

10. ACRE: The Future of Farm Programs?

Troy Dumler

<tdumler@ksu.edu>

Troy Dumler is a K-State Extension Agricultural Economist in southwest Kansas. A native of Kansas with B.S. and M.S. degrees in agricultural economics from Kansas State University, Troy has developed an Extension program centered on farm management and agricultural policy. In addition to continued work in cropping systems profitability, since the passage of the 2008 Farm Bill, he has focused much of his attention on analyzing how new commodity programs in the bill will impact farmers and ranchers.

Abstract/Summary

With the dust barely settled from the debate over the 2008 Farm Bill, Congress has started the process of developing its replacement. Set to expire in 2012, the 2008 Farm Bill established a new optional revenue-based safety net—the Average Crop Revenue Election (ACRE) program. Early discussion in the 2012 Farm Bill debate suggests that ACRE could become the primary safety net program for U.S. crop producers. However, low participation in the program also suggests that many producers do not favor such a shift in policy. This session will discuss the economic and political consequences of moving to an ACRE-type safety net in the midst of record budget deficits, volatile farm income, and increased criticism of U.S. farm programs.

ACRE: The Future of Farm Programs?

Troy Dumler
Extension Agricultural Economist
Kansas State University



The 2008 Farm Bill and the Commodity Program

A Changing Farm Income Safety Net

- Existing three-part price safety net
 - Marketing loans and loan deficiency payments
 - Income support tied to national/county price and farm's production
 - Counter-cyclical payments
 - Income support tied to national price and farm's historic production base
 - Direct payment
 - Fixed payment tied to legislated rate and farm's historic production base
- New revenue safety net
 - Average Crop Revenue Election Program
 - Income support tied to state/farm revenue and farm's planted acreage
 - Supplemental Revenue Assistance Program
 - Income support tied to farm revenue and crop insurance coverage



ACRE – A History

- Fall 2006
 - NCGA BRP/RCCP Proposal
 - Zulauf (American Farmland Trust) Integrated Farm Revenue Plan
- Early 2007
 - USDA Revenue-based Counter-Cyclical Proposal
 - Farm Bureau Counter-Cyclical Revenue (CCR) Proposal
- Summer 2007
 - House Optional Revenue-based Counter-Cyclical Program
 - Durbin-Brown Farm Safety Net Improvement Act
- Fall 2007
 - Senate Average Crop Revenue (ACR) Program



ACRE – A History

- Revenue-based proposals varied on
 - Revenue coverage (national, state, county, farm)
 - Means used to estimate prices and yields
 - Acres covered (base vs. planted)
 - Program(s) they would replace (Direct, CCP and/or marketing loan)
 - Interaction with crop insurance



ACRE – A History

- Final ACRE legislation was a compromise of several revenue-based counter-cyclical proposals and other considerations
- Why establish a revenue-based program?
 - Market prices: some groups viewed a revenue program as the best means to receive payments
 - Yields: increasing realization that supporting price only is not always sufficient
 - Budget: Congress viewed as a means to save money



Farm Bill Commodity Program Average Crop Revenue Election Option

ACRE State Guarantee

$$\frac{\text{5-year Olympic average state yield}^*}{\text{5-year Olympic average state yield}^*} \times \frac{\text{2-year national average price}}{\text{2-year national average price}} \times 90\% = \frac{\text{ACRE state guarantee}}{\text{ACRE state guarantee}}$$

Farm Benchmark Revenue

$$\frac{\text{5-year Olympic average farm yield}^*}{\text{5-year Olympic average farm yield}^*} \times \frac{\text{2-year national average price}}{\text{2-year national average price}} + \frac{\text{crop insurance premium paid}}{\text{crop insurance premium paid}} = \frac{\text{farm benchmark revenue}}{\text{farm benchmark revenue}}$$

* Yields per planted acre



Farm Bill Commodity Program Average Crop Revenue Election Option

Actual State Revenue

$$\frac{\text{average state yield}^*}{\text{average state yield}^*} \times \text{MAX} \left(\frac{\text{national average price}}{\text{national average price}} \text{ or } \frac{\text{loan rate x 70\%}}{\text{loan rate x 70\%}} \right) = \frac{\text{actual state revenue}}{\text{actual state revenue}}$$

