 15, 2020. There are three payment categories:

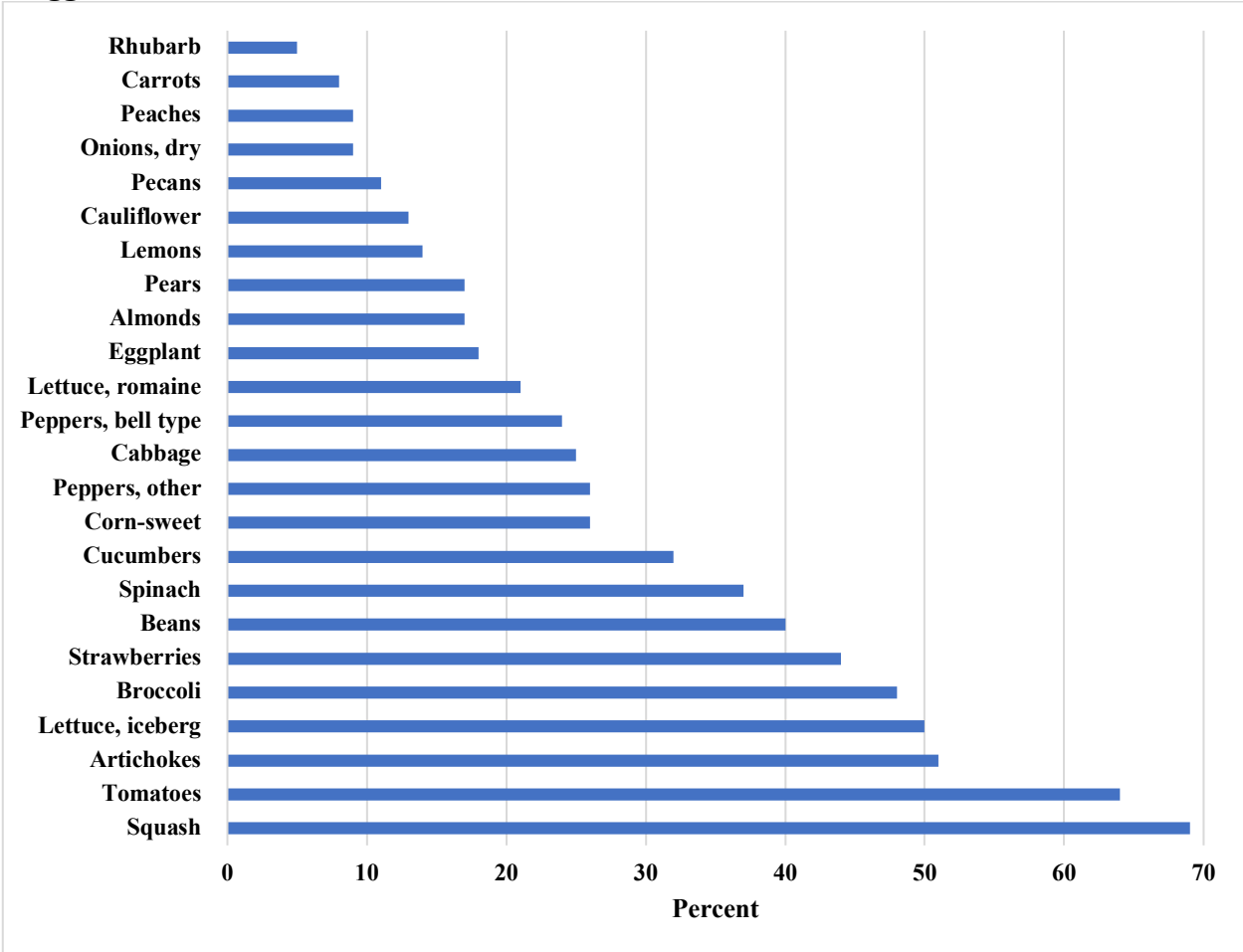
- Producers who realized a 5 percent or greater reduction in sales price for a commodity sold between January 15, 2020 and April 15, 2020.
- Shipments that left the farm by April 15, 2020 and spoiled due to no market.
- Producers who have shipments that have not left the farm by April 15, 2020 (for example, were harvested but sitting in crates on the farm) or mature crops that were unharvested by the same date (for example, were plowed under) due to lack of buyers, and which have not been and will not be sold).²

