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Preparing Your Business To Survive a Disaster or Catastrophe

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Partners in Tax Education

California FarmLink is proud to offer this webinar with financial support provided by the USDA Farm Service Agency Tax Education and Asset Protection Initiative using funds Congress allocated for this purpose in the American Rescue Plan Act (ARPA).



Overview

1. Planning for Mitigation and Recovery
2. Risk Management Strategies
3. Insurance
 - Property
 - General Business Property
 - Crop Insurance
 - Liability
 - General Business Liability
 - Product and Other Special Liability
 - Key Officer Life Insurance



Planning for Mitigation and Recovery



Planning for Mitigation and Recovery

Mitigation Planning:

- Focuses on reducing the overall impact of a disaster before it occurs, including safety plans, evacuation procedures, and stop-loss strategies.

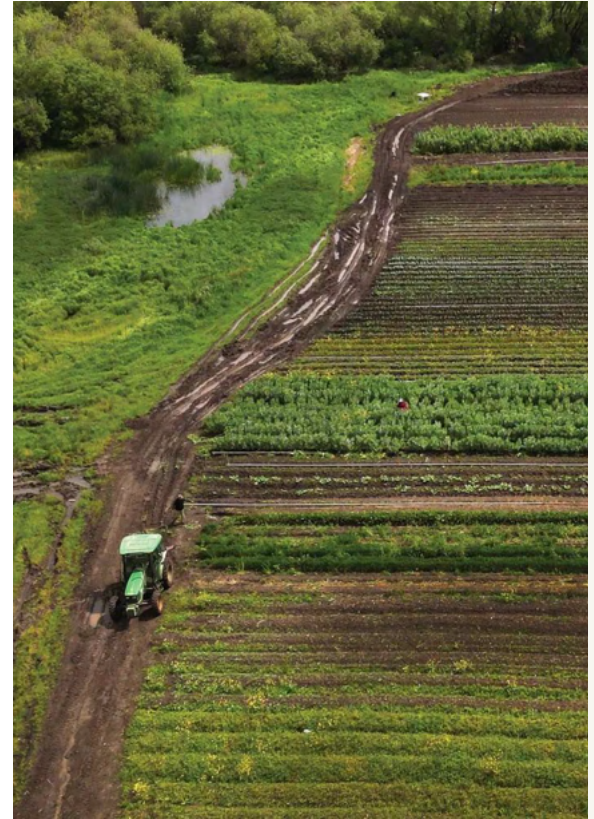
Recovery Planning:

- Focuses on restoring operations quickly after a disaster through advance preparation, including tools, skills, insurance, and documentation for loss assessment and recovery.



Safety Plans

- Flood routes
- Fire breaks
- Backup power especially for frozen inventory
- Site-specific risk assessments - examples
- Downed fences and loose livestock
- Loss of livestock water
- Loss of water to permanent crops



