CALIFORNIA FARMLINK

Recovering from Disaster or Catastrophe



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Partners in Tax Education

California FarmLink is proud to offer this webinar with financial support provided by the USDA Farm Service Agency Tax Education and Asset Protection Initiative using funds Congress allocated for this purpose in the American Rescue Plan Act (ARPA).



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Overview

1. Assessing your current position
2. Revising current operating plans
3. Renegotiating existing debt
4. Closing the cash gap



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Assessing your Current Position



Livestock

- Physical access
- Immediate remediation - fencing, water, etc.



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Permanent crops

- Physical access
- Immediate remediation - water, drainage etc.



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Salvageable growing crops

- Physical access
- Immediate remediation - water, drainage, etc.

True salvage value vs. harvest and selling cost



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Cash and Cash Equivalents

- Cash on hand
- Current accounts receivable



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Undamaged Growing Crops

- Condition
- Expected harvest date
- Expected harvest yield
- Expected quality
- Expected price (reduced for damage? Increased due to local scarcity?)





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Land and Fixed Assets

- Soil condition
- Immediate remediation needs?
  - Roads
  - Buildings
  - Fences
  - Wells
  - Septic
  - Ponds, troughs
  - Shade and shelter



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Machinery and Equipment

Assets list vs. reality

- Damaged
- Salvageable
- Cost to repair
- Income if sold as is
- Insurance proceeds
- Tax gain / loss



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Immediately Realizable Cash

- Sales of product if available and possible
- Draws from ***existing/open*** line of credit or operating loan
- Insurance proceeds
  - Property Insurance
  - Federal Crop Insurance
- Personal savings



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Soon-ish Cash Inflows

- State and Federal disaster payments
- USDA emergency programs
- NRCS
- Noninsured Disaster Assistance Program (NAP)
- Private relief
- Local government
- Non-profits
- Personal campaigns (Go-Fund-Me, etc)



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New Borrowing - Time Depends...

- Friends and family
- Community-based lenders
  - CDFI
  - Other non-profit or local lender
- Other lenders
  - Farm Credit
  - Farm Service Agency
  - Small Business Administration
  - Commercial, non-agricultural lenders



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Assessing Your Immediate Cash Needs

- Current payroll and accounts payable
- Current portion of any loans or structured payment plans/settlements
- Living expenses including child support and current portion of any debt or structured payment plans/settlements



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Current Solvency

Cash on Hand

Plus: Immediately Realizable Cash

Less: Immediate Cash Needs

Equals: **Cash Carryforward (Solvent)**

or **Cash Needed (Insolvent)**



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2. Revised Plans



Revised Sales Plans

Inventory

Scrapped assets

Viable growing crops



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Revised Crop Plans

- What can land support in its current condition?
- What can current equipment support?
- Scale back, re-invest, or…?
- What operations can continue without a significant new investment?
- What re-investments are most directly related to generating short term cash?
- What re-investments can be delayed a year or more?



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Revised Spending Plans

- Payroll
- Rent/lease payments
- Debt payments



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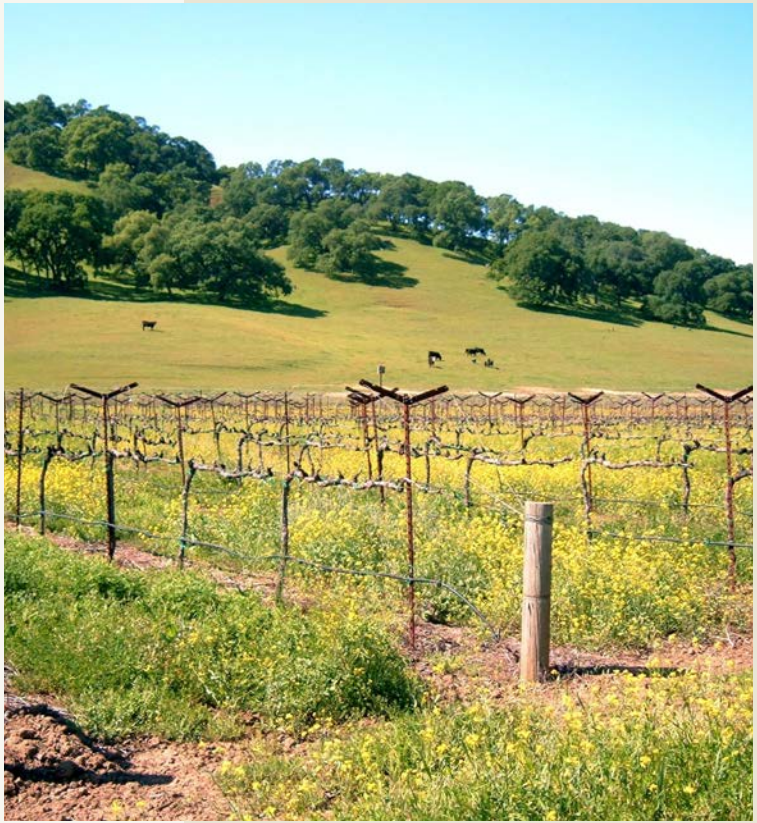
3. Renegotiating Debt



