



**Legislative
Research
Council**

MINUTES

**Department of Tourism
and
State Development
Agency Review**

**2008 Interim
First Meeting
July 9 & 10, 2008**

**LCR 1 & 2
State Capitol Building
Pierre, South Dakota**

Wednesday, July 9, 2008

The first meeting of the interim Department of Tourism and State Development Agency Review Committee was called to order by Chair Representative Phyllis Heineman at 9:00 a.m. (CT), July 9, 2008, 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), Jason Gant, and Jim Hundstad; and Representatives Quinten Burg, Thomas Deadrick, Richard Engels, Phyllis Heineman (Chair), Larry Lucas, Russell Olson, and Charles Turbiville. Senator Jason Gant was present on July 9 and excused on July 10. Representative Roger Hunt was excused on July 9 and present on July 10. Senator Julie Bartling and Representative Brian Dreyer were excused on both days.

Staff members present included Jacque Storm, Principal Legislative Attorney; Reuben D. Bezpaletz, Chief of Research and Legal Services, Annie Mehlhaff; Principal Fiscal Analyst; and Teri Retrum, Administrative Assistant.

(Note): For sake of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents are on file with the Master Minutes.)

Opening Remarks

Chair Phyllis Heineman introduced LRC staff and noted that **Mr. Reuben Bezpaletz**, Chief of Research and Legal Services, will begin the meeting with a historical perspective of the sunset process to help guide the committee in its interim course of study.

Vice Chair Kenneth Albers said that the topic of tourism and state economic development is an interesting subject and that he is looking forward to hearing the information from the Department of Tourism and State Development.

Historical Perspective of the Sunset Process

At the direction of Chair Heineman, Mr. Bezpaletz gave a historical perspective of the legislative sunset process and discussed a typical study plan for interim sunset committees (**Document #1**).

Department of Tourism and State Development Presentation

Mr. Richard Benda, Secretary of the Department of Tourism and State Development, began the department's PowerPoint presentation by stating that the department attempts to put a public face to the department and plans to travel to South Dakota education campuses to talk to people about their interest in staying in the state. **(A copy of the PowerPoint presentation is labeled Document #2.)** Mr. Benda mentioned several projects in South Dakota, such as the beef processing plant in Aberdeen, South Dakota, and said that the department is working to make South Dakota a leader in the responsible use of fossil fuels and alternative forms of energy. Mr. Benda said that the department continues to try to attract people to South Dakota for tourism and for permanent residency, which will expand the state's tax base.

Chair Heineman asked that the department provide the committee with copies of its PowerPoint presentation. Mr. Benda said that the information would be sent electronically to committee members.

Representative Quinten Burg questioned whether combining the Department of Tourism and the Governor's Office of Economic Development into one department was a good match because the separate departments dealt with two different areas.

Mr. Benda responded that tourism and economic development fit well together and said that the combination is a good step toward integrating the concept of working on recruiting potential residents and businesses to the state from the tourism base.

Office of Tourism

Ms. Melissa Bump, Director of the South Dakota Office of Tourism, reviewed the Office of Tourism. She said that the South Dakota Office of Tourism works on visitor and industry relations, media and public relations, trade sales and marketing, research and E-Commerce, and creative strategies. Included in the presentation is a map of South Dakota's tourism regions: Black Hills; Great Lakes, Northeast; and Southeast. Ms. Bump talked about the very successful "Twenty Bucks for the Road" Campaign. She said that the Office of Tourism, EPIC, and the South Dakota ethanol industry launched the Campaign in the spring of 2006. The vouchers were honored by South Dakota retailers from May 1, 2006, to August 31, 2006. The campaign issued \$20 vouchers to would-be visitors from outside of South Dakota to be redeemed in South Dakota for \$20 worth of ethanol enriched fuel. Ms. Bump outlined the following overview of the numbers:

- | | |
|---------------------------------------|--------------|
| • Total vouchers issued | 31,607 |
| • Total vouchers redeemed | 13,904 |
| • Ethanol purchased | \$456,251.69 |
| • Average distance traveled to redeem | 224.75 miles |
| • Longest distance traveled to redeem | 1,345 miles |
| • Month with most redemptions | June (37%) |
| • Economic impact | \$12,613,709 |

Ms. Bump said that the Office of Tourism staffs 13 interstate information centers and works on developing new markets for South Dakota tourism. Ms. Bump said that the office provides support to industries in developing new markets, such as agritourism, ecotourism, and tribal tourism. The marketing focus is to show the world everything South Dakota has to offer for the business, leisure, and resident traveler. The marketing programs are geared toward seasonal campaigns—peak season, shoulder season, and winter season. Ms. Bump noted the metro train wrapped in South Dakota promotional information, which was based in Minneapolis, Minnesota, generated a very positive response. Ms. Bump briefly discussed cooperative marketing programs and the types of tourists visiting South Dakota. Regarding the fiscal impacts of tourism, Ms. Bump said that the tourism industry generated \$23,966,800 from the visitor sales tax, \$24,369,400 from the visitor gas tax—more than \$48 million in tax revenue was generated from out-of-state visitors.

