# The Average Crop Revenue Election (ACRE) Overview

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Under the new Food, Conservation and Energy Act of 2008 producers of USDA program crops such as soybeans, wheat and corn have the option to enroll in a new counter-cyclical revenue plan. The program is called Average Crop Revenue Election or ACRE for short. It is being offered as an alternative to the counter-cyclical payment option under the 2002 farm program.

The current counter-cyclical payment (CCP) program becomes effective when the season average marketing price for a commodity is below the national target price for that commodity. There is a maximum payment level per bushel of program yield, and it is paid on 85 percent of the program base acres. Critics of the CCP have pointed out that it addresses price risk only, and not production risk, and it is not based on the crops or acres actually being grown by the producer each year. ACRE addresses both of these problems.

**ACRE guarantees**

ACRE uses a combination of state average yields, farm level yields, and the national marketing year price to determine levels of revenue guarantees and payments for each covered commodity. There are two revenue triggers that have to be met before any ACRE payments are generated, one at the state level and one at the farm level. Farms correspond to FSA units, just as for the current commodity programs. The price component of both of these is the average of the two most recent USDA marketing year prices. For corn and soybeans the marketing year runs from September through August. Marketing year prices are based on cash prices (not futures) paid throughout the country. The marketing year prices for the 2007 crops are projected to be $4.25 for corn and $10.15 for soybeans as noted in the August USDA Report**.**

For the state revenue guarantee, an "Olympic" average of the state average yields for the past five years is used. The highest and lowest values during this period are thrown out, and the values for the three remaining years are averaged. Average yields are adjusted to bushels per planted acre rather than per harvested acre. Based on the most recent USDA yield forecasts, the 2004-2008 Iowa average yields for ACRE will be over 165 bushels/A for corn and nearly 50 bushels/A for soybeans, respectively.

The state revenue guarantee is 90 percent of the average state yield multiplied by the two-year average marketing price. For the farm level revenue guarantee, the same two-year average price is used, multiplied by the Olympic average of the last five years of yields for the farm. The value of the farmer paid crop insurance premiums is also added to the farm level guarantee. Both the state and farm guarantees will be recalculated each year using prices from the past two years and yields from the past five years.

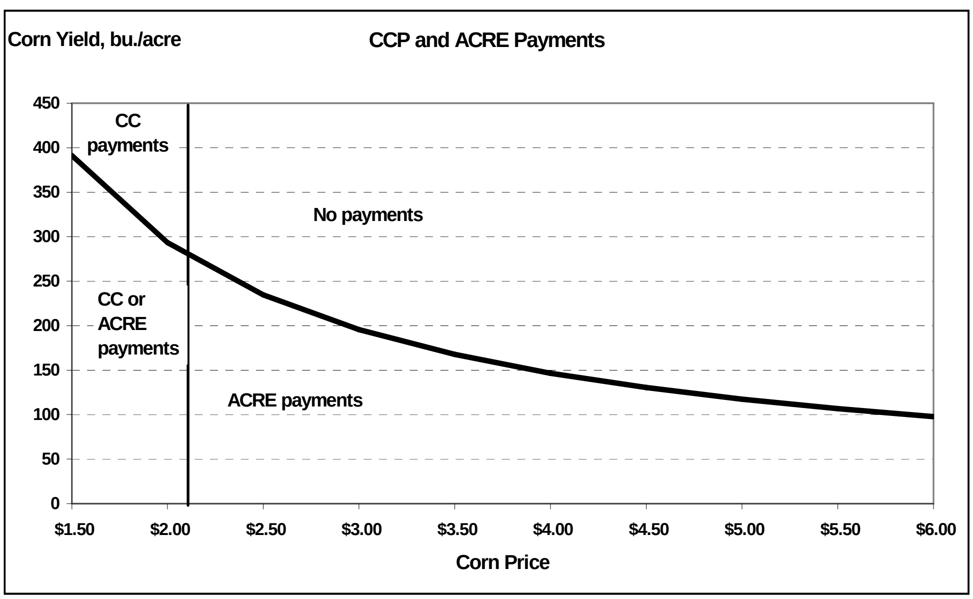
**Actual Revenue**

To trigger a payment under ACRE the "actual" revenue for both the state and the farm must be less than their corresponding guarantees. The actual revenues are the current marketing year price multiplied by the state average yield and the actual farm level yield, respectively. If both triggers are reached, the payment to the farm will be the difference between the state guarantee and the state actual revenue. The payment level cannot exceed 25 percent of the state guarantee, however. It will also be adjusted up or down by the ratio of the farm Olympic average yield to the state Olympic average yield. For example, if the farm average yield is 10 percent above the state average yield, the ACRE payment will be increased by 10 percent for that farm.

