

## ACRE for 2009? We're on the fence in late July

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With the recent price declines, farmers have become more interested in whether they should sign up for the Average Crop Revenue Election (ACRE) program. And they are right to be more interested. Farmers have until August 14, 2009, to elect and enroll their farms in either the ACRE program or the Direct and Counter-cyclical Program (DCP) program for their 2009 crop. (They can also decide to not participate in either program.)

For corn and soybeans, current average price and yield projections for the 2009-10 marketing year and the 2009 crop put potential actual state revenue for corn and soybeans essentially equal to the almost final state ACRE guarantees. If the actual is equal to or more than the guarantee, the State payment rate for ACRE would be zero. However, my estimates show that it doesn't take much of a price drop to have an ACRE payment rate that would cover the required 20% in direct payments (DP).

For wheat, the forecast wheat price for 2009-10 indicates a high likelihood that the potential ACRE payment will be greater than the required 20% reduction in direct payments. Any farmer with wheat needs to give serious consideration to signing up for ACRE instead of DCP and watch which direction price forecasts move before August 14.

This decision is not an obvious choice for corn and soybeans but it is becoming clearer, especially for wheat, as we learn more about where yields and prices may be for the 2009 crop and the 2009/10 crop marketing year. Under ACRE program rules, the revenue guarantees are being set fairly high for Minnesota due to good yields and high prices in recent years. But since forecast prices for 2009/10 are also quite high and Minnesota crop conditions are good for the 2009 crop (from a statewide perspective), actual revenue in Minnesota may not be low enough to trigger an ACRE payment large enough to counter the required 20% reduction in direct payments (DP). In Minnesota, the highest chance of an ACRE payment being made is for wheat. For corn and soybeans, the choice lies in great part on whether prices for the 2009-10 year will be lower than current forecasts, not what prices are doing right now, but what we think prices will be for the entire 2009-10 marketing year.

Before we look at how I reached this conclusion, we need to remember two points.

- First, this conclusion may not and will likely not hold for the 2010 and future crop years. We'll visit that decision this coming winter.
- Second, the data and thus this conclusion are for Minnesota only. Conditions are different in other states and the ACRE choice may be different also.
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### State ACRE Guarantee and Revenue Loss Trigger

Before a payment to an individual farmer is made under the ACRE program, two revenue loss triggers must occur; one at the state level and one on the individual farm. National prices are used to value both the state yields and farm yields. The ACRE payment is based on national prices and state yields, not farm yields.

### Summary of ACRE payment triggers

IF **State ACRE Guarantee** > **Actual State Revenue**

AND **Farm ACRE Benchmark** > **Actual Farm Revenue**

THEN, and only then:

**An ACRE Farm Payment is made**

The **State ACRE Guarantee** is 90% multiplied by Benchmark State Yield multiplied by ACRE Guarantee Price.

The Benchmark State Yield is the simple average of yields per planted acre for the most recent 5 crop years, excluding the high and low yields. For crop year 2009, the Benchmark State Yields are established using crop years 2004-2008.

The ACRE Guarantee Price is the 2-year simple average of the national marketing year price. For the 2009 crop, the ACRE Guarantee Price is based on the 2007/08 and 2008/09 marketing years. For each commodity, State ACRE Guarantees will be finalized after the 2008/09 marketing year prices are published. The final price estimates are reported by the National Agricultural Statistics Service for most ACRE-eligible commodities.

Current estimates of the State ACRE Guarantees for corn, soybeans, and wheat for Minnesota are shown in Table 1. For subsequent crop years, the State ACRE Guarantee cannot change (up or down) by more than 10 percent from the previous year's State ACRE Guarantee. So the setting of the State ACRE Guarantee for 2009 is critical for future years.

Table 1. Current Estimates of the 2009 State ACRE Guarantee for Corn, Soybean, and Wheat in Minnesota*				
Item	Description	Corn	Soybean	Wheat
(1) ACRE Adjustment Factor	Statutory	90%	90%	90%
(2) Preliminary ACRE Guarantee Price* (\$/bu) (Wheat price is final as of 7/10/09.)	from NASS	\$4.13	\$10.05	\$6.63
(3) Benchmark State Yield* (bu/ac)	from NASS	161.0	41.0	49.9
(4) State ACRE Guarantee (\$/ac)*	(1) x (2) x (3)	\$598.44	\$370.85	\$297.75

\*Based on USDA information on July 10, 2009, accessed on July 20, 2009, at [www.fsa.usda.gov/Internet/FSA\\_File/prelim\\_2009\\_acre\\_param.xls](http://www.fsa.usda.gov/Internet/FSA_File/prelim_2009_acre_param.xls)

The **Actual State Revenue** is the Actual State Yield times the ACRE Price. The Actual State Yield is the actual yield per planted acre as reported by NASS. The ACRE Price is the higher of the: (a) national loan rate, after being reduced by 30 percent, or (b) national average market year price. Current estimates of the Actual State Revenue are shown in line 4 of Table 2.

