



February 26, 2016

Testimony in Opposition to SB 1507A House Revenue Committee

Chair Barnhart, members of the Committee:

Friends of Family Farmers offers this testimony in opposition to SB 1507A. Specifically, we are opposed to amendments adopted in the Senate Finance and Revenue Committee that extend significant tax subsidies for manure digesters on large-scale industrial dairy operations in Oregon. While the bill reduces the current subsidy from \$5.00 wet ton of manure, to \$3.50 per wet ton, it also extends the sunset on the program for an additional five years beyond the tax credit's current expiration date in 2017. Given the existing flaws in this tax credit, and the fact that it primarily benefits one company, we believe a deeper review of the policy implications of extending this tax credit are needed, and should not be done in the haste of the 2016 session when no policy committee has reviewed the pros, cons and alternatives available.

While subsidized manure digesters can hypothetically allow smaller scale dairies to provide community level energy while reducing water pollution, in reality, the bulk of the taxpayer money distributed during the life of this tax credit has gone to a single operation, Threemile Canyon Farms, which is owned by an out-of-state company and is the state's largest factory-scale dairy operation with over 50,000 cows in confinement. Nothing in SB 1507A changes the current imbalance in how this tax credit is distributed, and if no additional amendments are made, the tax credit will continue to predominantly flow to one operation, potentially even after its initial investment has been paid for by taxpayers.

Under this tax credit, millions of dollars in taxpayer funds each biennium are going Threemile Canyon Farms. When this and other companies built digesters after the manure tax credit was established in 2007, they were fully aware of the sunset in 2017, and so its expiration should not impact any operation's business plans. However, as extended in SB 1507A, the tax credit will not only continue to be primarily used to subsidize a single operation whose growth has coincided with a sustained loss in small scale dairy farms in Oregon, we are concerned it will lead to Oregon providing taxpayer funds to subsidize new factory-scale dairy operations that agree to build manure digesters. Tax credits this generous can become the 'tail wagging the dog' for confinement livestock operations that may not otherwise be economically viable. It is important to note that manure digesters only make sense in operations where animals are confined in buildings – those farms that graze animals on pasture for most or all of the year do not have the same manure management problems that manure digesters are partly intended to solve. In short, this tax credit benefits and serves to promote a certain type of agriculture in Oregon, and disadvantages those producers who raise animals on pasture.

It is our belief that taxpayer funds should not be used to subsidize large-scale confined or concentrated animal feeding operations (CAFOs) in Oregon, whether through manure digesters or otherwise. These operations are typically well capitalized even as they serve to artificially depress

milk prices, and threaten the future of Oregon's smaller scale dairies, which are often forced to lower their prices to compete. Already operating on small margins, many small dairies cannot compete with larger operations, especially those that are able to collect tax credits or other subsidies for their operations. Indeed, according to a 2013 report from the Oregon Employment Department, in the years following the establishment of the Threemile Canyon Farms mega-dairy in Boardman, nearly half of Oregon's dairy farms went out of business, on average 9 dairy farms per month between 2002 and 2007.¹

If a policy goal of this tax credit is to help support smaller farmers, it is not currently working to serve that goal, and we would suggest a clarifying amendment to SB 1507A that it only be made available to farms that are considered to be small or mid-sized.

Further, we are concerned that the state has still not followed through with the recommendations of 2008's Task Force on Dairy Air Quality, which was intended to fund new air quality monitoring, encourage best practices, and in 2015, begin enforcement of air quality violations from larger dairies. Like Threemile Canyon Farms, we were a member of the state's Task Force on Dairy Air Quality, created by SB 235 in 2007. Unfortunately, the consensus recommendations of this task force have never been funded or followed through on. To date, no money has been dedicated to add air quality monitoring at large dairies, to encourage best practices, or rein in air pollution problems from the largest operations. Instead, huge sums of money have flowed to tax credits for a small handful of dairy farms that now have manure digesters, with most funding going to Threemile, likely one of the state's single largest source of agricultural air pollution. The full report of the Task Force on Dairy Air Quality and funding requests can be found here - <http://library.state.or.us/repository/2012/201204101013082/finalReport.pdf>. We believe funding the Task Force's consensus recommendations should take priority over continued funding of ineffective and costly manure tax credits.

We strongly suggest the Revenue Committee amend SB 1507A to remove the extension of the manure digester tax credit, or at a minimum only extend it for one year at the reduced rate of \$3.50/wet ton so that the larger policy implications - and alternatives that better support Oregon's family-scale farms - can be discussed in full during the 2017 Legislative session.

Thank you for your consideration of our comments today.

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¹ Oregon Employment Department; August 15, 2013 – <https://www.qualityinfo.org/-/oregon->