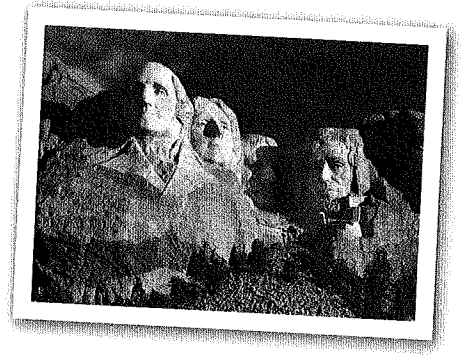




DEPARTMENT OF TOURISM & STATE DEVELOPMENT



MEMORANDUM

DATE: February 17, 2010
TO: Senate Appropriations Chair, Senator Jean Hunhoff
House Appropriations Chair, Representative Larry Tidemann
FROM: Richard Benda, Secretary
Department of Tourism and State Development
RE: FY2011 Budget Hearing Follow-up

In response to the questions and additional information requested by the committee, the following is provided:

Economic Development:

Economic Growth – How do we compare with other states? (Representative Tidemann)
The source to our GDP analysis is the Bureau of Economic Analysis (BEA) which is an agency of the U.S. Department of Commerce. South Dakota was third in the nation in our percent change in real GDP by state from 2007-2008. (North Dakota was #1 and Wyoming was #2). The attachment, "GDP Press Release BEA" has a map showing the breakdown by state. South Dakota was ranked 21st in the nation in per capita real GDP by state in 2008. See attachment, "Per Capita Real GDP by State, 2005-2008".

REDI Fund – Requested commitment categories electronically and by hard copy. (Representative Peters)

Definition of categories:

Outstanding loans: Loans that have funded to businesses, are not available in cash and are not included in year end cash condition statements.

Reserve: Money that is required to be in reserve for investment council regulations and value added agriculture sub-fund statutes.

Approved loans: Loans that the Board of Economic Development has approved. Funds that must be available at loan closing. These are projects that are typically under construction and have private construction loans which will be taken out by the approved REDI loan when the construction is completed or equipment is purchased.



Office of Tourism
Governor's Office of Economic Development
South Dakota Arts Council | Tribal Government Relations
711 E. Wells Ave., Pierre, SD 57501-3369
ph: 605-773-3301 | 605-773-3256 fax | 1-800-952-3625
travelsd.com | sdradytowork.com
artscouncil.sd.gov | sdtribalrelations.com

South Dakota State Historical Society
900 Governors Drive, Pierre, SD 57501-2217
ph: 605-773-3458 | 605-773-6041 fax | sdhistory.org
South Dakota Housing Development Authority
PO Box 1237, Pierre, SD 575601-1237
ph: 605-773-3181 | 605-773-5154 fax | sdhda.org

2010 INITIATIVE
2010initiative.com

Committed loans: Loan proposals that have been committed to companies/prospects/projects by TSD. The business is either in the process of making a final decision on location or has already decided to locate in SD but is still completing REDI application due diligence. Approved by the Secretary, not yet submitted to the Board of Economic Development these are dollars that the businesses/prospects/TSD rely upon in location negotiations. It would result in a most unfortunate circumstance for the State of South Dakota if we did not have these funds available when the business makes a positive decision to proceed in SD.

Remaining balance: Remainder of balance uncommitted.

Small Communities – Provide the committee with information on what you have done for small communities. (Senator Hunhoff)
See attachment, “South Dakota GOED Community Development Programs”.

Tourism:

Sales Tax Revenue – What are the new parameters? (Senator Hunhoff).

Attached you will find IHS Global Insight’s “TSA Methodology” which provides the new parameters that Tourism will be utilizing. However, in order to provide consistent reporting under the 2010 Initiative, we will continue with Dr. Madden’s methodology through FY2010. In addition, we will utilize Global Insight so we will have two years of consistent data before moving completely over to Global Insight. A copy of Dr. Madden’s methodology has been attached.

Per Dr. Madden, “A basic first step is to statistically estimate the *lift* in taxable sales in the lodging, eating, and drinking establishments sections. Through time the percentage of total travel spending in these two sectors remains quite stable and when it does change it does so in a systematic way. This isolated total becomes the annual spending base. Then, using the latest data from the US Travel Data Center regarding the spending breakdown by sector by tourists in South Dakota, apply a ratio of total spending to the spending base of total of lodging plus eating and drinking establishments. This ratio becomes the tool needed to calculate total leisure travel spending per year for each county.”