Renegotiating existing debt

- Short term payables
- Unsecured loans
- Secured loans
- Agricultural credit - special circumstances
  - USDA Farm Service Agency (FSA)
  - Farm Credit
  - California FarmLink
- SBA special circumstances
- Community-based Lenders
- Commercial Credit



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Bankruptcy Protection

- Bankruptcy is a legal process that allows an individual or a business to petition a court to provide full or partial relief from debts.
- As soon as the petition is filed the petitioner has automatic relief from collections actions.
- The petitioner must demonstrate insolvency (inability to pay) and usually must present a plan for full or partial relief from outstanding debts.



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Bankruptcy Protection

- Often the approved plan reduces debt and extends the time in which payments are due. Sometimes debts are fully discharged.
- Most bankruptcy cases are voluntary because usually the person or business files before they are forced into an involuntary bankruptcy.
- In an involuntary bankruptcy, a creditor petitions the court and the individual or business must respond.
- Bankruptcy law is mostly federal law, but there are state-specific provisions.



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4. Defining Solvency and Closing the Cash Gap



Solvency Months 1-3

Cash on Hand

Plus: Immediately Realizable Cash

Less: Immediate Cash Needs

Equals: **Cash Carryforward (Solvent)**

or **Cash Needed (Insolvent)**



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Solvency Months 3-6

Projected Cash on Hand Month 3

Plus: Projected Realizable Cash

Less: Projected Cash Needs

Equals: **Cash Carryforward (Solvent)**

or **Cash Needed (Insolvent)**

Projected Realizable Cash: Anticipated sales of crops, salvage eqpt sales, other sales, other relief

Projected Cash Needs: Reduced spending and non-negotiable outflows



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Solvency Months 6-12

Cash on Hand Month 6

Plus: Projected Realizable Cash

Less: Projected Cash Needs

Equals: Cash Carryforward (Solvent)

or **Cash Needed (Insolvent)**

Projected Realizable Cash: Anticipated sales of crops, salvage eqpt sales, other sales, other relief that may be slower to pay, credit proceeds

Projected Cash Needs: Reduced spending and non-negotiable outflows, planned recovery spending

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Solvency Year 2

Cash on Hand 1/1/New Year

Plus: Projected Cash from Operations and Other

Less: Projected Cash Needs

Equals: **Cash Carryforward (Solvent)**

or **Cash Needed (Insolvent)**



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Cash Infusion Strategies

- Off-farm job
- New borrowing
- Sale of significant asset(s)



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Bankruptcy Protection

- Chapter 7 Available to low-income individuals and businesses only. Court-supervised sale of nonexempt assets, proceeds pay creditors, remaining debt is discharged
- Chapter 13 Court-supervised process for individuals with regular income under ~1.5M and debt under ~500k to repay all or part of their debts over 3-5 yrs.
- Chapter 11 Court-supervised plan that allows a business to continue to operate while re-paying creditors under extended payment terms. May include some forced asset sales, and some discharge of debt. No income limit.

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Bankruptcy Protection

- Ch 12 - Available to individuals or businesses with over 50% of household Gross Receipts from farming, ranching or fishing (value added production, agri-tourism, etc not included). Agricultural debts must be under ~$11M and fishing debts must be under ~$2.2M. It is less expensive and burdensome than Chapter 11, so a better option for those who qualify.

***Another reason you should be able to separate non agricultural and non-fishing income from agricultural and fishing income.



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5. Why we focus on Preparation



Recovery Action Plan

- Save livestock and salvageable crops
- Call insurance agent
- Assess crops, fixed assets, machinery, etc.
- Assess current cash and cash needs
- Revise operating plans
  - Generate current cash ASAP
  - Scale back recovery to fit cash flow budget
- Re-negotiate existing debt
- Consider new debt and off-farm job
- Seek bankruptcy protection if needed
- Incorporate prevention and planning into all of your re-building





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Recovery is a Long Road

Recovery is a function of time and cash.

- **Cash is king.** Know how to manage it carefully.
  - If you go into a disaster with insufficient cash and too much debt you might not be able to recover.
  - If you go into a disaster with adequate cash reserves, insurance, and access to credit it may still take 3-5 years to get to the profitability you had prior to the event
- An off-farm job may be essential to recovery.



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Questions?



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Thank you!



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