Before we move on to the second, farm level trigger, let's look at the current estimate of the State Payment Rate because the State level trigger is what will be the main factor in whether any Minnesota farmer will receive an ACRE payment for the 2009 crop.

The **State ACRE Payment Rate** is the State ACRE Guarantee minus the Actual State Revenue. The State ACRE Payment is capped at 25 percent of the State ACRE Guarantee. (Even though the State ACRE Payment Rate may be greater than zero, an individual farm has to suffer a revenue loss before a payment will be made.) Current estimates of State ACRE Payment Rate calculations for corn, soybeans, and wheat for Minnesota are shown in Table 2.

Table 2. Current Estimates of 2009 Actual State Revenue and Hypothetical 2009 State ACRE Payment Rate for Corn, Soybean, and Wheat in Minnesota*				
Item	Description	Corn	Soybean	Wheat
(1) State ACRE Guarantee (\$/ac)*	From Table 1	\$598.44	\$370.85	\$297.75
(2a) Reduced National Loan Rate	70% of Loan Rate	\$1.37	\$3.50	\$1.93
(2b) National Average Market Year Price**	forecast	\$3.75	\$9.30	\$5.30
(2) ACRE Price (\$/bu)	Higher of (2a) or (2b)	\$3.75	\$9.30	\$5.30
(3) Estimated Actual State Yield (bu/ac)***	estimated	160.8	40.1	49.0
(4) Estimated Actual State Revenue (\$/ac)	(2) x (3)	\$603.00	\$372.93	\$259.70
(5) Estimated State ACRE Payment Rate, before Cap (\$/ac)	Higher of 0 or (1) minus (4)	\$0.00	\$0.00	\$32.68
(6) Estimated State ACRE Payment Rate Cap	25% of (1)	\$149.61	\$92.71	\$73.10
(7) Hypothetical State ACRE Payment Rate	Lower of (5) or (6)	\$0.00	\$0.00	\$32.68
*Based on USDA information on July 10, 2009.				
**Based on WASDE estimates, July 10, 2009.				
***Wheat yield forecast from NASS, July 10, 2009. Corn and soybean yields conservatively estimated as simple 5-year average of state yields 2004-2008.				

If these current estimates hold for corn and soybeans, the estimated Actual State Revenue is greater than the current estimate of the State ACRE guarantee. Thus, the State level trigger is not met, and there would be no ACRE payment for corn or soybeans regardless of an individual farm's yield and revenue situation. These estimates of Actual State Revenue are very dependent on the National Average Market Year Price and are projections at this point in time. Slight decreases in the '09-'10 prices would decrease the actual revenue and thus, create a potential ACRE payment rate. However, the estimated yields for 2009 are conservative estimates and may be too low for current growing conditions.

The estimated Actual State Revenue for wheat is less than the State ACRE Guarantee. Thus, a potential State ACRE Payment Rate for wheat may be paid if an individual farm has an Actual Farm Revenue less than its Farm ACRE Guarantee.

The question of how the potential State ACRE Payment Rate compares to the 20% reduction in a farm's DP is taken up later in the discussion of the farm level trigger.

## Farm ACRE Guarantee and Revenue Loss Trigger

The **Farm ACRE Guarantee** is the Benchmark Farm Yield times ACRE Guarantee Price plus Crop Insurance Premium. The Benchmark Farm Yield is the simple average of the yields per planted acre for the most recent 5 crop years, excluding the high and low yields. For crop year 2009, the Benchmark Farm Yields are established using crop years 2004-2008. Benchmark Farm Yields will be established using production evidence including crop insurance yields. The ACRE Guarantee Price, used to compute the State ACRE Guarantee, is also used to compute the Farm ACRE Guarantee. The Crop Insurance Premium per acre paid by producers on the farm is included in the Farm ACRE Guarantee. For farms that are not insured or farms covered by the Non-insured Assistance Program (NAP) or by a Catastrophic (CAT) policy, this amount will be zero. Crop insurance or NAP is not required for participation in ACRE.

**Actual Farm Revenue** is Actual Farm Yield times the ACRE Price. The Actual Farm Yield is the yield per planted acre established using production evidence including insurance yields. The ACRE Price is the same as the price used to value Actual State Revenue, that is, the higher of the: (a) national loan rate, after being reduced by 30 percent, or (b) national average market year price.

