

ACRE PROGRAM

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2009 ACRE PROGRAM

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As most of you are well aware, August 14th is the sign up deadline for declaration to participate in the USDA's newest payment program. The optional Average Crop Revenue Election (ACRE) program offers producers revenue protection (price multiplied by yield) as an alternative to only price protection from the counter-cyclical program. ACRE protects producers from declines in state yields and/or national price. The purpose of this newsletter is to provide knowledge to potential ACRE participants how the program works. The basics of the ACRE program are:

- Producers choosing ACRE agree to 20% reduction in direct payments, and will not receive counter-cyclical payments. This will cost Kentucky producers, on average, about \$5 per acre for corn, about \$4 per acre for wheat, and about \$2 per acre for soybeans.
- ACRE participants will also take a 30% reduction in loan rates. Loan rates will drop to the following levels with current loan rates in parenthesis.
 - o \$1.37 (\$1.95) Corn , \$1.93 (\$2.75) Wheat, \$3.50 (\$5.00) Soybeans
 - o Crops eligible for ACRE are corn, soybeans, wheat, cotton, sorghum, barley, rice, oats, peanuts, other oil-seeds, dry peas, lentils, and chickpeas
 - o Sign up is by farm number so all crops within that farm number will be enrolled.



HOW ACRE YIELD AND PRICE ARE DETERMINED

SPECIAL POINTS OF INTEREST:

- ACRE signup deadline is August 14th
- Contact your specialist for more information

What is the ACRE Benchmark State Yield?

The ACRE Benchmark State Yield is the state average yield over the last five years taking out the high and low yield. According the National Ag Statistical Service (NASS) ACRE Benchmark State Yields for Corn, Wheat, and Beans in Kentucky are:

	2004	2005	2006	2007	2008	Olympic Ave
Corn	148	132	146	128	136	138
Wheat	53.9	67.4	70.8	32.9	70.5	64
Beans	43.5	42.5	43.5	27	34	40

Example Corn: 132 + 146 + 136 = 441/3 = 138

What is the ACRE national average price?

ACRE national average price is the two previous season average cash prices as reported by NASS. The 2009 marketing year for wheat is June 1, 2009 to May 31st, 2010. The 2009 marketing year for corn and soybeans is September 1, 2009 to August 31st, 2010. The final corn and soybean prices and any payment for all crops will not be made until October 2010.

ACRE TRIGGERS

In order for ACRE payments to be made, there are 2 triggers that must be met.

1. ACRE actual state revenue < ACRE program guarantee
 - **ACRE actual State revenue** = ACRE actual State yield per planted acre x ACRE national average price
 - **ACRE program guarantee** = 90 percent of (ACRE benchmark State yield x ACRE guarantee price)

ACRE benchmark State yield = State-level, 5-year Olympic average yield per planted acre

ACRE guarantee price = National average price for the 2 preceding crop years

	State Yield	Price	Price Factor	State Guarantee
Corn	138	4.13*	.9	\$513
Wheat	64	6.63	.9	\$382
Soybeans	40	10.05*	.9	\$362

*Estimated average price

2. ACRE actual farm revenue < ACRE benchmark farm revenue
 - **ACRE actual farm revenue** = Actual commodity farm yield x ACRE national average price
 - **ACRE benchmark farm revenue** = 5-year Olympic average farm crop yield per planted acre x (ACRE national average price) + crop insurance premiums per acre.

3. When both triggers are met, a payment will be made based on the state loss, not the producer loss. Producers are paid on 83.3% of planted acres and their own productivity is factored into the payment.

“2 separate triggers must be hit in order to receive a payment”

'09 WHEAT SITUATION & ACRE

The ACRE national average wheat price was set at \$6.63 with an average yield in Kentucky of 64 bushels per acre. Wheat yield was not very good this year and the state yield will probably not be higher than 64 bushels per acre. Wheat yield for the Pennyroyal area was also down. Most farms we have worked with have a high 70's average and this year's yield was closer to 70. Wheat prices are a lot lower at this point and the final projected average cash price has been \$5.30, plus or minus \$.50.

So a perfect storm has hit wheat...yields are down 10% and price down 20%. Unless wheat prices rebound between now and May 31, 2010 it looks very likely that an ACRE payment will be made on Wheat. Using these numbers and the UK ACRE calculator, a payment of \$40-60 per acre can be predicted. It is important to note that you get paid on planted acres not to exceed total base acres multiplied by 83.3%.

On a farm where you had wheat in 2009, this single potential payment could be double the 20 percent reduction in direct payments for the remaining four years of the farm bill.

DO THE MATH

To get a better understanding and help you make a well informed decision you need to work through the FSA spreadsheet or the UK ACRE calculator with one of your farms. To do this you will need the following things or at least have a good understanding of:

Your 2004-2008 yields or county plug yields

Your 2009 planted acres and predicted yield

Abbreviated 156 Farm Record from FSA showing bases and yields

Your best guess at KY yields for 2009

Projected national average prices for the 2009/2010 marketing year

FSA spreadsheet calculator or UK ACRE calculator

The UK ACRE calculator can be downloaded at:

<http://www.ca.uky.edu/agecon/index.php?p=110>

By clicking on "University of Kentucky ACRE Calculator"

"your local FSA office will have many of the items you need"

WHEN DOES ACRE NOT PAY

The ACRE program doesn't pay if price remain similar to or higher than the price guarantee AND if we have average or above average yields. Do you expect prices and yields to be average or better for next year or even for the next 4 years?

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CONCLUSIONS

The optional ACRE program offers producer's revenue-based protection as an alternative to price-based protection found in the counter-cyclical program. Additionally, the ACRE revenue guarantee is updated each crop year to reflect the current market where prices in the counter-cyclical program are set at the beginning of the farm bill and do not move throughout the life of the farm bill. You can find out more about the ACRE program through your specialist or online either at the FSA site at <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=dccp&topic=landing> or the University of Kentucky's Agricultural Economics Grains Extension site at <http://www.ca.uky.edu/agecon/index.php?p=110> .

Signing up is a two step process. First, you must sign the ACRE election form and then you must enroll in the program. If you are considering signing up for ACRE we recommend signing the election form but waiting to enroll until after August 12 when the USDA releases the first corn and soybean yield estimates and update planted corn acres. This information will provide good insight to future prices.

Important Dates:

August 14: Signup
Deadline

October: Fall Farm
Visits

November 12: PFA
Annual Meeting,
Russellville, KY