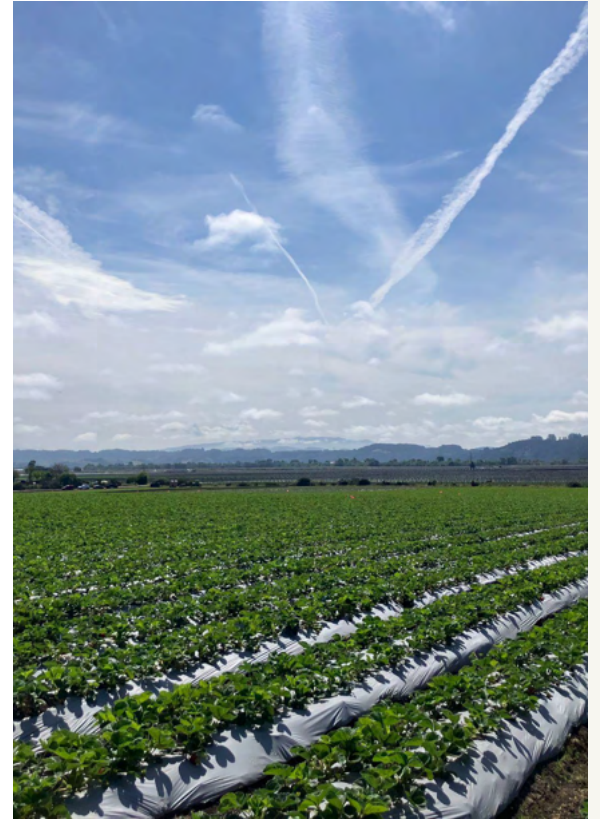
Evacuation Plans

- People
- Livestock
- Equipment, machinery, inventory



Immediate Stop-Loss Plans

- Livestock
- Permanent crops
- Fixed assets
- Moveable equipment



Tools Needed for Recovery

- Property insurance
- Detailed records of assets
 - Livestock
 - Equipment
 - Structures and Improvements
 - Permanent Plantings
 - Land Improvements
 - Growing Crops
- Access to credit
- Personal savings or off-farm income
- Information to manage cash flow

Skills Needed for Recovery

- **Cash flow planning skills**
- Tax management skills
- **Scenario planning skills**
 - Understanding how assets, labor, production, and marketing interact, and prioritizing essential assets and labor.
- Ability to access various relief programs
 - May include separate farm production income and expenses from other activities such as value-added production or agritourism.

Action Items

Things you have thought of:

- Safety plans
- Evacuation plans
- Insurance
 - Property } Offered “bundled” but
 - Liability } they’re two different things.
 - Crop / Livestock
 - If available, always sold separately from property and liability insurance

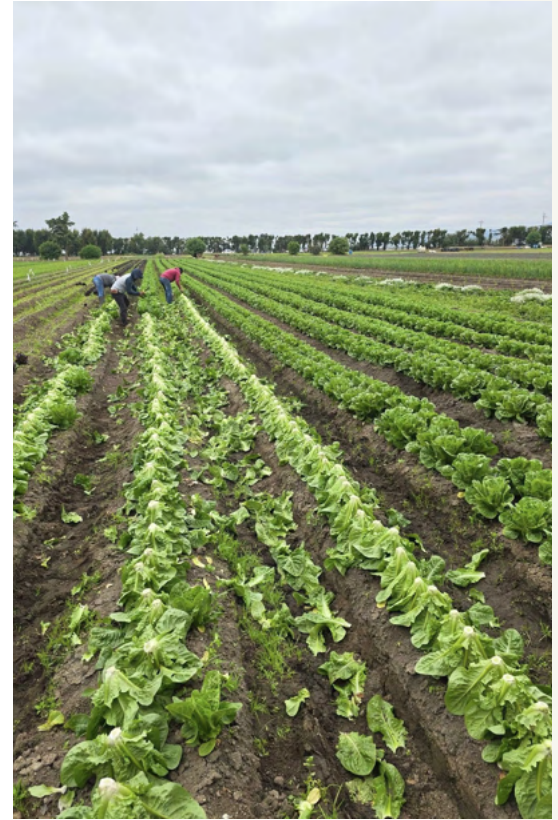


Action Items

Things you might not have thought of:

A standard double-entry bookkeeping system is an essential planning and recovery tool.

- **Start as soon as possible.** You will need several years of historic financial data in a useable form to support insurance claims and future decisions:
 - Asset lists
 - Costs of crops in fields
 - Sales detail by market, vendor and for sales on account slow and fast pay customers
- *Good news! A double entry bookkeeping system is also **a fundamental business management tool.***



Action Items

Things you might not have thought of:

Analytical decision-support tools and skills are also essential to planning and recovery.

