

ACRE PROGRAM DECISION

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Presentation and papers are available at

<http://aede.osu.edu/people/zulauf.1>

"My Publications" on lefthand side

Outline

Discuss ACRE Program

Discuss ACRE Program Decision

Closing Thoughts

**At the end of the slides are
a brief discussion of the SURE Program
and some important points on payment limits**

2008 Farm Bill Theme

**Basic question of farm policy: Is its objective to
(a) enhance farm incomes or
(b) help farmers manage risk?**

Risk management seeks to align payments with occurrence of financial stress. Income enhancement seeks to increase average annual income.

***Food, Conservation, and Energy Act of 2008 (2008 Farm Bill)* clearly emphasized risk management over enhance farm income.**

Best illustrated by enactment of ACRE and Agricultural Disaster Relief Trust Fund, which includes SURE.

Beginning with Crops Harvested in 2009, farmers and landowners have a choice

(1) Traditional Suite of Programs

Marketing Loan

Direct Payment

Price Counter-Cyclical

(2) ACRE Suite of Programs

Marketing Loan Rate at 70%

Direct Payment at 80%

ACRE State Revenue Program

ACRE and SURE are Different Programs

ACRE and SURE address different risks.

- (a) Objective of crop insurance/SURE is to help farmers manage idiosyncratic (specific to farm) yield or revenue risk between planting and harvest.**
- (b) Objective of ACRE is to help farmers manage systemic (i.e., market) revenue risk, defined as U.S. crop year price times state yield.**

**SURE applies to the whole farm operation.
ACRE applies to an FSA farm.**

**SURE requires purchase of crop insurance or NAP.
ACRE does NOT require purchase of crop insurance or NAP.**

**SURE payment is triggered by a production disaster.
ACRE payment is triggered by a shortfall in state revenue for a crop.**

ACRE Program Decision

Based on Final Interim Regulations, 12/29/2009 as updated.

- (1) ACRE must be elected -- if no choice is made, a farm remains in the traditional suite of farm programs.**
- (2) As long as a FSA farm is not in ACRE, election of ACRE is an annual decision. Once ACRE is elected, the FSA farm is in ACRE through the 2012 crop. Thus, ACRE can be elected for the crop years of 2009-12, 2010-12, 2011-12, or 2012.**
 - (a) All participants in the ACRE program for a given state and crop year will have the same revenue risk assistance level, regardless of what crop year they elect ACRE on the FSA farm.**
- (3) ACRE must be elected for all covered program crops and peanuts grown on a FSA farm (for example, if corn, soybeans, and wheat are grown on a FSA farm, ACRE must be elected for all 3 crops). BUT, ACRE payments are crop specific (for example, corn but not wheat can receive a payment for a crop year).**

ACRE Program Decision

Based on Final Interim Regulations, 12/29/2009 as updated.

- (4) ACRE election remains with the FSA farm, whether or not the owner and/or operator of the FSA farm remains the same.**
- (5) ACRE participation process is a 2-step process: election and enrollment.**
- (6) Deadline for ACRE decision is August 14.**
- (7) Farmer and farmland owner must agree to elect ACRE**

ACRE: A New Program

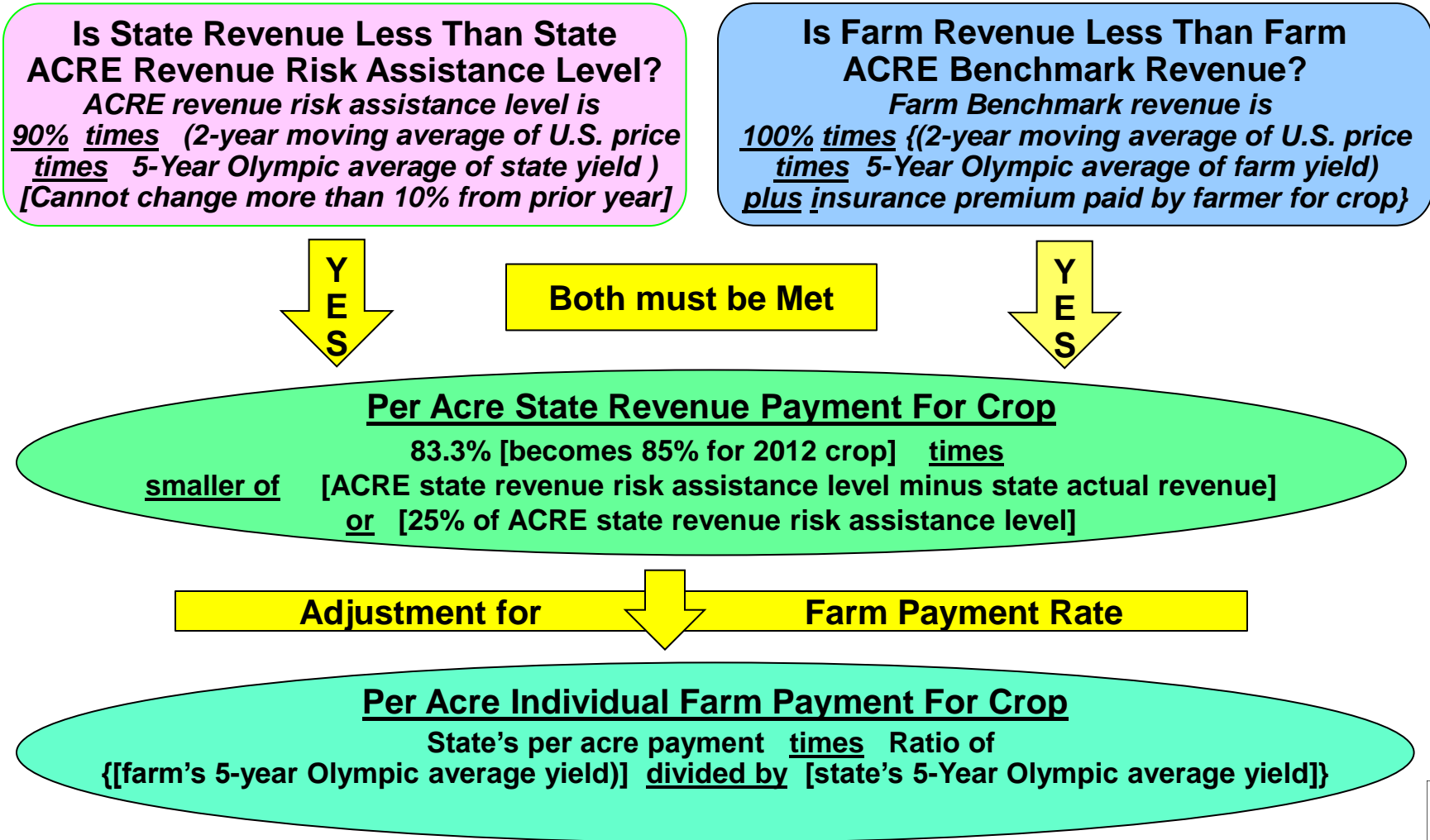
- (1) ACRE is a new program with substantive differences from traditional farm programs. It will take at least several hours and multiple repetitions to become comfortable with ACRE --- learning something new takes time, so be patient with yourself.**
- (2) In making a choice between the ACRE and traditional program suite, farm operators and land owners will have to think carefully about how the traditional programs operate in the current market environment, not how they operated in the past.**
- (3) A common reaction is that the ACRE revenue program is complex. I think this reaction comes in large part because it is a new program that operates differently than traditional farm programs.**

