



June 9, 2017

**Testimony on HB 2072  
Manure Digester Tax Credit  
Joint Committee on Tax Credits**

Chairs Hass and 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 opposition to HB 2072's provision to extend the sunset on Oregon's manure digester tax credit program until January 1, 2024.

We have no position on the issue of woody biomass. 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 even if no new manure digesters come into operation in Oregon. Further, if new digesters do go into operation between now and the sunset date, costs will continue to rise as there is currently no annual or biennial cap in place to control costs. According to the Revenue Impact Statement for HB 2072 A from April 5, the additional cost to the state of extending the biomass digester sunset until 2024 will be \$7.3 million in the 2021-23 biennium, primarily due to the impact of extending the manure digester tax credit an additional two years beyond the current sunset.

Yet, despite this, 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. Indeed, according to the Fiscal Impact Statement issued of HB 2072 A from March 29 "the ability of DOE to track and report on the biomass producer or collector tax credit is beyond the capacity of DOE's current databases. The extension of this, or any other energy tax credits currently administered by the Department, would require information technology upgrades to improve tracking and reporting capabilities." The Fiscal Impact Statement goes on to estimate the costs of creating better tracking mechanisms for various tax credits administered by DOE, including the manure digester credit, to be over \$1.35 million in additional costs.

The issues regarding the lack of independent data, verifiability and transparency for the manure digester tax credit are not new, and were confirmed in testimony from ODOE Director Michael Kaplan in June 2016 before the Joint Interim Committee on Department of Energy Oversight. 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](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 has no system of accountability to independently verify its outcomes, and cannot be 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 decision will ultimately cost the state millions of dollars in coming biennia, a problem that would be exacerbated by HB 2072 if the manure digester tax credit is extended further at this time.

### **Oregon Lacks a Dairy Air Emissions Program - No Independent Tracking of Methane or other Air Emissions**

In 2008, consensus recommendations were developed by range of stakeholders for the creation of an [Oregon Dairy Air Emission Program](#). This program explicitly called for air quality monitoring and both voluntary and regulatory approaches to address significant sources of these air emission in Oregon. This included support for tax credits for a range of best management practices, not solely digesters. However, this program was never created and the state of Oregon still 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 new large dairies move to Oregon, including the recent arrival of an operation permitted for 30,000 cows, we believe a larger Oregon Dairy Air Emissions Program must be created before the state takes seriously any proposal to extend the tax credit for animal manure digesters. We would argue that in lieu of extending the credit, as HB 2072A would do as currently written, the sunset should be returned to its originally envisioned date of December 31, 2017 with any manure related tax credits discussed in the context of moving forward with the long overdue Oregon Dairy Air Emissions Program that stakeholders on all sides of the issue agreed to nearly a decade ago.

In short, because Oregon lacks the Dairy Air Emissions Program 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. This is important, because while animal manure digesters are intended to capture methane from manure, they do not address methane produced during the rumination process of livestock like dairy cows. These are methane emissions that cows exhale. The EPA has estimated that these emissions are the vast majority of methane emissions from dairy cows and manure digesters do not reduce this significant source of methane emissions associated with large dairy operations. Further, methane digesters do not generally address emissions of ammonia and other harmful emissions 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.

Additionally, research suggests that the establishment of perennial pasture for grazing animals can be an effective climate mitigation strategy, sequestering huge sums of carbon in soils including from manure dropped onto these pastures by cows grazing on them. If one of Oregon's policy goals with the manure digester tax credit is to reduce methane emissions from dairy operations, we believe that we also need to find ways to incentive grazing dairy cows on pasture to reduce methane emissions and increase long-term carbon sequestration in soils. Lastly, despite the significant costs to the state from the tax credit as currently designed, the amount of energy produced by methane digesters is largely inconsequential relative to Oregon's overall energy use.

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

A major concern of ours about the current tax credit is that the structure of the credit itself effectively 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 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 approved 30,000 head dairy near Boardman builds a digester, it will further burden Oregon taxpayers if this tax credit is extended, or if the sunset date is not returned to the end of this year as originally planned.

### **Recommendations**

We respectfully ask that you oppose extending the manure digester tax credit sunset any further via HB 2072 A. Because of Oregon's failure to establish an overarching air emissions program for large dairies, we would instead urge you change the sunset date for the animal manure digester tax credit date to its previously established sunset of December 31, 2017.

Given the substantial, and likely rising, costs to the state of the current animal manure digester tax credit should new digesters come on line, 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 or Environmental Quality Commission 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. 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. Additionally, any tax incentives aimed at encouraging air quality or methane reduction best management practices should not solely be limited to manure digesters, and should include incentives for pasture-based management practices.

- 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 and operate 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.
- Lastly, any manure related tax credits offered in the future should be designed to primarily help small and mid sized farms adopt either digester technology or to encourage 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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