- Bookkeeping just gives you raw data in a useable format.
- True strategic management happens on a spreadsheet.
- You need supplemental analytical tools and skills to support:
 - **Cash flow planning**
 - **Strategic analysis of options/priorities**
 - **Decisions about credit and credit applications**
- *Good news! These are also **fundamental business management tools.***

Action Items

How to prioritize

1. Protect **critical assets**, identified as those most essential to your operation
2. Address greatest **vulnerabilities**, identified as most likely vectors for material losses
3. Are known to be **effective** and have a high probability of protecting your operation
4. **Benefit** your operation regardless of disaster.

Adapted from Laura Lengnick, Cultivating Resilience LLC

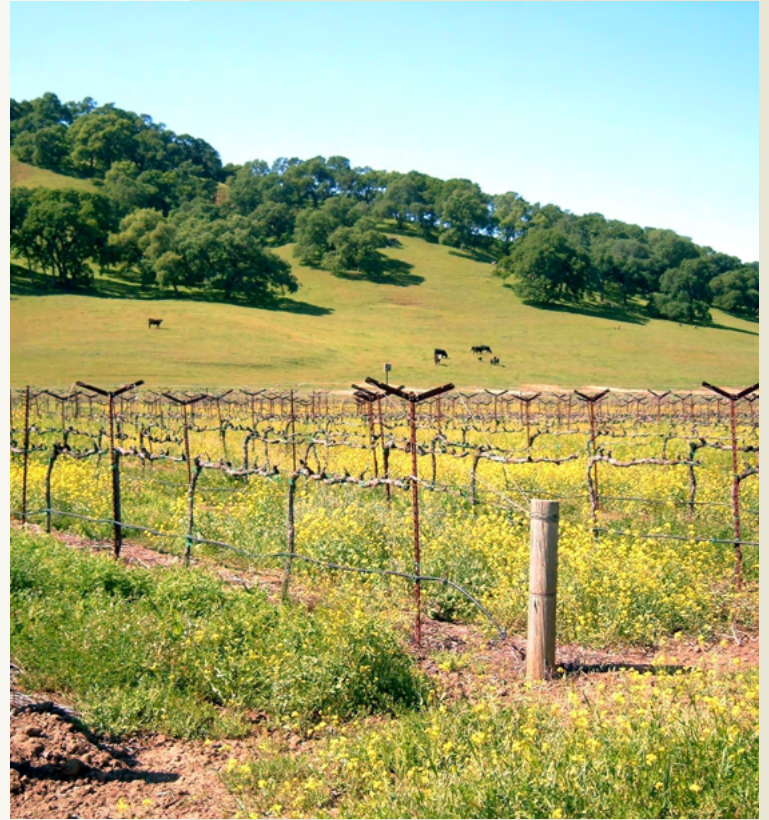


Action Items

How to prioritize

1. Identify **most critical assets** and secure them with physical protection and insurance
2. Identify largest **vulnerabilities**, places most likely to flood or burn, loss of power, loss of market and change physical vulnerability or identify alternative financial plans/scenarios.
3. Identify **effective** physical and financial/managerial strategies appropriate for your operation.
4. **Prioritize** things that **benefit** your operation regardless of disaster such as secure access to power, water, and financial management systems (bookkeeping plus well-developed analytical practices).

