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2015 Corn ARC-CO Payments Highly Variable

Many farm operators in the Upper Midwest received a significant 2015 farm program payment on their corn base acres during this past October from the USDA's Farm Service Agency (FSA), while other farm operators received much smaller payments, and some producers received no payment.

One of the hardest things for producers to understand is why there is such a large variation in 2015 corn ARC-CO payments from county to county. Most crop producers in Minnesota and the surrounding states are enrolled in the county-yield-based, Ag-Risk Coverage (ARC-CO) farm program choice on their corn and soybean base acres.

The ARC-CO program utilizes national average grain prices and average county yields to determine ARC-CO payments. ARC-CO payments for corn, soybeans, and other crops are paid when the actual county revenue for a crop in a crop year falls below the calculated county "revenue guarantee" for that crop. The actual county revenue is the final FSA county yield for a crop for that year multiplied by the final national market-year-average (MYA) price for the year for that crop. If that final county revenue amount is lower than the county revenue guarantee for that crop, producers in that county who are enrolled in the ARC-CO farm program would earn an ARC-CO payment for that year. Each county also has a maximum ARC-CO payment for each crop.

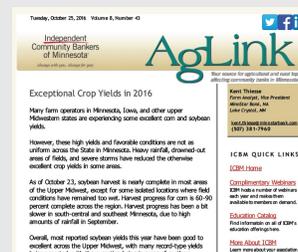
The MYA price is the 12-month average price for corn and soybeans from September 1 in the year of production until August 31 the following year, with MYA prices finalized on September 30 the following year. The final, national MYA prices for 2015 were \$3.61 per bushel for corn and \$8.95 per bushel for soybeans, which were the MYA prices that were used across the United States on a county basis to determine if corn and soybean producers were eligible for a 2015 ARC-CO payment this past October.

The "revenue guarantee" for a given crop is the benchmark (BM) revenue multiplied by 86 percent (0.86). The BM revenue is the 5-year (previous 5 years) county-average yield, dropping the high and low yields, multiplied by the BM price, which is the 5-year (previous 5 years) average MYA price, again dropping the high and low prices. The national BM prices for both 2014 and 2015 were \$5.29 per bushel for corn and

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\$12.27 per bushel for soybeans. Since these BM prices were considerably higher than the final 2015 MYA prices, the likelihood of 2015 ARC-CO payments was increased in many counties, especially for corn.

The relationship between the final FSA county yields and the county benchmark (BM) yield for a given year (which can be expressed as the "% of BM yield"), is extremely important in calculating the level of ARC-CO payments in a county for the year. For the 2014 corn ARC-CO payments in most of Minnesota, this was not a big factor, as most counties had below-average crop yields, and a fairly low "% of BM yield." The result was that most counties received the maximum 2014 ARC-CO payment for corn, which was paid in October 2015. However, 2015 corn yields in most counties in Minnesota, Iowa, and other Upper Midwestern states were well above average, resulting in much more variation in the "% of BM yield," and ultimately in widely variable 2015 corn ARC-CO payment amounts, which were paid in October 2016.

Counties that had a 2016 corn "% of BM yield" that exceeded 126 percent most likely received no 2015 corn ARC-CO payment, while counties that had a "% of BM yield" of 111 percent or lower, likely received the maximum 2015 corn ARC-CO payment. Counties with a "% of BM yield" of 112 to 126 percent most likely received a partial 2015 corn ARC-CO payment, depending on where the percentage ended up.

