



# Legislative Research Council

# MINUTES

## Department of Tourism and State Development Agency Review

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2008 Interim  
Third and Final Meeting  
October 17, 2008

LCR 1 & 2  
State Capitol Building  
Pierre, South Dakota

### Friday, October 17, 2008

The third and final meeting of the interim Department of Tourism and State Development Agency Review Committee was called to order by Chair Representative Phyllis Heineman at 9:40 a.m. (CT), October 17, 2008, in LCR 1 and 2 of the State Capitol, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Kenneth Albers (Vice Chair), Julie Bartling, and Jim Hundstad; and Representatives Richard Engels, Phyllis Heineman (Chair), Roger Hunt, Russell Olson, and Charles Turbiville. Senator Jason Gant and Representatives Quinten Burg, Thomas Deadrick, Brian Dreyer, and Larry Lucas were excused.

Staff members present included Jacque Storm, Principal Legislative Attorney; Terry Miller, Senior Fiscal Analyst; and Teri Retrum, Administrative Assistant.

**(Note):** For the purpose of continuity, these minutes are not necessarily in chronological order. Also, all material distributed at the meeting is attached to the original minutes on file in the Legislative Research Council (LRC). This meeting was web cast live. The archived web cast is available at the LRC web site at <http://legis.state.sd.us> under "Interim Information – Minutes and Agendas."

### **Approval of Minutes**

**REPRESENTATIVE TURBIVILLE MOVED, SECONDED BY REPRESENTATIVE HUNT, THAT THE MINUTES OF THE SECOND MEETING (SEPTEMBER 16, 2008) BE APPROVED. The motion prevailed unanimously on a voice vote.**

The following documents were entered into the original minutes:

- Summary of public comments received from the subcommittee meeting in Sioux Falls on September 15—received from Chair Phyllis Heineman;
- Recommendations from public testimony received from the subcommittee meeting in Rapid City on September 15—received from Representative Larry Lucas;

Positive written comments regarding the Department of Tourism and State Development were received from the following:

- Mr. William E. "Gene" Aisenbrey, Founder, Hamlin Garland Memorial Society;

- Mr. Bruce Blake, Past President of the Minnehaha County Historical Society (MCHS);
- Dr. Robert T. Tad Perry, Executive Director, South Dakota Board of Regents;
- Ms. Linda Salmonson, East River Economic Development (REED) Fund; and
- Mr. Jim Wilcox, Xcel Energy.

### **South Dakota Energy Infrastructure Authority Reports**

**Chair Phyllis Heineman** commented that the Office of Energy Policy is an office relatively new to the Department of Tourism and State Development. Chair Heineman said that the energy subject is a very important topic to South Dakotans and to the national discussion.

**Ms. Kimberly Olson**, Deputy Secretary of the Department of Tourism and State Development and Director of the Governor's Office of Economic Development, discussed the goals of the Office of Energy Policy, how the office interacts with other agencies, and the funding of the office.

Ms. Olson said that the Office of Energy Policy was created by Governor Rounds with existing resources within the Department of Tourism and State Development. She said that **Mr. Hunter Roberts**, Energy Policy Director, acts as an advisor to the Governor on energy policy and works as a liaison among other state agencies dealing with energy issues. Mr. Roberts also represents the Governor at national energy meetings and promotes South Dakota's energy initiatives.

Mr. Roberts noted energy conservation as among the goals of the office. He said that the state replaced existing, out-dated light bulbs in the Joe Foss Building with new energy efficient light bulbs and realized a three-year payback of thirty percent. Due to that result, the Bureau of Administration has expanded the bulb replacement to other state buildings. Mr. Roberts said that energy efficiency needs to be better promoted.

