



What Is ARC-CO And How Is It Working?

BACKGROUND

The Agricultural Risk Coverage-County Option (ARC-CO) is designed to make payments to producers when national marketing year average prices multiplied by county average yields fall below a calculated benchmark revenue threshold. A five-year Olympic Moving Average (OA) smoothing of the price and yield variables is used to determine the county-level benchmark revenue.

Specifically, ARC-CO is a commodity-by-commodity area based revenue program.

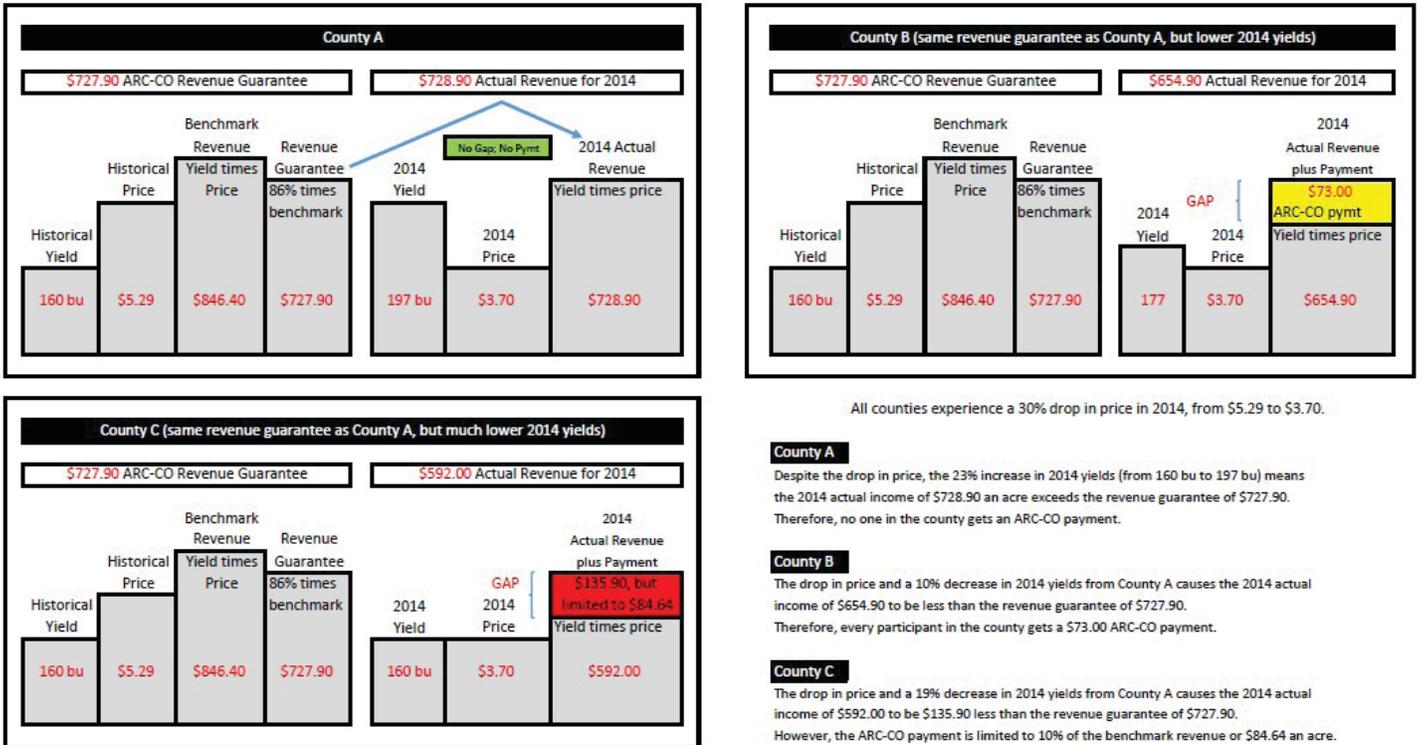
- An ARC-CO payment is triggered whenever the actual crop revenue is less than the ARC-CO guarantee;
- The benchmark revenue is the most recent five-year OA county yield times the most recent five-year OA national marketing year price;
- The ARC-CO guarantee is 86 percent times the benchmark revenue;
- An ARC payment is only made on 85 percent of a farmer's base acres;
- The ARC-CO payment is capped at ten percent of the benchmark revenue;
- Prices in the benchmark revenue calculation may not fall below the Price Loss Coverage reference price of \$3.70/bushel for corn, \$8.40/bushel for soybeans, and \$5.50/bushel for wheat; and county yields may not fall below 70 percent of the county transitional (T) yield.
- ARC-CO makes payments when the actual revenue, defined as the current-year county-level yield multiplied by the U.S. marketing year average price, falls below 86 percent of the benchmark revenue guarantee.