SIC Codes utilized by Dr. Madden:

5812 – Eating Places

5813 – Drinking Places

7011 – Hotels and Motels

7032 – Sporting and Recreational Camps

7033 – Trailer Parks and Campsites

Lodging – What was the number of hotel stays in South Dakota? (Senator Novstrup).

Year To Date 2007	2008	2009
4,406,873	4,410,172	4,406,125
4,232,551	4,406,873	4,410,172
4.1	0.1	-0.1

The number of rooms sold was flat for 2009. Keep in mind this panel represents only hotels with 15 rooms or more so this excludes many B&B's and smaller motels. Hotel occupancy for the year was down 2.3% while the U.S. experienced a considerably larger decline of 9.3%.

Giant Step Magazine Insert – What is the cost of putting something like this together? (Representative Burg).

The Giant Step inserts were the result of a co-op partnership with the visitor industry at a total cost of \$1,419,414.

The six-page spreads cost:

Better Homes and Gardens - \$371,391 (Circulation: 1,081,000)

Family Circle - \$201,765 (Circulation: 618,000)

Ladies Home Journal - \$200,230 (Circulation: 573,700)

Midwest Living - \$284,812 (Circulation: 950,000)

Parents - \$107,745 (Circulation: 320,000)

The two-page spreads cost:

Guide Posts - \$103,485 (Circulation: 2,345,000)

Oprah Magazine - \$123,016 (Circulation: 600,000)

Travel 50 and Beyond - \$26,970 (Circulation: 115,000)

Commerce/Research:

Dakota Seeds – How many state dollars have been awarded through the Dakota Seeds program? (Representative Wink)

As of February 10, 2010, the Dakota Seeds program has awarded \$444,000 from the National Science Foundation EPSCoR project funds for internships and assistantships. Payments of \$191,331 have been made to the participating companies. The program reimburses the business for 50 percent salary paid to the student up to \$2000 for undergraduate students and \$8,000 annually for graduate students. As a result, the funds are paid to the company on a reimbursement basis during the student's employment which ranges from three months to two years for a graduate student working with a business. These dollars are not state funds.

History:

Admission to Cultural Heritage Center – What amount of money has been generated from admission? (Senator Novstrup)

The amount received in FY09 was \$17,122.50.

If you have any additional questions, please let us know.

