Dec 11th, 12:00 AM

ACRE and Sure: Two New Commodity Programs Under the 2008 Farm Bill

William Edwards

Iowa State University, wedwards@iastate.edu

Follow this and additional works at: https://lib.dr.iastate.edu/icm

Part of the Agricultural and Resource Economics Commons, Agricultural Economics Commons, and the Economics Commons
ACRE and Sure: Two new commodity programs under the 2008 Farm Bill
William Edwards, Professor, Economics, Iowa State University

Introduction
Federal disaster payments for areas that have suffered severe crop losses have been around for a long time. However, they have usually been implemented on an ad hoc basis each time widespread production problems arose. The new farm bill changes this. In addition, producers of USDA program crops such as soybeans, wheat, and corn have the option to enroll in a new counter-cyclical revenue plan. It is being offered as an alternative to the price counter-cyclical payment option under the 2003 farm bill.

Supplemental Revenue Assistance
The 2008 farm bill, officially known as the Food, Conservation and Energy act of 2008, creates an Agricultural Disaster Trust Fund. A major part of this fund will finance Supplemental Revenue Assistance (SURE) payments, which are designed to supplement the protection producers can purchase from private crop insurance companies. In fact, a producer must purchase insurance for all crops produced each year to be eligible for the SURE disaster program, starting in 2008.

Pasture is not included in the crops that have to be insured. Other exceptions include any crop that makes up less than 10 percent of the value of all crops grown on the farm, and crops for which the NAP or catastrophic level coverage insurance premium is more than 10 percent of the value of the insurance coverage offered.

Farmers who have land in a county that has been declared a “secretarial designated” disaster county, or land in a county that is contiguous to a disaster county, may be eligible to receive a SURE payment. Farming operations not in eligible counties could also qualify if they have more than a 50 percent loss in the value of their crop production due to weather-related causes. In addition, at least one crop on the farm must suffer a yield loss of ten percent or more for the farm to receive a payment.

SURE is a revenue guarantee program, similar to crop revenue insurance without the increasing guarantee feature. If the farm’s actual crop revenue is less than the guarantee, the SURE payment makes up 60 percent of the difference. The actual crop revenue includes not only the estimated value of the crop produced, but also other USDA payments and crop insurance indemnity payments received. This prevents farmers from receiving double payments for the same losses.

All guarantees and actual revenues under SURE are calculated as the sum for all crops and in all counties involved in the “farming operation”, even if land in more than one county or state is involved. Payments are not made for losses to individual crops or insurance units.

The guarantee
The SURE guarantee is simply the sum of all the crop insurance guarantees purchased for the current crop year, increased by 15 percent. The extra 15 percent is designed to fill part of the
revenue gap not covered by insurance. For example, a producer who purchased a 75 percent guarantee on all crops would have that raised to 86.25 percent for SURE. There is also an overall “cap” on the SURE guarantee equivalent to a 90 percent insurance guarantee on all crops.

If the crop insurance proven yield (APH yield) is less than the yield used by the Farm Service Agency to calculate counter cyclical payments (CCPs), then the CCP yield is used instead for calculating the SURE guarantee. Producers who have used “plug” yields to calculate their APH yields in some low production years will also have their SURE yield recalculated.

**Actual revenue**

The SURE “actual revenue” includes the actual number of bushels harvested for each crop valued at the average cash marketing year price as determined by the USDA. For corn and soybeans this price is calculated from September through August, so the actual revenue and payments for 2008 crops will not be known until September 2009. The cash marketing year price may be higher or lower than the harvest futures price used to calculate crop insurance indemnity payments.

In addition, the actual revenue includes any crop insurance indemnity payments and prevented planting payments received for the 2008 crop, and 15 percent of any direct payments, counter cyclical payments and loan deficiency payments received for the 2008 crop. Unless corn and soybean prices drop considerably in the next year, the direct payments will be the only commodity program received for the 2008 crop. Starting in 2009 payments received under the ACRE program will be included, too. If payments are received under any other USDA crop disaster programs, these are also included.

If the actual revenue calculation is below the SURE guarantee, the producer will be paid 60 percent of the difference. There is a limit of $100,000 per year per eligible producer, based on the same rules outlined for other commodity programs in the new farm bill.

**Insure all crops**

To be eligible for SURE payments a producer must insure all of his/her eligible crops. Approximately 90 of the corn and soybeans in Iowa are covered by crop insurance each year. However, only a small percent of other crops such as oats, wheat and hay are typically insured. Even a small patch of hay that is not insured can cancel eligibility for SURE payments on all the acres of corn and soybeans on the same farm.