Responding to Chair Heineman, Mr. Roberts said that energy efficiency is gaining popularity and that the Office of Energy Policy is developing a web site on energy policy for the Department of Tourism and State Development's informational web site. Mr. Roberts stated that he promotes energy development and energy conservation. An energy savings loan program was proposed last year, but it was withdrawn. He also worked with the Department of Agriculture on legislation regarding biodiesel anaerobic digesters. Mr. Roberts said that he works with the Department of Transportation (DOT) on establishing renewable energy corridors indicating where travelers can purchase E85 on the Interstate. Mr. Roberts said that he worked with the Department of Revenue and Regulation on HB 1320, An Act to provide tax incentives for certain wind energy facilities and energy transmission equipment, which was a good bill that passed the 2008 Legislature.

Ms. Olson said that Mr. Roberts has broad knowledge of national energy policy. He acts as a liaison among the Executive Branch and other state agencies, the federal government, and the energy industry. Ms. Olson said that national policy regarding energy needs to be understood in order to be a resource to other state agencies. Energy projects involve the following three categories:

1. Traditional—such as fossil fuel;
2. Renewable—such as biodiesel and ethanol projects and wind development; and
3. Conservation—such as the light bulb switch.

Ms. Olson said that the Department of Tourism and State Development is a good place for Mr. Roberts' position. There are energy experts in other state agencies, and he is able to coordinate contacts with those agencies and businesses and other constituencies.

**Senator Kenneth Albers** said that various news reports and information in the "Energy Infrastructure Authority Report" leads him to believe that there is a problem with finding ways to transfer the wind generated energy. There is not a market for wind energy in South Dakota. The feasibility of investment cost versus recovery of those costs needs to be considered when making a decision regarding wind energy. Senator Albers said that the Authority Report states that sometimes there is a political reason behind decisions on energy.

Mr. Roberts said that wind energy is good but not economical if it replaces cheaper hydroelectric power. Long-distance transmission lines have not been proven to be paid by wind energy that is intermittent. Big Stone II Project is a good example of "piggybacking" where extra capacity for wind power will be built, which will result in lower cost for wind energy. Mr. Roberts stated that hydroelectric power is not enough for South Dakota's power needs—3.4 million megawatts were produced in 2006; the state needs were 10 million megawatts.

**Representative Richard Engels** said that South Dakota exports a lot of hydroelectric energy and asked how wind energy could be more tied into that grid. The network is in place, so how can the state make that happen?

Mr. Roberts responded that some parts of the state have excess capacity but problems could happen further down the grid. He said that it is a seams issue regarding differences in taxes and tariffs at the borders of other states. So, Mr. Roberts said that cost allocation is definitely an issue.

Chair Heineman commented that there is really good information on energy in the various reports provided to the committee.

**Senator Jim Hundstad** asked if the department has looked at businesses that might come to South Dakota and use the generated energy in creation of jobs and if there is anything the Legislature can do to help in this effort.

Ms. Olson said that the department is looking at the information technology industry, which is a high user of utilities. The department encourages utilities companies to work closely with communities and does not see a need for government intervention.

Mr. Roberts said that he advocates for a diversified energy portfolio, and wind power is a part of that portfolio.

Representative Engels asked if the state motor pool yards have E85 pumps. Mr. Roberts responded that there are no E85 pumps at state vehicle lots. It costs about \$100,000 to

convert the pumps. Drivers of state vehicles are encouraged to purchase E85 across the state.

Ms. Olson said that the Bureau of Administration tracks that usage for state vehicle travel and that she will provide the percentage usage to the committee.

Senator Hundstad encouraged the department to keep an eye on costs of commodities in relation to ethanol. Ms. Olson said that the state has been involved in that issue and said that the department will keep the Legislature apprised.

**Representative Roger Hunt** asked about the life span of hydroelectric plants.

Mr. Roberts said that the state is in discussions with the Corps of Engineers on upgrading turbines to be more efficient and produce more electric power. Turbines are very expensive. It takes 3 to 4 years to get them up and running; easements are involved, and PUC permitting in each state must be obtained.

Ms. Olson said that the South Dakota PUC, on their own initiative, implemented time constraints regarding the permitting process, and Mr. Roberts said that utilities in South Dakota have not complained; however, states to the east of South Dakota are the problem. Mr. Roberts noted that South Dakota has supported Big Stone II in Minnesota.

Representative Hunt asked why it takes 3 to 4 years to build transmission lines.

