

2010 ACRE Enrollment Decision by June 1st

Producers nationwide have another chance to enroll in the Average Crop Revenue Election (ACRE) program in 2010 with a June 1st sign-up deadline. In 2009, a total of 17,249 Iowa farms opted for ACRE, or about 11% of eligible farms. Once a farm is enrolled in ACRE, that farm stays in the program through the 2012 crop year.

ACRE is a revenue-based program with both state and farm-level revenue guarantees. Thus both yield and price are used to determine revenue calculations. A drop in actual revenue annually can trigger a payment for either corn or soybeans. The actual ACRE payment is determined using state revenue levels. If a producer opts to enroll a farm in ACRE, it replaces the traditional Counter-Cyclical Program (CCP) payments triggered only when national average cash price falls below \$2.35/bu for corn or \$5.56/bu for soybeans.

2010 State Revenue Guarantee Estimates

The 2010 state revenue guarantee varies by state. In Iowa, the estimated revenue guarantee for corn is \$589.44 per acre and \$445.69 per acre for soybeans, respectively. These numbers reflect the state's benchmark yield for the Olympic average using the most recent 5-year period (2005-09). In 2010, Iowa's benchmark corn yield is 171 bu/A and for soybeans 51 bu/A. This yield is multiplied times the most recent 2 year national average cash price; reflecting \$3.83/bu for corn and \$9.71/bu for soybeans. These prices were determined using the April 9th, 2010, WASDE report midpoint for price range.

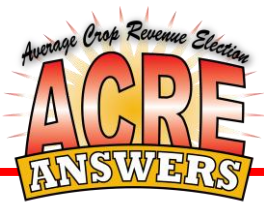
This price can change slightly as there are still 5 months left in the 2009-10 marketing year. This state benchmark yield is multiplied times the most recent 2 years national average cash price times 90% to come up with the revenue guarantee estimates.

Advantages of ACRE

Since ACRE is a revenue-based program; either a decline in yield or a drop in the national cash price can trigger a potential payment for a farm enrolled in ACRE. In comparison, the CCP requires a drop in the national average cash price to much lower levels before a payment is made. If you consider that the 2010 state yield equals the benchmark yields of 171 bu/A for corn and 51 bu/A for soybeans, then the national cash price will need to drop below 90% of the 2 year national average cash price before triggering an ACRE payment at the state level. Thus the 2010 ACRE trigger price is estimated at \$3.45/bu for corn and \$8.74/bu for soybeans. Thus ACRE payments could be made at much higher national cash price levels than would CCP, which has not provided payments since the 2005 crop year.

Disadvantages of ACRE

Besides enrolling a farm prior to the annual deadline, a farm enrolled in ACRE must also provide the farm's yields for the most recent 5 years. The farm's crop insurance Actual Production History (APH) can be used for ACRE purposes. A producer enrolled in ACRE must provide the actual yields on that farm annually in order to compare farm's actual revenue to the revenue guarantee. The final ACRE



payment is not made until October, nearly one year following harvest, when the national cash price for that marketing year becomes final.

A farm enrolled in ACRE must also give up 20% of the farm's direct payment (DP) annually, or roughly \$5 per acre. The decision to accept 80% of the DP under ACRE vs. 100% of the DP under the traditional programs annually adds to the complexity of the enrollment decision.

ACRE as Risk Management Tool

Thus determining to enroll in ACRE requires weighing the risk of giving up a portion of the DP vs. the reward of a payment should a loss in both state and farm revenue be triggered. ACRE can be used to better manage revenue risk on a farm and should not be confused as a means to make up for poor marketing or crop insurance decisions.

A producer's bias as to the national average cash price comes into play as a part of the 2010 ACRE enrollment. Forecasting yield is no doubt difficult, thus making an accurate determination for revenue at both the state and farm levels may seem daunting.

As of the February 19th, 2010, the USDA's Ag Outlook Conference forecast average cash prices during the 2010-11 marketing year to be \$3.60/bu corn and \$8.80/bu for soybeans, respectively. Assuming average 2010 state yields equal to the benchmark yields of 171 bu/A for corn and 51 bu/A for soybeans, the national cash price average would have to drop by more than \$.15/bu for corn, but only \$.08/bu for soybeans. Thus the potential for 2010 ACRE payments is apparent.

Prior to the June 1st ACRE 2010 sign-up deadline, the USDA will release the May crop production report on May 11th. It will provide the first update of potential 2010 planted acres, yield and the 2010-11 marketing year prices. However, the majority of the 2010 growing season lies beyond the June 1st deadline, making forecasting yield and price even more difficult than 2009 when the ACRE sign-up deadline took place in mid-August.

Finalizing 2010 ACRE Enrollment

Remember ACRE payments are determined at the state level but paid on planted acres for a farm and adjusted to 83.3%. The planted acres cannot exceed the total base acres on that farm.

Thus if you thought ACRE payments favored one crop over another, the particular crop you plant in 2010 might merit consideration as to the likelihood of triggering an ACRE payment.

FSA allows the use of default yields to calculate the farm's benchmark yield. This yield is 95% of the county's average yield per planted acre for the crop years 2004 through 2008. The producer enrolling in ACRE can use the higher of the default or the actual farm yield. This is a benefit for those farms that have actual farm yields that are below the county's average yields.

Since ACRE enrollment is by FSA farm number, specific enrollment questions should be directed to your county FSA office.

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