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Using The Higher of Five Year Olympic Average or 10 Year Olympic Average for ARC-CO Benchmark Revenue

BACKGROUND

Under certain circumstances, and depending on which yield value is used, five-year Olympic Average (OA) smoothing of prices and yields can result in different estimates of the actual and benchmark revenue. Additionally, when a county experiences two or more events that adversely impact crop revenue over a five-year period then the OA revenue calculation may be lower relative to a longer sample period or trend line projections.

Of the 2,719 counties eligible for ARC-CO payments on corn base acres, more than 900 counties had OA yields below the ten-year average. Over time OA smoothing is designed to adjust the crop revenue to reflect updated production and marketing conditions.

OPTION

Use the higher of the five-year OA county yield or the ten-year long run average county NASS yield to determine future benchmark yields. (ARC-Max)

This modification reduces the impact of multi-loss years on the benchmark revenue guarantee, but only creates more counties that will receive payments so the cost of the ARC-CO program will increase. For the 2014 crop year, program payments on corn, soybeans, and wheat acres totaled \$4.31 billion. Our analysis shows that using the “higher of” option described above would have increased payments by thirteen percent or \$448 million.

Results differed by commodity. For corn, government outlays would have been \$330 million or nine percent higher. For wheat, government outlays would have been \$51 million or 15 percent higher. For soybeans, government outlays would have been \$67 million or 22 percent higher.

By using the higher-of OA or ten-year average commodity yields, the impact of multi-year yield declines had a smaller impact on the benchmark revenue guarantee. The net effect would increase commodity program payments for counties that experience multi-year yield declines over the 2009 to 2013 sample period. Including the higher-of yield into the ARC-CO program payment calculations partially addresses the substantial disparities in benefits across county boundaries. Of the 2719 counties receiving an ARC-CO payment for corn, 631 counties would have their program payments increased under ARC-Max.

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-Max
Corn	\$3,655	\$3,986 (+9%)
Wheat	\$341	\$392 (+15%)
Soybeans	\$314	\$382 (+22%)
Total (Corn, Soybeans, Wheat)	\$4,310	\$4,758 (+13%)

Estimated Program Payments and Change from ARC-CO for Corn Base Acres using Long Run Average Yields, 2014-2015 Marketing Year (ARC-Max)