When averaging across the three categories above, CFAP covers just under 25 percent of the losses from January 15, 2020 to April 15, 2020—leaving the producer to shoulder 75 percent of the losses, on average. The rate paid on sales losses (i.e. the first category above) was 80 percent of the reduction in sales price for a commodity sold between January 15, 2020 and April 15, 2020 (again, for those crops realizing a 5 percent or greater reduction in sales price). For example, as noted in Figure 1, USDA estimated that the price of tomatoes dropped 64 percent from January 15, 2020 to April 15, 2020. That \$0.80/lb price decrease resulted in a CFAP rate for tomatoes sold between January 15, 2020 and April 15, 2020, of \$0.64/lb (= \$0.80/lb x 80%). For products that were shipped but spoiled due to lack of market, CFAP covers just 30 percent of the lost value. And for those products that never left the farm, CFAP covers just 5.875 percent of the value of the crop. In other words, even with no payment limits in place at all, CFAP would only cover on average just under 25 percent of the losses faced by producers from January 15, 2020 to April 15, 2020.

¹ For more information, see: <https://afpc.tamu.edu/research/publications/files/698/RR-20-01.pdf>

² For more information, see: <https://www.farmers.gov/sites/default/files/documents/CFAP%20CBA%205%2015%202020.pdf>

Figure 1. Percent Price Decline for Select Specialty Crops Meeting the 5-percent Price Trigger

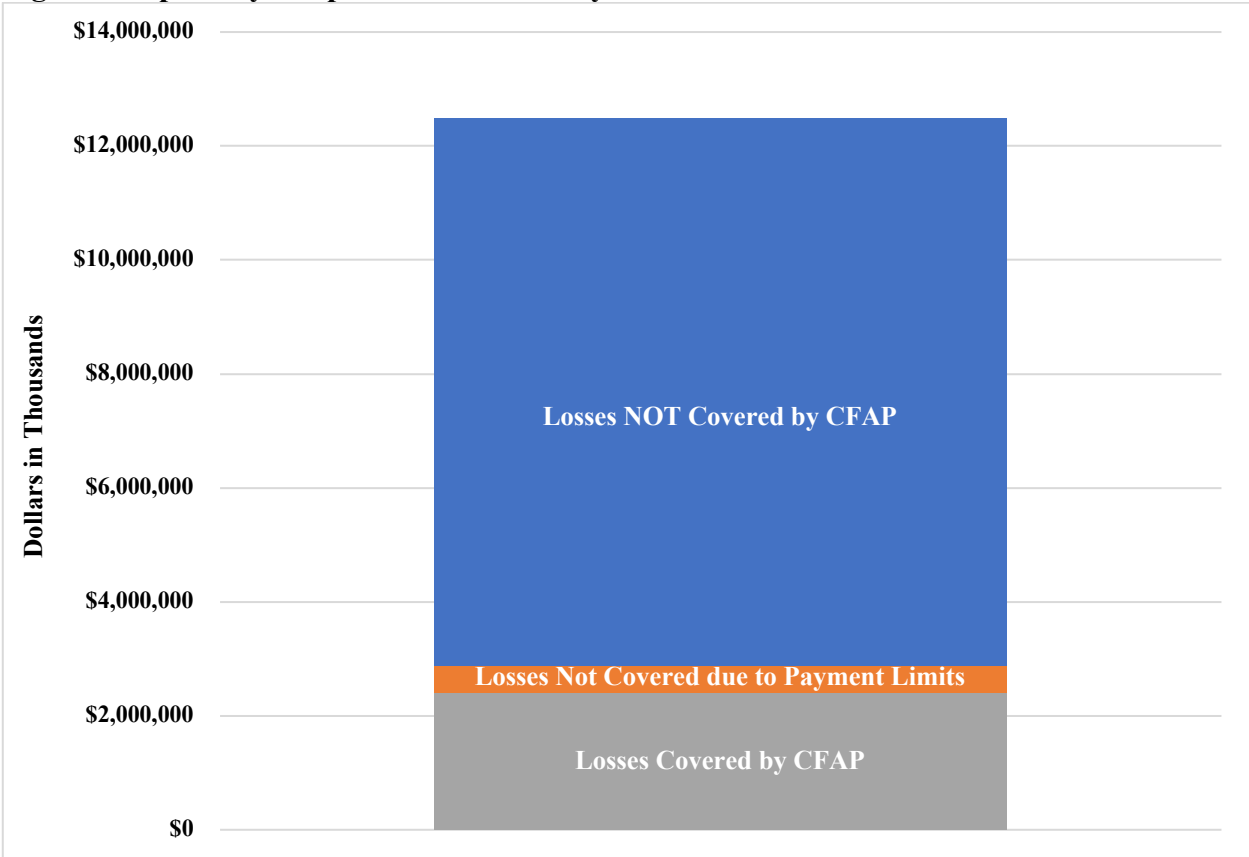


Source: <https://www.farmers.gov/sites/default/files/documents/CFAP%20CBA%205%2015%202020.pdf>