Examples of hypothetical Farm ACRE Guarantee calculations for a corn and soybean farm in southwest Minnesota are shown in Table 3 and for a wheat and soybean farm in northwest Minnesota in Table 4. These tables show these hypothetical farm examples having farm revenue losses for each of the crops the farm produces. That is, the Actual Farm Revenue is less than the Farm ACRE Guarantee for each crop on each example farm. However, a revenue loss at the farm does not mean an ACRE payment will be made; the state trigger must also be met.

## Farm ACRE Payment

A **Farm ACRE payment** for a commodity is issued when both the state and farm revenues for a commodity show a revenue loss. In Table 2, hypothetical State revenue losses are shown for wheat but not for corn and soybean. In Tables 3 and 4, hypothetical revenue losses are shown for all crops for both farms. Thus, under ACRE program rules, only wheat would be eligible for a Farm ACRE payment in these hypothetical cases.

The **Farm ACRE payment** is 83.3% (85% for crop year 2012) multiplied by Planted and Considered Planted (P&CP) Acres (not to exceed total base acres) multiplied by State ACRE Payment Rate multiplied by (the Benchmark Farm Yield divided by the Benchmark State Yield).

The ACRE Payment Acreage is 83.3% of the P&CP acres for a commodity, unless the sum of the ACRE payment acreage for the farm exceeds the total base. Under this situation, a producer must choose the number of eligible ACRE payment acres for each commodity that may receive ACRE payments, not to exceed the total base on the farm.

Examples of hypothetical Farm ACRE payment calculations for a corn and soybean farm in southwest Minnesota are shown in Table 5 and for a soybean and wheat farm in northwest Minnesota in Table 6. These hypothetical payments are also compared to the 20% reduction in direct payments that would be required if the farm were enrolled in the ACRE program.

Under current estimates, the hypothetical corn and soybean farm would not receive an ACRE payment for either crop due to the State trigger not being met. As noted earlier, a slight decrease in '09-'10 prices could reverse this result. The farmer would not receive the 20% reduction in DP if the farm was enrolled in ACRE even if the ACRE payment was zero.

For the wheat and soybean farm, the hypothetical ACRE payment is greater than the potential 20% reduction in DP. So this hypothetical farmer would likely choose to enroll in ACRE.

Especially due to the closeness of this decision, every farmer needs to evaluate their own conditions and payment limits and decide whether the ACRE or DCP program is the best option for their farm in 2009. These two hypothetical farms are only hypothetical; they cannot represent every Minnesota farm. An ACRE decision tool for Excel© is available on the web at [www.extension.umn.edu/agbusinessmanagement](http://www.extension.umn.edu/agbusinessmanagement) for helping the individual farm make this decision.

### **ACRE election and enrollment**

A decision to elect ACRE may be made in any of the crop years 2009-2012; however, the ACRE election is irrevocable and cannot be changed from the time of election through the 2012 crop year. It is a two step process, farmers must first elect ACRE and then they must enroll in ACRE. Once the election for ACRE is made, it is irrevocable. Producers on farms that have elected ACRE must decide annually whether to enroll in the ACRE Program. On March 31, the Secretary of Agriculture extended the sign-up deadline August 14, 2009 for the ACRE Program (and the Direct and Counter-cyclical Program (DCP)). After election, producers must enroll the farm in the ACRE Program to receive payments. All producers on a farm must elect the ACRE Program election or the farm is not enrolled in ACRE. If a farmer does not elect for ACRE for the 2009 crop, he or she can still choose to sign up in a future year.

### **For More Information**

Further information on the ACRE and other FSA programs are available at local or State FSA offices or on FSA's Web site at: [www.fsa.usda.gov](http://www.fsa.usda.gov). Further information for Minnesota farmers and an Excel worksheet for analyzing the choice between ACRE and CC payments is available in the 2008 Farm Bill section at [www.extension.umn.edu/agbusinessmanagement](http://www.extension.umn.edu/agbusinessmanagement).

Item	Description	Corn	Soybean
(1) Benchmark Farm Yield (bu/ac)	hypothetical	180.0	46.2
(2) Preliminary ACRE Guarantee Price (\$/bu)*	From Table 1	4.13	10.05
(3) Farm ACRE Revenue (\$/ac)*	(1) x (2)	743.40	464.31
(4) Crop Insurance Premium (\$/ac)	hypothetical	15.00	10.00
(5) Farm ACRE Guarantee (\$/ac)*	(3) + (4)	758.40	474.31
(6) Actual Farm Yield (bu/ac)	hypothetical	179.1	45.9
(7) ACRE Price (\$/bu)	From Table 2	3.75	9.30
(8) Actual Farm Revenue (\$/ac)	(6) x (7)	671.63	426.87
Is Actual less than Guarantee?***	Is (8) < (5)?	yes	yes

\*Based on USDA information on July 10, 2009.      \*\*Remember this is a hypothetical estimate.