Perspectives on ACRE State Revenue Program

- (1) **ACRE is a deficiency payment program**, just like the counter-cyclical and marketing loan programs
 - (a) ACRE is a revenue program
 - deficiency payment made when state revenue is below state revenue risk assistance level
 - (b) Counter-cyclical and marketing loan are price programs
 - deficiency payment made when price is below support price
 - (c) ACRE's revenue risk assistance level changes with the moving averages of recent state yield and U.S price; in contrast, counter-cyclical target price and marketing loan rates are fixed by Congress

- (2) **ACRE is a multiple-year GRIP program**, BUT ACRE is
 - (a) Set at the state, not county, level
 - (b) Uses cash, not futures, prices
 - (c) Covers market year, not planting-to-harvest, period

ACRE Per Acre Revenue Payment Schematic



Key Elements: ACRE State Revenue Program

ACRE state revenue payment occurs if actual ACRE revenue for a crop for a state is less than the state's ACRE revenue risk assistance target, called revenue guarantee, for the crop

- (1) ACRE state revenue risk assistance level for a crop per planted acre [(90%) times (moving average of U.S. crop year cash price for 2 most recent years) times (Olympic moving average of state's yield per planted acre for 5 most recent years (excludes high and low yields))]**
 - (a) ACRE's revenue risk assistance level changes each year with moving averages**
 - (b) ACRE's revenue risk assistance level cannot increase or decrease more than 10% from the prior year --- this is an important provision**

- (2) ACRE actual revenue for a crop year is:**
{state yield per planted acre times [higher of (a) U.S. average price for crop year or (b) 70% of U.S. marketing loan rate]}.

ACRE is a Revenue Program: Yield and Price

Determine ACRE's Revenue Risk Assistance Level

SOURCE: USDA, National Agricultural Statistics Service and Farm Service Agency.

Crop	Ohio Olympic Average Yield per planted acre 2004-08 As of 6/10/09*	U.S. Average Cash Price per bushel 2007-08 As of 6/10/09*	Coverage Level	Ohio ACRE Revenue Risk Assistance Level per planted acre 2009
Corn	150.0	\$4.20	90%	\$567
Beans	46.0	\$10.05	90%	\$416
Wheat	65.8	\$6.67	90%	\$395

* ACRE average price is not final until end of 2008-2009 crop year.

ACRE revenue risk assistance level is calculated as: {90% times Olympic average yield times average cash price} [for corn, (90% times 150.0 times \$4.20) = \$567/planted acre]

Calculating ACRE Payments

Example: Ohio Corn

Ohio Revenue for Year	Ohio ACRE Revenue Risk Assistance Level (as of 6/10/09)	Payment Rate	Ohio ACRE Revenue Payment
\$650/planted acre	\$567/planted acre	83.3%	\$0/planted acre
\$575/planted acre	\$567/planted acre	83.3%	\$0/planted acre
\$500/planted acre	\$567/planted acre	83.3%	\$56/planted acre
\$425/planted acre	\$567/planted acre	83.3%	\$118/planted acre
\$375/planted acre	\$567/planted acre	83.3%	\$118/planted acre
\$325/planted acre	\$567/planted acre	83.3%	\$118/planted acre

ACRE payment occurs only if state revenue is less than state revenue risk assistance level.

ACRE payment rate is 83.3% of (state revenue risk assistance level minus state revenue).

ACRE payment is capped at 83.3% of 25% of state revenue risk assistance level.

In above table, cap is \$118 per acre (.833 times .25 times \$567).

Payment rate is 85% for crops harvested in 2012.

NOTES: (1) For a farm to receive an ACRE revenue payment, the farm also must meet the farm's revenue eligibility condition. (2) Revenue payment rate varies by farm according to the ratio of the FSA's farm Olympic average yield to the state's Olympic average yield.

Predicting Which Program Suite Will Pay More is Almost Impossible

- (1) Predicting payments from the marketing loan, counter-cyclical, and ACRE state revenue programs requires that you must predict prices for 2009, 2010, 2011, and 2012 (price path between now and 2012).**

- (2) Accumulated evidence: very few, if anyone, possess the ability to correctly predict prices for the next year let alone for four years.**
 - (a) If people could correctly predict prices, lots of folks would be very rich.**
 - (b) We would not be talking about losses in the stock market; investors would have seen them coming and avoided them.**

Risk Management Perspective Is More Useful to Examine ACRE Decision

In managing risk, you are concerned with the timing and size of program payments, not average payments.

--- Do payments occur when financial stress occurs?

- (1) Financial stress usually occurs when revenue declines.**
- (2) Financial stress can occur from factors that happen only on your farm (idiosyncratic risk) or from factors that occur beyond your farm at the market level (systemic risk)**
- (3) ACRE state revenue, counter-cyclical, and marketing loan programs are designed to address market or systemic risk.**
 - ACRE revenue program addresses the risk of a decline in state revenue relative to the state revenue risk assistance level.**
 - Counter-cyclical and marketing loan programs address the risk of low prices relative to the effective target price or loan rate.**

ACRE Farmer Decision: Central Question

“Does ACRE’s state revenue risk assistance program improve management of systemic revenue risk enough compared to the price counter-cyclical program, to compensate for a 20% reduction in direct payments and 30% reduction in marketing loan rates?”

This question comes from using the concept of partial budgeting. Partial budgeting asks what changes when you make a decision, then assesses the benefits and costs of the changes.

ACRE revenue program substitutes for price counter-cyclical program, 20% reduction in direct payments, and 30% reduction in marketing loan rates.

Benefit of Electing ACRE: ACRE Begins to Make Risk Management Assistance Payments at a Higher Level of Revenue, Ohio, June 2009

No effective, simple way exists to compare risk management assistance levels of ACRE and traditional farm programs. This chart presents one comparative indicator that uses revenue instead of the more common price comparison.