The multiple variables make it very difficult for producers to understand why there is such a large variation in 2015 corn ARC-CO payments for counties in the same relative area, especially when all counties are using the same national average MYA prices. The big difference lies in the dynamics of the final 2015 FSA yields and the 2015 benchmark yield levels, and ultimately in the "% of BM yield." The following are two examples that demonstrate this contrast:

South-central Minnesota example:

COUNTY	2014 Payment (per Base A.)	2014 Co. Yld.	2014 BM Yld.	% of BM Yld.		2015 Payment (per Base A.)	2015 Co. Yld.	2015 BM Yld.	% of BM Yld.
Nicollet	\$75.54	144	168	86 %	XXX	0	207	162	128 %
Blue Earth	\$79.59	157	177	89 %	XXX	\$48.36	201	172	117 %
Brown	\$76.44	159	170	94 %	XXX	\$49.57	188	162	116 %
Le Sueur	\$75.54	142	168	85 %	XXX	\$1.95	201	160	126 %
Sibley	\$77.79	129	173	75 %	XXX	\$55.79	186	162	115 %
Waseca	\$81.39	156	181	86 %	XXX	\$69.96	199	176	113 %
Watonwan	\$81.84	186	182	102 %	XXX	\$71.68	206	182	113 %

Southwest Minnesota example:

COUNTY	2014 Payment (per Base A.)	2014 Co. Yld.	2014 BM Yld.	% of BM Yld.		2015 Payment (per Base A.)	2015 Co. Yld.	2015 BM Yld.	% of BM Yld.
Lyon	\$69.70	143	155	92 %	XXX	0	192	147	131 %
Y. Medicine	\$74.64	149	166	90 %	XXX	\$37.18	187	158	118 %
Redwood	\$76.44	160	170	94 %	XXX	\$21.96	197	162	122 %
Lincoln	\$69.25	146	154	95 %	XXX	\$23.85	180	149	121 %
Murray	\$78.24	147	174	84 %	XXX	\$15.82	199	162	123 %
Pipestone	\$71.94	129	160	81 %	XXX	0	192	149	129 %
Rock	\$79.14	128	176	73 %	XXX	\$31.29	199	166	120 %

*Note: All of the listed 2014 and 2015 corn ARC-CO payments are per corn base acre, which have been factored by 85 percent (0.85). The Federal sequestration reduction of 6.8 percent has not been factored into the listed payments.

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Observations from the two examples:

- All counties listed in both examples received the maximum 2014 ARC-CO payment, due to low 2014 corn yields and a low "% of BM Yield." The only difference was that the counties with the higher 2014 BM yields had a higher maximum ARC-CO payment rate, based on the pre-set calculation formula.
- All counties listed in both examples, except Watonwan County, had corn BM yields decline from 2014 to 2015 by 5-12 bushels per acre. This decline in the BM yield resulted in a lower maximum ARC-CO payment potential in 2015. Counties with greater declines in 2015 BM yields had a lower likelihood of 2015 ARC-CO payments than neighboring counties.
- In south-central Minnesota, 2015 corn ARC-CO payments ranged from zero in Nicollet County to nearly \$70 per corn base acre in Waseca and Watonwan Counties. The final 2015 corn yields ranged from 186 bushels per acre in Sibley County to 207 bushels per acre in Nicollet County. In southwest Minnesota, 2015 corn ARC-CO payments ranged from zero in Lyon and Pipestone counties to over \$37 per corn base acre in Yellow Medicine County, while 2015 corn yields ranged from 180 bushels per acre in Lincoln County to 199 bushels per acre in Murray and Rock counties.
- In south-central Minnesota, it is interesting to note that the neighboring counties of Nicollet, Brown, and Sibley all had a 2015 BM yield of 162 bushels per acre, with final 2015 corn yields of 207, 188, and 186 bushels per acre, respectively. The "% of BM Yield" was: 128 percent in Nicollet County, 116 percent in Brown County, and 115 percent in Sibley County--resulting in 2015 corn ARC-CO payments per base acre of zero in Nicollet County, over \$48 in Brown County, and over \$55 in Sibley County.
- In southwest Minnesota, Lyon County had a 2015 BM yield of 147 bushels per acre, and both Pipestone and Lincoln counties had 2015 BM yields of 149 bushels per acre. Lyon and Pipestone counties both had a final 2015 corn yield of 192 bushels per acre, while Lincoln County had 180 bushels per acre. The calculated "% of BM Yield" was 131 percent in Lyon County, 129 percent in Pipestone County, and 121 percent in Lincoln County, which resulted in a zero 2015 corn ARC-CO payment in Lyon and Pipestone counties, and nearly \$24 per corn base acre in Lincoln County.