Item	Description	Soybean	Wheat
(1) Benchmark Farm Yield (bu/ac)	hypothetical	30.7	67.0
(2) Preliminary ACRE Guarantee Price (\$/bu)*	From Table 1	10.05	6.63
(3) Farm ACRE Revenue (\$/ac)*	(1) x (2)	308.54	444.21
(4) Crop Insurance Premium (\$/ac)	hypothetical	10	12
(5) Farm ACRE Guarantee (\$/ac)*	(3) + (4)	318.54	456.21
(6) Actual Farm Yield (bu/ac)	hypothetical	29.6	66.6
(7) ACRE Price (\$/bu)	From Table 2	9.30	5.30
(8) Actual Farm Revenue (\$/ac)	(6) x (7)	275.28	352.98
Is Actual less than Guarantee?***	Is (8) < (5)?	yes	yes

\*Based on USDA information on July 10, 2009.      \*\*Remember this is a hypothetical estimate.

Table 5. Example of <u>Hypothetical</u> farm ACRE payments, corn and soybean, southwest Minnesota*				
Item	Description	Corn	Soybean	Total Farm
(1) State Payment Rate	From Table 2	0.00	0.00	
(2) Benchmark State Yield* (bu/ac)	From Table 1	161.0	41.0	
(3) Benchmark Farm Yield (bu/ac)	From Table 3	180.0	46.2	
(4) Benchmark Farm/State Yield	(3)/(2)	1.1180	1.1268	
(5) Total Base Acres	hypothetical			900
(6) Planted & Considered Planted	hypothetical	450	450	900
(7) Eligible ACRE Payment Acres	83.3% x (6)	374.85	374.85	749.7
(8) ACRE Payment Acres**		374.85	374.85	749.7
(9) Farm ACRE Payment***	(1) x (4) x (8)	0.00	0.00	0.00
Estimate of 20% reduction in Direct Payments (DP) for ACRE				
(10) Base Yield for DP	Hypothetical	117.8	37.4	
(11) DP rate (\$/bu)	Statutory	0.28	0.44	
(12) Base acres for DP	Hypothetical	450	450	
(13) Acreage adjustment for DP in 2009	Statutory	83.3%	83.3%	
(14) 20% reduction in DP	Statutory	20%	20%	
(15) Total reduction in DP due to ACRE enrollment	(10)x(11)x(12) x(13)x(14)	2,472.81	1,233.71	3,706.52
*Based on USDA information on July 10, 2009.				
**In this hypothetical example, the producer does not need to reduce any acreage for the ACRE payment since the eligible ACRE payments acres do not exceed the farm's total base acreage.				
***Remember this is a hypothetical estimate.				

Table 6. Example of Hypothetical farm ACRE payments, wheat and soybean, northwest Minnesota\*

Item	Description	Soybean	Wheat	Total Farm
(1) State Payment Rate	From Table 2	0.00	38.05	
(2) Benchmark State Yield* (bu/ac)	From Table 1	41.0	49.9	
(3) Benchmark Farm Yield (bu/ac)	From Table 3	30.7	67.0	
(4) Benchmark Farm/State Yield	(3)/(2)	0.7488	1.3427	
(5) Total Base Acres	hypothetical			1,600
(6) Planted & Considered Planted	hypothetical	800	800	1,600
(7) Eligible ACRE Payment Acres	83.3% x (6)	666.4	666.4	1332.8
(8) ACRE Payment Acres**		666.4	666.4	1332.8
(9) Farm ACRE Payment***	(1) x (4) x (8)	0.00	34,046.20	34,046.20
Estimate of 20% reduction in Direct Payments (DP) for ACRE				
(10) Base Yield for DP	Hypothetical	24.1	58.5	
(11) DP rate (\$/bu)	Statutory	0.44	0.52	
(12) Base acres for DP	Hypothetical	800	800	
(13) Acreage adjustment for DP in 2009	Statutory	83.3%	83.3%	
(14) 20% reduction in DP	Statutory	20%	20%	
(15) Total reduction in DP due to ACRE enrollment	(10)x(11)x(12) x(13)x(14)	1,413.30	4,054.38	5,467.68
*Based on USDA information on July 10, 2009.				
**In this hypothetical example, the producer does not need to reduce any acreage for the ACRE payment since the eligible ACRE payments acres do not exceed the farm's total base acreage.				
***Remember this is a hypothetical estimate.				