Table 3. Per Capita Real GDP by State, 2005-2008

	Chained (2000) Dollars				Rank in the U.S.			
	2005	2006	2007	2008*	2005	2006	2007	2008*
United States.....	36,920	37,601	37,967	37,899	.....	.....	.....	.....
New England.....	42,584	43,569	44,474	44,796	.....	.....	.....	.....
Connecticut.....	48,808	49,976	51,139	50,758	2	2	2	2
Maine.....	29,769	29,990	30,248	30,637	42	41	42	41
Massachusetts.....	45,050	46,192	47,388	48,068	3	4	4	4
New Hampshire.....	37,316	37,641	37,829	38,420	16	18	19	18
Rhode Island.....	35,466	36,332	36,516	36,283	23	21	22	24
Vermont.....	33,465	33,848	34,383	34,924	31	30	30	29
Mideast.....	42,240	43,497	44,480	44,900	.....	.....	.....	.....
Delaware.....	59,520	58,386	58,071	56,401	1	1	1	1
District of Columbia.....	120,269	122,005	123,566	126,407	.....	.....	.....	.....
Maryland.....	37,920	38,233	38,788	39,205	15	15	15	15
New Jersey.....	43,902	44,512	44,834	44,957	5	6	6	5
New York.....	44,773	47,135	48,869	49,499	4	3	3	3
Pennsylvania.....	34,208	34,794	35,337	35,641	27	26	26	26
Great Lakes.....	35,205	35,334	35,492	35,280	.....	.....	.....	.....
Illinois.....	38,593	39,603	40,142	40,006	13	13	13	13
Indiana.....	33,307	33,094	33,317	32,917	32	37	34	34
Michigan.....	33,673	33,206	32,940	32,601	29	35	37	37
Ohio.....	34,111	33,805	33,829	33,568	28	31	32	32
Wisconsin.....	34,602	35,012	35,178	35,239	26	25	27	27
Plains.....	35,473	35,605	36,249	36,728	.....	.....	.....	.....
Iowa.....	34,771	35,230	36,243	36,773	25	23	24	23
Kansas.....	32,818	33,786	34,571	35,013	36	32	29	28
Minnesota.....	40,832	40,719	41,060	41,573	9	9	9	9
Missouri.....	32,680	32,375	32,532	32,779	37	38	38	36
Nebraska.....	35,513	36,240	37,131	37,326	21	22	20	22
North Dakota.....	32,848	33,190	35,454	37,832	35	36	25	20
South Dakota.....	35,159	34,381	36,791	37,690	24	27	21	21
Southeast.....	33,007	33,560	33,384	33,006	.....	.....	.....	.....
Alabama.....	29,147	29,414	29,426	29,411	44	44	44	44
Arkansas.....	27,613	27,651	27,810	27,753	47	47	48	48
Florida.....	33,292	34,050	33,702	32,925	33	28	33	33
Georgia.....	35,477	35,034	34,792	34,017	22	24	28	30
Kentucky.....	29,509	29,959	29,986	29,740	43	42	43	43
Louisiana.....	31,206	33,726	33,022	32,842	38	34	36	35
Mississippi.....	23,610	24,016	24,147	24,403	50	50	50	50
North Carolina.....	35,763	36,954	36,398	35,719	19	20	23	25
South Carolina.....	28,895	28,955	28,676	28,364	45	45	46	46
Tennessee.....	33,582	34,009	34,012	33,825	30	29	31	31
Virginia.....	40,989	41,233	41,608	41,769	7	8	8	8
West Virginia.....	24,759	24,862	24,970	25,533	49	49	49	49
Southwest.....	34,510	35,324	35,855	35,767	.....	.....	.....	.....
Arizona.....	32,909	33,767	33,300	32,343	34	33	35	38
New Mexico.....	30,128	30,425	30,624	30,935	40	40	40	40
Oklahoma.....	28,104	28,636	28,851	29,359	46	46	45	45
Texas.....	36,316	37,205	38,055	38,044	18	19	18	19
Rocky Mountain.....	35,244	35,727	35,938	36,017	.....	.....	.....	.....
Colorado.....	40,395	40,703	40,742	41,102	11	11	10	10
Idaho.....	30,127	29,953	30,442	29,890	41	43	41	42
Montana.....	26,958	27,316	27,991	28,170	48	48	47	47
Utah.....	31,117	31,989	32,413	32,049	39	39	39	39
Wyoming.....	38,203	40,364	39,807	40,837	14	12	14	11
Far West.....	40,173	41,131	41,645	41,416	.....	.....	.....	.....
Alaska.....	43,839	45,261	44,853	43,640	6	5	5	6
California.....	40,905	41,883	42,319	42,064	8	7	7	7
Hawaii.....	37,114	38,198	38,692	38,644	17	16	17	17
Nevada.....	40,483	40,708	40,657	39,687	10	10	11	14
Oregon.....	35,724	37,921	38,751	38,801	20	17	16	16
Washington.....	38,661	39,068	40,218	40,407	12	14	12	12

* Advance statistics

Source: U.S. Bureau of Economic Analysis



**GLOBAL
INSIGHT**

THE POWER OF PERSPECTIVE

TSA Methodology

Provided to the South Dakota Office of Tourism

PREPARED BY:

Shane Norton
IHS Global Insight
Economic Impact Analysis
781.301.9071
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Tourism Satellite Account Methodology

Data Inputs

Data collection begins with visitor spending survey data provided by *D.K. Shifflet and Associates* (DKSA). DKSA conducts tourism research for a large prestigious client base of industry leaders, and is recognized as the leading U.S. travel and tourism research company. Experience working with destinations, theme parks, airlines, hotels, and other clients has provided us the opportunity to understand the full spectrum of issues related to U.S. travel and international travel by Americans. DKSA has a professional ratio of 1:2. The company was founded in 1982 and has conducted syndicated and custom marketing research focused on travel and tourism for over 27 years. DKSA conducts large scale surveys of American travelers utilizing nationally representative mail and Internet panels. The company also has quantitative experience in CATI and has conducted IDI surveys, and qualitative focus group research. DKSA maintains an in house quality assurance capability and has extensive experience in weighting, modeling, projecting and estimating visitor volume and expenditures. state-level spending by category which includes: transportation, food, accommodation, shopping, entertainment and other. This data is segmented for both business and leisure travel as well as resident and non-resident travel¹. It's important to point out that DKSA only surveys US visitors to the State. DKSA is also a source for the volume of person stays which again is segmented by business and leisure travel.

IHS Global Insight's Business Demographics Database contains county-level sales and employment by industry that is sourced primarily from County Business Patterns from the *US Census Bureau*. The TSA accesses data at the 4-digit NAICS level of detail from this source. The industry codes and their descriptions are listed below.