Crops not eligible for private insurance but which are eligible for the Noninsured Assistance Program (NAP) offered through FSA also need to be covered. These include many horticultural crops and some forage crops, but not pasture. The NAP fee is $250 per crop. Beyond insuring all crops, no other signup is necessary to be eligible for SURE.

The maximum CAT charge is $900 and the maximum NAP charge is $750 per producer per county. After 2008 all crops must be insured by the sales closing date, which is March 15 for most Iowa crops. Fall seeded crops such as hay and winter wheat have a September 30 deadline for CAT or “buy-up” insurance, and a December 1 deadline for NAP.

Stay in touch with your local FSA office for more details on SURE.
Table 1. Supplemental Revenue Assistance (SURE) Example

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planted acres</td>
<td>500 acres</td>
<td>500 acres</td>
<td>1,000 acres</td>
</tr>
<tr>
<td>APH crop insurance yield</td>
<td>160 bu.</td>
<td>50 bu.</td>
<td></td>
</tr>
<tr>
<td>Crop insurance indemnity price</td>
<td>$5.40</td>
<td>$13.36</td>
<td></td>
</tr>
<tr>
<td>Crop insurance guarantee level</td>
<td>75 %</td>
<td>75 %</td>
<td></td>
</tr>
<tr>
<td>Crop insurance revenue guarantee (acres x yield x price x % guarantee)*</td>
<td>$324,000</td>
<td>$250,500</td>
<td>$574,500</td>
</tr>
<tr>
<td>Harvested acres</td>
<td>500 acres</td>
<td>500 acres</td>
<td></td>
</tr>
<tr>
<td>Harvested yield</td>
<td>150 bu.</td>
<td>42 bu.</td>
<td></td>
</tr>
<tr>
<td>actual bushels harvested</td>
<td>75,000 bu.</td>
<td>15,000 bu.</td>
<td></td>
</tr>
<tr>
<td>Harvest time insurance price</td>
<td>$4.00</td>
<td>$10.00</td>
<td></td>
</tr>
<tr>
<td>actual revenue for crop insurance (bu. x price)</td>
<td>$300,000</td>
<td>$210,000</td>
<td>$510,000</td>
</tr>
<tr>
<td>Crop insurance indemnity payment (insurance guarantee less actual revenue)*</td>
<td>$24,000</td>
<td>$40,500</td>
<td>$64,500</td>
</tr>
<tr>
<td>SURE guarantee (115% of insurance guarantee)*</td>
<td></td>
<td>$660,675</td>
<td></td>
</tr>
<tr>
<td>Marketing year average cash price</td>
<td>$3.75</td>
<td>$9.50</td>
<td></td>
</tr>
<tr>
<td>actual revenue for SURE (bu. x market yr. price)</td>
<td>$281,250</td>
<td>$199,500</td>
<td>$480,750</td>
</tr>
<tr>
<td>Crop insurance indemnity payment</td>
<td></td>
<td></td>
<td>$64,500</td>
</tr>
<tr>
<td>15% of USDA direct payment ($20,000)</td>
<td></td>
<td></td>
<td>$3,000</td>
</tr>
<tr>
<td>Total crop revenue for SURE</td>
<td></td>
<td>$548,250</td>
<td></td>
</tr>
<tr>
<td>Revenue shortfall for SURE (guarantee less actual)</td>
<td></td>
<td>$112,425</td>
<td></td>
</tr>
<tr>
<td>SURE payment (60% of shortfall)</td>
<td></td>
<td>$67,455</td>
<td></td>
</tr>
</tbody>
</table>

*Assumes basic revenue insurance. For CRC or RA-HPO the final guarantee could be higher since the harvest price exceeded the initial indemnity price.

**Average Crop Revenue Election**

The current counter-cyclical payment (CCP) program becomes effective when the season average marketing price for a commodity is below the national target price for that commodity. There is a maximum payment level per bushel of program yield, and it is paid on 85 percent of the program base acres. Critics of the CCP have pointed out that it addresses price risk only, and not production risk, and it is not based on the crops or acres actually being grown by the producer each year. ACRE addresses both of these problems.

**ACRE guarantees**

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. Farms correspond to FSA units, just as for the current commodity programs. The price component of both of these is the average of the two
most recent USDA marketing year prices. For corn and soybeans the marketing year runs from September through August. Marketing year prices are based on cash prices (not futures) paid throughout the country. The marketing year prices for the 2007 crops are projected to be $4.00 for corn and $10.40 for soybeans.

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. Based on the most recent USDA yield forecasts, the 2004-2008 Iowa average yields for ACRE will be about 166 bushels for corn and about 50 bushels for soybeans.

