



March 29, 2017

Testimony in Opposition to HB 2072 House Committee on Energy and Environment

Chair Helm, members of the Committee:

Friends of Family Farmers is a non-profit organization that advocates for socially and environmentally responsible family-scale agriculture in Oregon. We represent farmers, ranchers and consumers across the state and are testifying today in opposition to HB 2072, a bill to extend the sunset on Oregon's biomass tax credit program until January 1, 2024.

We have no position on the issue of woody biomass and whether or not the sunset on woody biomass tax credits should be extended. Our specific area of opposition focuses on the impact of further extending the tax credit for animal manure digesters. As currently designed, the animal manure digester tax credit primarily benefits Oregon's largest dairy operation, and has no system in place for independently verifying its alleged benefits to the state of Oregon. We believe the Legislature erred during its short session in 2016 by extending the tax credit sunset for animal manure from its originally intended sunset date of December 31, 2017 to December 31, 2021. Extending this tax credit until January 1, 2024 will only compound the issues with this flawed tax credit program.

Lack of Transparency or Independent Verifiability and Accountability

The animal manure digester tax credit is now the most costly biomass tax credit the state currently offers (costing taxpayers over \$4 million in the 2015 tax year alone), and is on track to cost taxpayers approximately \$5 million in the current biennium. Yet, despite the significant cost to the state, the animal manure tax credit lacks any independently verifiable outcome metrics. There is no independent monitoring to quantify its costs or benefits for the climate, air quality or to taxpayers.

This was confirmed in testimony from June 2016 before the Joint Interim Committee on Department of Energy Oversight from ODOE Director Michael Kaplan. In response to a question on return on investment on the biomass tax credits, and about the manure digester tax credit specifically, Director Kaplan acknowledged that he could not summarize or justify the return on investment to the State of Oregon. He said "I have a really hard time, based on the data that we have, the way it's collected, the way it's housed, in demonstrating through an ROI" the return on investment for the money spent by the state. He added, "it is certainly something that I have a really hard time justifying with the data that I have at hand."

See http://oregon.granicus.com/MediaPlayer.php?clip_id=21930 at approximately the 2 hour 20 minute mark for the exchange.

Despite the fact that the manure digester tax credit program lacks clearly defined goals, has no system of accountability to independently verify its outcomes, and has not been shown to be an efficient use of limited state resources, the Legislature in 2016 did extend the credit until the end of 2021. Though it was extended at a slightly reduced rate, this is a decision that will cost the state

millions of dollars in coming biennia, a problem that would be exacerbated by HB 2072 unless it is amended to exclude the animal manure digester tax credit.

There are consensus recommendations dating back to 2008 for an Oregon Dairy Air Emission Program that would include air quality monitoring and stronger accountability measures. This program would be advanced through the passage of SB 197 this year. But at this time, this program has not been created and state of Oregon does not independently monitor or track methane or other air emissions from dairy or other livestock operations, including those operations that have taken advantage of this tax credit. As such, the tax credit for animal manure digesters should not be extended further, and we would suggest that in lieu of extending it, its sunset should be returned to its originally envisioned date of December 31, 2017 until a broader Oregon Dairy Air Emissions Program is in place.

No Tracking of Methane or other Air Emissions

Because Oregon lacks the Dairy Air Emissions Program as proposed by the Oregon Dairy Air Quality Task Force in 2008, there is no monitoring or tracking of methane or other air contaminant emissions associated with a growing number of exceedingly large dairy operations in Oregon. Though animal manure digesters are intended to capture methane from manure, they do nothing to address methane produced during the rumination process of livestock like dairy cows. These are methane emissions that cows exhale during the cud chewing/ruminating process. The EPA has estimated that these emissions are the vast majority of methane emissions from dairy cows. Manure digesters do not reduce this significant source of methane emissions associated with large dairy operations. Further, methane digesters do not address emissions of ammonia, hydrogen sulfide, nitrous oxide, volatile organic compounds or particulate matter from large dairy and other livestock operations. Ammonia emissions from large dairies, including from the largest beneficiary of the manure digester tax credit to date, have been identified as a significant source of air pollution in the Columbia River Gorge.

If Oregon's policy goal with this tax credit includes reducing overall methane emissions from dairy operations in Oregon, we believe that steps to incentivize grazing dairy cows on pasture would be a more effective way to reduce methane emissions and increase carbon sequestration in soils.

Current Manure Digester Tax Credit Primarily Benefits Larger Confinement Operations, Not Small and Mid-Sized Farms or Pasture-based operations

Another concern of ours is that the structure of the tax credit itself incentivizes large confinement livestock operations. It is paid on a per ton of manure basis, which means that the primary use of public dollars for this tax credit have gone to the very largest dairy operation in the state that generates the most manure. Since manure digesters need a steady supply of manure for year-round operation, this tax credit actually encourages larger confinement livestock management systems, rather than those which prioritize having animals outdoors and on pasture, practices which have multiple environmental and animal health benefits.

For smaller and mid-sized operations, particularly those which graze animals on pasture for significant portions of the year, the current animal manure tax credit is either not useful or does not pencil out. The primary beneficiary of the manure digester tax credit to date and looking forward is Oregon's largest dairy operation, Threemile Canyon Farms, with roughly 70,000 animals in

confinement. Further, if a recently proposed 30,000 head dairy near Boardman builds a digester, it will further burden Oregon taxpayers if this tax credit is extended, or if its sunset date is not returned to the end of this year as was the case when it was originally created.

Recommendations

We respectfully ask that you oppose HB 2072 in its current form. If you do plan to move it forward, we strongly urge you to amend the bill to change the sunset date for the animal manure digester tax credit date to its previously established sunset of December 31, 2017, or at a minimum, leave the current expiration date of January 1, 2022 in place.

Given the substantial, and likely rising, costs to the state of the current animal manure digester tax credit, we believe additional recommendations are warranted to better address the underlying policy questions around methane and other air contaminant emissions from large dairy operations.

These include:

- The Legislature in 2017 should establish a dairy air quality program similar to that proposed in 2008 by Oregon's Dairy Air Quality Task Force so that methane and other air emissions from large confinement dairy operations in Oregon are monitored and reported annually. Fact-based best practices and policy recommendations should be developed and implemented over time. SB 197, a bill before the Senate Environment and Natural Resources committee, would move this important program forward.
- Instead of offering tax credits for larger dairy operations, it should be a requirement that new, large dairy confined or concentrated animal feeding operations in Oregon that are likely to have significant methane emissions build animal manure digesters. The construction and operation of animal manure digesters should be a cost of doing business in Oregon for new, large dairy operations, not incentivized through tax credits.
- If future tax credits for animal manure digesters are considered, it is imperative that an overall dairy air quality monitoring and improvement program is in place first, and that clear and measurable goals for reducing dairy related methane and other air emissions are developed, particularly in regions with air quality issues like the Columbia River Gorge.
- Any manure related tax credits offered in the future should be designed to primarily help small and mid sized farms adopt digester technology or alternative management practices that reduce emissions, particularly in regions where multiple benefits related to air and water quality can be quantified. If considering animal manure related tax credits, incentives to encourage producers to get cows outdoors and on pasture more of the year and incentivizing practices like rotational grazing and soil carbon sequestration should be prioritized for the use of limited state dollars.

Thank your for your consideration.

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