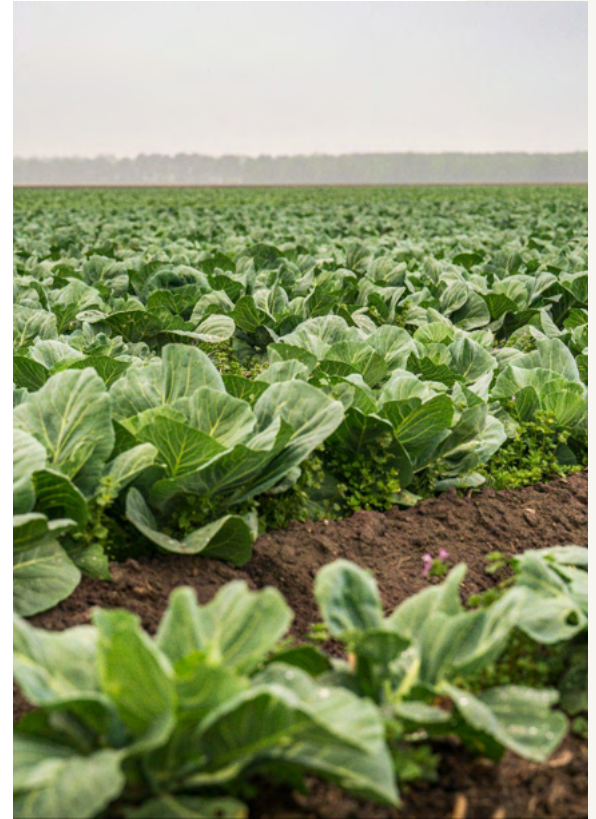
Risk Management Strategies



Defining, Evaluating, and Mitigating Risk

A risk assessment:

1. **Defines risks** by considering categories or types of events that would threaten the success of your business plan.
2. **Evaluates risk** by assessing both the ***likelihood and the severity*** of consequence from an adverse event.
3. **Considers risk mitigations** by matching risk assessments to appropriate risk management strategies.



Defining Risk

There are two common frameworks for thinking about risk in a farming, ranching or fishing business, and disaster fits into both as highlighted below.

1. The Five Ds:

- a. Death
- b. Divorce
- c. Disaster
- d. Disability
- e. Disagreement

2. Business Plan Assessment Framework:

- a. Production
- b. Marketing
- c. Financial
- d. Legal and Regulatory
- e. Human

Defining Risk - 5 D Framework

| Event | Adverse Outcome |
|-------------------------------|--|
| Death of an owner | Heirs take cash or assets out of business creating excessive debt or insolvency. |
| Divorce of an owner | One spouse takes cash or assets out of business creating excessive debt or insolvency. |
| Disaster | Loss of crop, market, or key property causes excessive debt or insolvency. |
| Disability of an owner | Disabled owner needs to continue to take draws or salary and now also needs to pay someone to perform key duties leading to excessive debt or insolvency. No one knows how to do the owners job. Key information is lost, decisions are delayed or wrongly made affecting profitability and cash flow. |
| Disagreement | <i>Between owners:</i> Exiting owner takes cash or assets out of business creating excessive debt or insolvency. <i>With key buyer, supplier, landlord, or neighbor:</i> affects operations and profitability |

Defining Disaster Risk - Business Plan Framework

| Category | Possible consequence of Disaster | Outcomes |
|-------------------|--|-----------------|
| Production | Crop loss, loss of assets critical to production (livestock fencing) | Loss of revenue |
| Marketing | Inability to access markets (road closures), loss of assets critical to marketing (reefer truck) | Loss of revenue |

Defining Disaster Risk - Business Plan Framework

| Category | Possible consequence of Disaster | Outcomes |
|-----------------------------|--|---|
| Financial | Mitigating disaster loss wipes out cash reserves, leads to excessive debt | Insolvency |
| Legal and Regulatory | New permitting requirements for re-building. Secondary losses due to damage caused by loose animals or flooded fields, septic, porta-potties, other environmental contamination | Significant expenses not associated with income producing activities could lead to insolvency |
| Human | Loss of life, injury, loss of workforce | Range from complete devastation to increase in cost and decrease in ability to operate |

Assessing Risk

Assess risk in terms of both

- Probability of Occurrence
- Severity of Consequence



Assessing Risk

| Event | Severity | 1 | 2 | 3 | 4 | 5 |
|------------|----------|---|----|----|----|----|
| Likelihood | 1 | 1 | 2 | 3 | 4 | 5 |
| | 2 | 2 | 4 | 6 | 8 | 10 |
| | 3 | 3 | 6 | 9 | 12 | 15 |
| | 4 | 4 | 8 | 12 | 16 | 20 |
| | 5 | 5 | 10 | 15 | 20 | 25 |

