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Average Crop Revenue Election (ACRE) Program

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Starting with the 2009 crop year, the Average Crop Revenue Election (ACRE) program is a new, optional safety net for farmers provided by Congress in the Food, Conservation, and Energy Act of 2008 (commonly called the farm bill). The ACRE program is based on changes in crop revenue. It is an alternative to the counter-cyclical (CC) program which is based only on changes in crop prices.

At first, farmers may find this safety net based on crop revenue appealing. However, choosing this new safety net is not an obvious choice for several reasons.

- Farmers who choose to elect ACRE must accept a 20% reduction in direct payments and a 30% reduction in marketing assistance loan rates for all commodities on the farm.
- Farms that elect the ACRE Program cannot receive CC payments.
- The ACRE program has payment limits based on Adjusted Gross Income (AGI).
- Choosing ACRE is an irrevocable election meaning a farmer cannot go back to the counter-cyclical payments even if future market conditions make the counter-cyclical payment larger than the ACRE payment.
- The choice greatly hinges on whether commodity prices will stay at or near current levels or decrease.
- The choice also depends on the variability of the individual farm's yields and that farm's State yields and the correlation between the two yields.

Summary of ACRE payment triggers

IF **State ACRE Guarantee** > **Actual State Revenue**

AND **Farm ACRE Benchmark** > **Actual Farm Revenue**

THEN, and only then:

An ACRE Farm Payment is made

Before a payment to an individual farmer is made under the ACRE program, two revenue loss triggers must occur; one at the state level and one on the individual farm. National prices are used to value both the state yields and farm yields. The ACRE payment is based on national prices and state yields, not farm yields.

These complexities essentially take away any possibility to develop simple decision rules or breakeven prices for farmers to make the decision to choose between ACRE and CC. To help farmers make the choice between ACRE and CC, I have developed an Excel worksheet that estimates ACRE, CC and DP payments under different views of the future. This factsheet and the worksheet are available in the 2008 Farm Bill section at www.extension.umn.edu/agbusinessmanagement.

ACRE election and enrollment

A decision to elect ACRE may be made in any of the crop years 2009-2012; however, the ACRE election is irrevocable and cannot be changed from the time of election through the 2012 crop year. Producers on farms that have elected ACRE must decide annually whether to enroll in the ACRE Program. On March 31, the Secretary of Agriculture extended the sign-up deadline August 14, 2009 for the ACRE Program (and the Direct and Counter-cyclical Program (DCP)). After election, producers must enroll the farm in the ACRE Program to receive payments. All producers on a farm must elect the ACRE Program election or the farm is not enrolled in ACRE.

Payment Limitation Provisions

The 2008 Act includes maximum payment amounts. Direct payments are limited to $40,000 per person or entity minus the 20 percent direct payment reduction, and CC or ACRE payments are limited to $65,000 plus the 20% direct payment reduction amount. The limitation is attributed to entities and individuals, including indirect amounts received through entities.

The Act also includes payment limits based on Adjusted Gross Income (AGI). Persons or legal entities whose average nonfarm AGI exceeds $500,000 are not eligible for direct, CC or ACRE payments. Also, persons or legal entities whose average farm AGI exceeds $750,000 are not eligible for direct payments under the DCP and ACRE Programs.

ACRE details

ACRE provides protection from fluctuations in revenue (the product of price and yield) while CC provides protection from fluctuations in price only. Potential ACRE payments are made if and only if both state and individual farm revenues fall below targets. Any ACRE payment is based on losses at the state level, not at the farm level. ACRE payments are tied to current plantings on the farm; CC payments are tied to the farm's base acres.

Producers who elect and enroll a farm in ACRE agree to: (1) forgo counter-cyclical payments, (2) a 20-percent reduction in their direct payments, and (3) a 30-percent reduction in the marketing assistance loan rates for all commodities produced on the farm.

ACRE payments are tied to current plantings on the farm as opposed to counter-cyclical payments, which are tied to the farm's base acres.

