PURDUE UNIVERSITY | Center for Commercial Agriculture

2014 Farm Bill Fact Sheet

Agricultural Risk Coverage-County (ARC-CO)

Overview

Agricultural Risk Coverage-County Option (ARC-CO) is a new program in the 2014 Farm Bill. ARC-CO payments are made when the average county revenue for a commodity falls below that county's revenue guarantee per acre. The county revenue guarantee is set at 86% of the benchmark revenue established by the Olympic averages of the last five years of county yields and national marketing year average prices. ARC-CO per acre payments are limited to 10% of the benchmark revenue guarantee and payments are made on 85% of base acres.

Notes

- Program choice in the 2014 Farm Bill is referred to as program election. Election is done on a crop by crop basis for the PLC and ARC-CO programs (see PLC fact sheet). Only the ARC-IC requires all base acres on a farm be enrolled in the ARC-IC program.
- Election decisions must be made by March 31, 2015. Once a commodity is elected to be covered by a program, the commodity will be covered by that program for the 5 year life of the farm bill which spans the 2014 to 2018 crops. Even though the election is for the 5 years, farmers must still "enroll" their base acres each year at their FSA office.

DEFINITIONS

ARC-CO		The acronym for the Agricultural Risk Coverage-County Option program, a new payment program in the 2014 farm bill.
Current Revenue		The average revenue for a county for a specific crop year. The county's current revenue is calculated as the national marketing year average price multiplied by the average county yield for the crop.
Benchmark Revenue		A crop specific, county wide five year average revenue for the county. This five year average is calculated by dropping the highest and lowest yield and price from the past five years and calculating the average revenue from the remaining values. The benchmark revenue is a moving average, always calculated using the 5 most recent crop years.
Guarantee Revenue		Eighty six percent of the benchmark revenue for a given crop in a county. • Payments are made when current revenue falls below the guarantee. • Payments increase as the current year revenue falls, until they reach a limit of ten percent of the benchmark revenue.
Base Acres		The land area of an FSA farm number that is eligible to receive payments. Each base acre is allocated to a specific commodity. • That allocation determines which commodity's revenue triggers payments for that base acre. • The allocation of a base acre to a particular commodity has no bearing on what crop may be planted on that base acre. • A farm receives payments on only 85% of its base acreage, with each acre reduced by 15% of the calculated per acre payment.

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Calculating an ARC-CO Payment

The ARC-CO calculation is easiest to understand in multiple steps. We begin with the ARC-CO payment formula using the three separate revenue (Rev) measures and then further develop the calculations. Payments are only made when the guarantee revenue is larger than the current revenue. The formula uses the term "min" to indicate that the lower of the two calculations is used in calculating the ARC-CO payment.

ARC-CO Pmt = 0.85 x min {Guarantee Rev - Current Rev, 0.10 x Benchmark Rev}

Guarantee Rev = 0.86 x Benchmark Rev

Benchmark Rev = Olympic Average Price x Olympic Average Yield

Current Rev = National Average Price x County Average Yield

Olympic average prices (yields) are calculated by taking the most recent five years of prices (yields), removing the highest and lowest value and then calculating the average price (yield) from the remaining three values. An example of Olympic average corn price and yield is given below. (A strike through in the table indicates a high or low that is omitted in the average).

	2009	2010	2011	2012	2013	Olympic Avg
Prices ($/bu)	~~$ 3.70~~	$ 5.18	$ 6.22	~~$ 6.89~~	$ 4.46	**$ 5.29**
Yields (bu)	155	174	~~185~~	~~125~~	184	**171**

Payment Example

In the following example for corn we assume a national MYA price of $3.50 and a county yield of 195 bushels. We begin by calculating the three revenue measures used in the ARC-CO calculation.

Benchmark Rev = $5.29 x 171 = $ 904.02

Guarantee Rev = 0.86 x $904.02 = $ 777.46

2014 Current Rev = $3.50 x 195 = $ 682.50

ARC-CO Pmt = 0.85 x minimum of {$ 777.46 – $ 682.50 or 0.10 x $ 904.02}

= 0.85 x minimum of {$ 94.96 or $ 90.40}

= 0.85 x $ 90.40

= $ 76.84

Additional information on 2014 Farm Bill programs can be found on the Policy resources page hosted by the Purdue Center for Commercial Agriculture.

https://www.agecon.purdue.edu/commercialag/resources/policy/index.html

Disclaimer: This document is provided for education purposes. The information in this fact sheet is intended to assist farm operators and land owners as they form their own decisions based on the specifics of their operations as well as their own management objectives and risk attitudes.