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State Price and Yield Trigger for ARC-CO Benchmark Revenue

BACKGROUND

Payment rates under ARC-CO depend on national average crop prices and county average crop yields. Due to county-to-county differences in program yields, payments vary significantly across political boundaries.

OPTION

Use state-level commodity prices and yields in the actual and benchmark revenue calculations to capture the natural hedge associated with prices and yields. (ARC-State)

In an effort to make ARC payments more uniform across a state, ARC-CO was modified to use state level five-year Olympic Average (OA) prices and yields in the calculation of the benchmark and actual revenues (similar to the recently repealed ACRE program). These new prices and yields replace the national average prices and the county-level yields currently used in ARC-CO. This modification will better capture the regional variation in commodity prices, but will capture in less detail the variation in crop yields across a state. The result of this modification is that all base acres in a particular state will receive the same program payment on a commodity-by-commodity basis.

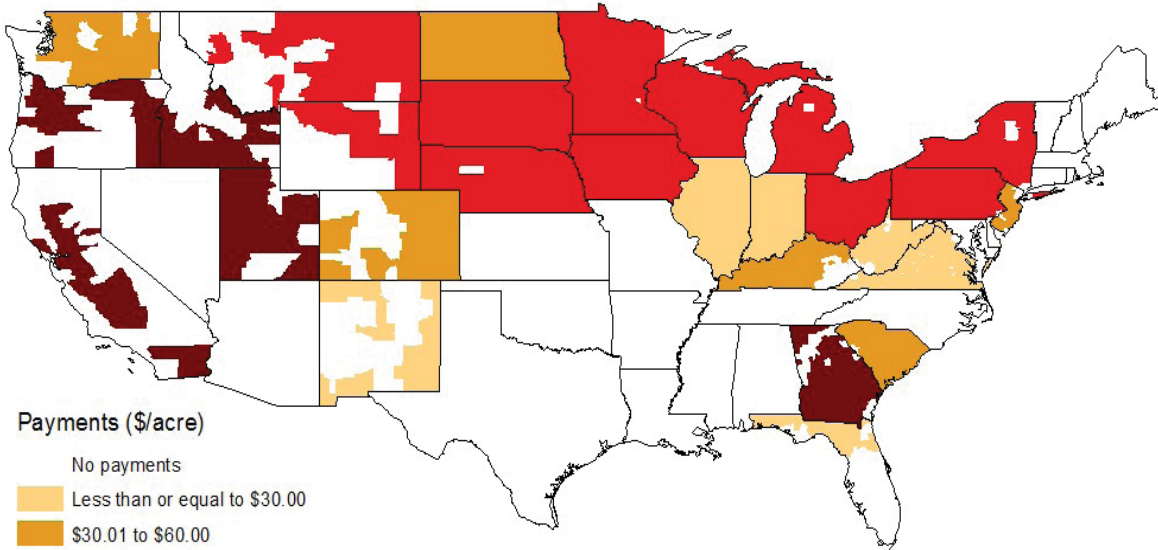
Our estimates are that this option would have reduced program payments for the 2014 crop year compared to the actual policy design. Total program payments decreased for corn by five percent, for soybeans by 23 percent, and for wheat by about three percent.

By utilizing state-level price and yields, program payments were uniform across the state. There will, however, be winners and losers under such a policy modification. Payments would be uniform across a state, but some farms in a state would have received lower program payments compared to the current policy design. For example, portions of northern Illinois that experienced lower crop yields in 2014 would have had their payments reduced. The lower yields in northern Illinois would have been offset by higher yielding counties in central and southern Illinois that represents a proportionally larger share of the state's corn production. The following figures show the distribution of ARC-State payment rates and counties where ARC-State resulted in additional, fewer, or no change in program payments for corn base acres.

The following table summarizes the consequences in the 2014 crop year of the option described above in millions of dollars.

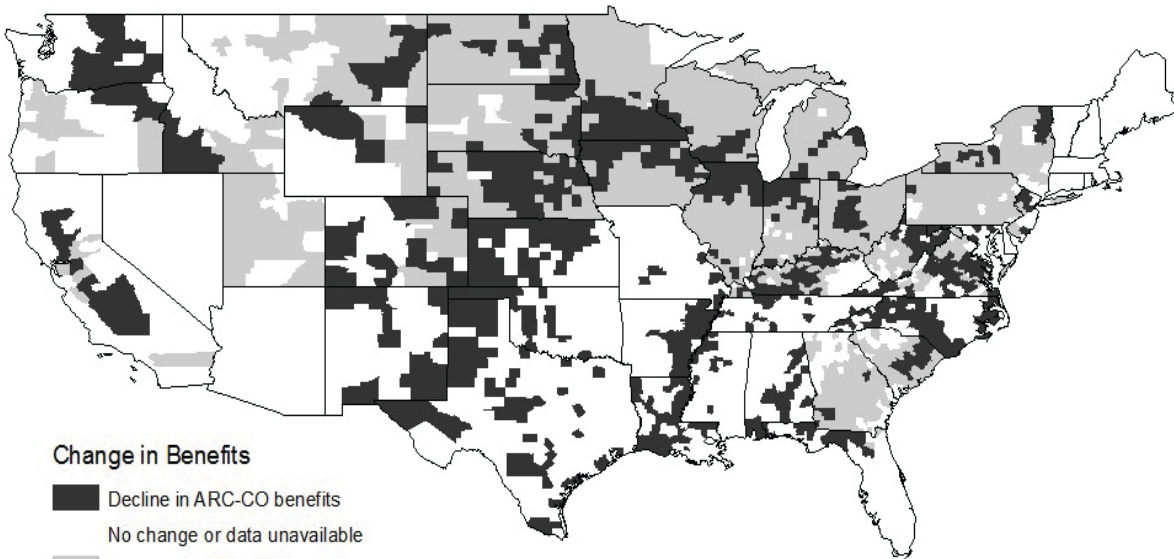
	Actual Program Payments 1/	ARC-State
Corn	\$3,655	\$3,485 (-5%)
Wheat	\$341	\$329 (-3%)
Soybeans	\$314	\$241 (-23%)
Total (Corn, Soybeans, Wheat)	\$4,310	\$4,056 (-6%)

Estimated Program Payments and Change from ARC-CO for Corn Base Acres using State Prices and State Yields, 2014-2015 Marketing Year (ARC-State)



Payments (\$/acre)

- No payments
- Less than or equal to \$30.00
- \$30.01 to \$60.00
- \$60.01 to \$90.00
- Greater than \$90.00



Change in Benefits

- Decline in ARC-CO benefits
- No change or data unavailable
- Increase in ARC-CO benefits