



ACRE: Average Crop Revenue Election

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The 2008 Farm Bill includes a new commodity support program called the Average Crop Revenue Election (ACRE) Program. ACRE represents a significant change in the federal safety net for commodity crop producers because it works to support farm revenue from program crops, rather than prices for these crops. As a new program, ACRE introduces several new terms. Farmers will have an annual sign-up period during which they can choose to participate in ACRE, beginning with the 2009 crop year. Once chosen, the ACRE election is irrevocable for this Farm Bill (until 2012). Farmers participating in the ACRE program receive

- i) Direct payments equal to 80% of traditional direct payments,
- ii) Marketing assistance loans with a 30% reduction in the marketing loan rates,
- iii) ACRE payments.

In short, farmers choosing ACRE give up 20% of their direct payments, all their counter-cyclical payments, and reduce their loan rates by 30% for determining loan deficiency payments.

For a farmer to receive an ACRE payment, two conditions must be met:

- 1) *Actual State Revenue* must be less than the *ACRE State Revenue Guarantee*.
- 2) *Actual Farm Revenue* must be less than the *ACRE Farm Benchmark Revenue*.

Actual State Revenue is actual state yield per planted acre as established by NASS multiplied by the larger of 70% of the loan rate and the national average market price during the marketing year. The ACRE price is the same price used to determine counter-cyclical payments, with the loan rate reduced by 30%. The *ACRE State Revenue Guarantee* equals 90% of the benchmark state yield multiplied by the ACRE guarantee price. The benchmark state yield is the Olympic average¹ of actual state yields for the previous five years and the ACRE guarantee price is the simple average of the national market price for the previous two years. Finally, the ACRE State Revenue Guarantee cannot change more than 10% (up or down) from the previous year.

Actual Farm Revenue is actual farm yield per planted acre multiplied by the ACRE price (the larger of the national market price and 70% of the national loan rate). The *ACRE Farm Benchmark Revenue* is the 5-year Olympic average of actual farm yields multiplied by the ACRE guarantee price, plus per acre crop insurance premiums paid. If a farmer has more planted acres than base acres, the farmer elects which acres to enroll in ACRE, up to the farm's base acres.

If both ACRE payment triggers are satisfied, the ACRE payment rate on a per acre basis is the ACRE State Revenue Guarantee minus the Actual State Revenue, up to a maximum of 25% of the ACRE State Revenue Guarantee. The full ACRE payment is the ACRE payment rate multiplied by 83.3% of farm planted acres and by the farm yield ratio. The 83.3% factor increases to 85% in 2012, just as for direct payments. The farm yield ratio is the five-year Olympic average of actual farm yields divided by the 5-year Olympic average of actual state yields (the benchmark state yield). The figure below helps explain ACRE payment formulas.

¹ Olympic average is the average after dropping the highest and lowest observation.

ACRE operates like a mixture of two current crop revenue insurance programs—Group Risk Income Protection (GRIP) and Crop Revenue Coverage (CRC). The *ACRE State Revenue Guarantee* and trigger is similar to a GRIP policy, except state level yields and national average market prices are used, rather than county level yields and Chicago Board of Trade (CBOT) futures prices as for GRIP. However, ACRE also requires that a farm level revenue loss occur before triggering payments. The farm level trigger is similar to the CRC trigger in that actual farm revenue must be below a guarantee. This guarantee is comparable to a CRC revenue guarantee, except the farm's 5-year Olympic average yield and the 2-year average national price are used, rather than the farm's actual production history and CBOT futures prices.

How is Wisconsin Affected?

Given current high grain prices and the expectation that they will continue for some time, it seems unlikely that the traditional counter-cyclical and loan deficiency price support programs will make payments over the next few years. However, the ACRE state revenue guarantee is based on 90% of state average yields and national prices, so that ACRE payments seem more likely to be triggered over the next few years. Careful analysis of these programs using current measures of price volatility and yield variability are needed determine which program will provide the best safety-net for Wisconsin farmers. Conducting and reporting the results of such an analysis is beyond the timeframe and scope of this fact sheet, but we have time, as the first sign-up period will be for the 2009 crop year.

Another important issue in Wisconsin is how silage will affect ACRE payments. ACRE uses state and farm yields per planted acre and does not distinguish between corn planted for grain and for silage. Typically in Wisconsin, 20-25% of planted corn acres are not harvested for grain, so Wisconsin has relatively low yields per *planted acre*. How this silage effect impacts the likelihood and size of ACRE payments in Wisconsin is not clear. Furthermore, the current ACRE program does not explain how acres harvested for silage affect a farm's yield per planted acre and actual farm revenue for determining payments. Potentially, silage will be treated by ACRE just as it is for determining loan deficiency payments—a conversion factor to estimate the grain equivalent. Stay tuned as these issues are clarified and we learn more about ACRE.

Where can I get more information?

2008 Farm Bill: Specific Sections Establishing ACRE

http://future.aae.wisc.edu/publications/farm_bill/2008_Farm_Bill_ACRE.pdf

American Farmland Trust: Average Crop Revenue Election (ACRE) Represents Reform

http://future.aae.wisc.edu/publications/farm_bill/AFT-FarmPolicyCampaign-ACREisReform_051208.pdf

Farm Bill Fact Sheets with a Wisconsin Focus: http://future.aae.wisc.edu/farm_bill.html#1

Iowa State University-Center for Agricultural and Rural Development: ACRE FAQ's and Payment Calculators and Simulators: http://www.card.iastate.edu/ag_risk_tools/acre/

Paul D. Mitchell's Extension Page (<http://www.aae.wisc.edu/mitchell/extension.htm>)

Average Crop Revenue Election (ACRE) Payments^a

BOTH triggers must be met before ACRE payments are made

1. STATE TRIGGER	Actual State Revenue	less than	ACRE State Revenue Guarantee	
	Actual State Yield per Planted Acre times larger of { National Average Market Price or 70% of National Loan Rate }		90% of Benchmark State Yield per Planted Acre (5-year Olympic ^b average) times ACRE Program Guarantee Price (2-year average of National Market Price)	no more than a 10% change from previous year
2. FARM TRIGGER	Actual Farm Revenue	less than	ACRE Farm Benchmark Revenue	
	Actual Farm Yield times larger of { National Average Market Price or 70% of National Loan Rate }		Average Farm Yield per Planted Acre (5-year Olympic ^b average) times ACRE Program Guarantee Price (2-year average of National Market Price) plus Per Acre Producer-Paid Crop Insurance Premium	no more than a 10% change from previous year

Calculating ACRE payments^c

Lesser of: { ACRE State Revenue Guarantee minus Actual State Revenue }
ACRE State Revenue Guarantee times 25%
 times
 83.3%^d of Farm Planted Acres^e
 times
 5-year farm Olympic^b average of yield per planted acre / 5-year state Olympic^b average of yield per planted acre

^a Farms participating in ACRE receive no counter-cyclical payments, direct payments reduced by 20%, and a loan rate reduced by 30%.

^b An Olympic average drops the highest and lowest observations before calculating the average.

^c ACRE payments will be issued October 1 with no advance payments made.

^d Becomes 85% in 2012

^e Total planted acres for which a producer may receive ACRE payments may not exceed a farm's total base acres. If total planted acres exceeds a farm's base acres, the farm may elect which planted acres to enroll in ACRE.

A graphical explanation of ACRE payment formulas.