PLANNING FOR ON-FARM SUCCESS

A Workbook for Montana's Beginning Farmers and Ranchers

Module 7: Risk Management

USDA

Community Food & Agriculture Coalition OF MISSOULA COUNTY

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Module 7: Risk Management

Risk: How will we manage it?

Many of the resources in this section are derived from information created by the New England Small Farm Institute.[29]

Farming is a risky business. Rain doesn't come when you expect it. A new pest arrives in the potatoes. Hoof rot takes over your pastures. Many of these things require flexibility and creativity in the moment, but many can be prevented or addressed more easily with some advanced planning and consideration. Without a risk management plan, these challenges can throw off your financial projections and make it harder to have a successful year. Unmanaged risk also carries with it a high degree of stress for farmers and their employees.

In this section, you and your planning team will investigate the potential risks to your business while developing a strategy to minimize and protect against uncertainty. Agricultural risk is typically tied to personal, production (environmental) and market uncertainties, like illness, drought, or fluctuating prices. Moreover, as a farmer today, you may encounter legal and regulatory uncertainty (institutional risk), and other forms of financial risk. Each of these sources of risk is described briefly in the text box at right.[30]

What type of risk will your business be exposed to in the future as you look at new products, new markets, farm management systems, and labor strategies? How will you manage this new risk? Use Worksheet 7A: Risk Assessment & Plan to think through areas that may present challenges to you.

Recognize that your problem areas will likely change over time. As you're just getting started, production risks might prove to be the trickiest as you work through the kinks in your production planning and learn to better understand your land and your crops. In later years, an institutional or contract risk may become apparent or new tools might be developed to help you address old risks, like new crop insurance offerings or a better market channel.

Also consider, as was discussed in Module 6 on financing, that your attitude toward risk can play a big role here. If you are cautious and dislike taking chances, your operation will probably be stable, but you may miss out on opportunities that feel risky in the moment, but could be advantageous later. On the other end, if you enjoy taking risks, you might find yourself jumping into decisions with both feet before you've fully evaluated the potential outcomes. It's important to understand your own attitude toward risk because it will help you to know whether you might need help slowing down and evaluating decisions a bit more cautiously or whether you might need someone to push you to make sure you don't miss out.

Either way, don't let your evaluation of the risks on your farm in Worksheet 7A scare you away! Let it be a guide for you in figuring out

Common Sources of Agricultural Risk

Personal risk is the result of change and uncertainty within the business. Injuries and illness are sources of internal risk that can affect your business' ability to operate. Other sources of personal risk include a change in goals, divorce, death and fire. All of these events can have a significant impact on the long-term performance of your business. You might also consider your own lack of knowledge and experience in a new area a risk, as it may create uncertainty as you transition from one management system to another.

Production and **market** risks are those risks that result from weather-related events such as drought, excess rainfall, hail, extreme temperatures, insects and disease. The business may also be exposed to some internal risk as you learn to control pests and build soil fertility without the use of synthetic chemicals. External market risks are often tied to below-cost market prices and volatility in sales or input prices after production commitments have been made.

Institutional risk is associated with changes in government policy and regulations that govern market prices, crop insurance, waste management and livestock housing facilities. Changes in food safety regulations, for instance, could be an institutional risk to the farm.

Financial risk can occur as a result of fluctuating interest rates on borrowed funds, cash flow difficulties, and reduced equity or net worth.

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[29] New England Small Farm Institute, *Reckon with Risk*. www.smallfarm.org/main/for_new_farmers/reckon_with_risk
[30] Joy Harwood, et al. *Managing Risk in Farming: Concepts, Research, and Analysis.* Economic Research Service, 1999.

a strategy for dealing with challenges that may come your way. If you're looking at the risks and feeling overwhelmed and not sure how you might address them, consider the strategies below.

You may already be familiar with many of these risk management alternatives. Each alternative has its own advantages, disadvantages and resource requirements. The appropriate alternatives and overall risk management strategy for your business will depend, in large part, on your willingness to adjust production practices, spend time on the phone or in front of the computer, and to take on more management responsibilities.

