



ARC-CO Payment Timing and Cash Rent Bidding

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Understanding the timing of Agricultural Risk Coverage at the county level (ARC-CO) payments is important when making cash rent bids. ARC-CO payments related to 2017 production should be used in budgets when evaluating 2017 cash rent bids. Great uncertainty surrounds the ARC-CO payments related to the 2017 crop year. However, these payments are highly likely to be lower than payments just received in the fall of 2016 and are likely to be close to \$0 per base acre if yields and prices are near current levels.

Timing of Farm Program Payments

Both ARC-CO and Price Loss Coverage (PLC) farm program payments are received in the year following harvest. For example, land owners and farmers received ARC-CO payments for crops harvested in 2015 in the fall of 2016. These payments were related to 2015 production. Farm Service Agency used 2015 county yields and 2015 benchmark yields, prices, and revenues in the calculation of 2015 ARC-CO payments.

Commodity title payments occur in the year following production for two reasons:

1. Farm program payments are delayed to place them in the next Federal fiscal year. The 2015 ARC-CO and PLC payments made in the fall of 2016 were received after October 1, 2016, the start of the 2016-17 Federal fiscal year. This timing places commodity title payments for crops harvested in 2015 in the Federal Government's 2016-17 fiscal year. Farmers benefit from this shift because, due to Congressional budgeting rules, delaying payments allows projected payments to be higher over the lifetime of the 2014 Farm Bill. Thus, farmers have more cumulative protection against declines in prices and revenues.

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2. Market Year Average (MYA) prices are used in the calculation of ARC-CO and PLC payments. MYA prices are not known with certainty until almost a year after harvest. For example, the marketing years for corn and soybeans begin in September and end in August of the following year. The MYA price associated with 2016 yields will not be finalized until September 2017.

Which Cash Rent Farmer Receives Payments

The delay in payments, however, has critical importance when it comes to rental arrangements, especially cash rental arrangements. Control of farmland in the year of production determines who receives farm program payments for that crop year. Suppose a farm is cash rented to farmer A in 2015 and farmer B in 2016. Farmer A will receive the ARC-CO payment for the crop harvested in 2015 even though those payments are made in the fall of 2016. Farmer B will not receive ARC-CO payments for the crop harvested in 2015 but could receive ARC-CO payments for the crop harvested in 2016. Whether Farmer B cash rents the farm for a crop harvested in 2017 does not affect if they receive payments for crop harvested in 2016 even though those payments will be received in 2017.

Therefore, payments expected in 2018 from ARC-CO should be used when evaluating the amount to be paid for cash renting crops to be harvested in 2017. The ARC-CO payments for the crops harvested in 2017 are the ones that will be received because of cash renting the farm for harvest of crops in 2017.

Projections of 2017 Payments

ARC-CO payments likely will be much lower for crops harvested in 2017 than in recent years. To illustrate, actual and projected ARC-CO payments are shown in Table 1 for DeKalb County, Illinois. ARC-CO payments for corn were \$62 per base acre for crops harvested in 2014 and \$78 per base acre for crops harvested in 2015. Projected payments are \$58 per base acre in for the crop harvested in 2016 using a 210 bushel per acre county yield and the current U.S. Department of Agriculture \$3.30 MYA price for the 2016 crop year. Payments for crop harvested in 2017 decline to \$0 per base acre if the 2017 corn price is \$3.50 and 2017 county yield is 200 bushel per planted acre.

Table 1. Actual and Projected ARC-CO Payments for DeKalb County, Illinois, \$ per Base Acre

Harvested	Corn	Soybeans	Blend ¹
In:			
	\$/acre	\$/acre	\$/acre
2014	\$62	\$0	\$40
2015	\$78	\$52	\$69
2016P ²	\$58	\$10	\$41
2017P ³	\$0	\$0	\$0

¹ Based on 60% corn base acres and 40% soybean base acres.

² 2016 projections made with a \$3.30 per bushel corn price, 210 bushels per acre corn yield, \$9.20 per bushel soybean price, and a 64 per bushel soybean yield.

³ 2017 projections made with a \$3.50 per bushel corn price, 200 bushels per acre corn yield, \$9.30 per bushel soybean price and a 60 bushels per acre soybean yield.

Turning to soybeans, ARC-CO did not make a payment for the crop harvested in 2014 in DeKalb County, Illinois (see Table 1). For the crop harvested in 2015, ARC-CO payment was \$52 per base acre. ARC-CO payment for the crop harvested in 2016 is projected at \$10 per base acre using a 2016 soybean price of \$9.20 per bushel and a 2016 county yield of 64 bushels per acre. The ARC-CO payment for crop harvested in 2017 goes to \$0 per base acre using a 2017 price of \$9.30 per bushel and a 2017 county yield of 60 bushels per acre.

Table 1 also contains payments for a blend containing 60% base acres of corn and 40% of soybeans. For the corn and soybean crops harvested in 2015, average ARC-CO payment was \$69 per base acre. This was the payment recently received in fall of 2016. The projected blended payment for the corn and

soybean crops just harvested in 2016 is \$41 per base acre, \$28 less than the 2015 payment. If a payment is made for the crops just harvested in 2016, it will not be received until the fall of 2017. Overall, farmers and land owners should recognize that ARC-CO payments likely will decrease in future years, unless county yields and MYA prices are considerably below current expectations

ARC-CO can make payments for the crop harvested in 2017 but it depends on the revenue generated by the crop harvested in 2017 and thus upon the average price for the 2017 crop year and the 2017 county yield. Table 2 shows different ARC-CO payments for corn at different projected price and yield combinations. Note that ARC-CO makes payments but only when corn yields are below normal and crop year average price for corn harvested in 2017 is less than \$3.90 per bushel.

Table 2. ARC-CO Payments for Crop Harvested in 2017 Given Different Market Year Average (MYA) Prices and County Yields, Corn, DeKalb County, Illinois

2017 MYA Price	2017 County Yield (Bushels per Acre)						
	170	175	180	185	190	195	200
	\$ per Base Acre						
3.00	59	59	59	59	59	48	36
3.30	59	54	41	27	14	2	0
3.60	26	12	0	0	0	0	0
3.90	0	0	0	0	0	0	0
4.20	0	0	0	0	0	0	0

Table 3 shows ARC-CO payments for soybeans harvested in 2017. Like corn, a combination of low yields and low prices are needed to trigger ARC-CO payments for soybeans.

Table 3. ARC-CO Payments for Crop Harvested in 2017 Given Different Market Year Average (MYA) Prices and County Yields, Soybeans, DeKalb County, Illinois

2017 MYA Price	2017 County Yield (Bushels per Acre)						
	48	51	54	57	60	63	66
	\$ per Base Acre						
8.50	51	51	51	51	36	16	0
8.75	51	51	51	45	24	4	0
9.00	51	51	51	34	13	0	0
9.25	51	51	46	23	1	0	0
9.50	51	51	34	11	0	0	0

Summary

When evaluating 2017 cash rents, 2017 ARC-CO payments should be used in budgets. There is a reasonable chance that 2017 ARC-CO payments will be low and likely will be \$0 per acre. The above example is for DeKalb County, Illinois. Similar projections exist for all counties in Illinois.