ARC-CO is the most popular Title I farm program, with 185 million acres comprising 76 percent of total base acreage enrolled, compared to 55 million acres or 23 percent of base enrolled in the Price Loss Coverage program. Farm enrollment by crop includes 96 percent for soybeans, 91 percent for corn, and 66 percent for wheat. Payments under ARC-CO totaled \$4.8 billion for 2014 crops and will exceed that level for 2015 crops. Outlays are expected to decline for 2016 and subsequent crops as lower prices are factored into the benchmark revenue formula.

Since historical and actual yields used in the ARC-CO formula vary from county to county, the benchmark revenue guarantee and actual program payments can differ substantially across political boundaries (county lines).

The following chart illustrates potential differences in ARC-CO payment rates for corn in 2014 among three neighboring counties. In each scenario, the historical yield, historical price, benchmark revenue, and 2014 price are the same and only the county yield changes. County A receives no payment because the 2014 actual revenue exceeds the revenue guarantee. County B receives \$73 per payment acre with just a ten percent lower yield than County A. County C receives a payment rate of \$84.64 with a 19 percent lower yield than County A. (County C illustrates a situation where the payment is limited by the farm bill's "10-percent-of-benchmark" maximum payment rule.) It is also important to note that the 2014 actual revenue in County A is larger than the other two counties, despite not receiving an ARC-CO payment.

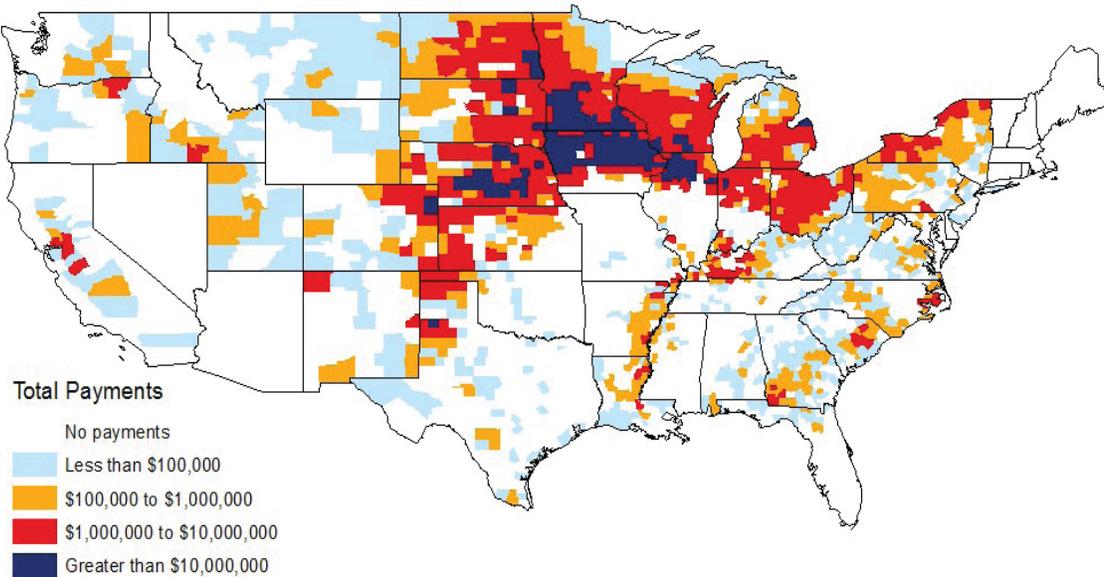
Chart I: Comparison of ARC-CO Payments for Corn for 3 Different Yields in 2014