As a person who works in the tourism area in Deadwood, South Dakota, **Representative Charles Turbiville** praised the Office of Tourism as a good agency to work with as Deadwood continues to try to attract tourists to the area. Representative Turbiville said that the gaming tax is from Deadwood alone and that he would like to see it grow. Representative Turbiville said that \$6.8 million of the gaming revenues is used for Deadwood preservation.

Representative Larry Lucas said that there might be a LRC Issue Memorandum on this topic. **Ms. Jacque Storm**, Principal Legislative Attorney, said that she would check on whether there is an issue memo on Deadwood gaming.

When calculating visitor spending, **Representative Richard Engels** asked how the numbers presented are derived and whether South Dakota uses a similar method as other states for calculating such numbers. He said that it seems to be a difficult thing to quantify.

Ms. Bump said that it is difficult and that she will check with the research staff of the office and provide that information to the committee.

Representative Engels said that he liked the idea of the wrapped train in Minneapolis and asked whether the Office of Tourism has considered wrapping trucks that travel across the country. Ms. Bump said that the office is looking into that possibility. Ms. Bump also said that the wrapped train was a short-term opportunity; it was a metro train wrapped for three months.

Chair Heineman asked what the Office of Tourism is doing regarding international tourism. Ms. Bump responded that the number of Canadian visitors has increased and that the Office of Tourism has a campaign in Canada to promote South Dakota tourism.

Representative Russell Olson asked whether the department has thought about doing the Twenty Bucks for the Road Campaign again since it was so successful. Ms. Bump said that the Office of Tourism partnered with EPIC and that it was a very successful program. Ms. Bump said that it is hard to find another partner, but the office is working to that end.

Representative Lucas suggested that a watch be kept on hunting lodges taking business away from main street. Ms. Bump said that the office must keep an eye on that situation.

Office of Tribal Government Relations

Mr. Roger Campbell, Director of the Office of Tribal Government Relations, gave a background of the evolution of the Office of Tribal Government Relations. In 2003, under reorganization, the office was established as a link between the State of South Dakota and the state's Tribal Governments. Mr. Campbell listed some of the committees that the office works with in a collaborative effort:

- Indian Education Advisory Council;
- Collaborative Circle (ICWA);
- Alcohol & Drug Abuse Advisory Council;
- South Dakota Indian Business Alliance (SDIBA); and
- State-Tribal Relations Committee

Explaining the Collaborative Circle, Mr. Campbell said that it is an initiative by the Department of Social Services (DSS) to achieve better outcomes for Native children when they receive system services and ways to better work on issues involved with those services. He said that DSS is reaching out and creating an atmosphere of working together. Mr. Campbell said that the department established Kinship Care Month toward that effort.

Mr. Campbell said that some of the Tribes in South Dakota have entered into partnerships with the state of South Dakota in the following ways:

- TERO/TECRO Agreements;
- Tax Compacts; and
- Indian Health Care Initiative.

Mr. Campbell discussed developing business infrastructure: South Dakota Indian Business Alliance (SDIBA), REIC, Turtle Crossing, and Radiance, which is an electronic manufacturing facility at Mission, South Dakota. He reviewed ways in which the office is trying to improve tourism efforts with events such as roundtable discussions, a new publication, an issue forum at the Tourism Conference, a Custer State Park Tribal Arts Show, and FAM shows.

Mr. Campbell said that the office is working on Indian education. One of the ways noted by Mr. Campbell was working with the South Dakota High School Activities Association to increase the number of Native American officials in South Dakota sports.

Representative Lucas asked about state/tribal tax compacts. Mr. Campbell said that Chapter 10-12A allows the state to collect taxes on the reservations, and the state then remits to the tribes on a pro rata basis.

Responding to Representative Deadrick regarding a question about economic development on the reservations, Mr. Campbell said that economic development on the reservations is moving in a positive direction. He said that it works well when the tribes come to the Office of Tribal Government Relations, and the office likes to work with the Office of Economic Development however and whenever it can.

Mr. Benda said that Radiance is a good example of economic development. It is a research facility that contracts with the Department of Defense, and the company is extremely happy with the training from Sinte Gleske College and the resulting workforce.

