

# ACRE Program Overview

## September 2008



**Steven D. Johnson**  
Farm & Ag Business Management Specialist

**IOWA STATE UNIVERSITY**  
University Extension

## Presentation Objectives

- **Introduce the New ACRE Program**
  - How it differs from the traditional DCP
  - What it costs to enroll – loss of LDP and CCP
  - Use of Olympic Average Yields times National Average Price = Revenue
- **Forecast both State and Farm Revenue Triggers and compare potential 2009 Actual Revenue**
- **Identify the Uncertainty of what 2-Years of National Price will be used for ACRE**
- **Discuss the Importance of Proving 2008 Yields**
- **Highlight 5 Strategies for the ACRE Program**

## **New Average Crop Revenue Election (ACRE)**

- **Gives producers a one-time option to choose a revenue-based counter-cyclical payment program, starting in 2009 through 2012**
- **Producers choose between the current program (LDP and CCP) or ACRE**
- **Computed on planted acres, up to the total number of base acres on the farm**
- **Price guarantee is the 2-year average of the national price (seasonal).**

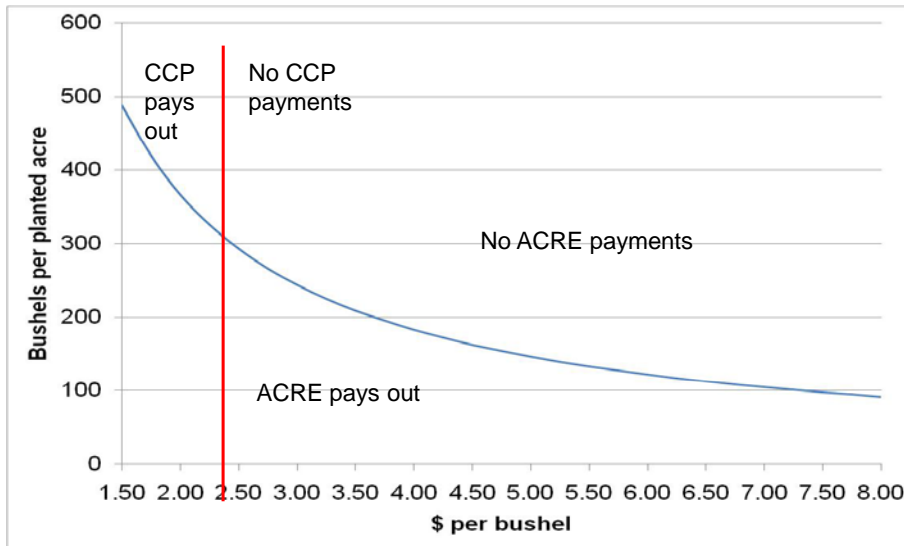
Source: ISU Extension Economics, September 2008.

## **ACRE Decisions**

- Producers choosing ACRE agree to a 20% decline in direct payments and a 30% decline in loan rates
- Program has state and farm trigger levels, both must be met before payments are made
- Expected state and farm yields based on 5-year Olympic average yields per planted acre
- Revenue Guarantee = 90% of ACRE price guarantee X Expected state yield
- ACRE Actual Revenue = National average price X Actual state yield per planted acre (that year).

Source: ISU Extension Economics, September 2008.

## ACRE vs. CCP



Source: ISU Extension Economics, September 2008.

## ACRE Set-up for Iowa Corn 2009 Sign-up Decision

| Year            | Yield per Planted Acre (bu./acre) | Year    | National Average Price (\$/bu.) |
|-----------------|-----------------------------------|---------|---------------------------------|
| 2004            | 176.7                             | 2007-08 | 4.25                            |
| 2005            | 169.0                             | 2008-09 | 5.40*                           |
| 2006            | 162.7                             | Average | \$4.82 ½ *                      |
| 2007            | 166.8                             |         |                                 |
| 2008            | 160*                              |         |                                 |
| Olympic Average | 166.2                             |         |                                 |

\*The 2008 yield and price are forecasts.

So the expected state yield would be 166.2 bushels per acre and the ACRE price guarantee would be \$4.82 ½ per bushel.

Source: ISU Extension Economics, September 2008.

## State & Farm Revenue Guarantees

- **State Revenue Guarantee**
  - 166.2 bu/A (most recent 5 years – Olympic Average)
  - X \$4.82 ½/bu (forecast)
  - = \$802/A Gross Revenue (estimated)
  - X 90%
  - = \$722/A State Revenue Guarantee for 2009 (estimated)
  
- **Farm Revenue Guarantee**
  - 170 bu/A (example only) Last 5-year Olympic Average – by FSA Farm Number)
  - X \$4.82 ½/bu (forecast)
  - = \$820/A Gross Revenue (estimated)
  - + \$30/A Crop Insurance Premium Paid (estimated)
  - = \$850/A Farm Revenue Guarantee for 2009 (estimated)

Source: ISU Extension Economics, September 2008.