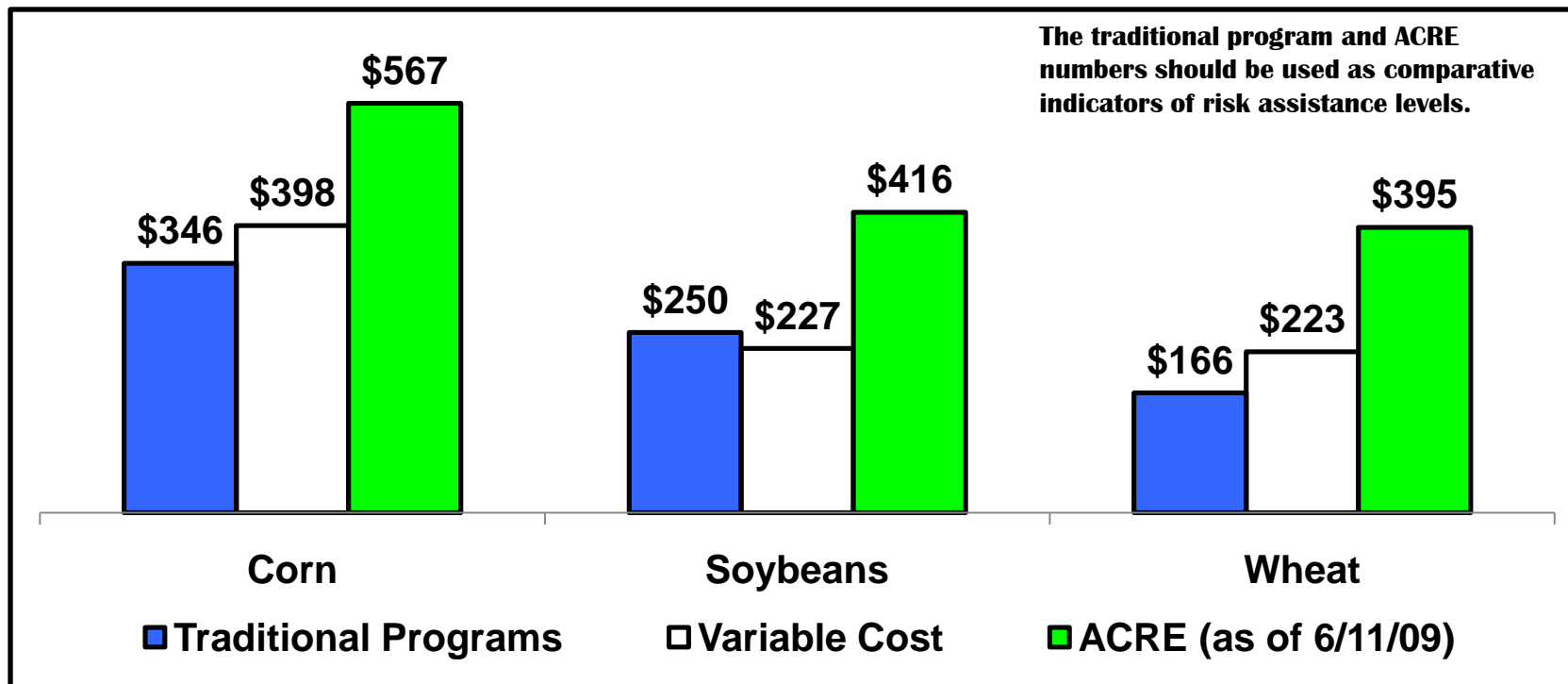
Crop	Ohio Olympic Average Planted Yield 2004-08 (6/10/09)	U.S. Average Cash Price 2007-08 (6/10/09)	Ohio ACRE Revenue Risk Assistance Level 2009	Ohio Loan Rate 2009	Ohio Average Counter-Cyclical Yield 2003	Maximum Counter-Cyclical Payment Rate	Implied Traditional Program Revenue Risk Assistance Level 2009
Corn	150.0/acre	\$4.20/bu.	\$567	\$1.98/bu.	119.8/acre	\$0.40/bu.	\$345
Beans	46.0/acre	\$10.05/bu.	\$416	\$5.14/bu.	36.8/acre	\$0.36/bu.	\$250
Wheat	65.8/acre	\$6.67/bu.	\$395	\$2.00/bu.	53.2/acre	\$0.65/bu.	\$166

Revenue risk assistance level for ACRE state revenue program equals [90% times average U.S. cash price times Olympic average state yield]. See slide 12 for computation details. ACRE payment rate is 83.3% for 2009-2011 and 85% in 2012. ACRE state payment is capped at 25% of ACRE revenue risk assistance level.

Implied traditional program revenue risk assistance level equals {[loan rate times Olympic average state yield] plus [counter-cyclical yield times maximum counter-cyclical payment rate]}. For corn, { [\$1.98 times 150] + [119.8 times \$0.40]} = \$345. Counter-cyclical payment rate is 85%.

No average loan rate for Ohio is reported. The rate used is the average for the 5 largest producing Ohio counties.

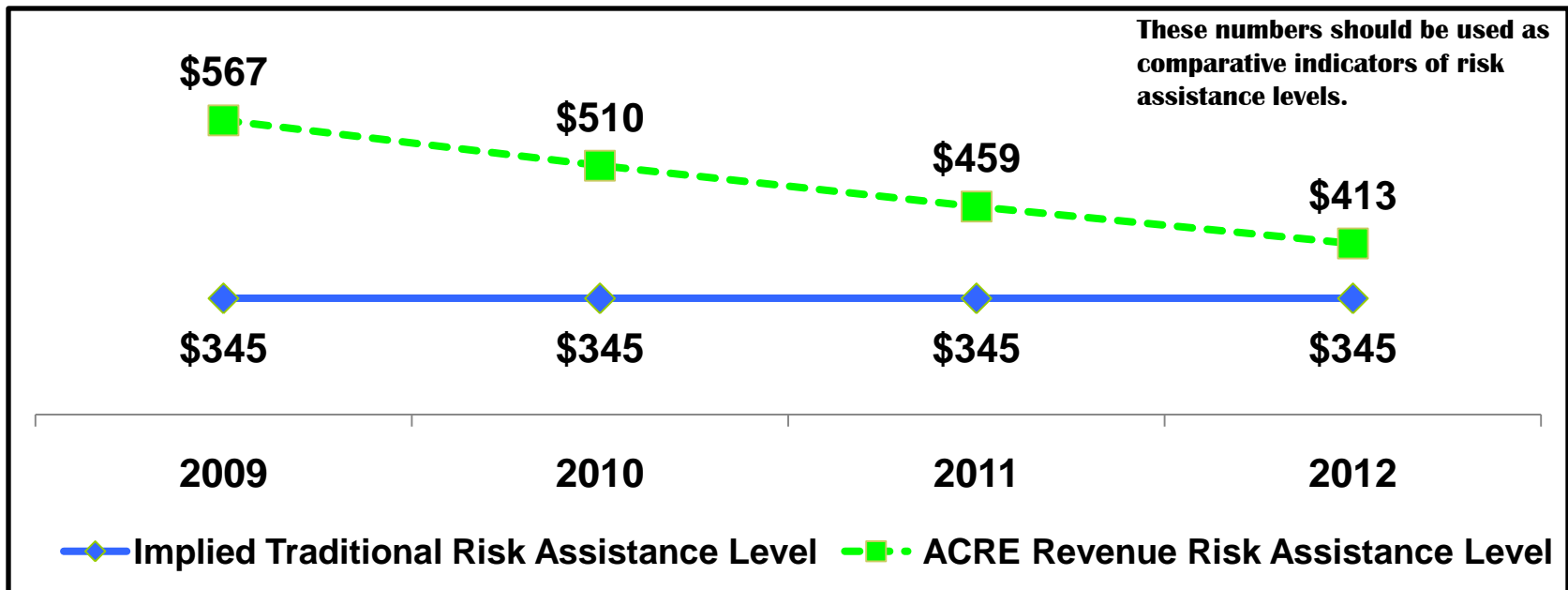
Estimated ACRE State Revenue Risk Assistance Level, Implied Traditional Farm Program Risk Assistance Level, and Variable Cost, Per Acre, Ohio, 2009 Crop



Variable production costs are seed, fertilizer, chemicals, fuel, oil, grease, repairs, crop insurance, miscellaneous, interest on operating capital, and hired labor. Ohio Crop Production Budget at <http://aede.osu.edu/Programs/FarmManagement/Budgets/index.htm>

