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2009 flexible cash farm leases gain traction

by *Steven D. Johnson, Ph.D., Farm & Ag Business Management Field Specialist, Iowa State University Extension, (515) 261-4215, sdjohns@iastate.edu, www.extension.iastate.edu/polk/farmmanagement.htm*

While Flexible or Bonus Cash Leases make up a small percentage of Cash Rent Lease Arrangements to-date, the interest in these types of leases is increasing rapidly. That's because the additional payment above an established base rent is getting triggered from revenue (yield times price). That additional flexible rent payment can be determined by the specific farm revenue or by the county average revenue. If the revenue reflects the yield and/or price from that farm, then the Farm Service Agency (FSA) office will likely determine that this is a share lease and the tenant should share a portion of the government farm program payments with the landlord. To avoid additional FSA and specific farm record keeping, many tenants and landlords may choose the posted county price to determine the county average revenue for that crop year in order to finalize the size of that "flex payment." In such a case, that payment won't be made until at least March following harvest, when the final county yields are determined by the USDA National Ag Statistics Service.

Interest in flexible cash leases is likely to increase in 2009. The reason is that once tenants and landowners understand that beginning in 2009 revenue triggers at both the state

and farm levels are a major portion of the new Average Crop Revenue Election (ACRE) payment, they will see that leases could be structured in a similar fashion. These revenue concepts will be incorporated by both tenants and landlords to write multi-year leases that benefit both parties through the 2012 crop year, the last year of the ACRE program.

In addition, farms that enroll in ACRE in 2009 will likely need to prove their actual farm yields by FSA farm number beginning with the 2004 crop year. That's because ACRE requires the use of both state and farm yields using a 5-year Olympic average for planted acreage. For some farms, the easiest year to prove yields will be 2008 when scale tickets, settlement sheets, grain bin measurements, and yield monitor data can be segregated by FSA farm number during and immediately following harvest. However, the FSA regulations pertinent to ACRE and farm yields have yet to be written and likely will not be completed prior to the 2008 harvest.

More information is available in Ag Decision Maker File C2-21, Flexible Farm Lease Agreements and the associated Decision Tool on analyzing a flexible lease agreement.



ACRE payment calculators

by *Bruce A. Babcock, Center for Agriculture and Rural Development, babcock@iastate.edu, 515-294-6785*

Average Crop Revenue Election, or ACRE, is a new commodity program included in the Food, Conservation, and Energy Act of 2008. The revenue guarantee equals 90 percent of the product of the ACRE yield and the ACRE price. The ACRE yield is the average of the state yields during the previous five years after the highest and lowest yield in the five years are eliminated. So, for example, if state yields for corn in 2004 through 2008 were respectively 180, 140, 150, 160, and 100 bushels per acre, the ACRE yield for 2009 would be 150, which is the average of 140, 150, and 160. The ACRE price is the average of the two previous years' season average prices as reported by the National Agricultural Statistics Service. So for 2009, the ACRE price used to set the 2009 guarantee will equal the season average prices for the 2007/08 marketing year and the 2008/09 marketing year.

To help farmers and others understand how ACRE works and to compare the likely payments from ACRE relative to traditional farm programs, the Center for Agricultural and Rural Development (CARD) researchers have prepared a fact sheet about ACRE, as well as three computer calculators. The fact sheet provides detailed information about ACRE and a brief description of how to use the calculators. The calculators are crop specific: one for corn, one for soybeans, and one for wheat. All ACRE calculations assume that ACRE sign-up is for the 2009 crop year, and all calculations are based on 2009 market conditions.

The information is provided at http://www.card.iastate.edu/ag_risk_tools/acre/.

We welcome your comments about the usefulness of the calculators (e-mail card-web@iastate.edu).