For any risk that relates to a lack of knowledge or experience, taking courses like this one is a great strategy. If there are key areas where you feel you need additional help, you can contact local experts, do research online, or find books specific to your issue. While 20 years ago there may not have been many resources for direct farmers, today there are many resources online and books focused specifically on helping new, beginning, and small producers.

Personal risks

Don't underestimate the physical toll that farming may have on you. Hiring strong labor and contracting out certain farm tasks can help to reduce the impact on your body. If that doesn't help enough, consider switching to an enterprise that's less physically demanding or buy equipment that will lighten the load on you. Buy and keep safe equipment and make sure that your employees and partners are fully trained in safe practices. Buying health insurance for yourself and your employees can encourage preventative care so that sickness and injuries are avoided or healing time is shortened (more on health insurance later in this module). Writing your own salary into your financial planning can ensure that you have the funds set aside to hire someone if you get sick or injured. Finally, stretch! Doing yoga or having a morning stretching routine can really make a difference.

If you are worried that your area might not have qualified farm labor, you can start advertising your jobs further afield or you can develop your own training program, with farm laborers training to become farm managers or part-time help training to become full-time help. If you plan on utilizing farm labor, it's worth taking some time to learn about personnel management – although many of us think we understand what it takes to be a good supervisor, it's actually much more nuanced than we think. Keeping your employees happy is critical to keeping them on your farm through the season. Although we aren't addressing labor law here, know that labor laws in agriculture are stringent and you should take the time to research all applicable labor laws prior to bringing any volunteers, interns, or employees into your operation.

Stories from the Fields

Fertility is the number one thing we manage for, but on any farm you have to constantly ask yourself what aspect of your operation is holding you back and all of your effort should go toward improving that aspect and monitoring the improvement. If fertility, water management, and labor management are excellent, it might not matter if you are lacking in one crucial area. This year, we tried a new fertility management regime and we made a big change in managing our diseases. As a result we saw probably 90% less early blight and a huge improvement in crop quality and volume. With some crops, management is pretty straight forward and it's just a matter of scheduling so you can stay on top of things, but other crops (often the highest value crops) require that vigilance. - Harlequin Produce, Arlee

Competing or changing goals can be addressed by being clear about your goals and discussing them regularly so that changes become apparent quickly. Making sure that your farm business fits your family's lifestyle and keeping positive and proactive habits like regular farm/family meetings can help. Death or divorce is obviously a tough one to plan for, but it's important to consider what might happen to the farm operation in those kinds of circumstances.

Production risks

Some production risks will naturally decrease over time as you get a better handle on your farming operation. However, there are new crop insurance tools designed specifically for diversified operations and many other crop insurance tools to help other types of operations. There are also other programs that deal specifically with drought, pests, and other environmental issues. It is certainly worthwhile to get in touch with your local USDA Risk Management Agency and Farm Service Agency to figure out what disaster or risk programs they may have that could help. More on crop insurance later in this module. In addition, farm management choices such as diversification, storage planning, crop rotation, and certain irrigation practices may help with production risks. Taking the time to fully understand the climate, rainfall, pest, and weed issues on your property will also help you prepare effectively.

Market Risks

Crop insurance can again be a great tool here, particularly against drops in market prices. Several programs provide a level of guaranteed income against market losses. Diversifying your marketing strategy is also a good plan. Rather than producing only one product or for only one market, having a range of products and markets can ensure that if one area does poorly, there will likely be other areas that can buoy the farm. You can also consider marketing strategies that have a more guaranteed level of income, such as contracting with a specific business, joining a producer cooperative, or offering a CSA. If you find that competition is a major market issue, return to Module 2 and revisit your competitive advantage.

Institutional Risks

Obviously, staying aware of regulatory changes that affect you is critical. Organizations like the National Sustainable Agriculture Coalition or the National Young Farmers Coalition can be a great tool in staying on top of issues at the federal level. At the state level, farm policy organizations like Montana Farmer's Union, Farm Bureau, Montana Organic Association, the Alternative Energy Resources Organization or the Community Food & Agriculture Coalition can be a great asset. Although policy advocacy may seem like a boring, time-consuming, or futile effort, it does make a real difference when policymakers hear from the people their regulations will impact.