Actual Farm Revenue

$$\frac{\text{average farm yield}^*}{\text{average farm yield}^*} \times \text{MAX} \left(\frac{\text{national average price}}{\text{national average price}} \text{ or } \frac{\text{loan rate x 70\%}}{\text{loan rate x 70\%}} \right) = \frac{\text{actual farm revenue}}{\text{actual farm revenue}}$$

* Yields per planted acre



Farm Bill Commodity Program Average Crop Revenue Election Option

If state revenue is less than the ACRE state guarantee **and** farm revenue is less than the farm benchmark revenue:

ACRE Payment

$$\text{MIN} \left[\left(\frac{\text{ACRE state guarantee}}{\text{ACRE state guarantee}} - \frac{\text{actual state revenue}}{\text{actual state revenue}} \right) \text{ or } \left(\frac{\text{ACRE state guarantee}}{\text{ACRE state guarantee}} \times 25\% \right) \right] \times$$

$$\left(\frac{\text{Oly. avg. farm yield}}{\text{Oly. avg. farm yield}} / \frac{\text{Oly. avg. state yield}}{\text{Oly. avg. state yield}} \right) \times \frac{\text{planted acres}}{\text{planted acres}} \times 83.3\% = \frac{\text{ACRE payment}}{\text{ACRE payment}}$$



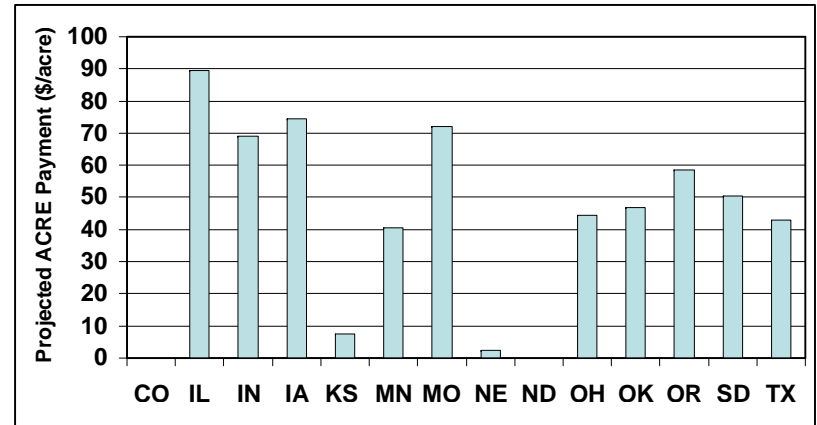
Calculating Program Payments 2009 ACRE Program Guarantees in Kansas*

Commodity	5-Year Oly. Avg. Yield	x	2-Year Avg. Price	x	90%	=	2009 ACRE Revenue Guarantee	x	25%	=	2009 MAX ACRE Payment
Wheat	35.3		\$6.63		90%		\$210.64		25%		\$52.66
Corn-Irr	188		4.13		90%		698.80		25%		174.70
Corn-Dry	96		4.13		90%		356.83		25%		89.21
Grain Sorghum	76		3.64		90%		248.98		25%		62.25
Soybeans	35		10.04		90%		316.26		25%		79.07

* ACRE guarantees based on published statewide average yields and national average prices



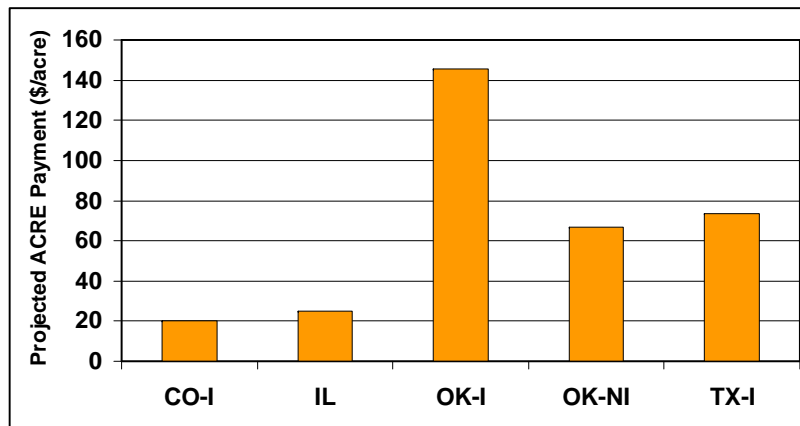
Projected 2009 Wheat ACRE Payments in Selected States



Max payments for IA, OK, and TX.



