

Is ACRE a Good Deal for Farmers? Ask the Spreadsheet at FAPRI

There's good news and bad news regarding the Average Crop Revenue Election (ACRE) program. The good news is that the federal program may provide enrolled farmers a safety net against unexpected losses in revenue. The bad news is that farmers must commit to joining the program that requires complicated computations to see if ACRE is of real benefit.

To give farmers a tool to determine if ACRE is beneficial to their bottom line, the University of Missouri Food and Agriculture Policy Research Institute (FAPRI), has released an Excel spreadsheet designed to help producers analyze the ACRE program and make this important decision. Corn, soybean, cotton, rice and other grain producers can plug in their historical yields, farm characteristics and other information to compare, side by side, the potential benefits of enrolling in ACRE or staying with the current counter-cyclical payment program, said Peter Zimmel, FAPRI program director – representative farms.

The calculation tool is available for download on the FAPRI website at www.fapri.missouri.edu. When the producer's individual information is entered, the spreadsheet will show what potential payments could be if they elect to participate in ACRE or stay with the current program, probabilities that ACRE payments will be made, potential revenues, the timing of payments and the amount of advance payments.

Under the new Food, Conservation and Energy Act of 2008, producers of USDA program crops such as soybeans, wheat and corn have the option to enroll in the new ACRE program. It is offered as an alternative to the counter-cyclical payment option under the 2002 farm bill.

"ACRE allows producers to choose a market oriented, risk management tool that adjusts with market prices and is designed to potentially pay farmers when they need it – when revenue is down," Zimmel said

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.

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.

The state revenue guarantee is 90 percent of the average state yield multiplied by the two-year average marketing price, Zimmel said. 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 also is 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. However, the future state ACRE guarantee revenue cannot change more than 10 percent per year.

To trigger a payment under ACRE the “actual” revenue for both the state and the farm must be less than their corresponding guarantees, Zimmel said. 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 based on the difference between the state guarantee and the state actual revenue.

Producers who sign up for ACRE will forfeit 20 percent of their current direct payments through 2012, making this a fixed cost. They 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.

For more information contact:

Peter Zimmel

FAPRI

Phone: (573) 884-8787

Web Site: <http://www.fapri.missouri.edu>