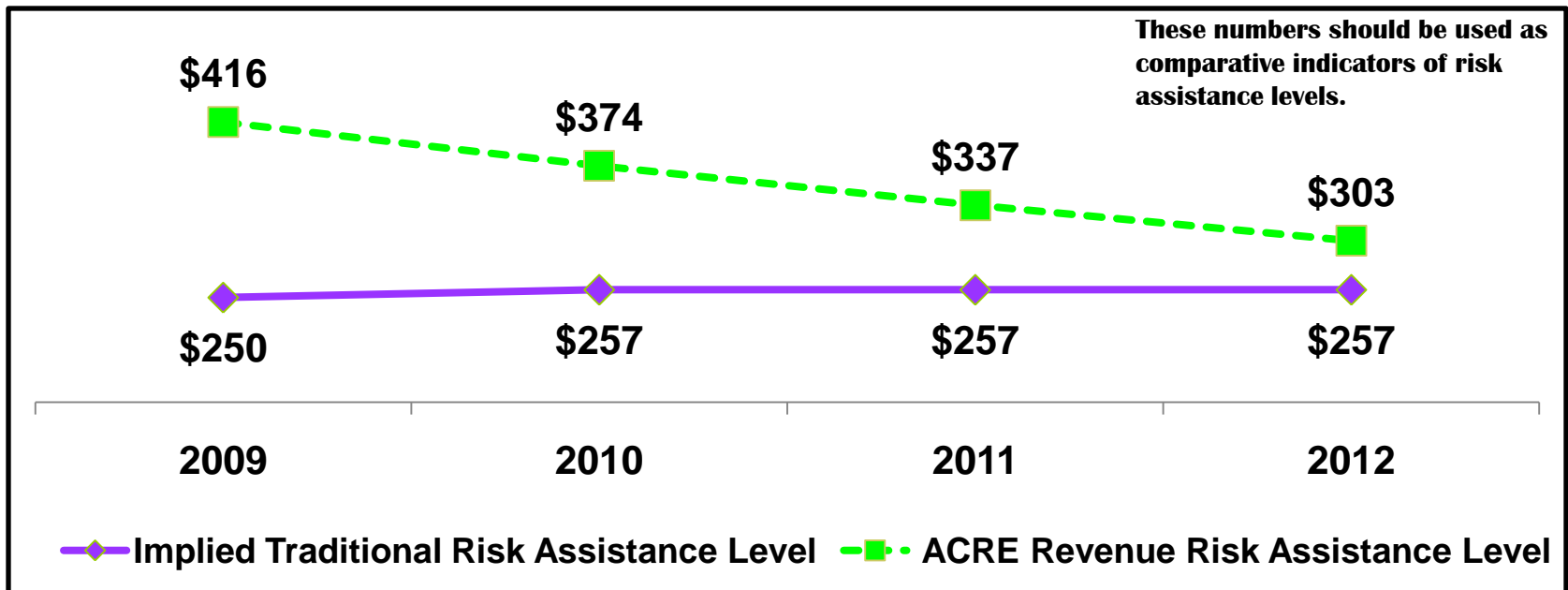
Formulas used to calculate traditional and ACRE risk assistance levels are on the previous slide.

Minimum ACRE State Revenue Risk Assistance Level and Implied Traditional Farm Program Risk Assistance Level, Corn, Ohio, 2009-2012, as of 6/10/2009



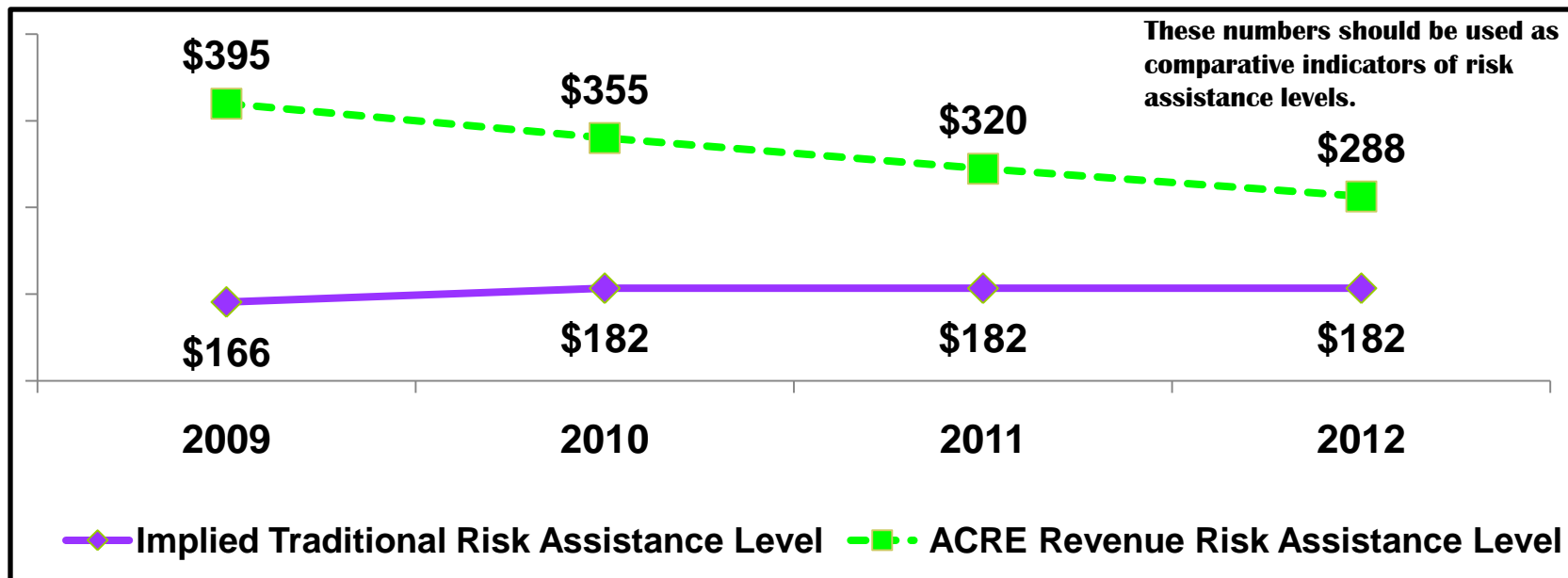
NOTES: (1) 10% limit on decline in ACRE state revenue risk assistance level per crop year allows its minimum assistance level to be estimated for future years. Minimum state risk assistance level for 2010 crop year is 90% of \$567/acre or \$510/acre (a decline of 10%). For 2011 and 2012 crop years, the state revenue risk assistance level is again reduced by 10% per year. (2) ACRE state payment is capped at 25% of the ACRE revenue assistance level; ACRE payment rate is 83.3% for 2009-2011 and 85% for 2012. (3) Implied traditional program revenue risk assistance level equals {[loan rate times Olympic average state yield] plus [counter-cyclical yield times maximum counter-cyclical payment rate]}. For 2009 corn, { [\$1.98 times 150] + [119.8 times \$0.40] } = \$345. Counter-cyclical payment rate is 85% for 2009-2012.