As for other existing regulations, make sure that you reach out to every agency whose laws might impact your operation before you get started. That list includes becoming aware of city/county planning and zoning regulations, food safety regulations at the county, state, and federal level, labor and employment regulations, business requirements, and others depending on your type of operation (more on food safety and business requirements later in the module). Unfortunately, it's also important to think about whether and how your consumers might get hurt while on your farm or get sick from eating your products. Of course, ensuring that your farm and products are safe is the first and most important step. Beyond that, considering insurance is a smart thing to do. More on insurance later in this module.

Financial Risks

The three previous modules on financial statements, planning, and financing can provide a lot of ideas about how to address financial risks. Perhaps most importantly, make sure that you have fully assessed your financial needs and understand your own financial goals prior to getting started. Make the best income and expense estimates you can and think thoroughly about whether the money the farm makes will make you feel financially secure and meet your income goals. Keeping an off-farm job, waiting until you've saved enough start-up cash, and maintaining your finances through the year can help you plan for and deal with challenges as they arise. Building capacity to bear financial risk can also be accomplished by adjusting household consumption, diversifying income sources on the farm, leasing short- and long-term assets, and spreading out asset sales and purchases.

Stories from the Fields

Thank goodness cows are liquid assets. I could sell them all tomorrow and I'd be okay, but if you go into investing in machinery, and I don't do that stuff, I invest in cows and I use what I have. I'm not a machine guy. I'm a horse guy and a cow guy and so my assets I do invest in hold their value if not increase in value. - Oxbow Cattle Company, Missoula

Insurance: Do you need it on your farm?

One of the most tangible ways in which you can deal with on-farm risks is by transferring it off-farm through insurance. But what kind of insurance should you buy? Is it worth it? Read the list below to consider some of the different types of insurance you can buy. Fortunately or unfortunately, only you can answer the question about whether or not it's worth it. Try reaching out to other producers with operations like yours to see what they do.

The following section comes from the Guide to Farming in New York State.[31]

The primary goal of insurance is to protect your assets from claims and lawsuits that may result from injury to persons or damage to property from accidents that are associated with your business. Effective risk management

[31] Monika Roth, et al. *Guide to Farming in New York State.* Cornell University, 2014. http://www.nebeginningfarmers.org/resources/guides

depends on combined efforts and close communication between yourself and your insurance company. Look for an agent with whom you are comfortable, who is well known and respected, who understands agriculture and businesses, and who will work with you to reduce your potential for risk.

When considering your risks, be sure to review the list below and describe your risks completely to your agent. You will not need all of the types of protection listed below, but it is important to know your options when shopping for insurance. Match your coverage to your needs for risk management.

Stories from the Fields

Tom McCamant at Forbidden Fruit Orchards specializes in peaches and cherries. He and his wife planted their orchards in 2000, when they were both working full time and raising two young sons. Several years later, Tom was able to take on the role of orchardist full time.

When asked about managing risk on the farm, Tom emphasizes the role of careful financial planning. "You need to account for more than survival," he explains. "You need to set aside money to account for crop failures and market risks. On a good year, you need to bring in 50% more than than you'll need to survive. Fruit's a little riskier than vegetables, but they're all risky. The challenges are different every year. One year it's an early frost, the next it's a new pest. But if you plan for each year to bring it's own challenge, things usually turn out okay."

2014 was one such challenging season for Forbidden Fruit. An early frost caused a large percentage of Tom's peach trees to drop their blossoms. Because he had been setting revenue aside after good seasons, effectively providing his own insurance policy, his operation was able to stay afloat.

In 2015 Tom purchased Whole Farm Revenue Protection through Northwest Farm Credit in Great Falls. He offers, "It wasn't worth it to pay the premiums on the older policies that were available, but when this partially government subsidized policy came available, it was ideal for someone like me who can't get normal crop insurance." Tom allows that it's possible the difficult 2014 growing season influenced his decision to purchase crop insurance, but he emphasizes how important it was for him to make sure his financial planning mitigated the risk involved growing cherries and peaches.