Chair Heineman asked if the Office of Tribal Government Relations fits well in the Department of Tourism and State Development. Mr. Campbell said tribal tourism works well within the department and that all the tools are there, such as housing, arts, history, etc., so it makes sense to have the office in the department.

The committee recessed at 11:30 a.m. to tour the Governor's House in Fort Pierre and reconvened at 1:35 p.m.

South Dakota Housing Development Authority

Mr. Mark Lauseng, South Dakota Housing Development Authority, reviewed the South Dakota Housing Development Authority. He said that it is self-supporting organization founded in 1973 as an independent instrumentality. The Authority is composed of seven departments. Mr. Lauseng showed a video of some of the projects funded by the Authority.

Chair Heineman asked Mr. Lauseng whether he will be able to provide information in response to questions asked during the Governor's House tour, to which Mr. Lauseng replied that he would provide that information.

Office of Arts/Arts Council

Mr. Dennis Holub, Executive Director of the South Dakota Arts Council, read the mission of the Office of Arts:

Make quality arts accessible throughout the state by providing grants, services and information to artists, arts organizations, other nonprofit groups, schools, and the public.

Mr. Holub noted some of the arts education in which the office is involved for grades K-12. Also, Mr. Holub commented on working on an Interstate 29 Cultural Corridor, whereby the office is working with nine partners regarding marketing cultural events in those areas along that Interstate.

Mr. Holub stated that the Office of the Arts is focusing on its website rather than large brochures. Small brochures have been published directing users to the website to access information on various events and programs. Mr. Holub said that grants awarded in FY 2007 have served 18,000 artists, with an audience of 2.5 million people, and events have reached every legislative district.

Mr. Holub said that the count includes some of the same people attending different performances, which is likely the reason that the audience count is so high compared to South Dakota's population.

Chair Heineman said that she is aware that a study has been done in the Black Hills regarding the economic benefits to the area involving various types of cultural events and asked for a copy of that study. She also commented on the success of the Sioux Falls Sculpture Walk.

Representative Deadrick thanked Mr. Holub for bringing the South Dakota Chamber Orchestra to Platte. In turn, Mr. Holub complimented the community of Platte for the renovation of its town's theater.

Office of History and Cultural Affairs/State Historical Society

Mr. Jay Vogt, Director of the South Dakota State Historical Society and State Historic Preservation Officer, listed the following programs in the Office of History;

- Archaeology;
- Archives;
- Historic Preservation;
- Museum;
- Research and publishing; and
- Administrative/Development.

Some of the public excavations are:

- Hartford Beach Village, Roberts County;
- Deadwood's Chinatown;
- Chalk Rock Mountain Site, Brookings County;
- Ditch Creek Site, Black Hills
- Moss Agate Creek, Fall River County.

Mr. Vogt reviewed some the collections housed in the Cultural Heritage Center and some of the publications noting South Dakota history.

Responding to Representative Lucas, Mr. Vogt said that the Office of History does not have a presence at the Battle of Wounded Knee. He said that it is a National Historic Landmark.

Chair Heineman asked if the office has a traveling interactive exhibit for those children and South Dakota citizens who cannot travel to Pierre to visit the Cultural Heritage Center. Mr. Vogt responded that the office has education kits that schools can use and some traveling exhibits that are made available to the public.

Responding to Representative Olson, Mr. Vogt said that microfilming newspapers and other types of written material is still the best process to use for preservation.

The committee recessed at 3:15 p.m. and reconvened at 8:00 a.m. on Thursday, July 10.

Thursday, July 10, 2008

Chair Heineman asked the committee to be mindful of issues that they want the department to address at future meetings and to be considering days for its second meeting, which will be a two-day meeting.

Office of Energy Policy

Mr. Hunter Roberts, Energy Policy Director, said that one of the 2010 Initiative Goals is to increase the gross state product by over \$10 billion. The Office of Energy Policy represents South Dakota in regional and national energy. Mr. Roberts said that the ethanol industry in South Dakota is leading the way toward renewable energy. South Dakota is the nation's first state to produce more ethanol than the amount of gasoline consumed at the pump, and nearly 70 percent of all gasoline sold in South Dakota contains ethanol. The state provides incentives and initiatives for ethanol; currently, South Dakota has fifteen ethanol plants and is ranked first in the nation in farmer-owned plants. South Dakota is the first state to allow blender pumps.

Mr. Roberts noted the state's efforts in biodiesel energy and wind energy and discussed the economic development opportunities regarding energy in South Dakota. He said that South Dakota has one commercial-scale biodiesel plant in Alexandria, South Dakota. South Dakota has experienced 325 percent growth in wind power.

