FARM ECONOMICS: *Facts & Opinions*
FARM BUSINESS MANAGEMENT
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QUESTIONS AND ANSWERS ABOUT THE ACRE PROVISION OF THE 2008 FARM BILL

Question 1: What is ACRE?

ACRE stands for Average Crop Revenue Election provision and is an alternative to the current price counter-cyclical program. Beginning in 2009, producers have an option of choosing ACRE. Once ACRE is elected, it is irrevocable through the 2012 crop year. Even if ACRE is elected , producers will still receive direct payments (with a 20% reduction) and be eligible for marketing loans (with a 30% reduction in loan rates). See figure 1.

Figure 1. Alternative Payments Under Traditional and ACRE Programs.

Traditional	ACRE
Direct Payments	80% of Direct Payments
Loan Payments at Full Loan Rates	Loan Payments at 70% of Full Loan Rates
Counter-Cyclical Program	ACRE Program

Question 2: What if I do not elect the ACRE provision?

ACRE must be elected by the producer at program sign-up. If the producer does not elect ACRE, the default will be the current counter-cyclical program. Sign-up for the 2009 Direct and Counter-cyclical Payment program began December 22, 2008. Enrollment for the ACRE program will not start until this spring.

Question 3: Do I have to elect ACRE for 2009?

No, I can wait and choose ACRE for the 2010 crop year, 2011 crop year, etc. But once I choose ACRE, it is irrevocable through the 2012 crop year.

Question 4: Do I have to elect ACRE on all my crops and all my farms?

Payments are crop specific and the whole farm must be enrolled in ACRE. I cannot enroll my corn base and not my soybean base. It is expected that the ACRE election will be made by Farm Services Agency (FSA) farm number, so an operator could have some farms enrolled in ACRE and some under the traditional counter-cyclical program.

Question 5: How does ACRE work?

ACRE provides revenue protection based on state revenue. The revenue protection is based on a 2-year moving average of the U.S. marketing year average crop price and a 5-year Olympic moving average of state yields. Olympic average means that the high and low yields are dropped out when calculating the average. Except to determine whether the farm is eligible for an ACRE payment, a farm's revenue does not enter into the calculation of the revenue payment.

Question 6: How is the ACRE payment calculated?

The ACRE payment equals the lesser of the (ACRE state revenue guarantee minus state actual revenue or 25% of the ACRE state revenue guarantee) times 83.3 percent of the farm's acres planted to the covered crop times (the farm's Olympic average yield divided by the State's ACRE benchmark yield).

Question 7: How is an ACRE payment triggered?

Two triggers must be met before an ACRE payment is received (see figure 2). First, the state's realized revenue must be less than its target revenue. If the state trigger is met, the farm must also trigger a payment, which means that the farm's actual revenue for the crop must be less than the farm's ACRE benchmark revenue for that crop.

Figure 2. Triggers Before an Acre Payment is Received

Trigger 1. State Trigger

State Gurantee[1] must be greater than **Actual State Revenue**[2]

Trigger 2. Farm Trigger

ACRE Farm Benchmark Revenue[3] must be greater than **ACRE Farm Revenue**[4]

Definitions

[1] **State Guarantee** begins with the following calculation:

Benchmark State Yield (5-year Olympic average year)
x ACRE Guarantee Price (2-year average market year price)
x.90

The state guarntee can not change more than 10 percent form last year's guarnatee. If the above calcuation is between plus or minus 10% of the previous year's guarantee, the above calculation is the guarantee. If the above calculation results in an amount below 90% of the previous year's guarantee, the state guarantee is 90% of the previous year's guarantee. If the above calculation results in an amount greater that 110% of the previous year's guarantee, the state guarantee is 110% of the previous year's guarantee.

[2] **Actual State Revenue** =
Actual State Planted Yield
x Higher of Market-Year Average Price or 70% of National Loan Rate

[3] **Acre Farm Benchmark Revenue** =
(Farm Olympic average yield
x ACRE Guarantee Price (2-year average market year price))
+ Producer paid insurance premium

[4] **ACRE Farm Revenue** =
Actual farm yield
x Higher of Market-Year Average Price or 70% of National Loan Rate

[5] A 5-year Olympic average yield is calculated by ignoring the high and low yields and averaging the three yields between the high and low yields. For example, suppose five yields are 120, 140, 160, 170, and 190 bushel. The Olympic average of these five yields are the average of 140, 160 and 180 which equals 157 bushels (157 = (140 + 160 + 170) / 3).

Question 8: What are the 'costs' of electing ACRE?

If a producer elects ACRE, their direct payments will be equal to 80% of the direct payments under the traditional program. For Illinois farms, this cost usually will be between $4 and $6 per acre. Marketing loan rates will be reduced by 30% of the loan rates established in the 2008 Farm Bill. This would affect marketing loan payments (LDP's) if they come into play. Also, the producer is not eligible for counter-cyclical payments.

Question 9: What acres are covered by ACRE?

Payments are based on planted acres but are limited to a farm's total base acres. If a farm's total planted acres exceed the farm's total base acres, then the producer chooses which acres to enroll in the program.

Question 10: What are the payment limitations if I elect ACRE?

The direct payment limitation is $40,000 minus an amount equal to 20% of the reduction in direct payments, or a total limit of $32,000. The ACRE payment limit is $65,000 plus 20% of the direct payments, or a total limit of $73,000.

Terminology

ACRE State Revenue Guarantee: ACRE benchmark state yield per planted acre times the ACRE price guarantee times 90%.

ACRE Actual State Revenue: State yield per planted acre times the national average market price.

Farm's ACRE Benchmark Revenue: Olympic average of the farm's yields for the most recent 5 years times the ACRE guarantee price plus per acre crop insurance premiums paid for that crop year.

Farm's Actual Revenue: Farm's actual yield times the U.S. marketing year average price for that crop.
Example for corn for 2009:

ACRE benchmark state yield = 172 bu. per acre (5-year Illinois Olympic average yield)
ACRE price guarantee = $4.10 per bushel (2007-2008 average marketing year price-U.S.) *The $4.10 is an estimate at this time as the 2008 marketing year price will not be finalized until September, 2009.*
2009 state revenue guarantee = 172 bu. x $4.10 x 90% = $634.68

Farm's ACRE benchmark yield = 160 bu. per acre (5-year farm Olympic average yield, most recent years)
Farm's ACRE benchmark revenue = 160 bu. x $4.10 (ACRE guarantee price) plus $35 (crop insurance premiums) = $691.

Assume 2009 actual state yield = 165 bu. per acre
Assume 2009 farm yield = 157 bu. per acre
Assume 2009 marketing year average price is $3.50.

2009 actual state revenue = 165 bu. x $3.50 = $577.50
2009 actual farm revenue = 157 bu. x $3.50 = $549.50

An ACRE payment is triggered since both the state and farm level actual revenues are below the guarantees.

ACRE payment = ($634.68 - $577.50) x 83.3% x (160/172) = $44.31

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