## Determining 2009 ACRE Payment (Considers Both Triggers are Met)

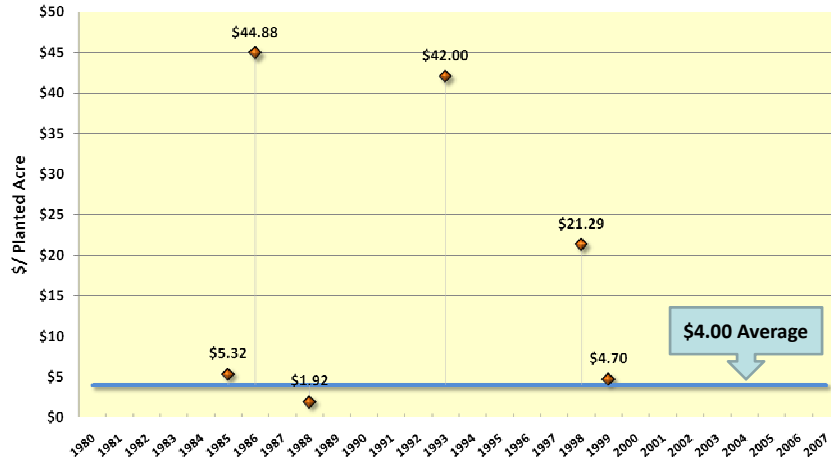
|           |   |              |                                     |
|-----------|---|--------------|-------------------------------------|
| Lesser of | <b>State ACRE<br/>Revenue<br/>Guarantee</b> | <b>Minus</b> | <b>Actual<br/>State<br/>Revenue</b> |
| or        | <b>State ACRE<br/>Revenue<br/>Guarantee</b> | <b>Times</b> | <b>25%</b>                          |

ACRE Payments are issued after October 1<sup>st</sup> of the year following harvest.

ACRE Participant Payment Limits are \$40,000 on Direct Payments (DPs) and reduced by the 20% DP. If enrolled in ACRE, then an Individual's Payment Limits are \$32,000 for DPs and \$73,000 for ACRE Payments or \$105,000 total.

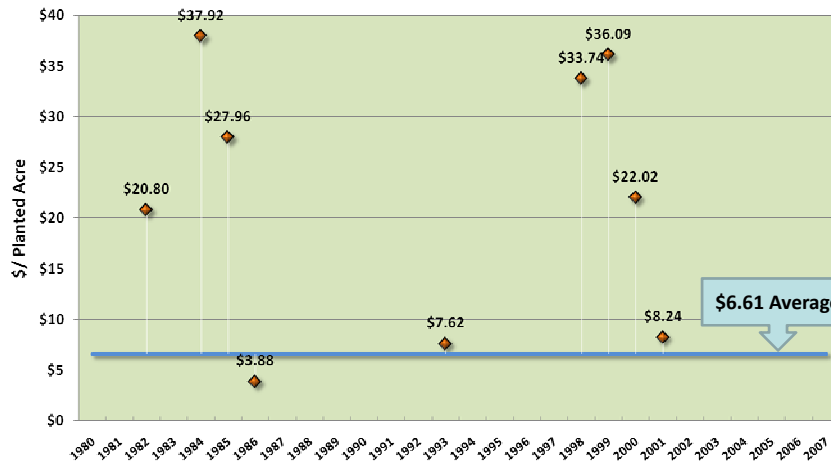
Source: ISU Extension Economics, September 2008.

## Corn ACRE Payments – Iowa (If program had existed)



Source: K-State Extension Economics, July 2008.

## Soybean ACRE Payments – Iowa (If program had existed)



Source: K-State Extension Economics, July 2008.

## Potential 2009 Iowa ACRE Payment

Assumptions: 5-yr. State Olympic Yield = 166.2 bu/A  
5-yr. Farm Olympic Yield = 170 bu/A  
2-yr. National Avg. Cash Price = \$4.82 1/2/bu  
2009 State Revenue Guarantee = \$722 (estimates)  
2009 Farm Revenue Guarantee = \$850/A (estimates)

In 2009, State Yield = 150 bu/A and Farm Yield = 160 bu/A  
The 2009-10 National Avg. Cash Price = \$4.50/bu  
2009 Actual State Revenue = 150 bu/A X \$4.50/bu = \$675 (forecast)  
2009 Actual Farm Revenue = 160 bu/A X \$4.50/bu = \$720 (forecast)

### Example Only

Since both 2009 the State and Farm Actual Revenue are below the Guarantees, an ACRE Payment is made.

\$722/A State Guarantee - \$675/A Actual State Revenue  
= \$47/A X (170 bu/A /166.2 bu/A) X 83.3% = \$40/A Payment

Source: ISU Extension Economics, September 2008.