Insurance Options

- General Liability Insurance covers injuries to people and property for which your farm is judged liable and mitigates your losses from lawsuits. If you have the public coming to your farm, you may want to consider increasing your farm's comprehensive personal liability insurance in case someone gets hurt on your property.
- Automobile Insurance covers vehicle and personal damage to yourself and others.
- Home Owners Insurance typically covers fire, theft, personal property, lightning, riot, aircraft, explosion, vandalism, smoke, theft, windstorm or hail, falling objects, volcanic eruption, snow, sleet, and weight of ice. Usually flood and earthquake need to be purchased separately. If you live near any kind of surface water (including a ditch), talk with your insurance agent about a possible need for flood insurance.
- Farm Insurance covers barns, rental housing, equipment, animals, and other farm assets.
- Workers' Compensation Insurance is required if you have employees or interns. You are required to carry workers' compensation insurance in most circumstances for all employees on your farm. For details specific to your situation, visit the Montana Department of Labor & Industry at erd.dli.mt.gov.
- Product Liability Insurance is for damages that may arise from the consumption, handling, use of or condition of products manufactured, sold, handled, or distributed by your business. If you sell products for human consumption, you run the risk of people getting sick from your products. Make sure your general comprehensive policy covers product risks or consider purchasing product liability insurance.
- Contract Liability Insurance covers the assumption of the liability of another party through a contract or facility use agreement. For example, you may be required to provide a certificate of insurance to a buyer that includes $1 million in product liability and additional insurance.
- Environmental Pollution Insurance covers cleanup of manure, or pesticide spills.
- Crop Insurance – for weather, market, fire, pests, and other disasters. Options cover many different types of operations.
- Life Insurance to help your family in case of injury or death.

- Health insurance for yourself and family in case you are hurt and need medical care.
- Business Interruption Insurance will provide living expenses if you are hurt and cannot work.
- Vendor's Insurance will cover your liabilities if you are selling at a farmers' market or trade show.
- Liability Coverage is a liability insurance policy. It provides extra insurance protection over and above your existing policies and typically carries a high deductible.

Most importantly, reduce your liabilities whenever possible so you don't have to rely on insurance. See the textbox at right for ideas.[32]

Other Ways to Reduce Your Liability

- Minimize or eliminate dangerous situations. This might include: aggressive animals, manure pits, moving vehicles or equipment parts, etc. Fence off and/or label hazards wherever possible.
- Bio-security is recommended. Provide booties and hand wipes for visitors who enter barn areas.
- When selling or serving foods, make sure all regulations are met and carry product liability insurance.
- If selling fresh produce, create a food safety plan and train all employees.
- All workers on your farm are required to be covered by workers compensation. If you have interns or employees, you are required to carry insurance for them. The only exception is if your farm is set up as a non-profit.
- Test your water supply annually for bacteria if your water is being used for washing produce or processing.
- Avoid making false statements or publishing incorrect information that may damage a person's reputation as this can result in libel suits. Be careful of advertising claims or comparing your operation to others in a negative way.
- Manage your production techniques according to recommended best management practices.

More on Health Insurance

In March 2010, the Affordable Care Act was signed into law and the most sweeping changes took effect in January 2014. There are several great online resources that are updated regularly with more information on how health care reform will impact you and your business. The Center for Rural Affairs has been very active on health care reform and maintains an informative website at www.cfra.org/policy/health-care. The State of Montana also has a website with info specific to our state at montanahealthanswers.com. To sign up for health care, go to the health care exchange at www.mhc.coop.

Finally, the Montana Migrant and Seasonal Farmworker Council provides walk-in clinics around the state, with patient fees based on income. If you've worked in agriculture on a seasonal basis in the last two years, or if you are retired or disabled but previously were employed in agriculture, you and your dependents may be eligible for services. For more info, visit www.mtmigrantcouncil.org.

More on Crop Insurance

Buying a crop insurance policy is a great risk management tool available to agricultural producers. Producers should consider how a policy will work in conjunction with other risk management strategies to ensure the best possible outcome each crop year. Crop insurance agents and other specialists can assist producers in developing a management plan.