Key: 1-3 = low, 4-10 = Medium, 12-25 = High

Assessing Risk

| Fire | Severity | 1 | 2 | 3 | 4 | 5 |
|-------------|-----------------|----------|----------|----------|----------|----------|
| Likelihood | 1 | | | | | |
| | 2 | | | | | |
| | 3 | | | | | 3x5=15 |
| | 4 | | | | | |
| | 5 | | | | | |

Score: 15, High

Key: 1-3 = low, 4-10 = Medium, 12-25 = High

Assessing Risk

| Drought | Severity | 1 | 2 | 3 | 4 | 5 |
|----------------|-----------------|----------|----------|----------|----------|----------|
| Likelihood | 1 | | | | | |
| | 2 | | | | | |
| | 3 | | | 3x3=9 | | |
| | 4 | | | | | |
| | 5 | | | | | |

Score: 9, Medium

Key: 1-3 = low, 4-10 = Medium, 12-25 = High

Assessing Risk

| Market Loss | Severity | 1 | 2 | 3 | 4 | 5 |
|--------------------|-----------------|----------|----------|----------|----------|----------|
| Likelihood | 1 | | | | | |
| | 2 | | 2x2=4 | | | |
| | 3 | | | | | |
| | 4 | | | | | |
| | 5 | | | | | |

Score: 4, Low

Key: 1-3 = low, 4-10 = Medium, 12-25 = High

Mitigating Risk

| Event | Risk | Mitigations |
|-------------|-------------|---|
| Fire | High | <p>Physical:</p> <ol style="list-style-type: none">1. Clearing and hardening, safety and evacuation plans <p>Financial:</p> <ol style="list-style-type: none">1. Ensure adequate cash savings and access to credit2. Buy adequate property and crop insurance <p>Administrative:</p> <ol style="list-style-type: none">1. Company keeps detailed records of assets and production and keeps records backed up offsite.2. Company develops emergency plans and trains for evacuation. |