Projected 2009 Corn ACRE Payments in Selected States

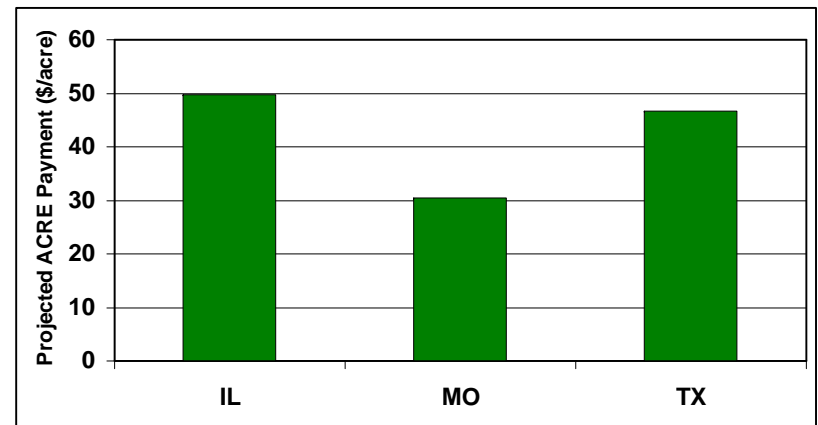


I = Irrigated, NI = Non-irrigated.

Max payment for OK and TX.



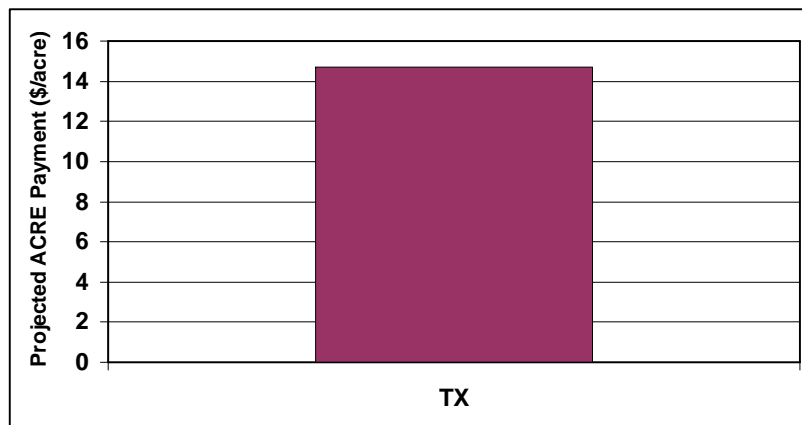
Projected 2009 Sorghum ACRE Payments in Selected States



Max payments for TX.



Projected 2009 Soybean ACRE Payments in Selected States



Estimated 2009 ACRE Payments

- Estimated \$435 million in ACRE payments for 2009 crop year
 - Wheat \$305 million
 - Corn \$100 million



Calculating Program Payments

2010 ACRE Program Guarantees in Kansas*

Commodity	Benchmark Yield	x	Benchmark Price	x	90%	=	2010 ACRE Revenue Guarantee	2009 ACRE Revenue Guarantee	Difference 2010-2009
Wheat	37.2		\$5.83		90%		\$195.19	\$210.64	\$-15.45
Corn-Irr	188		3.81		90%		644.65	698.80	\$-54.15
Corn-Dry	96		3.81		90%		329.18	356.83	\$-27.65
Sorghum	77		3.18		90%		224.08	248.98	\$-24.90
Soybeans	35		9.79		90%		308.39	316.26	\$-7.87

* ACRE guarantees based on published statewide average yields and national average prices



Calculating Program Payments

Projected 2010 ACRE Payments in Kansas

Commodity	Actual Yield	Actual Price	Actual Revenue	2010 Guarantee	\$ In or out of the Money
Wheat	44	\$5.10	\$224.40	\$195.02	\$-29.38
Corn-Irr*	192	\$3.80	\$729.60	\$643.81	\$-85.79
Corn-Dry*	110	\$3.80	\$418.00	\$328.75	\$-89.25
Sorghum	82	\$3.50	\$287.00	\$287.00	\$-66.97
Soybeans	38	\$9.25	\$351.50	\$351.50	\$-43.27

* Irrigated and dryland corn yields are based on combined yield estimate.