While CFAP covers less than 25 percent of the losses faced by producers from January 15, 2020 to April 15, 2020, CFAP payments are also limited to \$250,000 per person or legal entity. Certain corporate entities—including corporations, limited liability companies, and limited partnerships—are eligible for up to \$750,000 if at least three shareholders meet certain labor or management contribution requirements. While USDA included some flexibility on payment limits in the final rule—including eliminating a limit of \$125,000 per commodity that had been originally proposed—the overall limit of \$250,000 remained intact. By USDA’s own calculations, the payment limit is expected to result in an additional \$483 million in specialty crop losses not covered by CFAP from January 15, 2020 to April 15, 2020.³ While losses not covered due to the payment limit account for less than 4 percent of overall losses, those losses are significant for the producers directly impacted (Figure 2).

³ For more information, see: <https://www.farmers.gov/sites/default/files/documents/CFAP%20CBA%205%2015%202020.pdf>

Figure 2. Specialty Crop Losses Covered by CFAP



Source: Analysis of <https://www.farmers.gov/sites/default/files/documents/CFAP%20CBA%205%2015%202020.pdf>

The purpose of this study is to analyze the impact of CFAP payment limits on specialty crop producers in the United States.⁴ In particular, this paper:

1. Assesses the exact level of production where the \$250,000 payment limit would apply.
2. Assesses the declining level of support per unit of production on farms where the \$250,000 limit would apply.
3. Relates the findings above to data on farm size to provide inferences regarding the share of U.S. production that would receive full CFAP support (as compared to the share that would receive less than full support) by region of the United States.
4. Assesses the potential relevance of changes to the entity rules that allow up to 3 payment limits per farm, including the potential applicability of direct attribution by Social Security Number (SSN).

⁴ While USDA announced several changes to CFAP on July 9, 2020, this study is based on CFAP as originally designed. For more information on the recent changes made by USDA, see: <https://www.usda.gov/media/press-releases/2020/07/09/additional-commodities-eligible-coronavirus-food-assistance-program>.

Prior to CFAP, unless a specialty crop producer also raises non-specialty crops, they generally do not have any experience with payment limits. Now, in the midst of a national calamity when producers of all sizes are feeling the impacts of COVID-19, payment limits have been imposed. One prevailing school of thought is that USDA imposed payment limits on CFAP payments as a budget tool to stay within the \$16 billion that had been allotted by USDA for direct assistance in CFAP. Many Members of Congress and a number of industry leaders have called for the CFAP payment limits to be raised or eliminated altogether. H.R. 6800, the *Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES Act)*, which passed the U.S. House of Representatives on May 15, 2020, would remedy the problem by omitting payment limits.

