



# Confronting the Issues

## How to Fund Agriculture Conservation Practices

PFB Policy Development

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### Issue

Pennsylvania farmers have an excellent conservation story to tell. More than half of all crop acres planted in Pennsylvania is done by no-till or minimal tillage practices. Cover crops are widely used as a crop rotation strategy to help keep soil in place. Despite those advances, there are still gains that need to be made in terms of local water quality. Pennsylvania still has more than 6,000 miles of streams designated as impaired because of agriculture influences. While this is a statewide issue, water quality falls under additional scrutiny in the Chesapeake Bay Watershed, where the federal government and surrounding states have claimed that Pennsylvania is not doing enough. The federal Environmental Protection Agency is calling on Pennsylvania to significantly reduce the amount of nitrogen and phosphorus coming from agriculture sources. While farmers may have a desire to make additional conservation improvements on their farms, paying for those practices can be problematic, given the current state of the farm economy.

Pennsylvania Farm Bureau has supported several initiatives to address the issue, including the Conservation Excellence Grant Program, funded at \$5 million annually, and the Agricultural Conservation Assistance Program, which has yet to be created, nor a funding scenario identified. If we want to help farmers adopt conservation practices on their farms, what is the best way for state government to fund such a program?

### Questions

1. Are there additional sources of revenue that Pennsylvania should consider to fund on-farm conservation practices?
2. What types of fees or taxes, if any, would make sense to use as a source for water quality projects?
3. Because clean water impacts every resident, should a funding source for water quality improvements be a broad-based tax or fee, or specifically targeted to certain industries?
4. Should an existing program within state government be eliminated, and the funding redirected to water quality? If so, what specific program?

### Background

Pennsylvania funds several programs that help farmers pay for conservation practices. The Resource Enhancement and Protection program, commonly known as REAP, is a tax credit program that farmers can use to purchase equipment, or make conservation improvements. The tax credits are sellable, so lending institutions and others can help farmers fund their conservation initiatives. Currently, the state allocates \$19 million in REAP tax credits per year. Secondly, Conservation Excellence Grants similarly helps fund conservation practices, with a \$5 million allocation. Since its inception in 2019, the program has largely focused its efforts in the Bay Watershed. Lastly, the state has the Agri-Link Program, which helps drive down interest rates on large-scale conservation programs. During our most recent Annual Meeting, voting delegates supported several policy positions to support the creation of the Agricultural Conservation Assistance Program. Modeled after the Dirt and Gravel Roads program, ACAP would direct conservation dollars to areas of greatest need, based on a variety of factors, including miles of agricultural-impaired streams, number of crop acres and number of livestock farms.

There is no clear picture of how to fund a program such as this. To address the broad need of water quality improvements, a new source of revenue, or change in a tax or fee, is likely needed.

Several options include:

- Michigan assesses a \$1 per ton fee on wholesale fertilizer, along with registration fees on fertilizer and pesticides to help pay for water quality programs in the state.
- Pennsylvania currently uses its Horse Race Development Fund for several agriculture priorities, including animal testing and funding for local fairs. Should additional dollars be used from that fund to pay for water quality projects?
- Currently, the state does not apply sales tax to bottled water, bottled ice tea and bottled coffee; however, sales tax is applied to soda. Removing the sales tax exemption on bottled water could raise an estimated \$53 million. Removing the exemption to bottled ice tea and bottled coffee would bring in an estimated \$18 million annually.

- Pennsylvania currently charges a \$1 per tire fee on all new on-road tires sold in the state. That fee brings in roughly \$190 million in revenue each year. If the fee was increased, could some of those dollars help pay for water quality projects?

Fees on fertilizer and pesticides, similar to what is assessed in Michigan would be a way for the agriculture community to pay for its own program without using other broad revenue sources. However, enacting such a fee would likely raise the cost of agriculture inputs. Funding agriculture programs through the Horse Race Development Fund currently occurs; however, would a further use of the fund jeopardize its long-term stability?

While the state does not currently tax bottled water, the product is largely viewed as a luxury item that is not an essential food product. While our state's sales tax system is filled with exemptions, broadly speaking "wholesome food" like meat, eggs and dairy products are not subject to taxes. Given the widespread usage of bottled water as a convenience item, would the average consumer realize they are paying a sales tax on bottled water? However, what would be the potential political backlash to such a tax proposal?

Tire fees are one of those "hidden fees" we pay when we get our final bill. Would a modest increase in the tax, which applies only to tires used for vehicles driven on highway, be an appropriate source for funding a water quality program? What would be the impact on businesses that use a high volume of tires annually, such as trucking companies?

What other sources of revenue should state government look at to help fund this program, or is there an existing state program that is no longer relevant, and those dollars be better spent on conservation?

### **Farm Bureau Policy**

*PFB, 47, Agricultural Conservation Assistance Program, Line 1*

We recommend: Establishment of an Agricultural Conservation Assistance Program that will provide a direct source of public and private funds to conservation districts for use in administration of agricultural conservation programs and practices and effectively improve local water quality. ('20)

*PFB, 47, Agricultural Conservation Assistance Program, Line 2*

We recommend: Funding provided to conservation districts under an Agricultural Conservation Assistance Program be based on consideration of proportionate number of farms, cropland acres, livestock and poultry and level of agriculturally impaired streams. ('20)

*PFB, 47, Agricultural Conservation Assistance Program, Line 3*

We recommend: State appropriations for an Agricultural Conservation Assistance Program be sufficient to reduce the level of nitrogen, phosphorus and sediment runoff estimated from agriculture by at least 50 percent by 2025. ('20)

*PFB, 47, Water Quality, Line 7*

We recommend: Municipal and public water users over 10,000 gallons per day be assessed a fee no greater than \$.001 per gallon to fund water quality improvement projects. ('15)