Whereas in the past, crop insurance was primarily available for major commodity crops, in recent years the Risk Management Agency (RMA) has developed crop insurance programs for a much wider variety of crops. RMA now provides policies for more than 100 crops, as well as some policies, like the Whole Farm Revenue Protection program that are based on whole farm revenues rather than insuring individual crops. Some policies will pay farmers when production is reduced and others will pay farmers when market prices go down. Policies are available for most commodities; however, policies for many non-commodity and organic crops are being created all the time. To find a crop insurance agent who can assist you in evaluating your options, visit www.rma.usda.gov/tools/agent.html.

Food Safety

As the mainstream food system has grown and food providers from farm to retail have integrated and expanded massively, food safety has become a huge deal. Food safety is regulated at the federal level, state level, and at the

[32] Ibid.

county or city level. There are many areas of food safety to consider, but this section will provide some basic resources and directions on where to find more information.

At the federal level, food safety regulations are in the midst of a major overhaul. The Food Safety Modernization Act (FSMA) asked the Food and Drug Administration to conduct a major update of federal food safety laws – the first since 1938! While FSMA included some specific provisions, it was up to the FDA to write the final regulations. The regulations could impact anyone who grows, harvests, packs, or stores fruits and vegetables, as well as those who process or manufacture food. The FDA released its proposed rules in the fall of 2013 and it is expected that another round of draft rules will be released in the winter of 2016. To stay abreast of changes, visit the Produce Safety Alliance (http://producesafetyalliance.cornell.edu/) and for policy advocacy opportunities, track the National Sustainable Agriculture Coalition's work (http://sustainableagriculture.net/).

In Montana, the web of food safety regulations is quite complicated. As explained below in the section on Starting a Business in Montana, the Secretary of State's office and the Department of Revenue regulate businesses of all kinds across the state. The Secretary of State's office regulates business names, offers a variety of types of business licensing, and more. The Department of Revenue taxes businesses, individuals, and property.

Specifically to food and farm businesses, the Department of Public Health and Human Services (DPHHS) is the next layer of business licensing. DPHHS offers licenses for wholesale and retail food operations. If you sell food to grocery stores or other businesses, you likely need a wholesale food license. If you sell or distribute food directly to consumers, you likely need a retail food license. For more information on food licensing, visit: http://www.dphhs.mt.gov/publichealth/fcs/. The final layers at the state level are the Department of Agriculture and Department of Livestock. Although these departments do not license food products, they do license farmers' markets, manage livestock branding programs, and more. For more information on MDA's programs, visit http://agr.mt.gov/. For MDL, visit http://liv.mt.gov/.

The rules developed at the federal, state, and local levels are enforced by a sanitarian in each county. They should be your first line of contact. Find your County Sanitarian here: www.dphhs.mt.gov/publichealth/phep/countytribalhealthdepts.shtml. Because regulations may be more stringent at the local level, the application of food safety regulations oftentimes varies across the state. You should contact the County Sanitarian in the county where you plan to grow or produce your product, as well as the County Sanitarian in any counties where you plan to sell the product, particularly if you plan on selling via farmers' markets.

GAP (Good Agricultural Practices) certification may also be relevant. These standards for food safety ensure that the consumer or purchaser is receiving a product produced with high farm food safety standards. Some markets are now requiring that their producers become GAP certified, which can be a smart but expensive and time-consuming step. GAP certification can also provide a marketing edge for some producers. For more information

Stories from the Fields

Margaret DeBona and Tracy Potter-Fins of County Rail Farm in Dixon are part of a program through the Western Montana Growers Cooperative to gain a food safety certification through the USDA called Group GAP. Margaret explains how addressing food safety proactively may pay dividends later: " In theory this food safety process will help us get into institutional markets like hospitals and like universities. MSU wants its vendors to have a gap plan. UM is less picky, but I think they will also want that eventually. It's going to be legally mandated for farms of a certain size to have a food safety plan and to get certified."