To be eligible for ACRE payments, owners, operators, landlords, tenants, or sharecroppers must:

- have base acres on the farm;
- share in the risk of producing a crop on base acres on a farm enrolled in ACRE;
- annually report the use of the farm's cropland acreage and **submit production reports**;
- comply with conservation and wetland protection requirements on all of their land;
- comply with planting flexibility requirements;
- use the base acres for agricultural or related activities; and
- protect all base acres from erosion, including providing sufficient cover as determined necessary by the county FSA committee, and control weeds.

Commodities eligible for ACRE payments are barley; corn; grain sorghum, including dual purpose varieties that can be harvested as grain; oats; canola; crambe; flaxseed; mustard seed; rapeseed; safflower; sesame seed; sunflower seed, including oil and non-oil varieties; peanuts; long grain rice; medium grain rice (which includes short grain rice), excluding wild rice;

soybeans; upland cotton; wheat; dry peas; lentils; small chickpeas (Garbanzo bean, Desi); and large chickpeas (Garbanzo bean, Kabuli).

ACRE Payment Triggers

ACRE payments are issued when two conditions are met for a commodity. The first condition is met when the **Actual State Revenue** falls below the **State ACRE Guarantee**. The second condition is met when the **Actual Farm Revenue** falls below the **Farm ACRE Guarantee**. Only when both conditions are met will an ACRE payment be issued based on the **State ACRE Payment Rate**.

The **State ACRE Guarantee** is 90% multiplied by Benchmark State Yield multiplied by ACRE Guarantee Price.

The Benchmark State Yield is the simple average of yields per planted acre for the most recent 5 crop years, excluding the high and low yields. For crop year 2009, the Benchmark State Yields are established using crop years 2004-2008.

The ACRE Guarantee Price is the 2-year simple average of the national marketing year price. For the 2009 crop, the ACRE Guarantee Price is based on the 2007/08 and 2008/09 marketing years. For each commodity, State ACRE Guarantees will be finalized after the 2008/09 marketing year prices are published. The final price estimates are reported by the National Agricultural Statistics Service for most ACRE-eligible commodities. Current estimates for the 2008/09 marketing year prices are being updated monthly and are available at http://www.fsa.usda.gov/Internet/FSA_File/acre_prices_values09.xls.

For the subsequent crop years, the State ACRE Guarantee cannot change by more than 10 percent from the previous year's State ACRE Guarantee. Preliminary 2009 State ACRE Guarantees, based on projected ACRE Guarantee Prices and preliminary Benchmark State Yields, can be found at: http://www.fsa.usda.gov/FSA/dcp. The current State ACRE Guarantees for corn, soybeans, and wheat for Minnesota are shown in Table 1.

Table 1. Examples of the State ACRE Guarantee for Corn, Soybean, and Wheat in Minnesota*

Item	Description	Corn	Soybean	Wheat
(1) ACRE Adjustment Factor	Statutory	90%	90%	90%
(2) Preliminary ACRE Guarantee Price* ($/bu)	from NASS	$4.10	$9.35	$6.80
(3) Benchmark State Yield* (bu/ac)	from NASS	161.3	41.2	49.9
(4) State ACRE Guarantee ($/ac)*	(1) x (2) x (3)	$595.20	$346.70	$305.39

*Based on USDA information on March 16, 2009.

The **Actual State Revenue** is the Actual State Yield *multiplied by* the ACRE Price. The Actual State Yield is the actual yield per planted acre as reported by NASS. The ACRE Price is the higher of the: (a) national loan rate, after being reduced by 30 percent, or (b) national average market year price.

The **State ACRE Payment Rate** is the State ACRE Guarantee minus the Actual State Revenue. The State ACRE Payment is capped at 25 percent of the State ACRE Guarantee. (Even though the State ACRE Payment Rate may be greater than zero, an individual farm has to suffer a revenue loss before a payment will be made.) Examples of hypothetical State ACRE Payment Rate calculations for corn, soybeans, and wheat for Minnesota are shown in Table 2.