ACRE Enrollment in 2009

Selected States	DCP Farms	DCP Acres	ACRE Farms	ACRE Acres	Percent ACRE Farms	Percent ACRE Acres
Nebraska	67,106	11,897,353	16,367	3,927,347	19.6%	24.8%
Colorado	16,030	4,708,231	317	183,064	1.9%	3.7%
Iowa	130,146	18,740,255	17,429	3,660,929	11.8%	16.3%
Kansas	97,963	20,257,427	1,603	587,639	1.6%	2.8%
Missouri	71,118	8,835,931	3,269	775,976	4.4%	8.1%
Oklahoma	36,896	5,593,756	12,158	2,756,908	24.9%	33.0%
South Dakota	40,740	9,797,443	9,164	3,503,300	18.4%	26.3%
Texas	88,998	18,365,793	930	242,513	1.0%	1.3%
U.S. Total	1,541,329	222,044,292	128,620	32,528,628	7.7%	12.8%

Source: USDA Farm Service Agency
Available from USDA-FSA at <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=dccp&topic=landing>



ISU ACRE Survey Reasons for Enrolling in ACRE

Reason	Score
Wanted more risk protection	3.9
Believed ACRE payments would exceed 20% of direct payments given up	3.2
Farm had high yield variability	1.8
Lender or farm manager advised it	1.6
Landlord wanted to enroll farm	1.4

*Reasons were rated from 0 to 5 in increasing order of importance.

Source: William Edwards, ISU



ISU ACRE Survey Reasons for NOT Enrolling in ACRE

Reason	Score
Program was too complex	3.8
Didn't want to give up 20% of direct payment	3.6
Would lose possible LDP	3.0
Too difficult to explain to landlord	3.0
Unlikely to get a payment	2.9
Farm yields don't track with state	2.7
Marketing loan rate would be lower	2.4
Lacked farm yield information	2.2
Did not need more risk protection	2.1
Landlord did not want to enroll	2.1

*Reasons were rated from 0 to 5 in increasing order of importance.



Options for Next Farm Bill

- Status quo
- Make ACRE primary farm income support
- Make SURE primary income support
- Revert to price support programs
- Enhance crop insurance coverage/options
- ???

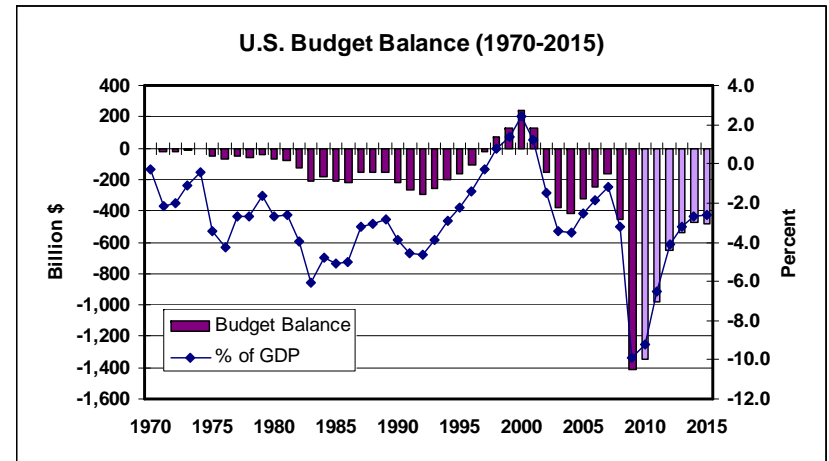


Driving Factors for Next Farm Bill

- Federal Budget
- Economic Conditions
- WTO Commitments
- Influence of non-agricultural interest groups
- Politics