The state revenue guarantee is 90 percent of the average state yield multiplied by the two-year average marketing price. 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 is also 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.

**Actual revenue**

To trigger a payment under ACRE the “actual” revenue for both the state and the farm must be less than their corresponding guarantees. 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 the difference between the state guarantee and the state actual revenue. The payment level cannot exceed 25 percent of the state guarantee, however. It will also be adjusted up or down by the ratio of the farm Olympic average yield to the state Olympic average yield. For example, if the farm average yield is 10 percent above the state average yield, the ACRE payment will be increased by 10 percent for that farm.

The payment will be made on 83.3 percent of the farm acres planted to the crop (85 percent in 2012). However, the planted acres that receive a payment cannot exceed the total base acres established for the counter-cyclical payments in the signup for the 2003 farm bill program. Producers who sign up for ACRE will continue to receive 80 percent of the direct payments that have been paid, regardless of actual prices or yields each year.

**How much does ACRE cost?**

Producers who sign up for ACRE will forfeit 20 percent of their current direct payments through 2012, so that is a fixed cost. They will 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. The loss of potential CCPs and LDPs may not be too critical, because if market prices fall enough to trigger those payments it is likely that the ACRE payment would be at least as large. The only situation where that would not be true is a year in which prices were low but yields were high enough to keep revenue above the ACRE guarantees.
ACRE does not replace crop insurance

Although the ACRE program may resemble crop revenue insurance, there are some important differences. The ACRE guarantees are based on longer term average prices and yields, so they will not fluctuate as much from year to year as crop insurance guarantees. In fact, ACRE regulations state that the guarantees cannot increase nor decrease more than 10 percent each year. This helps accomplish the fundamental goal of ACRE, which is to stabilize gross revenues over the next 4 years.

On the other hand, one of the two ACRE guarantees and the size of the payment are based on state level yields, not farm yields like most crop insurance policies. ACRE does not protect a farmer who has a poor production year when the state as a whole does not. In addition, ACRE revenue uses the marketing year cash price to calculate actual revenue while crop revenue insurance uses futures prices at harvest time. So, while ACRE payments can be a useful risk management tool for sharply falling prices or widespread yield losses, they do not replace farm level crop insurance protection.

Should I sign up?

Producers can sign up for the ACRE program beginning in any crop year from 2009 through 2012. Once enrolled, they must remain in the program through 2012. All program crops on the farm must be enrolled. The decision of whether or not to enroll is a classic insurance decision. Producers will give up a fixed amount of revenue, 20 percent of their direct payment, in exchange for a possible ACRE payment in a year when gross revenue is low. Payments could be zero in all four years, or they could be sizable.

One key factor is the level of guarantee established for the 2009 crop. The 2008 marketing year price will not be known until September 2009. However, it seems likely that the beginning guarantees will quite high by historical standards, and they cannot decline by more than 10 percent each year afterward. This would make the ACRE program attractive, especially since target prices and loan rates are essentially frozen at the levels established in the 2003 farm bill.

The other key factor is the likely price trend over the next four years. If production is stable and prices either trend upward or are steady, no ACRE payments are likely, and the producer will simply lose part of the direct payment. However, if prices trend downward from present levels, ACRE will provide an important safety net for gross revenues. Each individual producer will have to assess his or her expectations for the future and need for financial risk protection before making the ACRE decision.
Table 2. Example of ACRE for corn in Iowa

Assume the 5-year Iowa Olympic average yield is 166 bushels.
Assume the 5-year farm Olympic average yield is 175 bushels.
Assume the 2007-2008 average marketing year price is $4.50 per bushel.
Assume the average crop insurance premium paid per acre is $20.00.

- 2009 state revenue guarantee = 90% x 166 bu. x $4.50 = $672.30
- 2009 farm level guarantee = (175 bu. x $4.50) + $20.00 = $807.50

Assume the actual 2009 state yield is 150 bushels per acre.
Assume the actual 2009 farm yield is 160 bushels per acre.
Assume the 2009 marketing year price is $4.00 per bushel.

- 2009 actual state revenue = 150 bu. x $4.00 = $600.00
- 2009 actual farm revenue = 160 bu. x $4.00 = $640.00

Since both the state and farm actual revenues are below their guarantees, an ACRE payment is earned.

- ACRE payment = ($672.30 - $600.00) x 83.3% x (175 bu. / 166 bu.) = $63.49 per acre

The difference between the state guarantee and the state actual revenue ($72.30) is paid on 83.3 percent of the planted acres, and is adjusted for the farm yield being higher than the state yield.

References