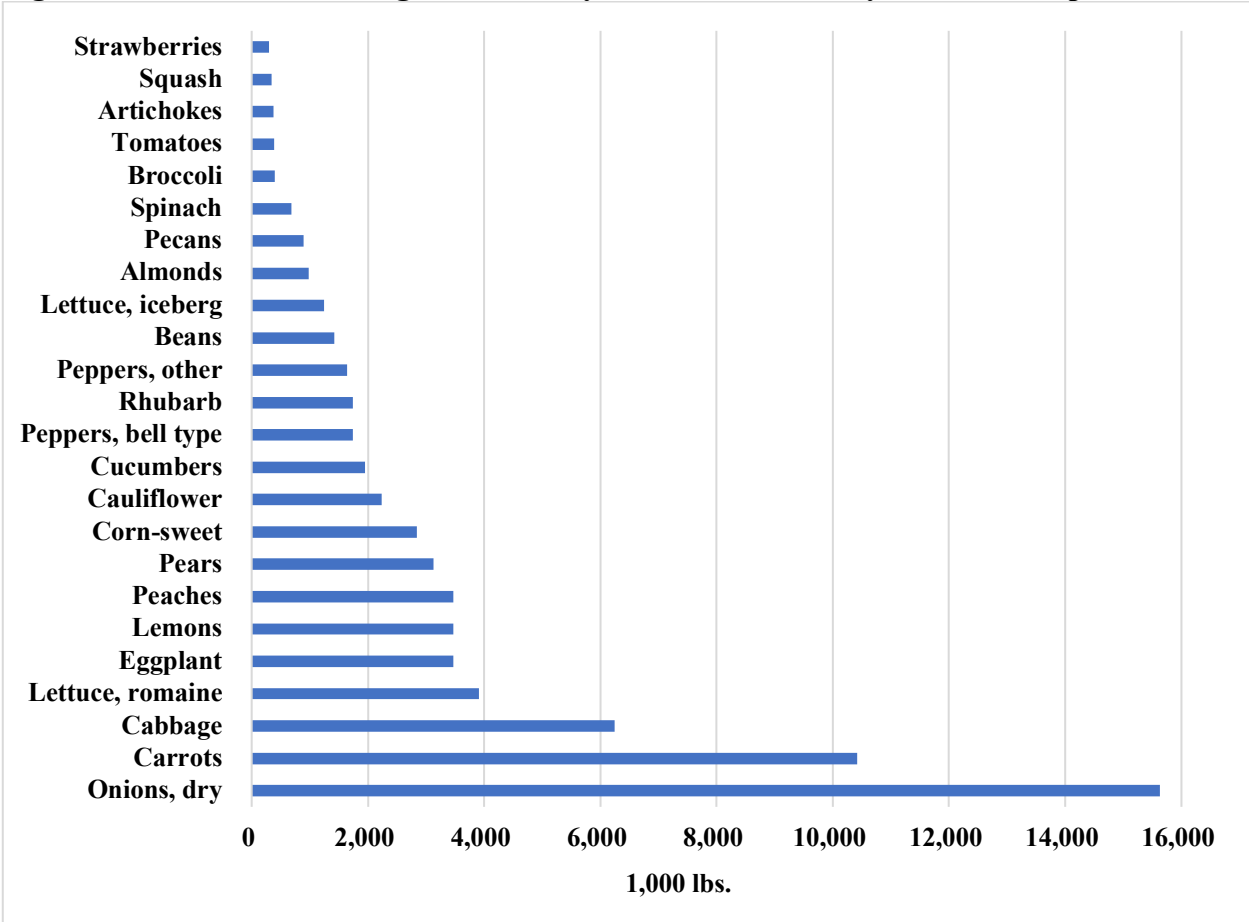
To an economist, payment limits are more of a social policy issue rather than an economic issue. There is very little economic basis for limiting payments intended to offset a portion of an operation's losses based on size. Proponents argue that larger farms are in a better position to weather economic downturns due to lower costs. Often the data does not support that claim as the costs of getting larger that were undertaken during profitable times can often become unmanageable when economic conditions deteriorate as has happened during the COVID-19 pandemic. In general, to impose payment limits is to penalize producers who have invested and scaled to achieve efficiencies, and indirectly penalize consumers. Over the past 50 years, payment limits in the U.S. have often been adjusted up or down primarily due to budget constraints and ostensibly to protect family farms. However, almost all farms *are* family farms – regardless of size.

In the U.S., agricultural operations of all types have been pushed to become more efficient. Economics in the form of economies of size and scale have incentivized growth. The push has come in the form of extremely low barriers to entry in terms of bound tariffs and less safety net support provided relative to competing countries such as China. As a result, the trend in all types of operations is toward larger operations. Restricting much needed CFAP payments to smaller operations means that for all intents and purposes the U.S. has left operations that are striving to remain competitive virtually unprotected during economic conditions that Congress deemed as warranting significant assistance.

1. Assess the exact level of production where the \$250,000 payment limit would apply.

Given the volatility of specialty crop market prices, the complicated 3-part CFAP calculation summarized above, and the fact that most specialty crop producers grow a number of different crops, it is virtually impossible to target an exact level of production where the \$250,000 payment limit would apply. That said, there are general rules of thumb which begin to paint a picture of how specialty crop producers are impacted. For example, with a payment rate of \$0.84/lb, it would take 297,000 pounds of strawberries sold from January 15, 2020 to April 15, 2020, to hit the limit (Figure 3). That may sound like a lot of strawberries, but with an annual national average strawberry yield of 51,670 lbs/ac, it would take fewer than 6 acres of strawberries, on average, to hit the payment limit. By contrast, the payment rate for onions is just \$0.02/lb, so it would take over 15 million pounds of onions (roughly 275 acres) to hit the payment limit. While these single-crop examples were chosen for illustration, it is important to note that most producers will grow a variety of different crops.