Mr. Roberts listed the following among the reasons why it takes time to build those lines:

1. Easements;
2. Regulatory process (permits);
3. Building the lines.

Representative Hunt asked what can be done regarding preliminary plans to make sure progress is continuing.

Ms. Olson said that the PUC worked on shortening the time frame for transmission easements as one area where progress is being made.

Chair Heineman asked how the public interacts with the Authority. Ms. Olson said that the Legislature gave input for the first report. The legislation requires that the Authority interact with people by conducting interviews. An annual report is not required, but if a report is requested by a constituency, the Authority must comply. The Authority is a resource, and there is no plan for a future report at this time. By statute, Ms. Olson said that the Authority would come into play if a bonding situation arises.

**Representative Russell Olson** asked what the bonding limit is. Mr. Roberts replied that the bonding limit is \$1 billion, but it must be approved by the Legislature.

Mr. Roberts discussed the South Dakota Landowner's Wind Power Development Handbook (**Document #1**).

Responding to Chair Heineman, Ms. Olson said that South Dakota is unique in its resources. Some of the advantages are land availability, water, quality air, a good business climate, and good support of public policy. Some of the challenges are energy transmission, seams, and limited infrastructure.

Chair Heineman asked what makes a good infrastructure.

Mr. Roberts listed a Class I rail and natural gas and petroleum pipelines among things that help to make a good infrastructure for energy transmission.

The committee recessed at 11:05 a.m. and reconvened at 11:25 a.m.

### **Department Responses to Public Hearing Comments**

Chair Heineman noted the summaries of public comments submitted by Representative Larry Lucas and her from their respective subcommittee meetings (**Documents #2 and #3, respectively**).

Ms. Olson responded to those submissions. She said that the department is proud of the inclusion of the arts in the Governor's Budget. Ms. Olson said that the arts grants that provide funding for the Artists in the Schools Program is very important and so well received by the schools and the public.

**Ms. Melissa Bump**, Director of the South Dakota Office of Tourism, stated that the One Million Dollar Challenge was very successful. The office promotes Native American bi-ways in its brochure. Ms. Bump said that the office meets with the tribes three times a year regarding ways to promote Native American tourism in South Dakota.

Responding to Chair Heineman, Ms. Bump said that the office continues to work in the area of tribal tourism and welcomes any suggestions to make its efforts better.

**Mr. Mark Lauseng**, South Dakota Housing Development Authority, said that the Authority must follow all federal requirements. An annual meeting has been held for the last 18 years, and the next meeting is November 18 and 19, 2008. Mr. Lauseng said that the authority takes advantage of every tax credit allowed by the federal government. Also, the authority works on a premium plus loan program. Mr. Lauseng said that sweat equity is always encouraged, and there are no incentives for rehabbing old homes. He commented that it is just the nature of South Dakotans that South Dakota ranks low in its default loans. Also, South Dakota ranks close to the lowest in the nation in sub prime loans.

Responding to Representative Hunt, Mr. Lauseng said that the authority does provide funding to build day care centers with the Governor's House Program. Approximately five to ten such facilities are built per year.

**Mr. Mel Ustad**, Office of Research and Commercialization, said that the Office of Research and Commercialization continues to work on asset mapping and partnered with the National Biotech Association to provide a scholarship to a young start-up company. Mr. Ustad talked

about EPSCoR Programs, which support research infrastructure in equipment, education and outreach, and economic development.

Chair Heineman asked for a list of the communities that have an economic development office and how the department is working with them.

Ms. Olson said that a lot of discussion on work force development is involved in working with communities. South Dakota's 3.3% unemployment is very low. Ms. Olson said that the department provides outreach to proactively address work force development. The Department of Labor works on the issue of immigration regarding workers needed to fill jobs.

Addressing the Revolving Economic Development and Initiative Fund (REDI Fund), Ms. Olson said that not all the criteria to receive a REDI Fund Loan is in statute or rule; however, the department policy requires that a business provide a minimum wage of \$10.50 per hour, with possible exceptions in rural areas where the common base wage is less, and a requirement that a business provide benefits, such as health insurance and an established leave policy. The requirements are on a case-by-case basis.