In the 2014-2015 marketing year, many areas that experienced yields that were high compared to their OA yields. In turn, revenues were high enough, despite lower crop prices, to reduce or prevent payments from triggering. For corn, these areas include parts of southern Iowa, central Illinois and the eastern Corn Belt. Areas with corn yields below the county's OA yield, such as northern Iowa, Minnesota or Nebraska, experienced lower revenues due to both lower yields and lower prices, and as a result received higher ARC-CO benefits relative to their share of U.S. corn production. The distribution of ARC-CO payments on corn, soybeans, and wheat are shown at the end of this document. Similar county-to-county disparities in payments are expected for ARC-CO payments made on the 2015-2016 crops.

Program Payments Under ARC-CO and PLC for the 2014-2015 Marketing Year					
	PLC	% of Total	ARC-CO	% of Total	Total
Corn	\$0	0%	\$3,712	84%	\$3,711
Wheat	\$0	0%	\$349	8%	\$349
Soybeans	\$0	0%	\$317	7%	\$317
Long Grain Rice	\$399	51%	>\$0	0%	\$399
Peanuts	\$321	41%	\$0	0%	\$321
All Other Crops	\$55	7%	\$58	1%	\$113
Total	\$776		\$4,436		\$5,212

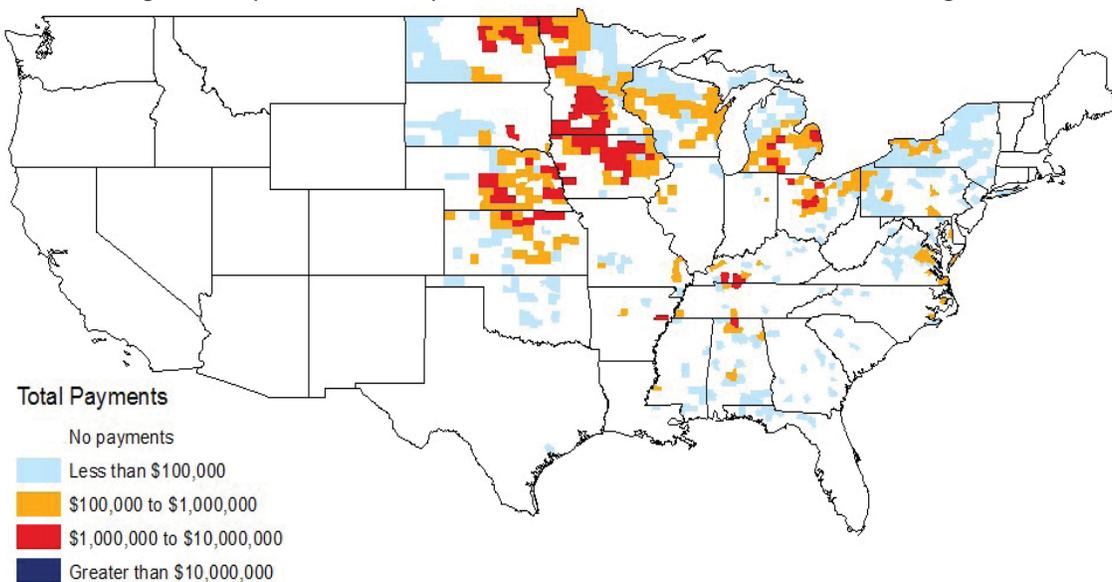
ARC-CO Program Payments on Corn Base Acres, 2014-2015 Marketing Year