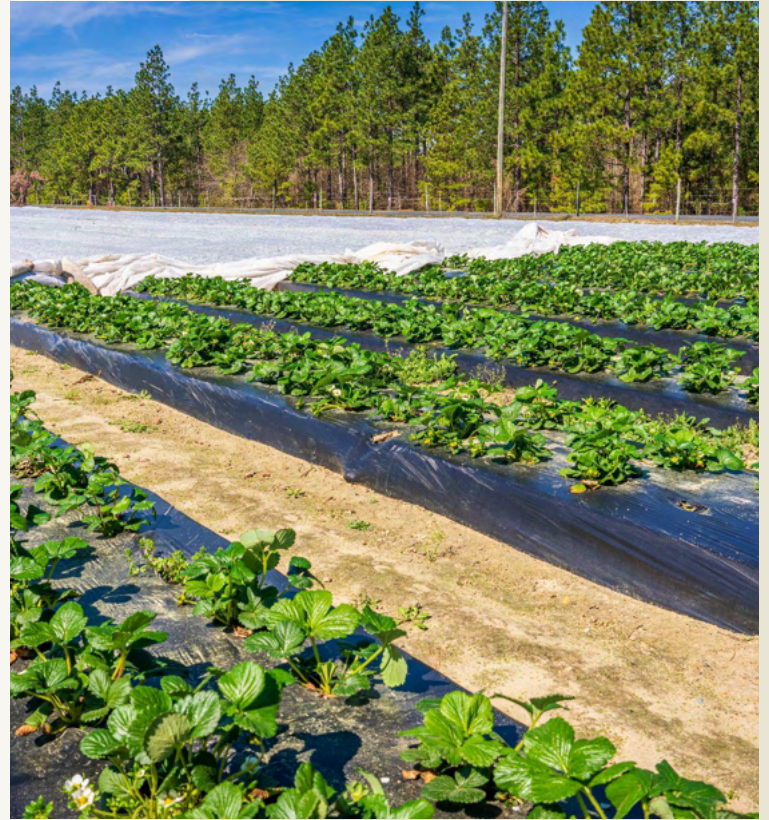
Mitigating Risk

| Event | Risk | Mitigations |
|----------------|---------------|---|
| Drought | Medium | <p>Physical: Ponds, soil health, well maintenance, buried irrigation</p> <p>Financial:</p> <ol style="list-style-type: none">1. Ensure adequate cash savings and access to credit sufficient to buy needed water (livestock, permanent crops) or forgo production (annuals)2. Buy adequate crop insurance if available3. Prepare scenarios /decision tools for selling animals or buying in feed and hauling water <p>Administrative:</p> <ol style="list-style-type: none">1. Keep detailed production records for crop insurance2. Keep records of water use by crop/field/enterprise3. Continued research into water use management options |

Mitigating Risk

| Event | Risk | Mitigation |
|-----------------------|------------|--------------------|
| Loss of Market | Low | None at this time. |

Insurance



Types of Insurance

- **Property**
 - Covers the replacement cost of property
- **Liability**
 - Covers legal fees, settlements and judgments
- **Combined Property and Liability**
 - Homeowner
 - Automobile
 - Business
- **Income Insurance**
 - Disability
 - Crop (some types of crop insurance)
 - Workers Compensation
- **Other**
 - Life
 - Health

Homeowner's Insurance

Property insurance: Covers repair or replacement costs of the home building and personal property such as clothing, electronics, and furniture in the event of common hazards such as fire and theft.

Liability insurance: Covers costs associated with lawsuits associated with the premises - damage to others from burst pipes, tree fall, injury on stairs, decks, etc.



Homeowner's Insurance

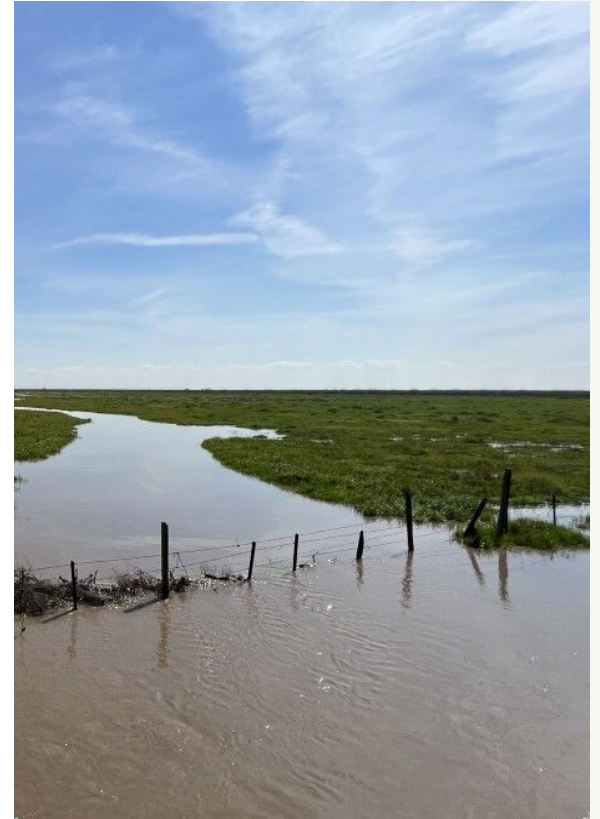
- May also cover out-of-pocket living costs if you are temporarily displaced from your home due to an insured cause.
- Usually a condition of making a loan (mortgage).
- Consider a rider to cover the costs of re-building to new/higher code standards.

If you operate a farm or ranch on a property where you also live you need to be careful to insure your farm or ranch operation separately because a homeowner's policy will probably not cover your business operation.



Business Property Insurance

The primary purpose of business property insurance is to compensate the policyholder for repair or replacement costs to buildings and equipment due to common hazards such as accident, fire, flood, and theft.