Table 2. Examples of Hypothetical State ACRE Payment Rate for Corn, Soybean, and Wheat in Minnesota*

Item	Description	Corn	Soybean	Wheat
(1) State ACRE Guarantee ($/ac)*	From Table 1	$595.20	$346.70	$305.39
(2a) Reduced National Loan Rate	70% of Loan Rate	$1.37	$3.50	$1.93
(2b) National Average Market Year Price	hypothetical	$3.78	$8.28	$6.38
(2) ACRE Price ($/bu)	Higher of (2a) or (2b)	$3.78	$8.28	$6.38
(3) Actual State Yield (bu/ac)	hypothetical	146	41	40.9
(4) Actual State Revenue ($/ac)	(2) x (3)	551.88	339.48	260.94
(5) State ACRE Payment Rate, before Cap ($/ac)	Higher of 0 or (1) *minus* (4)	43.32	7.22	44.45
(6) State ACRE Payment Rate Cap	25% of (1)	148.80	86.68	76.35
(7) State ACRE Payment Rate**	Lower of (5) or (6)	43.32	7.22	44.45

*Based on USDA information on March 16, 2009.

**Remember this is a hypothetical estimate.

Farm ACRE Guarantee and Revenue Loss Trigger

The **Farm ACRE Guarantee** is the Benchmark Farm Yield times ACRE Guarantee Price plus Crop Insurance Premium.

The Benchmark Farm Yield is the simple average of the yields per planted acre for the most recent 5 crop years, excluding the high and low yields. For crop year 2009, the Benchmark Farm Yields are established using crop years 2004-2008. Benchmark Farm Yields will be established using production evidence including crop insurance yields.

The ACRE Guarantee Price, used to compute the State ACRE Guarantee, is also used to compute the Farm ACRE Guarantee.

The Crop Insurance Premium per acre paid by producers on the farm is included in the Farm ACRE Guarantee. For farms that are not insured or farms covered by the Non-insured Assistance Program (NAP) or by a Catastrophic (CAT) policy, this amount will be zero. **Crop insurance or NAP is not required for participation in ACRE.**

Examples of hypothetical Farm ACRE Guarantee calculations for corn, soybeans, and wheat for Minnesota are shown in Table 3. The table below shows that this farm example meets the farm revenue shortfall condition for all three crops.

Table 3. Examples of Hypothetical Farm ACRE Guarantee for Corn, Soybean, and Wheat in Minnesota*

Item	Description	Corn	Soybean	Wheat
(1) Benchmark Farm Yield (bu/ac)	hypothetical	177.5	39.6	47.5
(2) Preliminary ACRE Guarantee Price ($/bu)*	From Table 1	$4.10	$9.35	$6.80
(3) Farm ACRE Revenue ($/ac)*	(1) x (2)	727.75	370.26	323.00
(4) Crop Insurance Premium ($/ac)	hypothetical	15	10	12
(5) Farm ACRE Guarantee ($/ac)*	(3) + (4)	742.75	380.26	335.00
(6) Actual Farm Yield (bu/ac)	hypothetical	161.3	38.5	43.4
(7) ACRE Price ($/bu)	From Table 2	$3.78	$8.28	$6.38
(8) Actual Farm Revenue ($/ac)	(6) x (7)	609.71	318.78	276.89
Is Actual less than Guarantee?**	Is (8) < (5)?	yes	yes	yes

*Based on USDA information on March 16, 2009.

**Remember this is a hypothetical estimate.

Farm ACRE Payment

A **Farm ACRE payment** for a commodity is issued when both the state and farm revenues for a commodity show a revenue loss. In Table 2, hypothetical Sate revenue losses are shown for corn, soybean and wheat. In Table 3, hypothetical revenue losses are shown for all 3 crops.

The **Farm ACRE payment** is 83.3% (85% for crop year 2012) multiplied by Planted and Considered Planted (P&CP) Acres (not to exceed total base acres) multiplied by State ACRE Payment Rate multiplied by (the Benchmark Farm Yield divided by the Benchmark State Yield).

The ACRE Payment Acreage is 83.3% of the P&CP acres for a commodity, unless the sum of the ACRE payment acreage for the farm exceeds the total base. Under this situation, a producer must choose the number of eligible ACRE payment acres for each commodity that may receive ACRE payments, not to exceed the total base on the farm.