Minimum ACRE State Revenue Risk Assistance Level and Implied Traditional Farm Program Risk Assistance Level, Soybeans, Ohio, 2009-2012, as of 6/10/2009



NOTES: (1) 10% limit on decline in ACRE state revenue risk assistance level per crop year allows its minimum assistance level to be estimated for future years. Minimum state risk assistance level for 2010 crop year is 90% of \$416/acre or \$374/acre (a decline of 10%). For 2011 and 2012 crop years, the state revenue risk assistance level is again reduced by 10% per year. (2) ACRE state payment is capped at 25% of the ACRE revenue assistance level; ACRE payment rate is 83.3% for 2009-2011 and 85% for 2012. (3) Implied traditional program revenue risk assistance level equals {[loan rate times Olympic average state yield] plus [counter-cyclical yield times maximum counter-cyclical payment rate]}. For 2009 soybeans, { [\$5.14 times 46] + [36.8 times \$0.36] } = \$250. Counter-cyclical payment rate is 85% for 2009-2012.

Minimum ACRE State Revenue Risk Assistance Level and Implied Traditional Farm Program Risk Assistance Level, Wheat, Ohio, 2009-2012, as of 6/10/2009

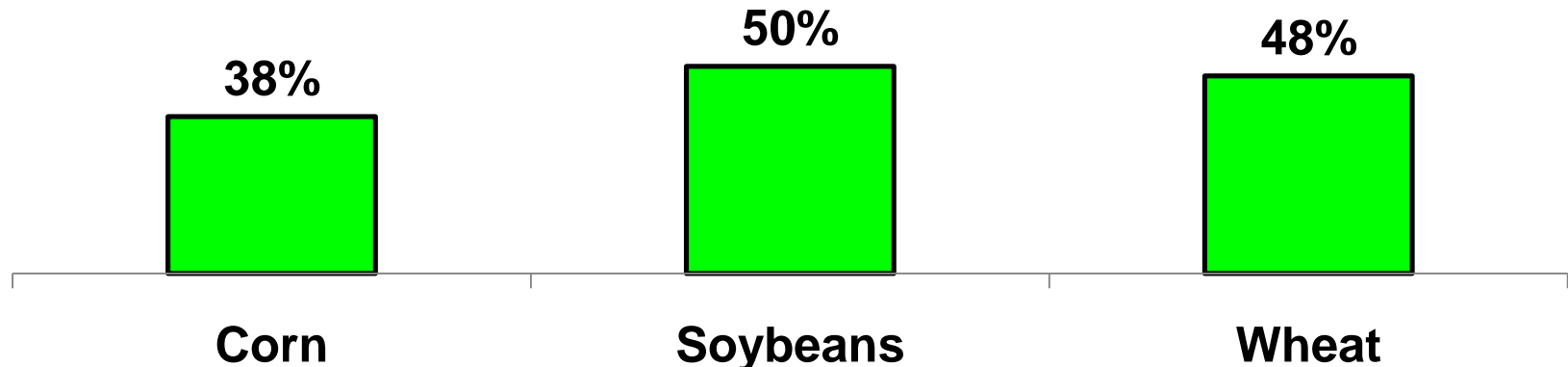


NOTES: (1) 10% limit on decline in ACRE state revenue risk assistance level per crop year allows its minimum assistance level to be estimated for future years. Minimum state risk assistance level for 2010 crop year is 90% of \$395/acre or \$355/acre (a decline of 10%). For 2011 and 2012 crop years, the state revenue risk assistance level is again reduced by 10% per year. (2) ACRE state payment is capped at 25% of the ACRE revenue assistance level; ACRE payment rate is 83.3% for 2009-2011 and 85% for 2012. (3) Implied traditional program revenue risk assistance level equals {[loan rate times Olympic average state yield] plus [counter-cyclical yield times maximum counter-cyclical payment rate]}. For 2009 wheat, { [\$2.00 times 65.8] + [53.2 times \$0.65] } = \$166. Counter-cyclical payment rate is 85% for 2009-2012.

ACRE Is A Revenue Program

Declines in price or yield or both trigger payments

Share of Years with ACRE Revenue Risk Assistance Payment That Also Had a State Yield Decline of 10% or More, U.S. States, 1996-2006



Yield declines are a more important trigger of ACRE revenue payments in states with more variable yields and in smaller producing states. However, the state yield component of ACRE revenue risk assistance level should not be ignored in any state.

Benefit of Electing ACRE:

ACRE payment based on planted, not base acres better matches current production risks

Crop	OHIO Planted Acres, 2006-08	OHIO Base Acres 2003
Corn	3.4 million	4.1 million
Beans	4.5 million	3.5 million
Wheat	1.0 million	1.1 million

**Base acres are a historical production risk a farmer once confronted.
Planted acres are the current production risk a farmer confronts.**

**Even at the state level, substantive differences exist between acres
planted to a crop and base acres for the crop. Difference between
planted and base acres is usually larger on an individual farm.**

Comparing Payment Acres: ACRE Revenue vs. Counter-Cyclical Price Program

More acres can receive ACRE revenue risk assistance payments.

- Counter-cyclical payment acres are 85% of base acres.
- ACRE payment acres are 83.3% of planted acres, capped at a farm's total base acres. In 2012, 83.3% payment acres becomes 85%.

Example: farm has 125 acres planted to corn and 33 base acres of corn, soybeans, and wheat (99 total base acres).

- Under ACRE, payments would be received on 99 acres planted to corn (83.5% times 125 acres equals 104.38 acres, which exceeds 99 acres)
- For counter-cyclical program, payment would be received on 84.15 base acres (85% times 99) composed of corn, soybeans, and wheat.

NOTE: This consideration is less important if ACRE revenue payments exceed their limit (\$65,000 plus amount equal to 20% reduction in direct payments).

- 2008 Farm Bill allows spouse to be a farm payment entity.

Cost of Electing ACRE: 20% reduction in direct income payment

Ohio farmers received direct payments of \$165 million in 2007. Over 2006-08, they planted an average of 8.9 million acres per year to ACRE crops. Using these numbers, the 20% direct payment reduction is \$3.71 per planted acre per year

[(20% of \$165 million) / 8.9 million]

--- \$3.71 per planted acre is an annual risk management fee for participation in ACRE revenue risk assistance program

NOTE: This consideration does not apply if a payment entity's adjusted gross farm income over the last 3 tax years exceeds \$750,000. No direct payments can be received.

Cost of Electing ACRE: Value of Marketing Loan & Counter-Cyclical Programs

In addition to assessing the value of the ACRE revenue risk assistance payments, you also must assess the value of the marketing loan and counter-cyclical programs.

