

Illinois AgriNews – January 2009

The ACRE Decision

Gary Schnitkey

Department of Agricultural and Consumer Economics

University of Illinois

The 2008 Farm Bill gives a choice on how Federal commodity payments can be received. Payments can continue in the traditional manner through direct, marketing loan, and counter-cyclical programs. Alternatively, an Average Crop Revenue Election (ACRE) alternative can be selected. ACRE makes three changes relative to the traditional alternative: 1) direct payments are lowered by 20 percent, 2) loan rates are lowered by 30 percent, and 3) ACRE payments are received rather than counter-cyclical payments.

Direct payments are fixed yearly payments that average between \$18 and \$25 per acre on most Illinois farms. Under ACRE, direct payments will be reduced by 20%. Given the \$18 to \$25 range, direct payments will be reduced from \$3.60 to \$5.00 per acre.

In the past, most farmers have received marketing loan payments by taking loan deficiency payments (LDPs). LDPs can be received when posted county prices – which are usually near cash prices -- are below loan rates. Under the 2008 Farm Bill, national loan rates are \$1.95 per bushel for corn, \$5.00 for soybeans, and \$2.94 for wheat. Under ACRE, national loan rates are reduced by 30 percent to \$1.37 per bushel for corn, \$3.50 for soybeans, and \$2.06 for wheat. It is unlikely that prices will fall below national loan rates between now and the end of the Farm Bill in 2012. Hence, the chance of receiving LDPs is low under both the traditional and ACRE alternatives.

Under the traditional alternative, counter-cyclical payments will be received when season average prices fall below trigger prices. Trigger prices in 2009 are \$2.35 for corn, \$5.36 for soybeans, and \$3.40 for wheat. The chances of receiving counter-cyclical payments are low because it is unlikely that commodity prices will average below trigger prices.

ACRE is a state revenue program for corn, soybeans, wheat, and other program crops. It has two eligibility requirements: one for farm revenue and the other for state revenue. ACRE payments are based on the difference between state revenue and a state guarantee. The state guarantee will adjust up or down based on a recent history of state yields and national season average prices. Because the ACRE guarantee adjusts based on recent history, ACRE has a higher chance of making payments than the counter-cyclical program. Using history as a guide, ACRE will pay for corn in 32 percent of the years and average \$17 per planted acre. For soybeans, ACRE will pay in 16 percent of the years and average \$6.50 per planted acre. These average payments will vary across farms based on the farm's average yield relative to the state's average yield.

Only direct payments are likely to be received under the traditional alternative. Under ACRE, there is a good chance of receiving ACRE payments but direct payments will be 20% lower than under the traditional alternative. ACRE payments could be substantial and will provide risk protection. A Microsoft Excel spreadsheet called the *ACRE Comparison Tool* allows users to analyze situations in which ACRE will make payments. This program is available in the *FAST* section of *farmdoc* (www.farmdoc.uiuc.edu). In addition, other information on the ACRE decision is available on *farmdoc*.