Figure 3. Sales Levels Hitting \$250,000 Payment Limit, January 15, 2020 to April 15, 2020



To provide additional context, Table 1 provides a list of specialty crops that are typically produced in South Texas along with average costs of production and the number of acres that would be covered by a \$250,000 payment limit. This assumes that CFAP is covering the costs of production, which we know is not the case as noted above. Still, Table 1 illustrates that even in a best-case scenario where a producer’s costs were being covered, a \$250,000 payment limit would be significantly limiting.

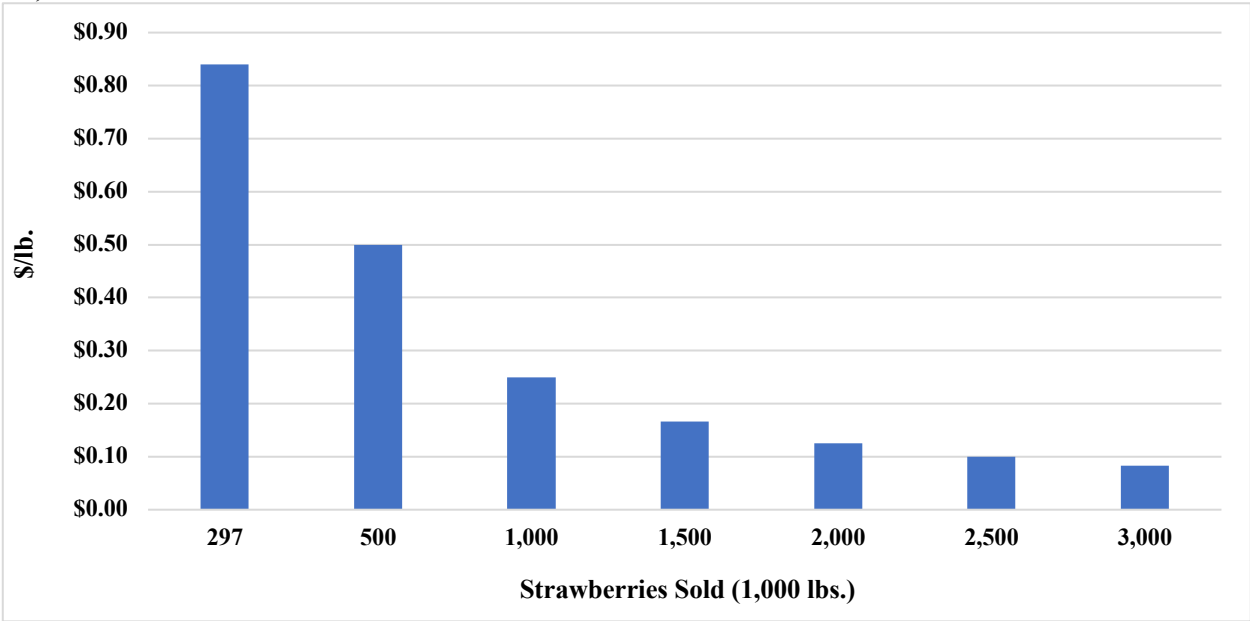
Table 1. Cost of Production and Acres Covered given \$250,000 Payment Limit

Crops	Cost of Production	Acres Covered
Citrus	\$3,000	83
Carrots	\$2,000	125
Onions	\$3,200	78
Melons	\$3,000	83
Kale	\$3,500	71
Specialty Greens	\$3,000	83
Specialty Melons	\$3,750	67

2. Assess the declining level of support per unit of production on farms where the \$250,000 limit would apply.

Naturally, for crops with higher payment rates, fewer sales are required to hit the \$250,000 payment limit. For larger producers, this results in considerably lower effective support per pound of production sold. For example, as noted above, 297,000 pounds of strawberries will hit the \$250,000 payment limit. In the case of the farmer who sells 3,000,000 pounds of strawberries (or just under 60 acres), the effective support from CFAP plummets from \$0.84/lb to just \$0.083/lb, a reduction of 90 percent (Figure 4). The same logic applies to the other eligible crops as well.

Figure 4. Effective CFAP Support for Strawberry Sales (\$/lb), January 15, 2020 to April 15, 2020.



3. Relate the findings above to data on farm size to provide inferences regarding the share of U.S. production that would receive full CFAP support (as compared to the share that would receive less than full support) by region of the United States.