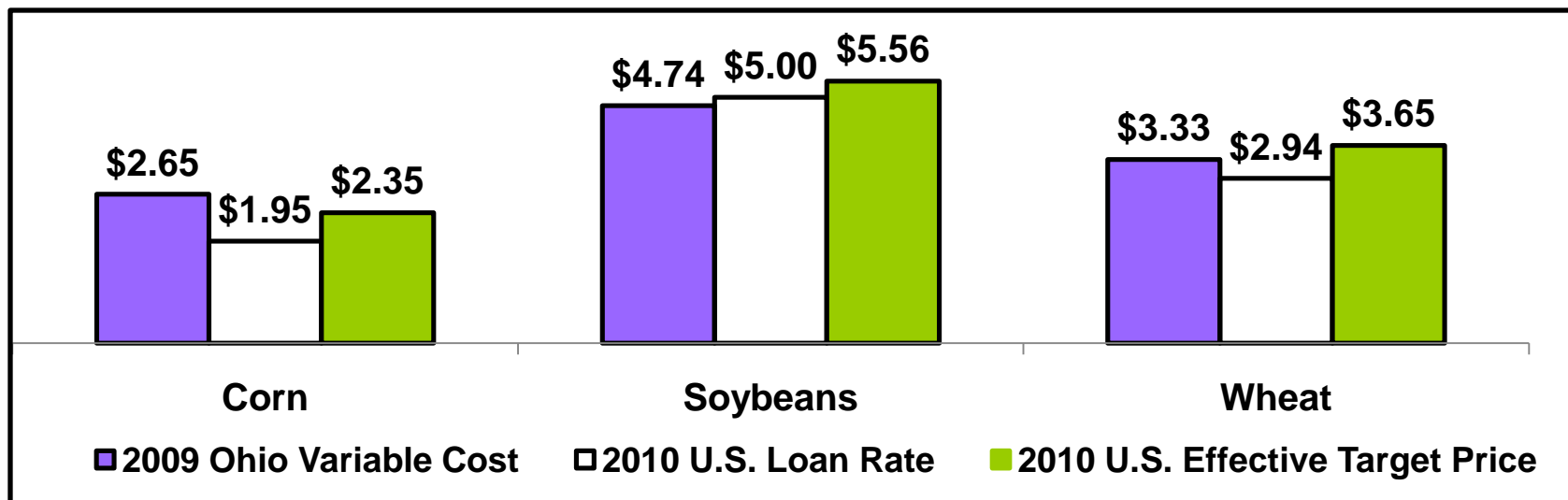
Selected 2008 Farm Bill changes in marketing loan and counter-cyclical programs

- (1) Soybean target price increases from \$5.80 to \$6.00 with 2010 crop.**
- (2) Wheat target price increases from \$3.92 to \$4.17 with 2010 crop.**
- (3) Wheat loan rate increases from \$2.75 to \$2.94 with 2010 crop.**
- (4) Posted county price is determined as a 30-day moving average for corn, soybeans, and wheat.**

Cost of Electing ACRE: Value of Marketing Loan & Counter-Cyclical Programs

What is likelihood price declines below effective target price and marketing loan by 2012?

- (1) Economics suggests price is unlikely to stay below variable costs for a long time since farmers should reduce production, leading to higher price.
- (2) Price of oil is a key factor determining the price of variable inputs.
- (3) Current situation below --- but need to think about variable costs through 2012



See slide 18 for a definition of variable costs.

Cost of Electing ACRE: Value of Marketing Loan & Counter-Cyclical Programs

What is the risk management value of the marketing loan program in case of an unknown extremely bearish factor?

If you think counter-cyclical and marketing loan payments are possible, you need to consider payment limits (spouse can be a payment entity):

- * ACRE revenue limit per entity: \$65,000 + 20% direct payment reduction**
- * Counter-Cyclical limit per entity: \$65,000**
- * Marketing loan limit per entity: none**

Cost of Electing ACRE: Market loan program to manage cash flow and taxes

Farmers can use the marketing loan program to obtain post-harvest operating cash or to manage taxes.

- (1) Grain placed under loan is the collateral for this loan.**
- (2) Interest rate is generally lower than commercial lending rates.**

This consideration becomes more important as the amount of grain used as loan collateral increases.

- A desired loan amount can be obtained by placing more grain under loan at the lower ACRE marketing loan rate, but this approach may not be possible if the amount of grain placed under the traditional loan rate is large enough.**

ACRE Decision: Other Considerations

ACRE State Revenue Payment Adjusted by Farm Yield Factor

ACRE state revenue risk assistance payment to a FSA farm equals:

**State revenue risk assistance payment for a crop for a year
times**

**{[farm's Olympic average yield for 5 most recent crop years]
divided by
[state's Olympic average yield for 5 most recent crop years]}**

Implication: ACRE revenue payment is higher to farms with higher recent yields relative to state average yield

Farmers have to prove yields on FSA farm basis

Required FSA ACRE Farm Yield Documentation and Yield Plug Values

Documentation of an FSA farm's yield:

- (1) Crop insurance and NAP records may be used.**
- (2) Commercial receipts, settlement sheets, warehouse ledger sheets, or load summaries of crops sold through commercial channels may be used if FSA determines they are reliable and verifiable.**
- (3) Loan and LDP records may be acceptable.**

Proof of yield for 2004-2009 crops will not be required until the final acreage reporting date for the state for the 2010 crop.

- (1) For Ohio, these dates are June 30, 2010 for small grains (wheat, oats); July 15, 2010 for spring seeded crops (corn, soybeans, etc.).**

FSA will use a plug substitute yield for a year if a farmer / landlord (a) cannot provide acceptable documentation, (b) did not plant the crop in the year, or (c) accepts the plug yield.

- (1) For a crop year, plug yield is 95% of county's ACRE average yield.**

ACRE Decision: Other Considerations

ACRE Farm Eligibility Condition

To receive an ACRE revenue payment, FSA farm's ACRE revenue for crop must be less than the FSA farm's ACRE benchmark revenue for the crop for the crop year.

FSA farm's ACRE revenue for a crop is:

{farm's actual yield per planted acre times U.S. average price for crop year}

FSA farm's ACRE benchmark revenue is:

{[Farm's Olympic average yield for 5 most recent crops times ACRE's 2-year U.S. average price for crop year]
plus [per acre insurance premium paid for crop]}

- (1) Coverage level for FSA farm's benchmark revenue is 100%, which is less restrictive than the 90% coverage level for state revenue.
- (2) Purchasing crop insurance increases a farm's benchmark revenue, thus increasing the farm's chance of being eligible.

Overlap of ACRE State and Farm Payment Triggers Analysis of Illinois Data, 1977-2007

Corn: Year	Share of Farms That Met Farm Eligibility		Soybeans: Year	Share of Farms That Met Farm Eligibility
1977	81%		1982	88%
1983	75%		1984	97%
1986	99%		1998	99%
1988	62%		1999	96%
1991	66%		2000	65%
1997	97%			
1998	95%			
1999	89%			
2005	93%			
Average	84%		Average	89%

No crop insurance premium is included, so the share is conservative.
Source: Analysis by Gary Schnitkey, University of Illinois, and Carl Zulauf

Analysis of results finds farm eligibility condition is most important in determining whether a farm receives an ACRE revenue risk assistance payment when state revenue is just below the state ACRE revenue assistance level.

SUMMARY: ACRE Farmer Decision

For the average corn, soybean, and wheat acre in Ohio;

“Is the higher per acre revenue risk management assistance level of ACRE’s state revenue program plus ACRE’s better match with planted acres

worth

an annual risk management fee of \$3.71 per planted acre plus any estimated potential marketing loan and counter-cyclical benefits?”