Automobile Insurance

A special type of insurance to cover both property damage and personal liability for injuries associated with operating an automobile.

- Every state requires drivers to carry at least a minimum amount of automobile insurance.
- **A personal automobile insurance policy will not necessarily cover accidents associated with a farm business**
 - worker driving a farm vehicle to town for supplies
 - owner making a special delivery to a customer.

Be sure to talk with your insurance agent to get appropriate automobile insurance for your personal and business activities.

General Liability Insurance

Protects the insured by covering costs associated with resolving lawsuits related to personal injury in the case of a homeowner's policy, or personal injury and common business-related issues in the case of a general liability policy for a business.

- Typically unprocessed farm products (fresh fruits, nuts, and vegetables) will be covered as part of a general liability policy for a farm, but products requiring additional processing (jams, sauces, baked goods) require a separate policy.



Disability Insurance

Replaces earned income when the insured is unable to work due to injury or illness.

- The federal Social Security program includes disability benefits that provide limited income if a person becomes disabled before retirement.
- A few states, including California, offer limited state-sponsored disability insurance programs funded through payroll taxes, similar to Social Security.
- Consider the risk of injury or prolonged illness following a disaster.



Workers Compensation Insurance

This is a state-mandated form of disability coverage limited to work-related injuries or illnesses.

- Funded by the employer, it provides medical care and wage benefits without requiring employees to sue.
- Owners and immediate family members are often exempt but may opt in; some states require coverage for working children.
- Consider additional risk of injury or workplace-caused illness associated with a disaster event.



Workers Compensation Insurance

A workers' compensation policy **automatically covers** the following work-injury-related expenses:

- Medical Expenses
- Prosthetics, Physical Therapy, and Workplace Accommodations
- Income Replacement:
 - Temporary Disability Benefits
 - Permanent Disability Benefits
- Job Retraining Costs



An Umbrella Policy

- An umbrella policy provides an extra layer of liability coverage above underlying policies (e.g., property, general liability, employer's liability, commercial auto).
- Typically sold as part of a package, it extends protection across all included policies.
- While shopping policies separately may seem cheaper, bundling under one provider often results in lower overall cost or more comprehensive coverage for the same price.



Crop Insurance

Private

Include specialized hail, fire and tree crop policies, which are developed and administered entirely by private insurance companies.

Federal

Policies are developed and administered through a public-private partnership between a number of private insurance companies and the Risk Management Agency of the USDA.



Federal Crop Insurance

May be purchased by a landowner, tenant, or sharecropper as long as the policyholder shares in the risk of producing the crop and is entitled to an ownership share of the crop.

Types:

- Multiple Peril Crop Insurance (MPCI) - single crop
 - Protects yield, some options to protect price
- Livestock (limited) pasture, rangeland, forage
- Whole Farm Revenue Protection “Whole Farm”
 - With a simplified “Micro Farm” option for operations with under \$350k of revenue
- Pilot programs (specialized, experimental)



Federal Crop Insurance

- Policies must be purchased prior to planting.
- Some policies can cover prevented planting due to weather-related events, some cover loss of price or price margin.
- The “whole farm” policies insure the average revenue of the whole farm operation including some revenue associated with value-added production.