The recordkeeping required for certification is extensive, and Margaret acknowledges, "It took a lot to put this binder together, but now that it's together I think we're only spending an hour or two a week extra because we're part of this Group GAP process."

They didn't have to build all their logs from scratch: "Some of the tables I use are boilerplate from a Cornell website," says Margaret. "They created a template gap plan with a set of logs, and that's what the co-op folks have been using. Some are made specifically for us, like the cleaning log, because it's specific to this workshop."

Tracy adds that support from outside organizations has made the certification more feasible: "We also got a grant from Red Ants Pants foundation for some extra infrastructure like totes and a sprayer for the sink and a few other things that we needed to help pass our certification, so that was really helpful."

on GAP certification, Cornell University's site (www.gaps.cornell.edu) and FamilyFarmed's site (onfarmfoodsafety.org) have a wide array of resources and tools to help with planning.

Additional Resources

The National Center for Appropriate Technology's ATTRA website (which also has resources like "Ask an Ag Expert," internship opportunities, and hundreds of online publications) has published the Illustrated Guide to Growing Safe Produce on your Farm: Good Agricultural Practices, which includes links to a wide variety of food safety resources.

Working Out a Risk Management Plan

Given all of this information about the varied risks you may face and the diverse ways to manage those risks, a good next step to evaluate your risks and your opportunities is to develop a contingency plan—an action plan for how to respond should conditions within and outside the business change. Contingency planning is important to assure that your business plan will be implemented smoothly.

Throughout the planning process you've used your research to inform and make a number of realistic assumptions about the industry, prices, productivity and labor. Assumptions, however, are just that—best guesses that can change. No matter how carefully you plan, the likelihood of everything working out precisely as planned is small. A contingency plan can help you prepare for those situations when things don't go as planned—when market, economic, or environmental conditions that are out of your control change. A contingency plan can also help you know when it's time to exit the business if it is not successful.

Consider how the following problems, for example, could change your cash flow during the transition period:

- New construction costs 20 percent more than planned.
- Funds are borrowed but income flows are delayed for six months.
- Construction is stopped because of a missing regulatory permit.
- Livestock productivity is stunted due to dry pasture conditions.
- The person you hire to manage operations is incompetent or untrustworthy.
- You do not obtain a sales contract for your first year's production.
- Market prices sink to 15 percent below average historical values.
- Extreme weather event drastically reduces harvestable crop.

A sound business plan will lay out what needs to be done to avoid or address these delays, inefficiencies, and bottlenecks in the form of a contingency or control plan.

Contingency plans need not be long or complicated. You can also think about your contingency plan like Kickstarter campaigns do. If you've ever viewed one online you may remember that each campaign includes a "Risks and Challenges" section that discusses potential issues that may arise for the business and how they plan to address them. This tells the reader that the business owner is serious and has thoroughly thought through and planned for challenges that may come his way.

If you intend to share your written business plan with lenders or other external business partners, contingency plans simply need to convince readers that you've done an honest and thorough job of planning and that the business is prepared to respond successfully should internal and external conditions change. If your business plan is strictly for family or internal planning purposes, a contingency plan can be used as something to fall back on should marketing prices, labor supplies, family goals, and institutional requirements change unexpectedly. It can also be used to guide discussions about when best to "get out" of the business if too many strategies fail.

Authors of Planning for Contingencies note that there are several ways to incorporate contingency plans into your final business plan: "For example, your financial statements can incorporate a footnote explaining that the projected interest rate can go up by as much as three percent before your profit margin is seriously affected. Or, your discussion of how many employees you'll need can state that an additional production person will be hired when sales of $X are achieved."[33]

If you aren't yet ready to write a business plan, writing out contingency plans right now may not be necessary but be sure to work through Worksheet 7A: Risk Assessment & Plan to identify potential risks and the strategies you will use to address them. If you want feedback on your plans, your lender and financial planner are excellent resources for analyzing risk potential.