Examples of hypothetical Farm ACRE payment calculations for corn, soybeans, and wheat for Minnesota are shown in Table 4.

Table 4. Examples of Hypothetical Farm ACRE Payments for Corn, Soybean, and Wheat in Minnesota*

Item	Description	Corn	Soybean	Wheat	Total Farm
(1) State Payment Rate	From Table 2	43.32	7.22	44.45	
(2) Benchmark State Yield* (bu/ac)	From Table 1	161.3	41.2	49.9	
(3) Benchmark Farm Yield (bu/ac)	From Table 3	177.5	39.6	47.5	
(4) Benchmark Farm/State Yield	(3)/(2)	1.1004	0.9612	0.9519	
(5) Total Base Acres	hypothetical				800.0
(6) Planted & Considered Planted	hypothetical	400	400	200	1,000.0
(7) Eligible ACRE Payment Acres	83.3% x (6)	333.2	333.2	166.6	833.0
(8) ACRE Payment Acres**		333.2	300.2	166.6	800
Farm ACRE Payment***	(1) x (4) x (8)	15,883.42	2,083.35	7,049.17	$25,015.94

*Based on USDA information on March 16, 2009.

**In this hypothetical example, the producer must reduce total farm-eligible ACRE payment acres by 33.0 acres so that the eligible payment acres for the farm equals the farm's total base (800). This hypothetical producer chose to reduce soybean-eligible ACRE payment acres by 33.0 to 300.2 acres since soybean has the lowest State Payment Rate per acre.

***Remember this is a hypothetical estimate.

Timing of ACRE Payments

ACRE payments will be made after the end of the marketing year for the respective commodity, but no sooner than October 1, as required by statute. Advance ACRE payments are not authorized under the 2008 Farm Bill. For crop year 2009, ACRE payments, if applicable, will be made as follows: October 2010 for wheat, barley, oats, peanuts, upland cotton, corn, grain sorghum, soybeans, sunflower seed, canola, flaxseed, dry peas, lentils, large and small chickpeas; December 2010 for rapeseed, mustard seed, safflower, crambe, and sesame seed; and February 2010 for long grain rice and medium/short grain rice.

Farms Ineligible for Payment

The 2008 Farm Bill provides that producers on farms with DCP base acres that total 10.0 acres or less will not receive a direct, counter-cyclical, or ACRE program payment, unless the farm is owned by a socially disadvantaged or a limited resource farmer or rancher. For this provision's purpose, a socially disadvantaged farmer is a person who is a member of a group whose members have been subjected to racial, ethnic or gender prejudice because of their identity as members of a group without regard to their individual qualities. The groups have been identified to include: (1) American Indians and Alaskan Natives; (2) Asian-Americans; (3) Black or African-Americans; (4) Hispanic-Americans; and (5) Women. A limited resource farmer or rancher is one who directly or indirectly had gross farm sales of not more than $100,000 in each of the previous two years (to be increased beginning in fiscal year 2004 to adjust for inflation using the Prices Paid by Farmers Index as compiled by USDA's National Agricultural Statistic Service) and has a total household income at or below the national poverty level for a family of four, or less than 50 percent of county median household income in each of the previous years (to be determined annually using U.S. Department of Commerce data). Status as a limited resource farmer or rancher can be determined using the website for USDA Limited Resource Farmer and Rancher Online Self Determination Tool at www.lrftool.sc.egov.usda.gov/tool.asp.

For More Information

Further information on the ACRE and other FSA programs are available at local or State FSA offices or on FSA's Web site at: www.fsa.usda.gov. Further information for Minnesota farmers and an Excel worksheet for analyzing the choice between ACRE and CC payments is available in the 2008 Farm Bill section at www.extension.umn.edu/agbusinessmanagement.

This factsheet was prepared by Kent Olson, Professor, Applied Economics, and Extension Economist, University of Minnesota, using examples for Minnesota and basic information on ACRE from FSA. April 3, 2009.