

Paul D. Mitchell, Agricultural and Applied Economics, UW-Madison
Office Phone: (608) 265-6514, Email: pdmitchell@wisc.edu

Key Points

- ACRE signup deadline is **August 14, 2009**. Start the ACRE enrollment process early.
- Changes and clarifications regarding silage have improved ACRE for Wisconsin farmers.
- ACRE shifts program benefits from crops that established base acres to crops now planted.
- ACRE will provide better protection against low prices for the next few years.

This fact sheet outlines some of the advantages of ACRE for farmers to think about for 2009. It assumes readers are familiar with the ACRE program details and instead focuses on key issues for Wisconsin farmers as they make their ACRE decision for 2009. If you need a quick overview, see the companion fact sheet “Overview of ACRE for 2009” and the FSA fact sheet in the Additional Resources below to familiarize yourself with the ACRE program details.

Silage and ACRE Benchmark Corn Yields

The Farm Bill legislation states that the yields to determine state ACRE revenue guarantees are USDA NASS yields per planted acre. For most crops this is fine, except in states like Wisconsin where 25-30% of planted corn acres are harvested for silage, not grain. Originally, it seemed as though these silage acres would count as planted acres for determining state average yields, but it has been clarified that this is not the case. Thus, the official 2009 state benchmark yield for corn under ACRE is 138 bu/ac, much better than the 108 bu/ac that would have been the case without the silage adjustment. This clarification is a significant improvement for dairy states such as Wisconsin, since state ACRE benchmark yields will now much more closely track actual state average yields for corn for grain, as was the original intent of the 2008 Farm Bill.

FSA has further clarified how they will establish benchmark yields for farmers growing silage. Silage yields will be converted to grain equivalents using farm production records. For example, farmers with both grain and silage production may be able to carry-over their grain yields to their silage acres or will have to carefully estimate the grain equivalent of a representative sample and then count loads after that. Farmers should plan on working with their county FSA office to determine how best to determine reasonable grain equivalents using approved methods to determine their ACRE guarantees and payment eligibility. For 2009 and beyond, farms enrolled in ACRE will have to keep grain silage production records to certify grain yields. These records will be similar to those used to establish yields for crop insurance production histories.

FSA has also developed yield plugs for farmers without adequate production histories and to give farmers with adequate yield history an additional benefit. Farmers establishing their yield history to determine farm ACRE guarantees will get the larger of their own yields and a yield plug equal to 95% of the county average yield that year. These plugs will allow enrolled farmers to establish higher farm ACRE guarantees, making it more likely that the farm trigger will be satisfied. However, continuity rules apply. Farmers should work with their county FSA office to determine the yield plugs for their county and how these plugs affect their farm benchmark yield.

Base Acres vs. Planted Acres

Under ACRE, farms cannot establish new base acres, nor will a farm's ACRE payment acres exceed a farm's base acres. However, farms enroll eligible crops in ACRE according to their current planted acres for each crop, not according to the crops that established their base acres years ago. Thus, for example, a farm may have 50 base acres of oats, but now plants soybeans instead. Such farms can enroll these soybean acres in the ACRE program to be eligible for ACRE payments for soybeans. Note, however, that direct payments for these base acres will still be according to the crop that established the base acres. Thus in this example, the farm will receive direct payments for oats (reduced by 20% under ACRE), but ACRE payments for soybeans if ACRE payments are due. This is a significant advantage, as it allows farmers to shift program benefits from low benefit crops (such as oats) to high benefit crops (such as soybeans) to better match their benefits to the crops they actually plant. This change will potentially be an important advantage of ACRE in Wisconsin since some farmers now likely plant more soybeans than is reflected in their farm's base acres.

Another issue with ACRE exists for farms that have total acres planted to eligible crops that exceed 120% of their farm's base acres. For example, suppose a farm has 200 base acres (for whatever crops), but this year has planted 150 acres of corn and 150 acres of soybeans. This farm can receive ACRE payments for at most 200 acres (the number of base acres). In cases such as this, the farm must designate the priority for each crop. In this example, the farm must designate whether 150 acres of corn and 50 acres of soybeans are eligible for ACRE payments, or 150 acres of soybeans and 50 acres of corn. Many such cases are possible for farms that now plant more eligible program crops than when base acres were established. Farmers will not have to designate ACRE crop priorities until the end of September. By this time, they will be able to fairly accurately estimate ACRE price guarantees and have a good sense of state harvested yields to expect for the crop in the fields, plus a better idea of what crop prices will be over the coming marketing year. This knowledge will allow them to set priorities to maximize their ACRE benefits. This crop priority will have to be designated each year and if farmers do not designate crop priorities, FSA has a default process they will use.