Starting a Business in Montana

The Montana Secretary of State's office provides excellent information on the steps you can take to start a business in Montana. Visit their website, sos.mt.gov/business, and click on "Start a Business" for more info. One of the tools they offer is the following eight-part checklist for starting a new business. As they note on their website, this list may not be exhaustive – your business may require additional documents – but it does provide a starting point for meeting the statutory and regulatory requirements. To be sure you've completed all of the additional information, contact the Secretary of State's office and/or appropriate legal/financial advisors.

Business Start-Up Checklist

✓ Determine Your Business Structure

A list of organizational structures is provided below and online at sos.mt.gov/Business/Startup. It is recommended that you consult with an attorney, accountant, and/or financial advisor to help determine which business structure is right for you.

✓ Reserve a Business Name

You can reserve a business name for up to 120 days while you prepare to file your organizational documents. You cannot transact business or conduct affairs with a name reservation.

✓ File Organizational Documents

Depending on the type of structure you have chosen, you will need to file the appropriate business forms with the Secretary of State's office.

✓ Apply for Tax ID Numbers

The IRS requires federal tax identification numbers for partnerships, corporations, and businesses that hire employees. To obtain a federal tax ID number, call the IRS at 1-800-829-4933.

✓ Apply for Professional Licenses

Montana law requires licensing for some professions. To determine whether you need a business or occupational license, contact the MT Department of Labor and Industry at (406) 841-2300.

✓ Apply for Local Licenses

Every city and county has specific requirements for doing business within its jurisdiction. Call or visit your county courthouse or city office to learn more about the requirements in your area.

✓ Apply for Workers' Compensation

If you plan to hire employees, you are required to provide insurance coverage under Workers' Compensation Laws. This information is available from the MT Department of Labor and Industry at 406-444-9586.

✓ File an Annual Report

Corporations and LLCs are required to file an Annual Report with the Secretary of State's office. If you fail to file the Annual Report with the accompanying fee each year, your company can be involuntarily dissolved.

[33] CCH Inc., *Planning for Contingencies*, 2002. www.toolkit.cch.com

There are a couple of additional first steps that we would add to this list. Contact your city and/or county planning office to make sure that there aren't any subdivision or zoning laws that apply to your land that might limit your ability to do what you intend to do. Also, in Montana, food safety laws are monitored and enforced by the County Sanitarian. Contact your County Health Department to talk with a County Sanitarian to make sure you are following all of the necessary applicable rules.

Organizational Structure

The legal organization that you choose for your business will have risk, finance, tax and estate planning ramifications. Legal organization is typically one of the first decisions made when structuring a new business and you have a range of organizational strategy alternatives to consider. The advantages and disadvantages of a variety of business arrangements are described in the text box at right.[34,35]

Traditionally, most farm businesses have legally organized as sole proprietorships or partnerships. This is still a common legal structure, but a growing number of today's farms are incorporating as Limited Liability Corporations (LLCs) or Cooperatives. With whichever business structure you choose, but especially with corporations, LLCs, cooperatives, or non-profits, make sure that you open a business bank account right away and keep your finances separate. One of the biggest benefits of these types of structures is that they provide a wall between your finances and the farm's, so that if the farm gets sued, they can only sue for the farm's assets, not your own personal assets. However, if you have been using farm money to pay for your personal expenses or your personal checking account to pay for business expenses, that "veil" has been pierced and anyone who sues your business can sue you personally, destroying the benefits of being a corporation.

Use Worksheet 7B: Business Organization to list the organizational alternatives that you would like to consider for your business. Next, use the space provided to research ownership authority, tax rates and filing requirements for each alternative as well as the advantages and disadvantages of each for your business. When doing so, remember that the legal and business arrangement that you choose must be compatible with your overall financial values and goals.

Resources for filling out Worksheet 7B: Business

Legal Organization Options

Sole proprietorship. In a sole proprietorship, the business is owned and controlled by one person. This means that if two or more partners plan to operate the business together, only one of them can hold legal title to the business. The primary advantage of a sole proprietorship is that you are independent and free to make all business decisions without an obligation to partners or shareholders. The disadvantage of a sole proprietorship is that you are personally liable for any debt, taxes, or other financial and regulatory charges.

