March 7, 2017

Testimony in Support of HB 2853
House Committee on Agriculture and Natural Resources

Chair Clem, members of the Committee:

Friends of Family Farmers represents small and mid-sized farmers and ranchers across Oregon. We are testifying today in support of HB 2853, a bill to limit the availability of tax credits for animal manure digesters to those in operation before January 1, 2017.

We have a number of significant concerns about the current structure of Oregon's manure digester tax credit program. Like other biomass tax credits, it was originally set to sunset at the end of 2017, but unlike other biomass tax credits, it was extended until the end of 2021 last year. It is now the state's costliest biomass tax credit. Administered by the troubled Oregon Department of Energy, which has begun advocating for its complete sunset, this tax credit has no system in place for independently verifying its alleged benefits to the state of Oregon in relation to its financial costs.

Given Oregon's current budget situation, and the potential for this program to experience continued rising costs if new digesters come on line over the next few years, we believe the Legislature should be returning the sunset to its originally intended date at the end of 2017 this session and allow this tax credit to expire at that time. While HB 2853 would not do that in its current form, it would limit taxpayer expenditures to only those digesters currently in operation, while bigger questions about the need to restructure this program are addressed

Though the credit was established in 2007, taxpayer expenditures for this program jumped dramatically with the addition of a single digester to accommodate the manure from roughly 1/3 of the cows at Oregon's largest concentrated animal feeding operation (CAFO) in 2013. In the 2015 tax year alone, the tax credit cost taxpayers over $4 million. This prompted a reduction in the per ton payments in 2016, but the tax credit is still on track to cost the state nearly $5 million in the current biennium without any additional digesters.

In our view, tax credits for new manure digesters should not be considered until the state adopts an Oregon Dairy Air Emission Program as outlined by the State's Task Force on Dairy Air Quality from 2008. Despite long-standing consensus around the need for such an air quality program, Oregon does not independently monitor or track methane or other air emissions from livestock operations, including those operations that have taken advantage of this tax credit.

While animal manure digesters are intended to capture methane from manure and convert it to electricity, they produce a tiny fraction of Oregon's renewable energy portfolio and their usefulness as a methane reduction strategy is limited. Manure digesters do not address methane produced during the rumination process of livestock like dairy cows, the methane that cows exhale. EPA has estimated these to be the vast majority of methane emissions from dairy cows, not manure. Manure digesters also do not typically address emissions of ammonia, hydrogen sulfide, nitrous oxide, volatile organic compounds or particulate matter from large dairy operations.

If Oregon's goal with this tax credit is to reduce greenhouse gas emissions, or lead to cleaner air, we believe that incentives for grazing dairy cows on pasture would be a far more effective way to reduce overall emissions and increase carbon sequestration in soils than incentivizing manure digesters where livestock do not have access to pasture. Such a shift would also support smaller and mid-sized farmers. If Oregon's goal with this tax credit is to support struggling small and mid-sized dairy farms, it has failed. In 2007 Oregon had nearly 600 dairy farms in operation, a number that has dropped to 240 in the decade since the manure digester tax credit was first created.

Since manure digesters need a steady supply of manure for year-round operation, this tax credit currently tends to encourage 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 CAFO, Threemile Canyon Farms, with roughly 70,000 animals on site (their digester handles manure from roughly 1/3 of this herd). Further, if a recently proposed 30,000 head dairy near Boardman builds a digester as proposed in its Animal Waste Management Plan, it will add unknown additional costs for Oregon taxpayers.

We respectfully ask you to support HB 2853 with a do-pass recommendation to help control the costs of this program while larger policy considerations around air emissions from large dairy operations are considered. Given the substantial costs to the state of the current animal manure digester tax credit, we believe additional steps are warranted to better address the underlying policy questions around methane and other air contaminant emissions from large livestock operations. These include:

- Before offering new tax credits for animal manure digesters, the Environmental Quality Commission should establish an air quality program as proposed by Oregon's Dairy Air Quality Task Force in 2008 so that methane and other air emissions from large dairy operations in Oregon are at the very least monitored and reduced. A variety of cost effective best management practices should be developed and implemented over time. SB 197, currently before the Senate Environment and Natural Resources Committee, would require the establishment of this program by 2019.

- New, large confined or concentrated animal feeding operations in Oregon likely to have significant methane or other air emissions should be required to construct and operate animal manure digesters, not offered tax credits to do so. While HB 2853 does not go this far in its current form, it would ensure that tax credits are not available for new digesters coming into operation after January 1, 2017.

- Tax credits offered in the future should be designed to primarily help small and mid sized farms adopt the technology, particularly in regions where multiple benefits related to air and water quality can be quantified. Additionally, if considering animal manure related tax credits at all, 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 part of the program, not solely tax credits for digesters as is the current approach.

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