Representative Roger Hunt asked if there is a written state energy policy. Mr. Roberts said that there is not a written policy but that the state supports all renewable energy sources.

Responding to Representative Lucas, Mr. Roberts responded that an area must have a wind resource, the customer, the financing, and transmission lines for wind power projects.

Chair Heineman asked what other state agencies the Office of Energy works with on energy. Mr. Roberts listed the Public Utilities Commission, the Department of Agriculture, the Department of Revenue and Regulation, the Department of Environment and Natural Resources, and the Department of Transportation.

Senator Hundstad encouraged the office to look at people who would want to come to South Dakota to be consumers and create jobs and to sell South Dakota as a producer of inexpensive energy to attract job-providing businesses to the state.

Governor's Office of Economic Development

Ms. Kimberly Olson, Deputy Secretary of the Department of Tourism and State Development and Director of the Governor's Office of Economic Development, said that the goal of the Governor's Office of Economic Development (GOED) is to help communities and companies create primary jobs. The office has been divided into four teams:

- 1) Research Team;
- 2) Marketing Team;
- 3) Sales Team; and
- 4) Finance Team.

Regarding business development, Ms. Olson said that in FY 2007, the GOED had 345 initiated leads either from the company or from the department. Also, in FY 2007, the GOED had 24 requests for information (RFI) regarding business development. Ms. Olson discussed hostings facilitated by the department; 32% of the proposals were from targeted industries.

Addressing business development strategies, Ms. Olson listed some of the targeted industries

- Firearms;
- Medical;
- Alternative energy;
- Agribusiness;
- Biotechnology; and
- Computer/IT

Ms. Olson briefly talked about the “Made in South Dakota Program,” the South Dakota Certified Beef Program, the Dakota Roots Program, the Dakota Seeds Program, and highlighted workforce development.

Responding to Representative Burg regarding the Revolving Economic Development and Initiative Fund (REDI Fund), Ms. Olson said that there are few permanent jobs for the investment and agreed with Representative Burg that it is a challenge to meet the skilled workforce needed to fill some jobs. She said that the goal is to better employ those people who do have the required skills.

Representative Burg commented about the Technical School Funding Task Force funding bill that was introduced in the 2008 Legislative Session and vetoed by the Governor and asked why the GOED did not participate in the study to work on ways to provide more funding to technical schools. Representative Burg said that South Dakota is not getting the highly-skilled work force to garner higher salaries and that there is not enough emphasis on the technical schools to enable them to provide the necessary training.

Ms. Olson said that Representative Burg’s statements were accurate and that there is a lot of collaboration in that area. She said that South Dakota needs higher technical education that will garner higher wages and that the office encourages employers to offer competitive wages.

Representative Turbiville said that he agrees with some of the comments made by Representative Burg and stated that manufacturers have to be strongly encouraged to increase wages and benefits in South Dakota in order to be competitive with surrounding states.

Representative Engels said that South Dakota has a very good business climate for the firearm industry and asked what the GOED is doing to attract the firearms industry to the state. Ms. Olson said that one of the events that works well to attract that type of business is the Governor’s Annual Pheasant Hunt. During the discussion, Ms. Olson also stated that the GOED is looking at expanding the firearms industry, such as the cluster of that type of industry in the Black Hills. Ms. Olson said that smaller, rural areas are being explored for interest in the industry.

Responding to Chair Heineman, Mr. Benda said that assistance is not provided to companies if they do not provide benefits to its employees and that the department is continuing to work on the wage level. He said that the department will not provide assistance to those who cannot pay a certain wage, depending on the area of the state.

Representative Hunt encouraged international development and urged the GOED to partner with other states to participate in tradeshow in the Asian market.

The committee recessed at 10:25 a.m. and reconvened at 10:40 a.m.

Office of Research and Commercialization

Mr. Mel Ustad, Office of Research and Commercialization, said that the Office of Research and Commercialization is a bridge between universities in South Dakota and economic development. Two of the ways the office works on that bridge are:

1. Intellectual property based
 - Discovery research;
 - Technology/innovation evaluation and development;
 - Early venture development; and
 - Mature venture development
2. Technology based economic development
 - Expertise and skilled innovative workforce;
 - Existing companies expand/relocate; and
 - Training programs.

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

Among the research and development infrastructure, Mr. Ustad listed the following:

- South Dakota Signal Transduction Center;
- Center for infectious disease research and vaccinology;
- Center for the research and development of light-activated materials;
- Center for bioprocessing research and development;
- Center for accelerated applications at the nanoscale; and
- Center of excellency for drought tolerance.

