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## Understanding the Difference in 2015 ARC-CO Payments

Many farm operators across the United States will be receiving a significant 2015 farm program payment in October from the USDA's Farm Service Agency (FSA), due to reduced commodity prices.

Most crop producers in Minnesota, Iowa, and other Upper Midwestern states are enrolled in the county-yield-based Ag-Risk Coverage (ARC-CO) farm program choice on their corn base acres and producers in many counties will earn a farm program payment for the 2015 crop year. However, 2015 corn ARC-CO payments will vary widely from county to county. Furthermore, farm operators in a few Upper Midwestern counties will earn an ARC-CO payment on soybean base acres for the 2015 crop year.

Many producers are having difficulty understanding why there is such a wide variation in estimated 2015 ARC-CO payments from county-to-county, even though the counties may have had similar corn yields in 2015, based on yield estimates from the USDA's National Agricultural Statistics Service (NASS). The direct payments that existed under the last Farm Bill were guaranteed and were paid to producers on the basis of crop base acres, regardless of crop prices or yields. By contrast, the ARC-CO payments in the current Farm Bill vary from year to year and from county to county in a given year.

ARC-CO payments are based on the actual, national market-year-average (MYA) crop price and the actual, county-level yield for a given crop year, compared to the 5-year average benchmark (BM), MYA prices, along with the 5-year average county yields. This rather complex calculation has resulted in a wide variation of estimated 2015 corn ARC-CO payments from county to county.

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The first thing that happened relative to estimated 2015 corn ARC-CO payments was a decline in the county BM yields across most Minnesota counties and adjoining states, compared to 2014 BM yields. This was partly due to the very low average county yields in much of the region in 2014, as well as the fact that the 2009 crop year, (which had a very strong yield year), was used in the 2014 BM yield calculation, but was dropped in the 2015 calculation.

The 5-year county BM yield is recalculated every year, using the crop yields of the five most recent years, dropping the high yield year and low yield year, and averaging the yields from the three remaining years.

Many counties in southcentral, southwest, and central Minnesota saw BM corn yields decline by 6-12 bushels per acre from 2014 to 2015. The declining county BM yield lowers the potential maximum ARC-CO payment per crop base acre, as well as the potential for ARC-CO payments at similar actual corn yield levels in a given year. County soybean BM yields did not vary greatly from 2014 to 2015, except in a few counties in central Minnesota, which had extremely low 2014 soybean yields.

The difference in 2015 ARC-CO payments from county to county is dependent upon the 2015 county NASS yield, compared to the 2015 county BM yield, which can be expressed as the "% of BM Yield." The "% of BM yield" is more important than the final county yield in determining estimated ARC-CO payments. If the 2015 NASS county corn yield, expressed as a "% of BM yield" is 126 percent or less, there will likely be a 2015 corn ARC-CO payment, based on the current corn MYA price of \$3.60 per bushel. If the county "% of BM yield" drops to 111 percent or lower, the county would likely receive the maximum 2015 corn ARC-CO payment. If the county corn "% of BM yield" is 127 percent or higher, there will likely be no 2015 corn ARC-CO payment, unless the corn MYA price declines from the current level by August 31, 2016.

For example, take Dodge County in southeastern Minnesota. There, the 2015 BM corn yield is 186 bushels per acre, compared to 187 bushels per acre in 2014. The 2015 estimated NASS corn yield is 204 bushels per acre, resulting in a 2015 "% of BM yield" of 110 percent. This results in an estimated maximum 2015 corn ARC-CO payment of \$84 per corn base acre in Dodge County. By contrast, Nicollet County in southcentral Minnesota had a 2015 BM

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corn yield of only 162 bushels per acre, compared to 168 bushels per acre in 2014, and a 2015 estimated NASS corn yield of 207 bushels per acre, resulting in a 2015 "% of BM yield" of 128 percent (which results in a zero-estimated 2015 ARC-CO payment).

These are extreme examples, but illustrate how much variation can exist in estimated 2015 corn ARC-CO payments in a relatively small geographical area.

The very high, estimated 2015 NASS soybean yields across the Upper Midwest will result in ARC-CO payments for only a small number of producers in select counties. If the 2015 county soybean "% of BM yield" is 121 percent or higher, there will likely be no 2015 soybean ARC-CO payment, and if the "% of BM yield" drops to 106 percent or lower, the county would likely receive the maximum 2015 payment, with partial payments at levels of 107-120 percent. These estimates are based on a current soybean MYA price estimate of \$8.75 per bushel, which will be finalized on August 31, 2016.

The fact that potential 2015 ARC-CO payments are not paid until October 2016, can also be very confusing. By that time of the year, producers will likely be harvesting crops, and focusing on 2016 yields and grain prices, making it difficult to reflect back to the 2015 yields and 2015 MYA price changes. The 2015 ARC-CO payments will not be finalized until September 30, 2016, once the 2015 MYA prices for corn and soybeans become final. If crop prices stay relatively low, this same scenario will likely play out again for potential 2016 corn and soybean ARC-CO payments, which would be paid in October 2017.

Kent Thiesse has developed an information sheet titled: Estimating 2015 Corn and Soybean ARC-CO Payments, which helps explain the calculation of potential ARC-CO payments. He has also developed estimated 2015 ARC-CO payment tables for most counties in Minnesota and Northern Iowa. To receive a copy of this information sheet and the county payment tables, send an email to: [kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com).

The NASS county yields are available [here](#).

FSA farm program information is available at the following [here](#).

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