TSA Category	NAICS Code	NAICS Detail
Accommodation	7214	Rental Properties ²
	7211	Traveler Accommodation
	7212	RV Parks & Recreational Camps
	7213	Rooming & Boarding Houses
Entertainment	5121	Motion Picture & Video Industries
	7111	Performing Arts Companies
	7112	Spectator Sports
	7115	Independent Artists, Writers, & Performers
	7121	Museums & Historical Sites
	7131	Amusement Parks & Arcades
	7132	Gambling Industries
	7139	Other Amusement & Recreation Industries
Food	7221	Full-Services Restaurants
	7222	Limited-Service Eating Places

¹ Limitations in sample size may impact the level of detail that the DKSA data provides.

² Rental Properties are not part of the business demographics database and are calculated separately, with information from the Census data and independent research.

	7223	Special Food Services
	7224	Drinking Places
Retail	4451	Grocery Stores
	4453	Beer, Wine & Liquor Stores
	4471	Gasoline Stations
	4481	Clothing Stores
	4482	Shoe Stores
	4483	Jewelry, Luggage & Leather Goods
	4511	Sporting & Hobby Goods
	4512	Book, Periodical, & Music Stores
	4521	Department Stores
	4529	Other General Merchandise
Transportation	4811	Scheduled Air Transportation
	4812	Nonscheduled Air Transportation
	4821	Rail Transportation
	4831	Deep Sea, Coastal, & Lake Transportation
	4832	Inland Water Transportation
	4851	Urban Transit Systems
	4852	Interurban & Rural Bus Transportation
	4853	Taxi & Limousine Service
	4855	Charter Bus Industry
	4859	Other Transit Passenger Transportation
	4871	Scenic & Sightseeing Transportation, Land
	4872	Scenic & Sightseeing Transportation, Water
	4879	Scenic & Sightseeing Transportation, Other
	5321	Automotive Equipment Rental & Leasing
	5615	Travel Arrangement & Reservation Services

International spending for the State is collected from the *Office of Travel and Tourism Industries* within the US Department of Commerce.

Construction data from *McGraw Hill Construction* (formerly *F.W. Dodge*), and represents the “Value of Construction Contracts”, measuring the value of government and private construction at the time when work begins, encompassing total value for entire projects which start or break ground in a given year, excluding ancillary costs such as land acquisition. This data is utilized to help to measure the contribution of business fixed investment.

Smith Travel Research (STR) hotel revenue data is sometimes used as a cross-check for accommodations spending at the county level. While we recognize that STR data is not 100% comprehensive, it can provide a good benchmark for our county-level estimates.

Rental property value is calculated outside of the census data. Seasonal second home counts are collected from the *US Census Bureau*. This data is combined with weekly rental rates and average length of peak season collected from the client, local real-estate

agents, and knowledge of the state to generate rental income from the presence of seasonal second homes in each county.

Information is also collected from *local sources*. State spending on tourism promotion and other tourism-related assets such as state parks are used as an input to measure the government sector's impact. Local tax collections, in particular room tax collections, are also used as an input to the TSA as a cross-check for accommodations spending. Gaming tax collections are also an important component of tourism-related taxes. We also conduct an attractions inventory wherever possible to take into account special events that might not be reflected elsewhere, i.e. state park visitor and revenue collections.

Calculation of Domestic Visitor Spending

Our approach assumes that each of these industries listed above has a '**tourism intensity**' that becomes an adjustment factor to the sales data. The adjustment factor varies and can be as large as 1 and as small as 0.02. For example, the traveler accommodation industry (NAICS 7211) has a tourism intensity of 1 – all of the sales in this industry are associated with the tourism sector. This is also the case for the travel arrangement and reservation service (NAICS 5615). Amusement parks (NAICS 7131) are also assigned a high tourism intensity factor – 0.95. We assume that this tourism intensity factor is the same across all counties for a given industry. These industry intensity factors have been developed for the entire United States and are consistent across all states and regions.

Retail industries generally have the lowest tourism intensity. For example, grocery stores, gas stations, clothing stores, shoe stores, sporting and hobby goods, department stores and others have a tourism intensity factor of 0.05 or lower. We find that the DKSA retail data is more indicative of spending in this category by tourists. The same holds true for the food category. Therefore the DKSA data on these categories is utilized to constrain the topline totals.

The accommodation industry is supplemented with data on seasonal second homes. In particular our estimate of rental income from second homes is added to spending in the accommodation industry. It is important to note that not all of the "income" accounted for in the seasonal second homes data is an actual cash transaction. Many of these seasonal second homes are in fact used by the owners of those homes while on vacation in the area. These people are tourists and their accommodation "revenue" needs to be accounted for is done by using the methodology described above.

