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Understanding the Difference in ARC-CO Payments

Fewer farm operators across the United States will be receiving significant 2016 ag-risk-coverage (ARC-CO) farm program payments from the USDA's Farm Service Agency in October 2017, compared to the 2014 and 2015 crop years.

Most crop producers in Minnesota, Iowa, and other Upper Midwestern States are enrolled in the county-yield-based, ARC-CO farm program choice on their corn-base acres. Farm operators in a high percentage of counties in the Upper Midwest earned corn ARC-CO farm program payments for both the 2014 and 2015 crop years. Some producers also earned a soybean ARC-CO payment in one or both of the years.

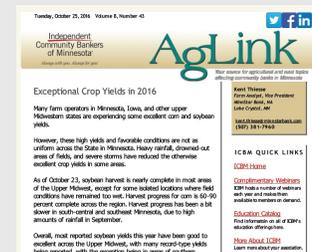
Many producers are having difficulty understanding why there is such a wide variation in estimated ARC-CO payments from year to year and from county to county. Some counties may have had similar corn yields in 2016, based on yield estimates from the USDA. However, the estimated level of 2016 ARC-CO payments may vary considerably from one county to the next. The direct payments that existed under the last Farm Bill, which were in place for nearly two decades, 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, depending on the national average prices and county yields in a given year.

Overall, 2016 ARC-CO payments for corn and soybeans are likely to be much less prevalent in most portions of the Upper Midwest, compared to 2014 and 2015 ARC-CO payment levels, partially due to a significant decline in benchmark (BM) price levels. The BM prices are used to calculate the BM revenue for a given crop in a county for a year. A decline in the BM revenue lowers the "threshold level" for earning ARC-CO payments for a crop. In both 2014 and 2015, the BM price for corn was \$5.29 per bushel, compared to the final national market-year-average (MYA) prices of \$3.70 per bushel for 2014 and \$3.61 per bushel for 2015, which resulted in some significant corn ARC-CO payments in many counties. For 2016, the BM corn price (which is a 5-year "Olympic" average

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price) dropped to \$4.79 per bushel. Similarly, the soybean BM price dropped from \$12.27 per bushel for the 2014 and 2015 crop years to \$11.79 per bushel for 2016.

The BM prices and actual crop prices for determining ARC-CO payments are based on the actual, national MYA crop prices. The MYA price is the national average corn or soybean price from September 1 in the year of harvest, until August 31 the following year, with MYA prices being finalized on September 30 of the following year. The MYA price is the 12-month national average price for a commodity, based on the average market price received by farm operators across the United States, which is then weighted at the end of the year, based on the volume of bushels sold in each month. As of March 1, 2017, the USDA estimated 2016 MYA prices at \$3.40 per bushel for corn and \$9.60 per bushel for soybeans.

ARC-CO payments for a given crop are paid when the actual calculated county revenue for the crop falls below 86 percent (.86) of the county BM revenue guarantee for that crop in a given year. The actual county revenue is the final county FSA yield multiplied by the final national MYA price for the year. This rather complex calculation formula has resulted in a wide variation in regard to corn and soybean ARC-CO payments from county to county, which is a trend that will continue for the estimated 2016 corn ARC-CO payments, and has resulted in some confusion surrounding the level of the ARC-CO payments.

The national BM price for corn or soybeans for a given year and the final MYA price for the year, are the same in every county across the U.S., which affects the maximum payment level, and the overall likelihood of ARC-CO payments. The main variable regarding differences in ARC-CO payments from county to county in a given year is the difference in county BM yields and final county crop yields for that year. There was a decline in the county BM corn yields in most Minnesota counties and adjoining states for 2015, compared to 2014 BM yields, which resulted from using a different five-year period for the calculation. Many BM corn yields for 2016 stayed the same as 2015 BM yields, except in a few isolated counties in southern Minnesota and northern Iowa that had a slight increase in their 2016 BM yields. The lower BM yields result in a reduced potential maximum ARC-CO payment for a crop in a given year. The lower BM yields also lower the county BM revenue guarantee for a crop in a given year, which lowers the likelihood of ARC-CO payments for that year. County BM yields for soybeans in most counties have been much more stable from 2014-2016.

The relationship between the final county yield and county BM yields is extremely important in calculating ARC-CO payments for corn and soybeans. Expressing the county yield as a "% of BM yield" is actually more important than the actual final county yield in determining estimated ARC-CO payments in a county for a crop in any given year.

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For example, on estimated 2016 corn ARC-CO payments, any county that has a corn "% of BM yield" of 106 percent or less will likely realize the maximum estimated 2016 corn ARC-CO payment for that county. Counties with a "% of BM yield" of 107-120 percent will likely receive a partial 2016 corn ARC-CO payment, and counties at 121 percent or higher are unlikely to receive a 2016 payment. For soybeans, counties with a "% of BM yield" of 106 percent or higher are unlikely to receive a 2016 ARC-CO payment.

There will likely be a large difference in the 2016 corn ARC-CO payments from county to county, depending on the final 2016 county yield, expressed as a "% of BM yield". It appears that most counties in south-central and southeastern Minnesota, as well as in northern Iowa, will get a partial 2016 corn ARC-CO payment.

However, very few will get the maximum payment. Many counties in this region had 2016 corn yields that were similar or lower than 2015 corn yields. Except for a few isolated counties, most counties in western Minnesota, as well as many counties in eastern North and South Dakota, will not receive a 2016 corn ARC-CO payment, due to the very high 2016 corn yields compared to the BM yields in most counties. Almost no counties in the Upper Midwest are expected to receive a 2016 soybean ARC-CO payment, as a result of very strong 2016 soybean yields, and the increase in the estimated soybean 2016 MYA price, compared to 2015.

The current 2016 corn and soybean ARC-CO payment estimates are based on the 2016 USDA National Agricultural Statistics Service county yields and current MYA prices. However, the final payments could vary based on changes in the MYA price levels between now and August 31, 2017. If MYA prices decline, the likelihood or the level of ARC-CO payments increases, and vice-versa if MYA prices increase.

The USDA could also make adjustments in the announced NASS yields to arrive at the final 2016 FSA county yields, which are used to calculate 2016 ARC-CO payments. There will likely be a 6.8 percent Federal sequestration reduction on all 2016 ARC-CO payments that are paid in October 2017, similar to the 2014 and 2015 ARC-CO payments.

Previous county yields for corn, soybeans, and other crops, benchmark yields, FSA yields, 2014 and 2015 ARC-CO payment levels, and other farm program information are available on the FSA ARC-PLC [website](#).

Kent Thiesse has prepared an information sheet titled: "Estimating 2016 Corn and Soybean ARC-CO Payments," which contains several tables relating to 2016 ARC-CO payments. He has also prepared "2016 ARC-CO Payment Estimate Tables" for most counties in Minnesota, northern Iowa, and eastern North and South Dakota. To receive a copy of the information sheet and payment tables, send an e-mail to: kent.thiesse@minnstarbank.com.

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