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2008 Farm Bill Decision Tools

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[Return to Current Issue](#)

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Abstract: This article describes a tool developed by Oklahoma Cooperative Extension Service to aid in the decision to enroll in a new commodity program contained in the 2008 Farm Bill. Producers have the option to enroll in the Direct Counter-Cyclical Payment (DCP) program or the Average Crop Revenue Election (ACRE) program. The choice between ACRE and DCP is an important decision for farm profitability. The ACRE program is complex, and the calculation of potential ACRE payments can be quite daunting. The ACRE decision tool was developed to perform the calculations necessary to estimate potential ACRE payments for the 2009-2012 crop years.

Introduction

The Food, Conservation, and Energy Act of 2008 (i.e., the 2008 Farm Bill) was enacted into law in June 2008 (Sanders, Campiche, & Dicks, 2009). A key commodity provision allows producers to choose between the Direct and Counter-Cyclical Payment (DCP) Program and a new Average Crop Revenue Election (ACRE) program (Campiche & Dicks, 2009). The ACRE program was designed to address some of the potential shortfalls of the DCP program by managing short-term declines in revenue. To evaluate the decision to enroll in DCP or ACRE, producers needed to calculate and compare potential DCP and ACRE payments for their own farms. While the calculations for DCP payments are somewhat simple, the calculations for ACRE payments are much more complex, requiring the use of a software tool.

Software tools can be useful for producers when faced with alternative production decisions. However, while computer use by agricultural producers has definitely increased in the past few decades, many producers are still not comfortable with new software programs or computer use in general. Joe (1984) recognized the need for Extension education on software programs and computer use 20 years ago, and it is still important today. In a more recent study, Hall, Dunkelberger, Ferreira, Prevatt, & Martin (2003) found that even though more producers were using computers as a farm management tool, there was still a large segment of farmers who were not using computers. This provides a tremendous educational opportunity for area Extension specialists and county Extension educators, who play a very important role in helping producers understand how to effectively use new software tools.

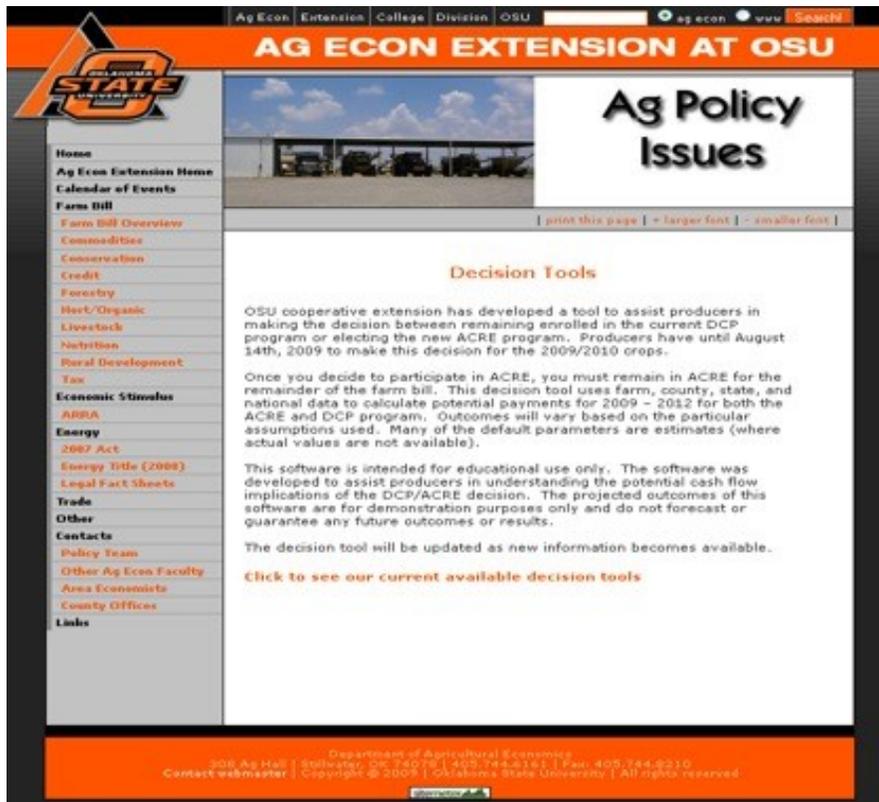
The ACRE Decision Tool software was developed by the Oklahoma State University Extension Service to assist producers in making the decision to enroll in the ACRE or DCP program. Producers had the option to obtain assistance with the software from area Extension specialists and county educators or to download the program. Various meetings were also held across the state by area specialists and county Extension educators to assist producers with the 2009 ACRE enrollment process. Some of these meetings featured mobile computer labs allowing producers to input their own data into the software program while receiving assistance from Extension personnel. For the 2009 ACRE program, Oklahoma had the highest participation rate in the country.

