AGRICULTURAL ACT OF 2014, FACT SHEET 5

Agriculture Risk Coverage: ARC-County

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The "Agricultural Act of 2014," commonly called the farm bill, creates the Agriculture Risk Coverage – county coverage (ARC-County) program which is described below. Other fact sheets in the series describe other parts of the bill. Please note that the final rules and interpretations will come from the USDA at a future date.

In the Agriculture Risk Coverage (ARC) program, farmers can choose between county coverage and individual farm coverage. If either ARC option is chosen, the farm is not eligible for the Supplemental Coverage Option (SCO) under the crop insurance options in the farm bill.

AGRICULTURE RISK COVERAGE – COUNTY COVERAGE (ARC-COUNTY)

In the ARC-County option, crop revenue is estimated using average county yields. A payment is made if the ARC-County actual crop revenue is less than the ARC-County revenue guarantee.

The ARC-County actual crop revenue is the actual county yield times the maximum of the national marketing year price or the loan rate specified in the farm bill.

The guarantee under the ARC-County coverage is 86% of the ARC-County benchmark revenue. The ARC-County benchmark revenue is the product of the most recent 5-year Olympic-average county yield and the most recent 5-year Olympic-average marketing year average (MYA) price. (The Olympic average is calculated by dropping the highest and lowest yield or price from the most recent 5-years and calculating the average based on the remaining 3 yields or prices.)

Under the ARC-County choice, the payment rate per acre is the difference between the ARC-County guarantee and the actual revenue, but the payment rate cannot exceed 10% of the benchmark revenue. The ARC-County payment for a covered commodity is the ARC-County payment rate for that commodity times 85% of the farm's base acres for that commodity.

Table 1: Reference Prices ($); set in 2014 Farm Bill.

WHEAT	5.50/bu	SOYBEANS	8.40/bu
CORN	3.70/bu	OTHER OILSEEDS	20.15/cwt
GRAIN SORGHUM	3.95/bu	PEANUTS	535/ton
BARLEY	4.95/bu	DRY PEAS	11/cwt
OATS	2.40/bu	LENTILS	19.97/cwt
LONG GRAIN RICE	14/cwt	SMALL CHICKPEAS	19.04/cwt
MED. GRAIN RICE	14/cwt	LARGE CHECKPEAS	21.54/cwt

For an example, let's start with determining the ARC-County benchmark revenue for corn and work back to the guarantee and then actual revenue and the potential payment.

In Table 2, we see five years of MYA prices and county yields for our example farm. The high and lows are not used to calculate the 5-year Olympic average price or yield. Thus, $5.30 is calculated using the prices of 5.18, 6.22, and 4.50 and 176.4 is calculated using 183, 180.4, and 165.7.

In this example, the ARC-County benchmark revenue is $935 which is the product of the most recent 5-year Olympic-average marketing year price (5.30) and the most recent 5-year Olympic-average county yield (176.4).

The guarantee for the 2014 crop year under the ARC-County coverage in this example is $804 which is 86% of the ARC-County benchmark revenue.

Table 2: ARC-County: Corn calculation example

YEAR	MYA PRICE	COUNTY YIELD
2009	3.70*	**183.0**
2010	**5.18**	**180.4**
2011	**6.22**	**165.7**
2012	6.89	156.7
2013	**4.50****	185.0
5-YEAR OLYMPIC AVERAGE	5.30	176.4
BENCHMARK REVENUE	$935 = 5.30 X 176.4	
GUARANTEE	$804 = 935 X 0.86	

*The 2009 MYA price of $3.55 is replaced by the reference price of $3.70 following the rules in the 2014 farm bill.
**$4.50 is the current estimate of the MYA price for the 2013 corn crop.

In this example, a payment is made if the 2014 ARC-County actual crop revenue is less than this ARC-County revenue guarantee of $804.

Suppose the MYA price for corn turned out to be $3.90/bu and the actual county yield turned out to be 189 bu/acre.

The ARC-County actual crop revenue is $737 in this example which is $3.90 multiplied by 189 bu/ac. Since $737 is less than the guarantee of $804, a payment is triggered.

Under the ARC-County choice, the payment rate per acre is the difference between the ARC-County guarantee and the actual revenue, but the payment rate cannot exceed 10% of the benchmark revenue.

In this example, the difference between actual revenue and the guarantee is $67 which is less than 10% of the benchmark revenue of $935. So the ARC-County payment for corn is $67.

Our example farm has 330 acres of corn base, so this farm's ARC-County payment is the ARC-County payment rate of $67 multiplied by 85% of the farm's base acres for corn, or $18,793.50:

ARC-County Payment = $67 x (0.85 x 330) = $18,793.50.

For more information:
extension.umn.edu/agriculture/business/farm-bill