

Good Morning, Mr. Chair and members of the House State Affairs Committee. My name is Craig Evenson, a lifelong resident of Clear Lake in Deuel County, where agriculture has been our backbone for generations. I am the State's Attorney, however, I am not representing the county in this matter, I am solely acting personally, my beliefs are my own. I am sending you this because I'm unable to attend the hearing in Pierre. I am a strong supporter of House Bill 1005, which provides targeted sales and use tax exemption for goods and services related to data center operations. As a rural South Dakotan, I see this bill as a smart way to diversify our economy, attract high-tech investment, and position our state as a leader in America's AI revolution—without compromising our values or burdening our communities. I'll provide a brief overview of data centers, highlight AI's strategic importance, explain the bill's key provisions, and address common concerns with facts.

Data centers are secure facilities that house servers for storing and processing digital information, powering everything from e-commerce to AI-driven innovations. They're clean, low-impact operations that fit well in rural areas like ours, bringing economic stability without the pollution or disruption of heavy industry. With over 4,000 data centers nationwide, they've revitalized rural economies in states like Iowa and North Dakota by generating billions in investment and thousands of jobs. But South Dakota risks falling behind: Without incentives like those in HB 1005, all large data projects, like the proposals in Deuel County and Sioux Falls. This will cause all our advantages like cold climates that reduce cooling needs and abundant wind energy to mean nothing.

This isn't just local—it's national. AI is fueling a military and economic revolution essential to U.S. security. The Department of Defense's AI Acceleration Strategy aims to make our forces the world's most AI-enabled, improving intelligence, autonomy, and decision-making to counter threats from adversaries like China. Global military AI spending is set to hit \$40 billion by 2028, and economically, AI could add \$29 trillion in value by 2040. President Trump's executive orders underscore this: U.S. AI leadership is vital for national security, economic competitiveness, and prosperity. HB 1005 aligns perfectly with that agenda, enabling South Dakota to host data centers that support AI without crypto mining, which the bill excludes. By passing this, we secure our state's role in America's tech dominance.

Now, let's look at the bill's language. HB 1005 adds new sections to chapters 10-45 and 10-46, exempting sales and use taxes on "enterprise information technology equipment" and "computer software" for qualified data centers—items like servers, cooling systems, power infrastructure, and security tools used solely for operations. A "qualified data center" must be in South Dakota, treated as real property for taxation (so property taxes still apply), have a qualifying date between July 1, 2026, and June 30, 2036, and include fire suppression

systems. The exemption lasts 50 years, but eligibility requires Department of Revenue verification, an affidavit each year, and two key safeguards: a written agreement with utilities to prevent cost-shifting to other customers and notice to local water providers to ensure compatibility.

This exemption is fair and targeted. Consider the difference in use tax for imported property: A truck brought in from out of state is subject to use tax and then stresses public infrastructure like roads, bridges, and highways—costing taxpayers for maintenance and wear. In contrast, data center servers and equipment stay put inside the facility, using private infrastructure that the data center builds and maintains themselves, like dedicated power systems and cooling towers. They don't roam our roads or burden public assets the same way. HB 1005 recognizes this by exempting only specialized, stationary tech gear, encouraging massive private investments—often billions—that create jobs and property tax revenue without proportional public strain. Other states have seen this work: In Virginia, data centers generated \$928 million in tax relief but billions in economic output, with 90% of the industry utilizing incentives. Thirty-seven states offer similar incentives, tied to investment and jobs, because they know one data center job can create up to six spillover positions in supply chains and services. Without HB 1005, projects like the proposed one in Deuel County and Sioux Falls—bringing \$14 billion in investment—could go elsewhere, as developers have stated.

I understand the resistance in our Republican-leaning, rural communities—change feels big. But let's address concerns. On electric rates: Recent increases by Otter Tail (12.5% in 2025) and Basin Electric (10% in 2026) stem from long-deferred adjustments, general demand growth, and commodity costs—not data centers. HB 1005 mandates agreements to avoid shifting costs, and data centers often fund grid upgrades themselves, stabilizing rates long-term. Federal tax credits for renewables further help, as data centers pair well with wind and solar in our state.

Water use: The proposed closed-loop systems recirculate water, cutting freshwater needs by 70% after an initial fill—far less than irrigation or other industries. Our cold climate minimizes evaporation, and the bill requires local water notices for compatibility.

Jobs: Around 200 ongoing positions in trades like plumbing, electrical, and security—high-paying roles that keep families here and attract talent. Plus, construction booms and multipliers: In similar rural areas, data centers have funded schools and hospitals without altering community character.

Aesthetics and suitability: These are low-profile buildings, not smokestacks—ideal for rural zones, unlike manufacturing that needs industrial parks for emissions and traffic. They do

not blend in with the rural landscape, but they don't bring many of the other concerns with view and other concerns seen with other developments.

Long-term: Concerns about energy or water are valid, but HB 1005's safeguards address them. Opportunities outweigh: Diversification beyond ag, billions in investment, and a stake in AI's \$29 trillion boom. States like ours recoup far more than incentives cost through growth.

Noise: Concerns about noise are valid and need to be addressed, but counties are uniquely situated to deal with noise concerns. County Ordinances can address the max noise at any nearby residences and ensure neighbors who do see the buildings do not have to hear it at unreasonable levels.

In closing, HB 1005 is pro-growth, pro-security, and pro-South Dakota—making us competitive in a field where 37 states already lead. I urge you to pass it and hold hearings for input. Thank you—I'm open to questions.