The options for enrolling ACRE payments based on planted acres (not on the crops establishing base acres) can be fairly complex for some farms. Farmers should work closely with their county FSA office to understand the specific options for their farms and how to best use the ACRE program to their benefit. This requires starting the enrollment process as soon as possible and not waiting until just before the August 14th deadline.

High ACRE Prices for 2009 and Beyond

The ACRE price for determining guarantees is the 2-year average of the national marketing year price. For corn and soybeans, the marketing year is September 1st of the harvest year to August 31st of the following year. Thus the ACRE price for the 2009 crop is the average of monthly corn and soybean prices from September 2007 through August 2009. These prices have been high so far—with two months left in the marketing year, the 2008 corn price is \$4.16/bu and \$10.00/bu for soybeans. Because most of the year is already set, ACRE prices for 2009 will still be around \$4/bu for corn and almost \$10/bu for soybeans. Thus, farmers will have much better price risk protection under ACRE in 2009 than under the DCP program. Whether the value of this price

protection is worth the permanent 20% decrease in direct payments and irrevocable switch to ACRE is for each farmer to decide.

For 2010, the ACRE price will be the average of the 2008 and 2009 marketing year prices. As just explained, with two months left in the 2008 marketing year, prices are currently \$4.16/bu for corn and \$10.00/bu for soybeans. Thus, even if crop prices fall in 2009, ACRE will still have fairly high prices due to the high prices for the 2008 marketing year. Furthermore, the ACRE guarantee cannot change more than 10% from one year to the next, so that even if prices fall to very low levels in 2010, ACRE will still have high guarantees. Thus again, farmers will have much better price risk protection under ACRE in 2010 than under the DCP program.

The 10% maximum change will continue to keep ACRE guarantees high for years beyond 2010, even if markets collapse. Suppose state yields are average for the next five years, so that only price changes matters. In that case, the ACRE price to calculate ACRE guarantees will not be able to drop more than 10% for 2010, or about 40¢ for corn and around \$1.00 for soybeans. So even if markets collapse this summer, ACRE guarantees will remain high for some time. A 10% drop the following year (2011) would be about 36¢ for corn and about 90¢ for soybeans. The point is that with a 10% maximum drop each year, ACRE will be using high commodity prices for the life of this Farm Bill to calculate guarantees and ACRE payments, implying that for many Wisconsin farmers, the price risk protection under ACRE will be better than under the DCP program.

ACRE will not be the best option for all farms and farmers, for example, those with lots of alfalfa or other non-eligible crops may find ACRE is not the best choice. Each farmer and farm will have a different situation and the ACRE rules will work differently for each of them, so each farmer should read the ACRE materials to understand the program and then work the details for their farms to see which option works best for them.

Additional Resources

Overview of ACRE for 2009: http://www.aae.wisc.edu/mitchell/ACRE_Overveiw.pdf

A companion fact sheet providing a quick overview of how ACRE works, including calculation of guarantees and ACRE payments.

Official USDA-FSA ACRE web page: <http://www.fsa.usda.gov/dcp/>

Contains many official documents, as well as useful aids. I highlight two below, but the page has several other useful documents. Contact your county FSA office for printed copies.

ACRE Fact Sheet: Useful and easy to read four page fact sheet.

ACRE Calculator Spreadsheet: Excel spreadsheet that allows you to enter the facts for your farm (base acres, program yields, farm yields, etc.) and assumptions for next year's prices and yields to compare ACRE to DCP payments for your farm.

Contact the author for questions related to these fact sheets. I will answer your questions or point you in the right direction.

Contact your county FSA office for more information regarding the specifics of ACRE for your farm, especially regarding establishment of farm benchmark yields and silage grain equivalents.

Contact your local UW Extension office for information regarding your county and help on using the ACRE Calculator Spreadsheet.