Responding to Representative Engels, Ms. Olson agreed that South Dakota spent money on the feasibility study for the Richfield Farms Processing Project; however, the study is the property of the state and can be used in regard to other businesses. With regard to Corsica Lamb and Veal Project, she believed there had been a request for repayment of the feasibility study.

At Chair Heineman's request, Ms. Olson agreed to forward the status of these projects to Ms. Storm, who in turn will forward it to committee members.

### **Review of Draft Clean-up Legislation**

Ms. Storm reviewed the draft clean-up legislation—An Act to revise the form and style of certain provisions and to delete certain obsolete provisions regarding the Department of Tourism and State Development—**(Document #4)**. Ms. Storm said that the draft modernizes statutes and clarifies statutes, as needed. She said that the department has reviewed the draft and made some suggestions, which have been included in the bill draft. Ms. Storm explained that some of the modernization includes gender-neutral terms and changing active and present tense verbs to meet current drafting practices. She said that some sections were repealed at the request of the department because the programs no longer exist.

**SENATOR HUNDSTAD MOVED, SECONDED BY REPRESENTATIVE TURBIVILLE, THAT THE COMMITTEE RECOMMEND THE DRAFT LEGISLATION TO REVISE THE FORM AND STYLE OF CERTAIN PROVISIONS AND TO DELETE CERTAIN OBSOLETE PROVISIONS REGARDING THE DEPARTMENT OF TOURISM AND STATE DEVELOPMENT FOR INTRODUCTION AS A COMMITTEE BILL IN THE 2009 LEGISLATIVE SESSION. The motion prevailed unanimously on a roll call vote with 8 voting AYE and 5 EXCUSED. Those voting AYE: Bartling, Engels, Hundstad, Hunt, Russell Olson, Turbiville, Albers, and Heineman. Those EXCUSED: Burg, Dadrack, Dreyer, Gant, and Lucas.**

**The committee agreed that the bill will start in the Senate. Senator Kenneth Albers will be the prime sponsor in the Senate, and Representative Roger Hunt will be the prime sponsor in the House.**

### **Final Report Recommendations**

Ms. Storm said that the committee's final report will be an executive summary of the committee's proceedings during the 2008 Interim.

**REPRESENTATIVE RUSSELL OLSON MOVED, SECONDED BY REPRESENTATIVE TURBIVILLE, THAT THE REPORT RECOMMEND THAT A MEMBER OF A PUBLIC POWER UTILITY BE REPRESENTED ON THE SOUTH DAKOTA ENERGY INFRASTRUCTURE AUTHORITY.**

Senator Hundstad questioned whether this is within the authority of the Legislature.

Mr. Roberts said that the only requirement for membership on the South Dakota Energy Infrastructure Authority is that one member from both political parties be represented.

Representative Engels said that he approves of that approach and will not support the motion.

Representative Hunt said that he will support the motion, if the motion is merely to recommend to the Governor that a member of a public power entity be represented on the South Dakota Energy Infrastructure Authority. Representative Olson agreed that that is the purpose of his motion.

**The motion prevailed on a voice vote. Representative Engels cast a NAY vote.**

Representative Hunt suggested that a state energy policy be developed. Also, Representative Hunt suggested that the department work on long-range energy plans and develop some contingency planning regarding energy.

Senator Hundstad said that at first he thought the combination of tourism and economic development was too broad, but his opinion has changed after listening to all the people involved and how well that combination works. He said that he now believes that combining tourism with economic development was a good match and suggested that the information provided to the committee by the department be put on the Legislature's web site.

The committee discussed providing the department's documents on the Legislature's web site. Staff will make those documents available on LRC's web site.

### **Adjournment**

**REPRESENTATIVE TURBIVILLE MOVED, SECONDED BY REPRESENTATIVE HUNT, THAT THE COMMITTEE BE ADJOURNED. The motion prevailed on a voice vote.**

The committee adjourned at 12:55 p.m.



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