According to USDA’s National Agricultural Statistics Service (NASS), there are 242,818 farms growing 15,656,245 acres of specialty crops in the United States, for an average of just over 64 acres per farm.⁵ Those farms also have just over 60 million acres of land in farms that are not dedicated to specialty crops. Of the total 76,314,603 acres on farms with specialty crops, over 40 percent of the acres are on farms with more than 5,000 acres.

There are 824,983 citrus acres grown on 12,107 farms in the United States, resulting in an average of 68 acres per farm. For Texas, NASS shows 24,616 citrus acres on 473 farms

⁵ For more information, see: https://www.nass.usda.gov/Publications/AgCensus/2017/Online_Resources/Specialty_Crops/SCROPS.pdf.

resulting in an average of 52 acres per farm. Actual producer data from Texas Citrus Mutual shows that there are around 26,301 citrus acres on 414 commercial farms in the Lower Rio Grande Valley with an average citrus grove size of less than 100 acres. Although 93 percent of the farms (or 385 farms) fall into this category, they account for only 21 percent of the total production volume. Moreover, 79 percent of citrus production volume is produced on farms with over 100 acres (7 percent of farms or 29 farms). Even under a best-case scenario where a producer's costs were being covered, a \$250,000 payment limit would only fully cover around 21 percent of the actual citrus production volume. As noted above, CFAP covers less than 25 percent of the losses faced by specialty crop producers from January 15, 2020 to April 15, 2020—in no case covering the full costs incurred.

For vegetables it is more complex, as most vegetable producers plant a crop mix. NASS shows that in the U.S. there are 3,965,622 acres of vegetable production on 74,276 farms with an average farm size of 53 acres per farm. For Texas, NASS shows that there are 97,648 acres of vegetable production on 2,248 farms, with an average of 43 acres per farm. In the Lower Rio Grande Valley, 43 acres will be considered a small farm. The typical commercial vegetable farm in Texas has over 300 acres and they account for 75 percent of the overall volume. Although the crop mix would vary depending mainly on market forces, a typical crop mix would consist of greens (e.g. carrots and cabbage); specialty greens (e.g. cilantro, parsley, and dill); and specialty melons, all on a 60-30-10 ratio. Following this example, this farm would bear a cost of \$742,500 and under the best-case scenario CFAP payment limit will only cover 33.7 percent of the cost. Therefore, a typical commercial farm in the Lower Rio Grande Valley, regardless of the crop mix, will only be partially covered by the CFAP payment, ranging from 41.7 percent coverage if only carrots are produced to 22.2 percent if only specialty melons are produced.

4. Assess the potential relevance of changes to the entity rules that allow up to 3 payment limits per farm, including the potential applicability of direct attribution by Social Security Number (SSN).

More than 76 percent of U.S. specialty crop farms are organized as “family or individual” operations with 9 percent more organized as partnerships (Table 2). That only leaves 12.3 percent that are organized as corporations with the remaining 2.5 percent classified as “other.” Operations organized as Limited Liability Companies (LLCs) may fall into any of these categories.

For perspective, specialty crop producers have not traditionally benefited from the Title I support programs available to row crop producers. This means that row crop producers have had more time to organize their operations, so they are able and accustomed to operating within payment limits. As stated earlier, USDA's own estimates indicate \$483 million in specialty crop losses will not be offset due to the imposition of payment limits on specialty crop farms.

Table 2. Legal Organization of U.S. Specialty Crop Farms, 2017.

	Number of Farms	Percent of Total
Family or Individual (Sole Proprietor)	185,114	76.2
Partnership	21,772	9.0
Corporation (Family)	25,755	10.6
Corporation (Non-Family)	4,063	1.7
Other	6,114	2.5
Total	242,818	

Source: https://www.nass.usda.gov/Publications/AgCensus/2017/Online_Resources/Specialty_Crops/SCROPS.pdf.

While the figures above can give a sense of who might benefit from the additional payment limits, the fact remains that we simply do not have enough data to know exactly who all are negatively impacted. Regardless, the data illustrate three important points:

1. Before even accounting for payment limits, CFAP covers less than 25 percent of the losses faced by specialty crop producers in the first quarter of 2020.
2. Payment limits in CFAP (just like in ARC and PLC) are arbitrary amounts decided through political compromise that have nothing to do with the size of an operation's loss.
3. Although Congress has not traditionally subjected specialty crop producers to payment limits, a significant number of farms will have binding payment limits imposed by USDA which means they were eligible for more assistance to cover their losses than they ultimately received.