BIG Picture Comparative Risk Payments

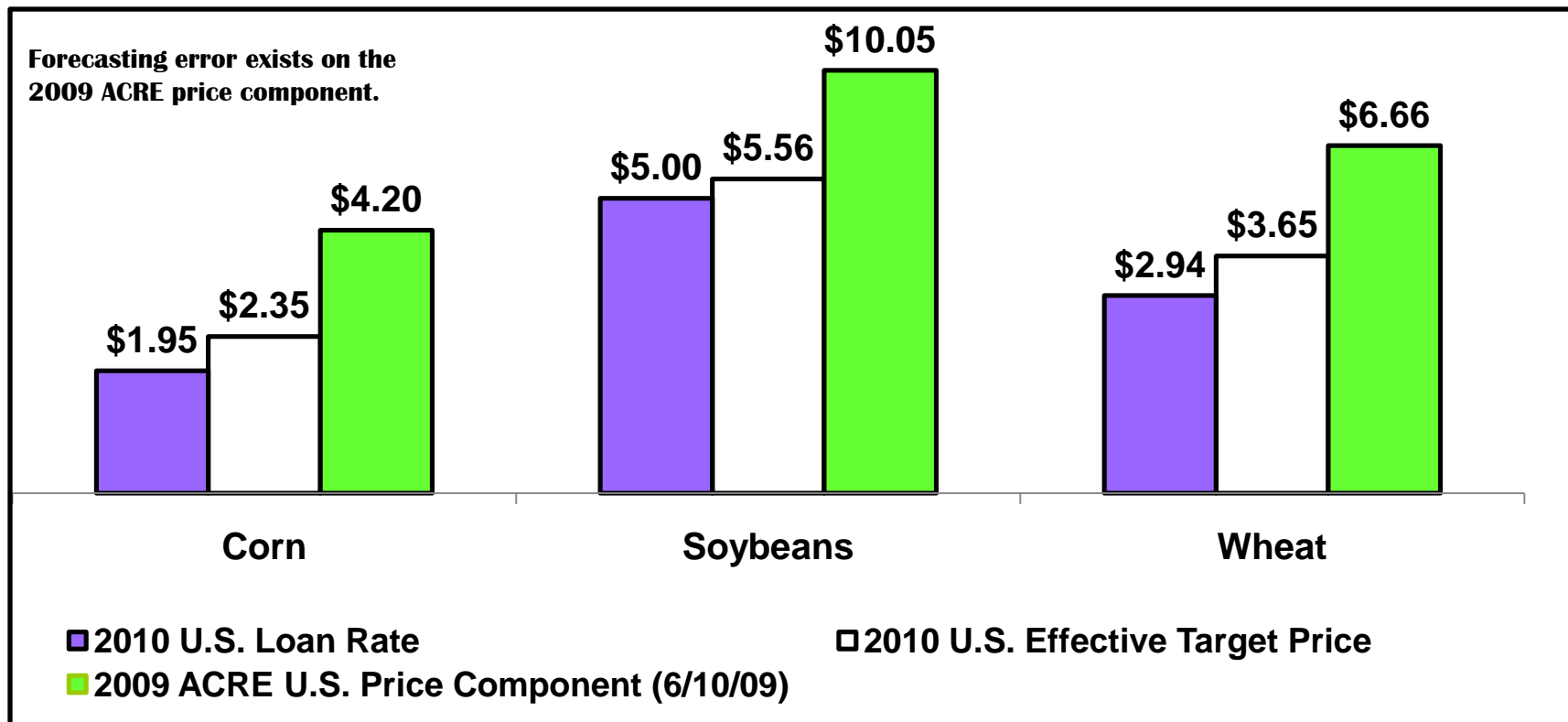
Decision makers need to think about their risk exposure in each of these 3 scenarios and the probability of each scenario.

- (1) State revenue increases, remains constant, or does not decline more than 10% over 2009-2012**
 - Traditional program suite has higher payments
 - Due to the 20% reduction in ACRE direct payments

- (2) Price declines to, but not below effective target price**
 - ACRE has larger payments in almost all such cases
 - ACRE payments increase as price approaches effective target price; counter-cyclical and marketing loan payments close to \$0

- (3) Price declines below the loan rate for multiple years**
 - Traditional program suite has higher payments
 - ACRE makes large payments, but marketing loan and counter-cyclical payments occur; no limit on marketing loan payments

Marketing Loan Rate, Counter-Cyclical Effective Target Price, and ACRE Price Component



ACRE: Some Concluding Thoughts

ACRE is most likely to benefit:

- (a) Farmers whose planted crop acres differ substantially from their base crop acres**
- (b) States with higher yield variation**
- (c) Crops with prices well above their loan rates**
- (d) States and crops with larger increases in yields - corn is notable**

SUMMARY: ACRE is a poor substitute for crop insurance. Crop insurance cannot replicate ACRE.

Crop insurance and ACRE provide different risk management profiles. The two profiles will rarely (maybe never) be the same and can vary substantively. You will not know how much they differ until after the crop year is done.

- (a) Crop insurance covers risk between a crop's planting and harvest.
ACRE's time period is a crop year (approximately harvest to harvest; for example, for corn and soybeans, September 1 – August 31).**
- (b) Crop insurance can cover yield risk on an individual farm.
ACRE covers yield risk at the state level.**
- (c) Crop insurance uses futures prices.
ACRE uses cash prices.**
- (d) Crop insurance coverage not known for 2010-2012 crops.
ACRE minimum state revenue risk assistance level can be estimated.**

ACRE: Some Concluding Thoughts

Strategy: instead of electing ACRE, use 20% reduction in direct payments under ACRE to buy higher revenue insurance coverage

- (1) How much extra insurance can be bought with the direct payment reduction?
For most corn-soybean-wheat land, reduction will be \$2 to \$5 per planted acre.**
- (2) How does revenue coverage under crop insurance compare with ACRE's state revenue risk assistance level? Comparison requires adjustment to account for crop insurance's use of futures prices and ACRE's use of cash prices.**
- (3) Comparison of coverage levels is only one of many factors to consider. Other factors include preference for risk; debt load; outlook for cost, prices, and yields through 2012; planted vs. base acres; current vs. base yields, etc.**
- (4) If buy-up insurance option is selected, the decision must be re-examined next year because insurance price and ACRE state revenue risk assistance level will likely differ.**
- (5) ACRE and crop insurance do not cover the same risk --- see previous slide. Deferring election of ACRE may turn out to be a worse risk management strategy even if revenue coverage is higher under insurance. This can happen if revenue does not decline much from planting to harvest, but declines substantively after harvest.**

ACRE: Some Concluding Thoughts

Strategy: Participate in Both ACRE & Traditional Programs

[Assume farmer/landlord has more than 1 FSA farm]

- (1) This strategy may appeal to (a) diversify among different farm programs in a time of uncertainty and (b) learn about ACRE.**
 - (a) ACRE and traditional farm programs provide different types of risk management (price vs. state revenue; fixed vs. market oriented) and thus different flows of payment.**
 - (b) The classic risk management strategy when facing uncertainty is to diversity the portfolio --- in this case, farm program participation.**

- (2) Considerations in selecting which FSA farm(s) to enroll in ACRE:**
 - (a) Size of direct payment reduction on a FSA farm**
 - (b) Comparison of crops planted on FSA farm to base acres by crop**
 - (c) Yield on a FSA farm relative to the state's yield for the crop**
 - (d) Yield on a FSA farm relative to its base yield for the crop**
 - (e) How close does change in yield on FSA farm track change in state's yield?**
 - (f) Availability of acceptable records to document a FSA farm's yield**

- (3) Single combined limit exists on ACRE revenue and counter-cyclical payments: \$65,000 + reduction in direct payments from electing ACRE**

Final Thoughts

- 1. ACRE (and SURE) are potentially important new programs to help farmers manage risk, especially in today's environment of higher and volatile prices and costs. Farmers need to think carefully about their ability to handle risk, both financially and psychologically.**
- 2. The 2002 and 2008 Farm Bills, as well as crop insurance, provide increasing evidence that farmers need to develop procedures for documenting yields on a farm by farm basis.**
- 3. Experiences with ACRE and SURE will affect future policy.**
- 4. Calculators exist to help you with the ACRE decision.**
- 5. Last, remember, risk management involves the unknown.**

Websites

My presentation and associated papers are available at
<http://aede.osu.edu/people/zulauf.1> : "My Publications" on lefthand side

Calculators and other information are available at:
(I suggest you try several calculators to find the one that most aligns with your approach to decision making and analysis --- people vary quite a bit on this.)