Responding to Representative Dadrick, Mr. Ustad said that the office is funded through the Department of Tourism and Economic Development budget.

Representative Hunt asked how the success of the programs are evaluated and quantified regarding their benefit to South Dakota taxpayers. Mr. Ustad said that external funding collaboration with other companies in South Dakota, number of employees hired, information of patents and intellectual property are some of the other quantifying metrics.

Representative Burg said that commodity checkoffs are an excellent example because the ethanol industry dollars drove the corporation of individual farmers and investors and could be a good model to use for wind energy.

South Dakota Science and Technology Authority

Mr. Kevin Forsch, Governor's Liaison to the Sanford Lab, and **Mr. Bill Harlan**, Public Information Officer, discussed the Sanford Lab and the Deep Underground Science and Engineering Laboratory (DUSEL). Copies of a paper stating the purpose of the DUSEL Facility were distributed (**Document #3**). Mr. Harlan briefed the committee on the history of the establishment of the Sanford Laboratory and the DUSEL Facility and said that there have been challenges to refurbishing the old infrastructure to develop the laboratory.

Responding to committee questions, Mr. Forsch said that he is not familiar with leases involved at the beginning of the discussions surrounding an underground lab but said that he will research that question and provide the answer to the committee. Mr. Forsch said that the exact cost of mine renovation is not known. There are unexpected issues that are compared to expectations, such as pumping the water from the mine and treating the water. The hope is to be able to rehabilitate the mine with \$70 million; however, if that is not enough money, the issue will be discussed intensively with legislators and other government officials.

Representative Turbiville said that the Black Hills area is experiencing the opposite of people leaving the state to find jobs because people are returning the area to work on rehabilitating the mine.

Responding to Representative Hunt, Mr. Harlan said that DUSEL has not yet been approved; however, the national physics community has been very positive about its use and possibilities.

Requests for Information

Ms. Bump responded to Representative Engels' question regarding the economic impact model. The Office of Tourism uses the model created by Dr. Madden. Other states use the Travel Industry Alliance (TIA) model. There is no consistency but consistency among the states is under discussion.

Representative Hunt asked for information on what areas the state's growing energy needs are most concentrated. He asked the department to provide information about anticipated energy needs over five years—what the state can do to provide incentives—what is the state's thinking on nuclear energy—are there any statutory changes needed to facilitate growing energy needs. Representative Hunt said that the more technologically wired South Dakota becomes, the more those energy needs for those types of areas must be addressed. Also, Representative Hunt stated that there should be an energy plan so the state can start developing solutions to those energy needs.

Representative Deadrick expressed his support for arts funding, noting that economic development is tied to the arts and cultural offerings of a community.

Representative Deadrick also requested information from GOED regarding community development, specifically what is the criteria, what are the job descriptions, how long are companies around, and are they succeeding.

Representative Deadrick would also like to hear from the financing boards regarding whether the philosophy and legislative intent of the enabling statutes are being carried out, what are the criteria of the loans and has it changed over time, and what is the loss ratio of the loans and how does that compare to standard bank loans?

Representative Engels asked what loans have been turned into grants and vice versa.

Representative Burg asked about the REDI fund balance and would like the department to provide more information of the REDI fund.

Representative Hunt asked what the department is doing to foresee future energy needs and how it is planning for the future.

Chair Heineman asked for information on how all the state agencies work together regarding energy and asked for a diagram that illustrates the working relationships of the state agencies and private organizations.

Senator Hundstad asked the department to explore how South Dakota could look at the resources of the Northern Crops Institute and how to use those connections to the state's advantage.

Representative Deadrick asked Mr. Benda how he perceives the department in terms of staffing and its stability. Mr. Benda responded that he thinks the office is staffed to work effectively.

Chair Heineman asked Secretary Benda to discuss what challenges he sees and how the Legislature can assist with those challenges.

Representative Lucas requested information on the history of the self-funding of the tourism and gaming tax revenue.

Chair Heineman also requested information on the department's mission and goals and would like to see a list of performance indicators for each division or program.

Next Meeting Date

The Committee agreed to conduct a two-day meeting for its second meeting—the first day to be held in three locations throughout the state to gather public testimony; the second day to be held in Pierre for further testimony and committee action.

Representative Lucas suggested that the outside-of-Pierre meetings be held at and coordinated with the technical schools.

Chair Heineman expressed support for that suggestion. She directed staff to work with the department and technical schools on that possibility.

The Committee agreed to leave the details and final arrangements to the discretion of the Chair and staff.

Adjournment

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

The committee adjourned at 1:35 p.m.