Federal Budget



Source: CBO



The Budget

- Budget Baseline
 - Each year the Congressional Budget Office estimates the cost of current programs 10 years in the future
 - If the budget baseline is reduced, fights for resources could get interesting



Pay-As-You-Go (PAYGO) Budget Rule

- Any bill containing entitlement increases and/or tax cuts that passes Congress must be “deficit neutral” according to CBO budget baseline
 - Any increases in spending in a bill must be offset by cuts elsewhere in the bill or tax increases
 - For the 2008 Farm Bill, it took 16 months to get an extra \$10 billion over 10 years

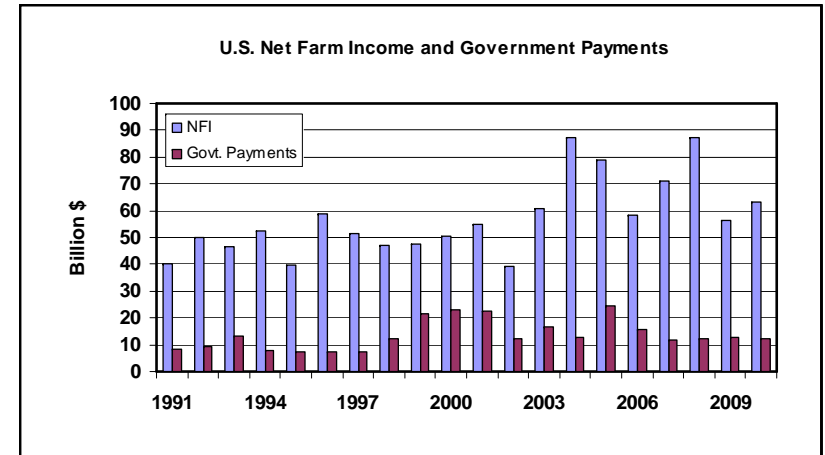


Budget Reconciliation

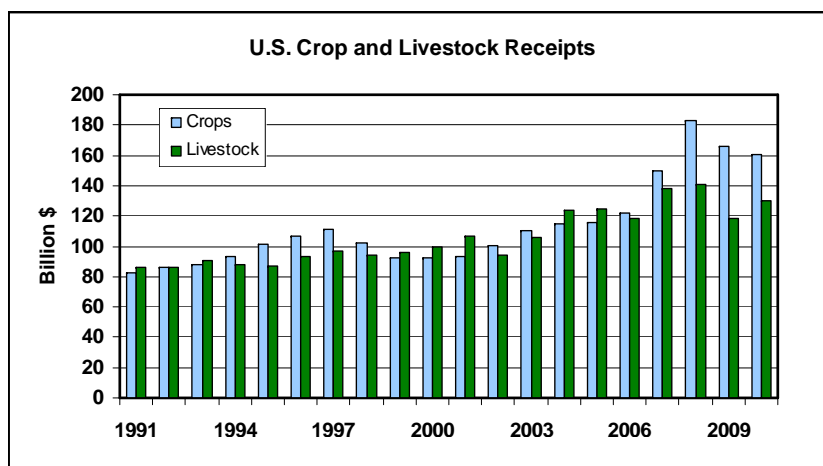
- Procedure designed as a deficit reduction tool to force congressional committees to produce changes in mandatory spending (entitlements) or revenue programs (taxes)
- Budget Committee instructs committees with jurisdiction over mandatory spending and revenue policies to produce legislation that meets certain spending or tax targets
- Budget Committee packages legislation into a bill that goes to the floor with limited debate and amendments



