Under the 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 direct and counter-cyclical payment option (DCP) authorized under the 2003 farm bill.

The current counter-cyclical payment (CCP) program becomes effective when the national season average marketing price for a commodity is below the trigger price for that commodity. Current trigger prices are $2.35 for corn, $5.36 for soybeans and $3.40 for wheat per bushel. There is a maximum payment level per bushel of program yield, and it is paid on 83.3 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 triggers 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 2011 crops are projected to be $6.70 for corn and $12.60 for soybeans. The average marketing year prices for 2009-2010 were $4.36 for corn and $10.45 for soybeans.

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 USDA yields for 2007-2011, the Iowa Olympic average yields were 170 bushels for corn and 50.5 bushels for soybeans.

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. The guarantees can increase or decrease more than 10 percent from the previous year, however. The revenue guarantees in effect at the state level for 2012 crops are $710 per acre for corn and $523 per acre for soybeans.

**Actual Revenue**

To trigger a payment under ACRE the “actual” revenues 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 total planted acres that receive a pay-
ment cannot exceed the total base acres for all crops
established for the counter-cyclical payments in the
signup for the 2003 farm bill program. Producers who
sign up for ACRE will continue to receive 80 percent
of the direct payments that have been paid, regardless
of actual prices or yields each year. No ACRE pay-
ments were made on Iowa crops for 2009 or 2010.

**How much does ACRE cost?**
Producers who sign up for ACRE will forfeit 20 per-
cent 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. Producers who
use FSA marketing loans will have to commit more
bushels to borrow the same number of dollars.

ACRE does not replace crop insurance
Although the ACRE program may resemble crop
revenue insurance, there are some important differ-
cences. The ACRE guarantees are based on long-
term average prices and yields, so they will not fluc-
tuate as much from year to year as crop insurance
guarantees. In fact, ACRE regulations state that the
state 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 four years.

On the other hand, one of the two ACRE guarantees
and the size of the ACRE 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 cash price to calculate actual revenue while
crop revenue insurance uses futures prices at harvest
time. So, while ACRE payments can be a useful risk
management tool for sharply falling prices or wide-
spread yield losses, they do not replace farm level
crop insurance protection.

**Should I sign up?**
Producers can still elect to sign up for the ACRE
program for 2012. All program crops on the farm
must be enrolled. The decision of whether or not to
elect ACRE is a classic insurance decision. Pro-
ducers 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 rev-
eneue is low. Payments could be zero, or they could
be sizable.

With current state level guarantees of $710 and $523
per acre for corn and soybeans, respectively, if state
average yields of 170 and 50 bushels per acre were
achieved, the marketing year prices for corn and
soybeans would have to average below $4.17 and
$10.46 per bushel, respectively. Current price fore-
casts are considerably higher than this.