Commodity Program Options

- Producers have choice between:
  - (1) Traditional programs
    - Direct payments
    - Countercyclical payments
    - Marketing loans
  - (2) ACRE option
    - Direct payments with 20% cut
    - ACRE revenue plan
    - Marketing loans with 30% cut in loan rates
Commodity Program Options

- The choice between program options
  - Starts with 2009 crop year
  - Traditional programs are default
  - If/when ACRE is chosen, that choice lasts through the life of the Farm Bill (through 2012)
  - Choice most likely made on FSA farm id basis

Traditional Programs

- Maintains direct payments, countercyclical payments, marketing loan programs as in 2002 farm bill
  - Adjustments to loan rates and target prices
  - No base acre or yield adjustments
  - 83.3% payment rates for ’09-’11

- Payment Limits
  - Direct $40,000
  - Countercyclical $65,000
  - Marketing loan gains unlimited
### Traditional Programs

<table>
<thead>
<tr>
<th></th>
<th>Loan Rate</th>
<th>Target Price</th>
<th>Direct Payment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$1.95</td>
<td>$2.63</td>
<td>$0.28</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$5.00</td>
<td>$6.00 (+$0.20)</td>
<td>$0.44</td>
</tr>
<tr>
<td>Wheat</td>
<td>$2.94 (+$0.19)</td>
<td>$4.17 (+$0.25)</td>
<td>$0.52</td>
</tr>
</tbody>
</table>

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### Traditional Programs

- **Counter-cyclical program**
  - Makes payments when season average prices are below trigger prices.

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target price</td>
<td>$2.63</td>
<td>$6.00</td>
<td>$4.17</td>
</tr>
<tr>
<td>-Direct Payment Rate</td>
<td>$0.28</td>
<td>$0.44</td>
<td>$0.52</td>
</tr>
<tr>
<td>Trigger Price</td>
<td>$2.35</td>
<td>$5.56</td>
<td>$3.65</td>
</tr>
<tr>
<td>-Loan Rate</td>
<td>$1.95</td>
<td>$5.00</td>
<td>$2.94</td>
</tr>
<tr>
<td>Maximum Payment Rate</td>
<td>$0.40/bu</td>
<td>$0.56/bu</td>
<td>$0.71/bu</td>
</tr>
</tbody>
</table>

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ACRE Program

- ACRE based on a state-level revenue index for each program crop
  - ACRE is a put option on state-level revenue
  - Guarantees 90% of expected revenue

- Yield Component: 5-year average of state yields

- Price Component: 2-year average of national prices

ACRE Program

- Payments are based on planted acreage
  - Limited to base acreage total
  - If planted acres > base, farmer chooses which acres to enroll

- Payment limits
  - Direct: $40,000 minus 20% of DP ($32k)
  - ACRE: $65,000 plus 20% of DP ($73k)
  - Marketing loan gains unlimited (but lower loan rates)
ACRE Program

- Eligibility – “Double Trigger” program
  - Actual state revenue must fall below state guarantee level
  - Actual farm revenue must fall below farm guarantee level

- Implications
  - Losses could be triggered at state level, but not at farm level (farmer would not receive a payment)
  - Losses could be triggered at farm level, but not at state level (nobody would receive a payment)

ACRE Program

- Payments are crop specific, but whole farm must be enrolled in ACRE
  - Example: Cannot enroll corn base under ACRE and soybean base under traditional

- Revenue guarantee cannot change by more than 10% from previous year
  - 10% “cups” and “caps”
ACRE Payment Mechanics

- ACRE Payments are made if:
  - State revenue falls below state trigger
  - Farm revenue falls below farm trigger

- Payment Calculations
  - $0.833 \times \text{State Revenue Loss} \times \text{Farm Yield Factor}$
    - State Revenue Loss = Revenue Guarantee – Actual Revenue
    - Farm Yield Factor = (Farm Yield/State Yield)

2009 ACRE Yield Component

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>180</td>
<td>-56</td>
<td>59</td>
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<tr>
<td>2005</td>
<td>143</td>
<td>46.5</td>
<td>61</td>
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<tr>
<td>2006</td>
<td>163</td>
<td>48</td>
<td>-67</td>
</tr>
<tr>
<td>2007</td>
<td>175</td>
<td>-43</td>
<td>-57</td>
</tr>
<tr>
<td>2008</td>
<td>179*</td>
<td>46*</td>
<td>64</td>
</tr>
<tr>
<td>2009 Yield Guarantee</td>
<td>172*</td>
<td>47*</td>
<td>61</td>
</tr>
<tr>
<td>*Projected</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 2009 ACRE Price Component

<table>
<thead>
<tr>
<th>Year</th>
<th>Corn</th>
<th>Soybeans</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$4.20</td>
<td>$10.10</td>
<td>$6.48</td>
</tr>
<tr>
<td>2008*</td>
<td>$4.00*</td>
<td>$9.00*</td>
<td>$6.70*</td>
</tr>
<tr>
<td>2009 Price Guarantee</td>
<td>$4.10*</td>
<td>$9.55*</td>
<td>$6.59*</td>
</tr>
<tr>
<td></td>
<td>*Projected</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Projected