Partnership. Partnerships may be formed between two or more family members or third parties. Each partner is liable for all partnership obligations. One of the primary advantages of a partnership may be the infusion of business capital and other assets by one or more partners. Each partner pays taxes individually based on his or her share of income, capital gains and losses. There are two types of partnership: general partnerships and limited partnerships. In a general partnership, partners are jointly responsible for the partnerships' debts.

Corporation. Corporations are owned by one or more shareholders and are managed by elected directors. A corporation must be established in compliance with statutory requirements of the state of incorporation. The corporation, not its shareholders, is responsible for corporate debts and other obligations. One disadvantage of corporate organization is that its owners and family members are considered employees of the business and are therefore subject to labor laws and taxes.

Limited Liability Company (LLC). This organizational form offers owners limited liability like a corporation—investors are liable only for their investment in the business—but it may be classified as a sole proprietorship or partnership for tax purposes. The LLC therefore has some of the benefits of a corporation without requirements like a board of directors.

Cooperative. A cooperative is a legally incorporated business entity held together by multiple member or owners. Dividends (portions of the profits) are paid out to its members. A cooperative is taxed on income at corporate rates, but patronage refunds are often tax-deductible to the cooperative. Many farmers are now using cooperative organization to acquire and provide machinery, livestock breeding, equipment maintenance, marketing and advisory services.

Non-Profit. To qualify as a non-profit, your business will have to file with the federal government and prove that your business has a "public benefit," for example, if your farm has a strong community education component. Non-profits receive tax benefits and are allowed to use unpaid volunteers.

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[34] Boehlje and Lins, 1998.
[35] Minnesota Small Business Assistance Office, *A Guide to Starting a Business in Minnesota.*

Organization include the Montana Secretary of State's website: http://sos.mt.gov/Business/ (click on "Start a Business" in the Help Center) and Nolo: http://nolo.com. Nolo is an excellent resource for legal assistance of all kinds. They provide books and a wide range of articles on their website. The Montana Library System carries several of their books if you want to look them over before buying.

Worksheet 7A: Risk Assessment & Plan

Briefly rank your business' exposure to personal, production, market, institutional, and financial risk. Talk over risk management ideas with partners, a financial consultant, or an accountant. List strategies that you might use to reduce future risk. Then, summarize your strategy for managing and minimizing your business' risk exposure. This tool is based on work by the New England Small Farm Institute (www.smallfarm.org).

Description of Risk	High	Moderate	Low	N/A	Strategy to Reduce, Avoid, or Address Risk
Personal Risks					
Lack of farm management experience					
Sick or injured farm owner or employees					
Lack of qualified farm labor					
Competing or changing goals among partners					
Death or divorce of farm partners					
Other personal risks?					
Production Risks					
Lack of production experience					
Untested production methods					
Yield variability					
Lack of equipment or equipment failures					
Pest or weed infestations					
Other production risks?					
Market Risks					
Lack of marketing experience					
Limited marketing channels					
Competition					
Decrease in market prices					
Increase in necessary inputs					
Issues with existing market contracts					
Other market risks?					

Description of Risk	High	Moderate	Low	N/A	Strategy to Reduce, Avoid, or Address Risk
Institutional Risks					
Lack of knowledge about legal issues/regs					
Complying with current regulations					
New regulations applicable to the farm					
Land development pressures					
Community not "farm friendly"					
Consumer health and safety concerns					
Other institutional risks?					
Financial Risks					
Lack of financial management experience					
Lack of $ to invest in needed equip./assets					
High debt					
Lack of seasonal operating cash					
Insufficient profit to provide adequate pay					
Other financial risks?					

Risk Management Strategy Summary:

Worksheet 7B: Business Organization

Use the space below to record information about the organizational alternatives that you are considering for your business. Be sure to note advantages and disadvantages of each alternative as it pertains to your current situation, business vision, and personal goals.

Organizational Alternative 1:	
Tax Rates	
Filing Requirements	
Advantages	
Disadvantages	
Organizational Alternative 2:	
Tax Rates	
Filing Requirements	
Advantages	
Disadvantages	
Organizational Alternative 3:	
Tax Rates	
Filing Requirements	
Advantages	
Disadvantages	