## ACRE Beyond 2009

- Revenue Guarantee is updated each year through 2012 using the same rules:
  - 5-year Olympic average for yields
  - 2-year national average price
- Revenue Guarantees can not change by more than 10% (up or down) from year to year:
  - So if the 2009 Revenue Guarantee is \$722, then the 2010 ACRE revenue guarantee must be between \$650 and \$794.

Source: ISU Extension Economics, September 2008.

## Use of 2006-07 National Average Cash Price vs. 2008-09

| Year           | National Average Price (\$/bu.) | Year           | National Average Price (\$/bu.) |
|----------------|---------------------------------|----------------|---------------------------------|
| 2007-08        | 4.25                            | 2006-07        | 3.04                            |
| 2008-09        | 5.40*                           | 2007-08        | 4.25                            |
| <b>Average</b> | <b>\$4.82 ½</b>                 | <b>Average</b> | <b>\$3.64 ½</b>                 |

**State Revenue Guarantee (using 2006-07 & 2007-08)**  
 166.2 bu/A (most recent 5 years – Olympic Average)  
 X 3.64 ½/bu (estimated)  
 = \$606/A Gross Revenue (estimated)  
 X 90%  
 = \$545/A State Revenue Guarantee for 2009 (estimated)

Source: ISU Extension Economics, September 2008.

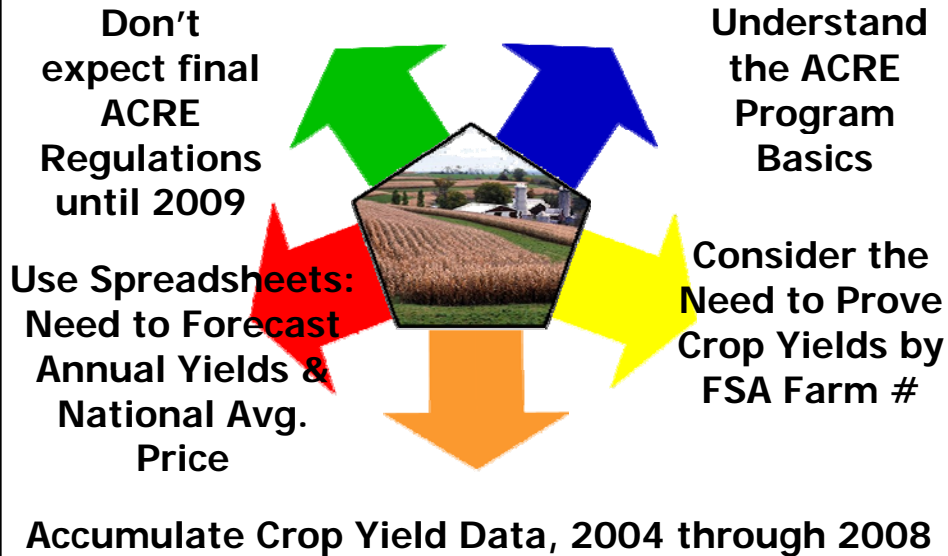
## What 2 Years of National Avg. Price?

If Average of 06/07 & 07/08 price is used it will  
 lower the strike in 2009 ACRE and then limit  
 the increase in 2010

|          | 06/07  | 07/08  | 08/09           | Avg<br>of<br>06/07<br>&<br>07/08 | Avg of 07/08<br>& 08/09 | Max<br>ACRE<br>Price<br>in<br>2010<br>if 06<br>price<br>is<br>used |
|----------|--------|--------|-----------------|----------------------------------|-------------------------|--|
| Corn     | \$3.04 | \$4.25 | \$4.90 - \$5.90 | <b>\$3.65</b>                    | <b>\$4.58 - \$5.08</b>  | <b>\$4.01</b>  |
| Sorghum  | 3.29   | 4.15   | 4.40 - 5.40     | <b>3.72</b>                      | <b>4.28 - 4.78</b>      | <b>4.09</b>  |
| Wheat    | 4.26   | 6.48   | 6.50 - 8.00     | <b>5.37</b>                      | <b>6.49 - 7.24</b>      | <b>5.91</b>  |
| Soybeans | 6.43   | 10.15  | 11.50 - 13.00   | <b>8.29</b>                      | <b>10.83 - 11.58</b>    | <b>9.12</b>  |

Source: K-State Extension Economics, August 2008.

## 5 Strategies for the ACRE Program



Source: ISU Extension Economics, September 2008.

## ISU Corn ACRE Calculator

- [www.card.iastate.edu/ag\\_risk\\_tools/acre](http://www.card.iastate.edu/ag_risk_tools/acre)
- The CARD Corn ACRE Program Calculator computes projected ACRE guarantees and payments, along with current payments, based on the user's expectations of prices and yields. Payments are computed assuming farm yields equal state yields.
- The 2009 ACRE Guarantee will be based on the 2008 season average price and the 2008 state average yield per planted acre. Because the 2008 marketing year begins on September 1, we do not know what the price and yield will be. The user should enter alternative 2008 prices and yields to see how price and yield levels affect payments.

Source: ISU CARD, August 2008.