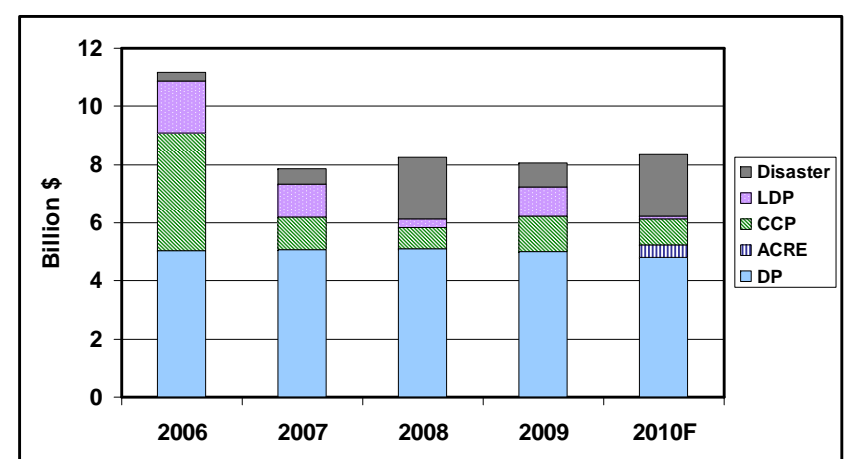
Economic Conditions



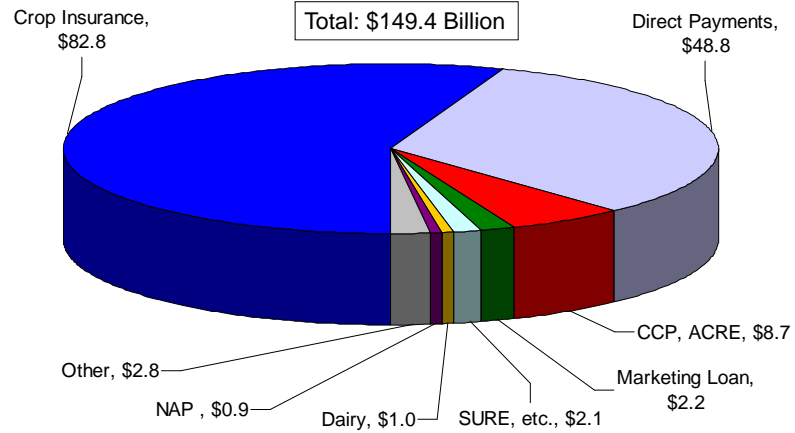
Economic Conditions



Commodity and Disaster Payments



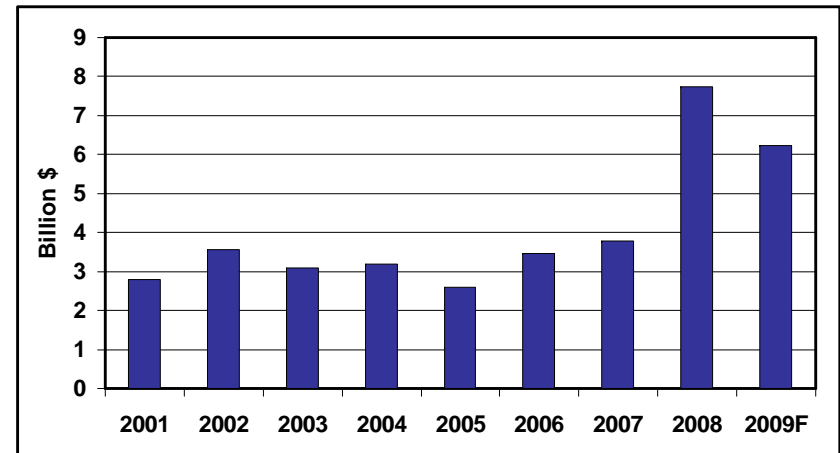
Projected Outlays for Commodity Programs, Crop Insurance, and Disaster Programs FY2011-FY2020