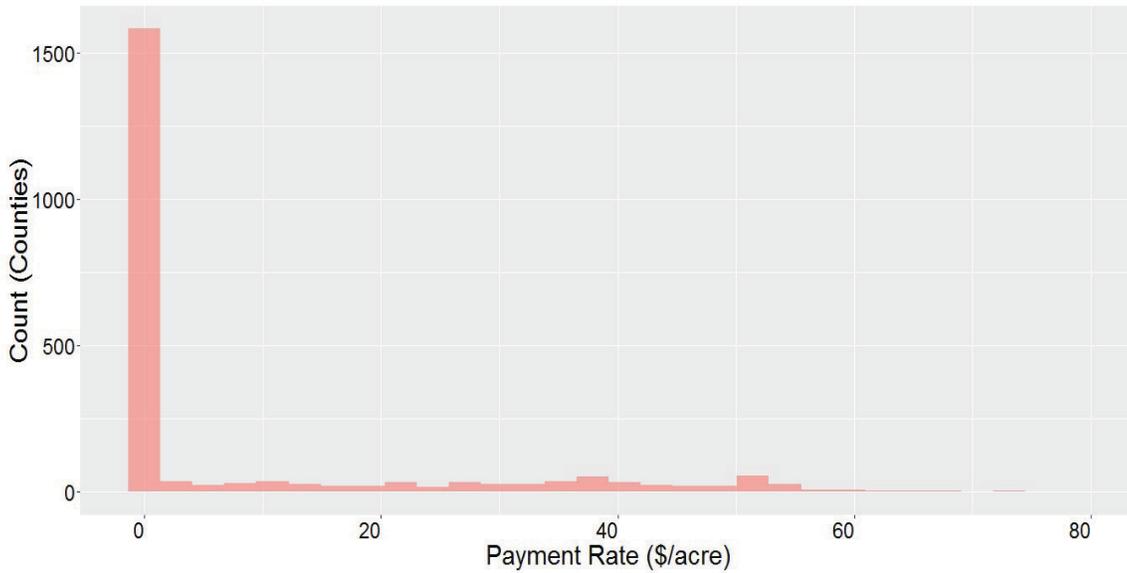
Distribution of Corn ARC-CO Payment Rates, 2014-2015 Marketing Year, Average \$38/acre



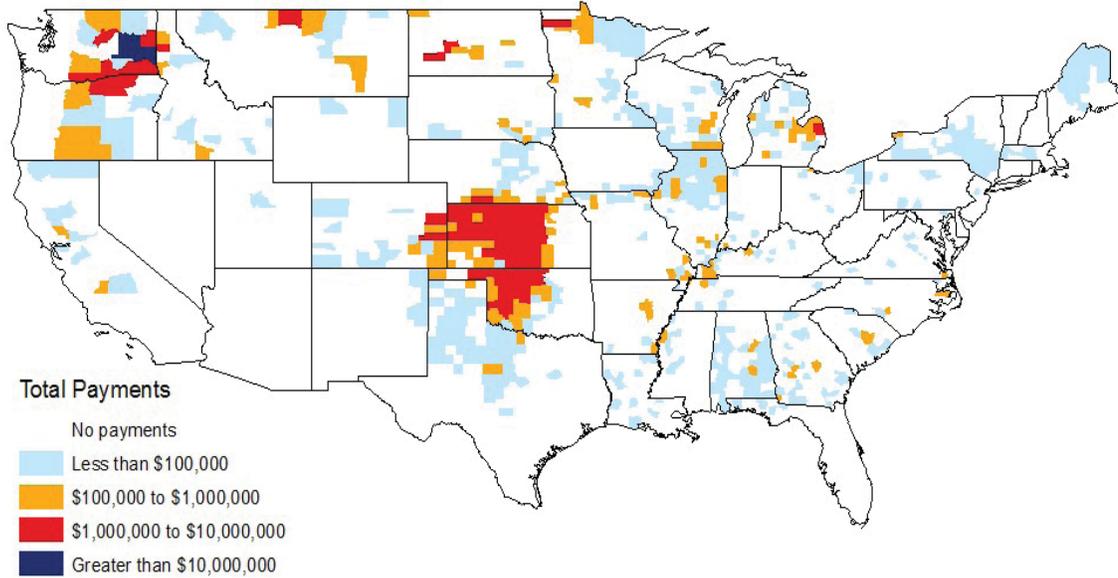
ARC-CO Program Payments on Soybean Base Acres, 2014-2015 Marketing Year