--- **The Agricultural and Food Policy Center, Texas A&M University**
<http://www.afpc.tamu.edu/models/acre/>

--- **Farm Service Agency, U.S. Department of Agriculture**
<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=dccp&topic=landing>

--- **Food and Agricultural Policy Research Institute, University of Missouri**
http://www.fapri.missouri.edu/farmers_corner/tools/ACRE.asp

--- **University of Illinois**
<http://www.farmdoc.uiuc.edu/pubs/FASTtool.asp?category=farm>

--- **Iowa State University**
http://www.card.iastate.edu/ag_risk_tools/acre/

Questions?

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Evolution of ACRE: Policy Process

This slide focuses on the 2008 Farm Bill. Numerous proposals for a revenue farm support program have appeared over the years.

Integrated Farm Revenue Proposal (IFRP)
Carl Zulauf
Basic concepts in *Ohio's Country Journal*, p. 12, 12/2004
Congressional Testimony, 9/21/2006



County Revenue Counter-Cyclical Proposal
Bruce Babcock and Chad Hart
Iowa Ag Review, Spring 2005, Vol. 11, No. 2, pp. 1-3, 11
Congressional Testimony, (9/21/2006)



American Farmland Trust
American Farmland Trust adopts IFRP in its
Agenda 2007: A New Framework and Direction
for U.S. Farm Policy, 5/2006.

National Corn Growers Association
Public Policy Action Team Proposes a county revenue
countercyclical program and farm-level base revenue
protection program, 10/19/2006.



Average Crop Revenue (ACR) Program
(1) Senators Richard Durbin, Illinois, and Sherrod Brown, Ohio, propose state-level ACR in S. 1872, 7/25/07.
(2) ACR included in Chairman Senator Tom Harkin's mark of Senate's farm bill.
(3) Senate Committee on Agriculture, Nutrition, and Forestry adopts ACR with modifications (Senator Pat Roberts' amendment).
(4) ACR as amended remains in the Senate Farm Bill passed on 12/14/07.



Average Crop Revenue Election (ACRE) Program
(1) Conference Committee includes ACRE in *Food, Conservation, and Energy Act of 2008* (agreement 5/8/2008).
(2) Second veto override of H.R. 2419 occurs on 6/19/2008, completing action on 2008 Farm Bill.

SURE (Supplemental Revenue Assistance) **(amended in October and February)**

**SURE is a whole crop farm operation disaster assistance program,
but payment is tied to shortfalls in revenue.**

To receive a SURE payment, 3 conditions must be met:

- (1) Crop insurance and NAP (Noninsured Crop Assistance Program) must be purchased for all crops excluding (a) pasture, (b) crops that are not economically significant, (c) crops for which NAP administrative fee exceeds 10% of coverage value, and (d) crops for which insurance or NAP are not available --- unless you confirm otherwise, assume NAP exists.**
 - (a) An economically significant crop is a crop that accounts for at least 5% of a farm's expected revenue.**
- (2) Farm is in a declared disaster (or contiguous) county, OR, due to disaster or adverse weather, actual production on the farm is less than 50% of normal production.**
- (3) Production of at least 1 economically significant crop on the farm is reduced by at least 10% by the disaster.**

SURE (Supplemental Revenue Assistance) **(amended in October and February)**

SURE payment = [60% of (farm SURE guarantee - farm all-crop revenue)]

- (1) SURE guarantee per planted (and prevented planted) acre is 115% of per acre insurance coverage level. SURE guarantee per planted (and prevented planted) acre is 120% of NAP coverage.**
 - (a) SURE guarantee is summed for all acres of insured and NAP crops, excluding (a) crops noted in item 1 previous page and (b) crops subsequently planted on the same land for which disaster assistance is provided, except where double-cropping is a normal practice.**
 - (b) SURE Guarantee is capped at 90% of the farm's expected revenue.**
- (2) Farm's all-crop revenue is sum of (A) insurance indemnities, (B) prevented planting payments, (C) other Federal disaster aid for same loss, (D) 15% of direct payments, (E) all ACRE revenue, counter-cyclical, and market loan payments, and (F) actual revenue on farm for SURE crops.**
 - (a) Actual revenue for a crop is: 100% of price election used to calculate an insurance indemnity if an indemnity is triggered times quantity of crop produced on farm, adjusted for quality losses.**
- (3) SURE payments limited to \$100,000 per eligible producer, minus payments from Livestock Indemnity, Livestock Forage Disaster, and Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish programs.**

SURE: Initial Thoughts on Potential Implications

- (1) SURE will become the vehicle for *ad hoc* disaster assistance**
- (2) SURE is an incentive to buy at least 75% individual crop insurance (115% of 75% is 86%, just below 90% cap on SURE guarantee) and NAP.**
- (3) SURE most benefits areas with higher yield variability --- greater chance of a county disaster designation (or 50% decline in a farm's production).**
- (4) SURE raises crop rotation questions because it benefits single-crop farms most. SURE payments are triggered by a disaster, but payment is based on shortfall in a farm's revenue relative to its SURE guarantee. Multiple crops reduce revenue variability. Simply put, for a single-crop farm, SURE increases insurance coverage by 15%, but only if a natural disaster occurs.**
 - (a) Will farmers adopt more monoculture?**
 - (b) Will farmers reduce smaller acre crops, such as wheat in Midwest? In order to qualify for SURE, crop insurance now is a cost for economically significant crops.**

Changes in Payments Limits Were Substantive in 2008 Farm Bill

- (1) Denies farm program payments to anyone whose average adjusted gross nonfarm income for 3 previous tax years exceeds \$500,000**
- (2) Denies direct income payments to anyone whose average adjusted gross farm income for 3 previous tax years exceeds \$750,000**
 - (a) Expands definition of income derived from farming to include, among other items, packing, storing, and transporting of ag commodities; production of livestock products; farm-based production of renewable bio-energy; and, in some instances, provision of operational inputs to farmers, ranchers, and foresters.**
- (3) Denies conservation program payments to anyone whose average adjusted gross nonfarm income for 3 previous tax years exceeds \$1,000,000 unless 66.66% or more of total adjusted gross income is derived from farming, ranching, and forestry operations**
- (4) Spot checks will be conducted with individuals and entities expected to provide documentation**

Changes in Payments Limits Were Substantive in 2008 Farm Bill

- (5) Direct attribution of payments occurs - removes potential to double payment limit**
- (6) To receive payments, individual or entity must be “actively engaged in farming;” EXCEPTION: qualifying spouses are eligible to receive payments and have separate payment limit**
- (7) \$40,000 limit on direct payments if farmer does not participate in ACRE; if farmer participates in ACRE, \$40,000 limit reduced by amount of direct payment reduction under ACRE**
- (8) Removes current limit of \$75,000 on marketing loan program benefits --- no limit exists**
- (9) Retains \$65,000 limit on counter-cyclical payments**
- (10) Limits ACRE revenue payments to \$65,000 plus amount direct payments reduced under ACRE**