Another factor that may have impacted the 2015 corn ARC-CO payments in neighboring counties involves situations where a producer has land in two or more counties. In that situation, the producer could have chosen to do their FSA administrative work in each individual county. Any ARC-CO payments are based on where the FSA farm unit is located. However, the producer could also have chosen to combine their farm units and do all their FSA work in one county, in which case any ARC-CO payments are based on the county chosen as the FSA

administrative county, regardless of where the land is located.

From our earlier examples, let's assume that a producer had 2015 corn acres in both Lyon and Yellow Medicine counties, and had combined all acres under the same FSA administrative county. If the producer had chosen Yellow Medicine County as the FSA administrative county, the 2015 corn ARC-CO payment would be about \$37 per base acre on all corn base acres in both counties.

However, if the producer had chosen Lyon County as the administrative county, the 2015 corn ARC-CO payment would be zero on all corn base acres in both counties.

Looking ahead to 2016 corn ARC-CO payments

The national BM prices for the 2016 crop year will be \$4.79 per bushel for corn and \$11.87 per bushel for soybeans. The lower 2016 BM prices for corn and soybeans will likely lower the likelihood of potential 2016 ARC-CO payments in many instances. Many counties in Minnesota and Iowa will have the same county-corn BM yield for 2016 as existed for 2015, due to a high yield year in 2010 being dropped from the 5-year BM yield calculation and being replaced by another high yield year in 2015. Soybean county BM yields are also likely to be similar for 2016 as the previous year. The result will be very similar ARC-CO payment calculations for the 2016 crop year that existed for 2015, with the biggest variable being the final 2016 MYA price.

As of December 1, 2016, the USDA is projecting 2016 MYA prices at \$3.35 per bushel for corn and \$9.45 per bushel for soybeans. These MYA price estimates will continue to be adjusted by the USDA in the monthly World Agricultural Supply and Demand Estimates Report, which is usually released around the 10th day of each month. The final 2016 MYA corn price will be based on the adjusted national average price from September 1, 2016 through August 31, 2017, with the MYA price being finalized on September 30, 2017.

Assuming a \$3.35 per bushel corn MYA price level, 2016 corn ARC-CO payments would begin at approximately 122 percent of the county BM yield, and counties that were at 108 percent of the county BM yield or lower would receive the maximum 2016 ARC-CO payment. This means that for counties with a BM yield of 160 bushels per acre, 2015 corn ARC-CO payments would be initiated at a final 2016 county yield of approximately 195 bushels per acre, and the maximum payment would occur at a final county yield of about 172 bushels per acre. If the 2016 county BM yield is 175 bushels per acre, 2016 corn ARC-CO payments would be initiated at a final county yield of approximately 213 bushels per acre, and the maximum payment would happen at a final county yield of about 189 bushels per acre.

Resources available on estimating 2015 ARC-CO payments:

- Kent Thiesse has developed and updated an information sheet titled: "Final 2015 Corn and Soybean ARC-CO Payments," which looks at the final 2015 ARC-CO payments for corn and soybeans,

as well as other useful information on ARC-CO payments. To receive a copy of this information sheet, please send an email to: kent.thiesse@minnstarbank.com.

- The USDA's [website](#) contains 2014 and 2015 ARC-CO payment maps, as well as a spreadsheet with actual yields, benchmark yields, and payment rates for all crops for every county in the U.S., and other farm program information. It should be noted that the payment rates listed on this website have not been factored by 85 percent (0.85) to arrive at an ARC-CO payment per base acre. A 6.8 percent Federal sequestration reduction has been applied to the listed payment rates.

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