



April 3, 2017

Testimony in support of HB 2775 House Committee on Revenue

Chair Barnhart, 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 support of HB 2775 to limit the availability of the animal manure digester tax credit. While we support the underlying bill, we urge an amendment to lower the cap paid out per biennium under this credit to further contain costs.

Over the past several years, this tax credit has become Oregon's most costly biomass related tax credit. Yet the animal manure digester tax credit has no system in place for independently verifying its impact. We disagreed with the decision by the Legislature in 2016 to extend the tax credit sunset for animal manure from its originally intended sunset date of December 31, 2017 to December 31, 2021, and we believe that reforms are needed to limit some of the problems with this credit.

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. This extension will cost the state millions of dollars in coming biennia, and could rise substantially with the addition of new, large digesters that may be in the works, unless the availability of the credit is limited now.

No Tracking of Methane or other Air Emissions

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 or HB 3308 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. Until an Oregon Dairy Air Emissions Program is in place, it does not make sense to allow the manure digester tax credit to continue to expand.

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.

Further, the amount of renewable energy produced through this tax credit is relatively inconsequential in the context of both Oregon's overall energy use, and current renewable energy portfolio.

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 largest dairy operation in the state to pay costs related to its digester. In general, because manure digesters need a steady supply of manure for year-round operation, this tax credit effectively provides an incentive for 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 in coming years, it will further burden Oregon taxpayers if this tax credit is not curtailed.

Recommendations

We respectfully ask that you support HB 2775 with the additional of an amendment that sets a lower per biennium cap to provide a stronger cost containment mechanism. Current usage appears to be roughly \$5 million per biennium, while the bill as introduced sets a cap of twice that. Beyond that, we that believe deeper reform of this tax credit is needed. Given the substantial, and likely rising, costs to the state of the current animal manure digester tax credit if no action is taken, additional steps are warranted

to better address the underlying policy questions around methane and other air contaminant emissions from large dairy operations.

Our recommendations 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 and HB 3308 bills currently before the Senate and House Environment Committees 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.

Ivan Maluski, Policy Director
Friends of Family Farmers
249 Liberty St. NE, #212
Salem, OR 97301