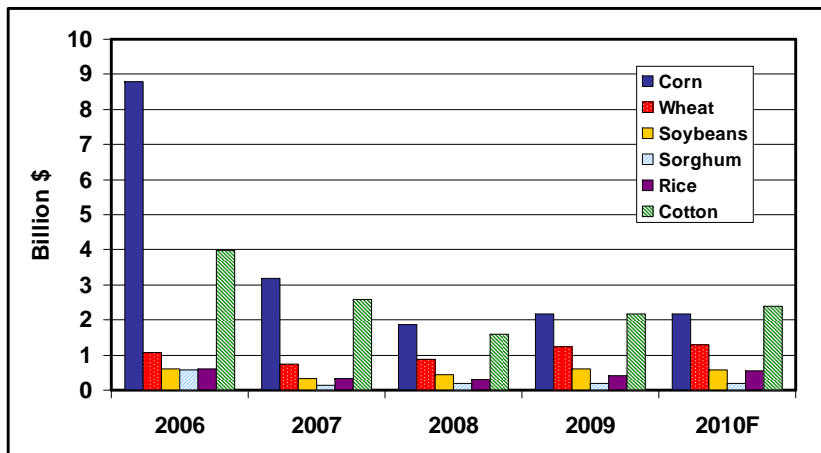
Source: Congressional Research Service



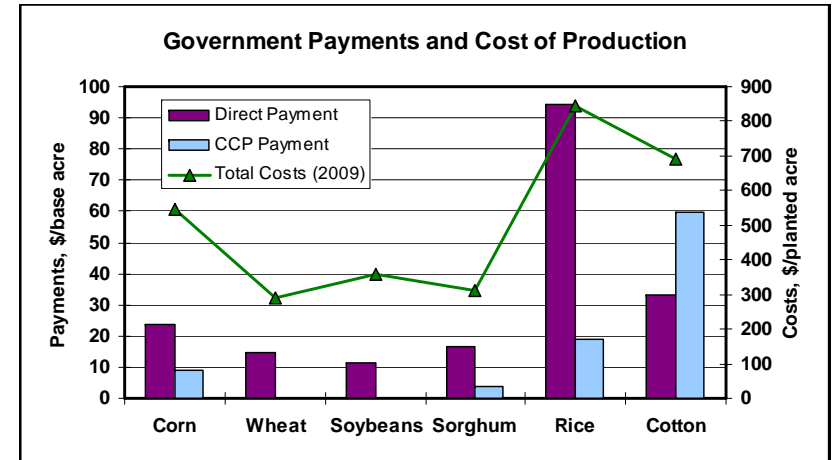
Government Crop Insurance Costs



Government Payments by Commodity



Commodity Issues



2010 Commodity Program Prices

Commodity	2010 CCP Effective Target Price	2010 ACRE Price Guarantee	2010/11 MYA Price
Corn (bu)	\$2.35	\$3.81	\$3.80
Sorghum (bu)	\$2.28	\$3.18	\$3.50
Soybeans (bu)	\$5.56	\$9.76	\$9.25
Wheat (bu)	\$3.65	\$5.83	\$5.10
Long-grain rice (cwt)	\$8.15	\$13.90	\$9.50
Short/med-grain rice (cwt)	\$8.15	\$21.30	\$17.50
Upland cotton (lb)	\$0.6458	\$0.5520	\$0.6800



WTO Commitments

- Brazil-U.S. Cotton Case Settlement
 - U.S. will modify Export Credit Guarantee program
 - U.S. will fund \$147 million per year to Brazil's cotton sector for technical assistance and capacity building
 - Funds will continue until U.S. passes farm bill that addresses issues with marketing loan and counter cyclical program or U.S. and Brazil agree upon a solution to the dispute



Politics

- 2010 Mid-term Elections
 - Will have significant impact on timing of next Farm Bill
 - Republicans win one or both houses—bill delayed until 2012 or beyond
 - Democrats maintain control—expect significant action in 2011
 - Will have less impact on content of Farm Bill
 - Bigger difference between commodities/regions than political parties



Summary and Future Thoughts

- ACRE will not appear in its current form in the next farm bill
 - Suggestions for improvement
 - Reduce complexity
 - Eliminate dual triggers
 - Eliminate direct payment/marketing loan reduction
 - Eliminate long-term commitment to participate
 - Provide county/farm level coverage
 - Enhances production risk coverage
 - Increases cost
 - Increases administrative difficulties



Summary and Future Thoughts

- Farm Bill Baseline will be reduced
 - Direct payments will be reduced
 - Reductions will be used to fund other commodity programs
- Making changes to cotton program will be difficult
 - How is the price-based cotton program modified to make it comparable to other commodities?



Questions???

Troy Dumler
tdumler@ksu.edu
620-275-9164
www.agmanager.info