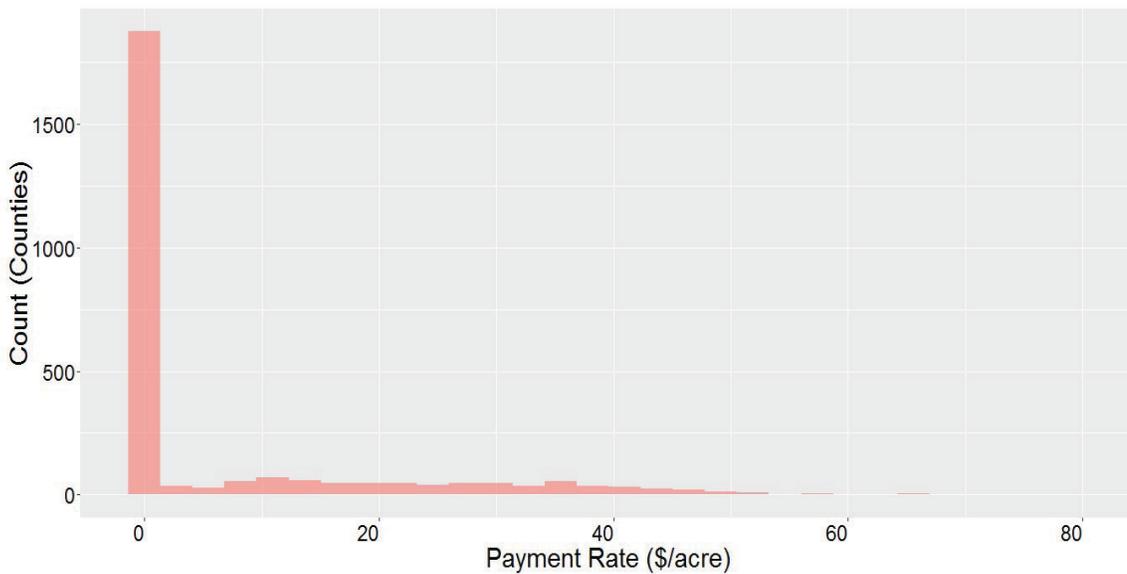
Distribution of Soybean ARC-CO Payment Rates, 2014-2015 Marketing Year, Average \$9/acre



ARC-CO Program Payments on Wheat Base Acres, 2014-2015 Marketing Year



Distribution of Wheat ARC-CO Payment Rates, 2014-2015 Marketing Year, Average \$7/acre



TALKING POINTS

1. The ARC-CO program is, in general, functioning as it was designed to function. It is making payments when current county revenues based on local yields and national prices are below 86 percent of benchmark revenues.
2. Localizing the yield component of the county revenue calculations contributes to county-to-county variation in both benchmark revenues and current revenue calculations.
3. Various modifications to either the yield component or the pricing component of the revenue calculations could be implemented to reduce county-to-county variation in ARC-CO payments. Such modifications will likely result in some producers receiving less payments than under the current system and some receiving more. In general, modifications to the current system to reduce county-to-county payment variations will have budget implications.

Question: Is the current implementation of the ARC-CO program acceptable? Or, are there modifications to the yield and pricing components of the revenue calculations that should be made if ARC-CO is to remain as a key component of Title 1 programs in the next Farm Bill? Option papers on ways to adjust ARC-CO include:

- Alternatives for Altering the ARC-CO Yield Cascade
- National Price and Yield Trigger for ARC-CO Benchmark Revenue
- State Price and County Yield Trigger for ARC-CO Benchmark Revenue
- State Price and Yield Trigger for ARC-CO Benchmark Revenue
- Using Longer Olympic Averages for the ARC-CO Benchmark Revenue
- Using the Higher of Five-Year OA or Ten-Year OA for ARC-CO Benchmark Revenue
- Re-Prioritizing the Yield Cascade for ARC-CO Yield Determinations