Features

The ACRE decision tool was developed to perform the calculations necessary to estimate potential ACRE payments for the 2009-2012 crop years. The choice between ACRE and DCP is an important decision for farm profitability and risk management. Producers who select the ACRE program will not be eligible for counter-cyclical payments (CCP) and will receive a 20% reduction in direct payments (DP) and 30% reduction in marketing loans. Producers must enroll all base acres on a farm, but do not have to enroll all farms in ACRE. Potential ACRE payments are based on both state and farm-level revenue triggers. To receive an ACRE payment, both the farm and state triggers must be met.

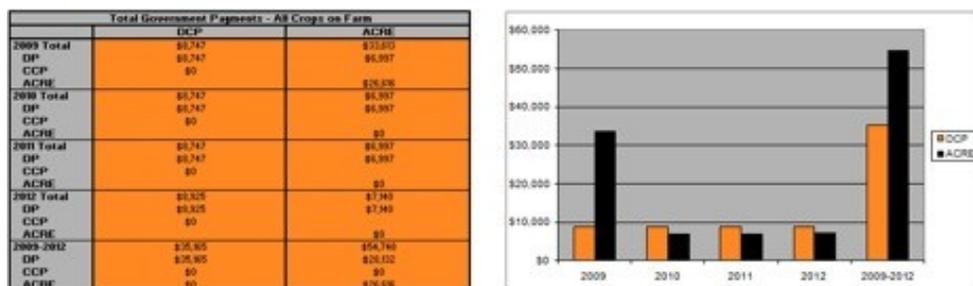
The ACRE decision tool is a Microsoft Excel 2003 spreadsheet. The tool was distributed to Oklahoma Extension specialists and county educators and is available for download on the OSU Agricultural Policy website (Figure 1). The tool allows producers to input their own data or use the default data to evaluate alternative scenarios. Producers can enter data for each farm for the 2009-2012 crop years and are required to supply their own farm-level information, including county name, base acres, base DP yield, planted acres, crop insurance premiums, expected farm yields, and benchmark farm yields.

Figure 1.
Decision Tool Page Screenshot



Producers can obtain most of this data from their crop insurance records and their Farm Service Agency (FSA) office. The tool also includes a benchmark yield calculator to determine the optimal yield election using a producer's own yield history and the county "plug" yields. All remaining data used in the calculations are automatically provided in the program. However, since much of the price and yield data for 2009-2012 are estimates, the tool allows the producer to enter their own forecasts and evaluate the outcomes from alternative scenarios. Once producers enter the required data, results compare government payments under the DCP and ACRE programs for the 2009-2012 crop years (Figure 2).

Figure 2.
ACRE Decision Tool Results Screenshot



An extension to the main ACRE Decision Tool is provided to assist producers with their crop insurance decisions. It is important for producers to understand the interactions between crop insurance premiums and

potential ACRE payments. The ACRE/Insurance Decision Tool allows farmers to analyze the effects of various levels of insurance coverage on future ACRE payments. For example, producers' 2010 crop insurance premiums could affect potential 2010 ACRE payments.

Summary

The 2009 ACRE sign-up ended on August 14, 2009. The tool was widely used by Oklahoma Area Extension Specialists, County Extension Educators, and producers. For the 2009 ACRE program, Oklahoma had the highest participation rate in the country. The potential for a 2009 ACRE payment in Oklahoma (particularly for wheat producers) is definitely high which helps explain the relatively high participation rate. Even with a potentially high 2009 ACRE payment, many Oklahoma producers were still reluctant to enroll in ACRE since the ACRE payment calculation is quite complex. However, after using the tool to evaluate ACRE vs. DCP for their own farms, a large number of Oklahoma producers felt more comfortable with their decisions regarding enrollment in the ACRE program.

Even though the 2009 ACRE sign-up has been completed, producers still have the option to enroll in ACRE for the 2010-2012 crop years. The ACRE Decision Tool performs the calculations necessary to estimate potential ACRE payments for the 2009-2012 crop years. Therefore, the tool will be useful for the remaining years of the 2008 Farm Bill for those considering enrolling in the ACRE program in the future. The program is downloadable from http://www.agecon.okstate.edu/agpolicy/decisionTool_comm.asp.

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