---

### 2009 Revenue Guarantees

<table>
<thead>
<tr>
<th>Year</th>
<th>Corn</th>
<th>Soybeans</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 Revenue Guarantee</td>
<td>$635</td>
<td>$404</td>
<td>$362</td>
</tr>
<tr>
<td>2010 Guarantee cup/cap</td>
<td>$571</td>
<td>$364</td>
<td>$325</td>
</tr>
<tr>
<td></td>
<td>$698</td>
<td>$444</td>
<td>$398</td>
</tr>
</tbody>
</table>

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### ACRE Payment Examples

<table>
<thead>
<tr>
<th></th>
<th>Yield</th>
<th>Price</th>
<th>ACRE Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>180</td>
<td>$3.50</td>
<td>$4.68</td>
</tr>
<tr>
<td>Soybeans</td>
<td>50</td>
<td>$8.00</td>
<td>$3.97</td>
</tr>
<tr>
<td>Wheat</td>
<td>65</td>
<td>$5.50</td>
<td>$4.29</td>
</tr>
</tbody>
</table>

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### ACRE Payment Examples

<table>
<thead>
<tr>
<th></th>
<th>Yield</th>
<th>Price</th>
<th>ACRE Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>200</td>
<td>$2.75</td>
<td>$84.68</td>
</tr>
<tr>
<td>Soybeans</td>
<td>60</td>
<td>$5.75</td>
<td>$58.97</td>
</tr>
<tr>
<td>Wheat</td>
<td>75</td>
<td>$3.75</td>
<td>$80.54</td>
</tr>
</tbody>
</table>

*Remember there is a cap on ACRE payments ($73k)
ACRE vs. Traditional

- **Chance of payments for 2009:**
  - ACRE – relatively high
  - CCP – relatively low (but getting bigger)

- **Potential size of payments for 2009:**
  - Larger under ACRE, up to payment cap

- **Over time:**
  - ACRE revenue guarantee moves with market
  - CCP based on fixed price levels
  - 10% cup/cap limits are important
  - ACRE payments will tend to occur in consecutive years

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ACRE vs. Traditional

![Graph showing break-even points for ACRE and Traditional payments](image)

- **Break-even (without land):** $2.00 per bushel
- **Break-even (with land):** $3.50 per bushel
- **Target price - direct rate:** $4.00 per bushel

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Considerations

- ACRE requires producers to give up a portion of guaranteed direct payments
- Double Trigger Rule
  - How closely do your farm’s yields follow the state?
  - ACRE is NOT a substitute for crop insurance
- Operation characteristics
  - Base vs. planted acres
  - Size
  - Land tenure
  - Leverage

Program Option Side-by-Side

<table>
<thead>
<tr>
<th>Traditional Program Option</th>
<th>ACRE Program Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Payments</td>
<td>Direct Payments</td>
</tr>
<tr>
<td>$40,000 limit</td>
<td>$32,000 limit</td>
</tr>
<tr>
<td></td>
<td>Payments reduced by 20%</td>
</tr>
<tr>
<td>Marketing Loan Program</td>
<td>Marketing Loan Program</td>
</tr>
<tr>
<td>No payment limit</td>
<td>No payment limit</td>
</tr>
<tr>
<td></td>
<td>Loan rates reduced by 30%</td>
</tr>
<tr>
<td>Counter-Cyclical Program</td>
<td>ACRE Program</td>
</tr>
<tr>
<td>$65,000 limit</td>
<td>$73,000 limit</td>
</tr>
<tr>
<td>Payments based on:</td>
<td>Payments based on:</td>
</tr>
<tr>
<td>Fixed target prices</td>
<td>State-level revenue</td>
</tr>
<tr>
<td>Base acreage</td>
<td>Planted acreage</td>
</tr>
</tbody>
</table>
Disaster Assistance (SURE)

- **Supplemental Disaster Assistance**
  - Supposedly replaces ad hoc disaster assistance
  - Covers whole farm losses, based on whole-farm revenue

- **Eligibility**
  - (1) Crop insurance must be purchased for all crops
  - (2) Farm located in, or next to, a declared disaster county (or) significant farm-level losses

- **Greatest benefit in areas with high yield variability**
  - greater chance of disaster designation

Income Limitations

- **2002 Farm Bill**
  - $2.5 million AGI cap
  - unless 75% of income from farming

- **2008 Farm Bill**
  - Direct Payments: $750,000 AGI cap
  - Other Commodity Programs: $500,000 AGI cap
  - Disaster Assistance: $1 million AGI cap
  - unless 66.6% of income from farming
Payment Attribution

- 2008 Farm Bill eliminates the “3-entity” rule
- Program payments will now be directly attributed for payment limit purposes
  - Likely tied back to Social Security Numbers
  - Spouses actively engaged are also eligible
  - Will likely affect organizational structure considerations

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Crop Insurance

- Target loss ratio of overall program reduced
- Subsidy rates on area plans reduced
  - GRP
  - GRIP

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Additional Resources

- USDA Farm Bill Side-by-Side Comparison

- FSA Homepage

- FarmPolicy blog
  [www.farmpolicy.com/](http://www.farmpolicy.com/)