The payment will be made on 83.3 percent of the farm acres planted to the crop (85 percent in 2012). However, the planted acres that receive a payment cannot exceed the total base acres established for the counter-cyclical payments in the signup for the 2002 farm program. Producers who sign up for ACRE will continue to receive 80 percent of the direct payments that have been paid since 2002, regardless of actual prices or yields each year.

**How much does ACRE cost?**

Producers who sign up for ACRE will forfeit 20 percent of their current direct payments through 2012, so that is a fixed cost. They will also give up any potential counter-cyclical payments, and the loan rate used to calculate their loan deficiency payments or marketing loans will be lowered by 30 percent. The loss of potential CCPs and LDPs may not be too critical, because if market prices fall enough to trigger those payments it is likely that the ACRE payment would be at least as large. The only situation where that would not be true is a year in which prices were low but yields were high enough to keep revenue above the ACRE guarantees.




**ACRE does not replace crop insurance**

Although the ACRE program may resemble crop revenue insurance, there are some important differences. The ACRE guarantees are based on longer term average prices and yields, so they will not fluctuate as much from year to year as crop insurance guarantees. In fact, ACRE regulations state that the guarantees cannot increase nor decrease more than 10 percent each year. This helps accomplish the fundamental goal of ACRE, which is to stabilize gross revenues over the next 4 years.

On the other hand, one of the two ACRE guarantees and the size of the payment are based on state level yields, not farm yields like most crop insurance policies. ACRE does not protect a farmer who has a poor production year when the state as a whole does not. In addition, ACRE revenue uses the marketing year price to calculate actual revenue while crop revenue insurance uses prices at harvest time. So, while ACRE payments can be a useful risk management tool for sharply falling prices or widespread yield losses, they do not replace farm level crop insurance protection.

**Should I sign up?**

Producers can sign up for the ACRE program beginning in any crop year from 2009 through 2012. Once enrolled, they must remain in the program through 2012. All program crops on the farm must be enrolled. The decision of whether or not to enroll is a classic insurance decision. Producers will give up a fixed amount of revenue (20 percent of their direct payment) in exchange for a possible ACRE payment in a year when gross revenue is low. Payments could be zero in all four years, or they could be sizable.

One key factor is the level of guarantee established for the 2009 crop. The 5-year average yields and the 2007 marketing year price are pretty much known. The 2008 marketing year price will not be known until September 2009. However, it seems likely that the beginning guarantees will be quite high by historical standards, and they cannot decline by more than 10 percent each year afterward. This would make the ACRE program attractive, especially since target prices and loan rates are essentially frozen at the levels established in the 2002 farm program.

Note that there has been some discussion of using the 2006 and 2007 marketing year prices to establish the 2009 guarantee in advance of the signup period. This would likely result in two-year average marketing prices of around $3.50 for corn and $8.65 for soybeans, and lower guarantees for 2009.

The other key factor is the likely price trend over the next four years. If production is stable and prices either trend upward or is steady, no ACRE payments are likely, and the producer will simply forego 20% of the direct payment. However, if prices trend downward from present levels, ACRE will provide an important safety net based on gross revenues. Each individual producer will have to assess his or her expectations for the future and their need for financial risk protection before making the decision to enroll in the ACRE program.

**Example of ACRE for corn in Iowa**

Assume 5-year state average yield is 163 bushels.
Assume 5-year farm average yield is 175 bushels.
Assume 2007-2008 average marketing year price is $4.00 per bushel.
Assume average crop insurance premium per acre is $15.

- 2009 state revenue guarantee = 90% x 163 bu. x $4.00 = $580
- 2009 farm level guarantee = (175 bu. x $4.00) + $15 = $715

Assume the actual 2009 state yield is 150 bushels per acre.
Assume the actual 2009 farm yield is 160 bushels per acre.
Assume the 2009 marketing year price is $3.50 per bushel.

- 2009 actual state revenue = 150 bu. x $3.50 = $525
- 2009 actual farm revenue = 160 bu. x $3.50 = $560

Since both the state and farm actual revenues are below their guarantees, an ACRE payment is made.

- ACRE payment = ($580 - $525) x 83.3 % x (175 bu. / 163 bu.) = $49.19 per acre

The difference between the state guarantee and the state actual revenue ($55) is paid on 83.3 percent of the planted acres, and is adjusted for the farm yield being higher than the state yield.