Federal Crop Insurance

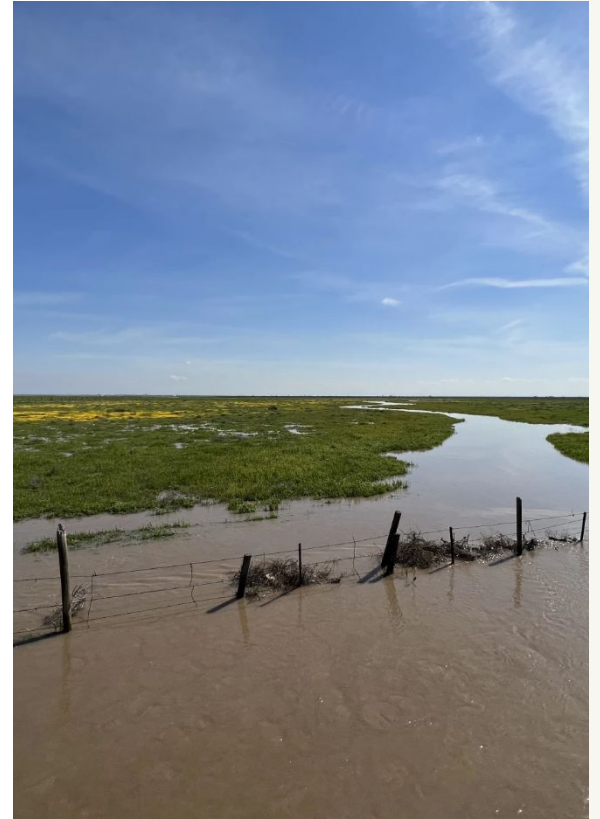
- Limited coverage for certain types of livestock and for pasture, rangeland and forage are also available.
- Most policies are written for a single crop in a limited number of states and counties and cover loss of crop yields due to natural causes including drought, excessive moisture, freeze, and disease.
- If a policy is not available in your county but is available in a nearby county you can request, and will usually receive, special permission to purchase the same coverage in your county.



Non-Insured Crop Disaster Assistance Program (NAP)

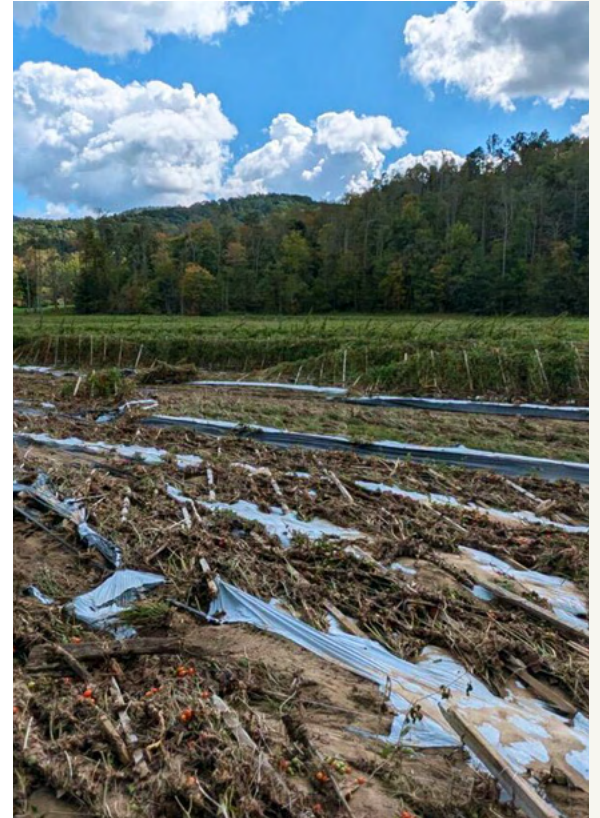
This is a USDA program for producers who do not qualify for other types of crop insurance.

- Relatively inexpensive to purchase.
- **Was** deeply discounted for beginning, limited resource, and historically underserved producers.
 - “Historically underserved” is Farm Bill language meaning women, disabled, BIPOC and LGBTQ+ and was used to provide discounts and preferential access to many USDA programs from the 1990s until 2025.
 - The current USDA and Department of Justice have decided to strike this preference from all USDA programs, so the discount is **no longer available**.



Non-Insured Crop Disaster Assistance Program (NAP)

- Not intended to fully compensate you for crop losses
- Intended to help mitigate the cost of disasters
- Intended to lessen the need for emergency legislation to assist when a farming community is hit hard by a natural disaster such as a wildfire or a tornado.





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Questions?





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