The industry sales data is also adjusted in each county based on a '**county factor**' that reflects the importance of tourism in the particular county. These county factors are derived from the statistical properties of employment in the leisure and hospitality industry for each county. In particular we look at the seasonality of quarterly employment in this broad industry and compare / rank the counties based on this seasonality. If a particular county has very seasonal employment in leisure and hospitality then it receives a county factor above one. If the county has low seasonality in this industry, it receives a county factor below one. The average of all the county factors is equal to one.

Calculating Government and Business Fixed Investment Spending

The methodology to this point is an attempt to estimate spending by visitors. However the TSA approach also attempts to incorporate the spending of the government sector, business fixed investment and spending by international visitors.

To incorporate the government sector's impact on the tourism industry we take expenditure details from the state's annual budget as it pertains to the promotion of the tourism sector as well as the budget of welcome centers, arts councils, cultural resources, state parks and other publicly-owned tourism assets.

The contribution of business fixed investment to the TSA comes mainly from the value of construction of structures that will become infrastructure to the tourism sector. For example: theatres, exhibition halls, airline terminals, hotels, docks/piers, runways, shopping centers and stadiums. Our approach is to apply a tourism intensity factor to the value of construction put in place that is unique for each structure type. Private sector construction is separated from state and local government construction efforts.

Calculating Tourism Impact

The steps outlined above create a set of spending inputs that we use to generate the impact of tourism for the state. We employ software developed by Minnesota IMPLAN Group, Inc. to build a model that helps us to understand the structure of every state economy. In particular we are concerned with businesses' purchases of intermediate goods or the input-output structure of the state economy. This model takes spending in a range of tourism sub-industries and calculates value added, output, employment, labor income and state and local taxes for a specified year. The results represent the full impacts (direct, indirect and induced) that the tourism sector has in the state.

Economic Impacts are output into 3 main categories:

- **Direct Effect:** Direct effect refers to the response of the economy to the change in the final demand of a given industry, refers to those directly involved in the activity.
- **Indirect Effect:** Indirect effect refers to the response of the economy to the change in the final demand of the industries that are dependent on the direct spending industries for their input, also known as the supplier effect.
- **Induced Effect:** Induced effect refers to the response of the economy to changes in household expenditure as a result of income generated by the direct and indirect effects, also known as the income effect.

Value added is payment to labor and capital used in the production of an industry. It is defined as the sum of labor income, indirect business taxes and business income. Direct value added is comparable to all other generally classified industry sectors that add up to a region's GDP/GSP/GMP etc.

Based on the IMPLAN economic I/O model of the state, the allocated spending, across categories, is going to generate a defined amount of employment that the spending can support, and a resulting labor income based on those employment levels.

The employment data created from these impact analyses does in fact result in a number of jobs, but the information should be viewed as a number of jobs that can be supported by the level of tourism spending previously calculated. It is not an accounting of employment is specific tourism related industries, and in fact will show employment in a wide variety of industries, many of which are not necessarily obviously tourism related.

IMPLAN also generates the resulting tax output based on the category spending utilized to generate the outputs. The tax outputs are broadly grouped under federal taxes and state/local taxes. The base output from IMPLAN is within 25 specific tax categories, but these can be broadly grouped under Corporate, Indirect, Personal and Social Insurance Tax at both the Federal and State levels. These tax results are often augmented when state specific information is known, such as actual hotel tax or gaming tax provided by the client.

Finalizing a TSA Report

Once all the information utilized in a TSA is calculated, other data points are utilized to demonstrate the importance/relevance of those results.

For industry comparisons, at both the GSP and Employment levels, the IHS GI TSA report utilizes data from IHS GI U.S. Regional Economic Analysis Group to create the state level breakouts of industry data. This data is updated quarterly and is part of a forecast service.

The comparisons to the U.S. tourism industry are based off the data put out by the U.S. Bureau of Economic Analysis, which covers national output and employment within the tourism industry.

The county tourism share of total county sales data utilizes total industry sales for each county, with the data coming from the business demographics database described previously.

STUDY METHODOLOGY

BY: DR. MICHAEL K. MADDEN

ECONOMIC IMPACTS

The procedure used in deriving estimates of visitor travel is easy to understand.

Here is how it works in a nutshell:

The basic data comes from the South Dakota Sales and Use Tax Reports. This data is compiled by sector for each county on a bimonthly basis.

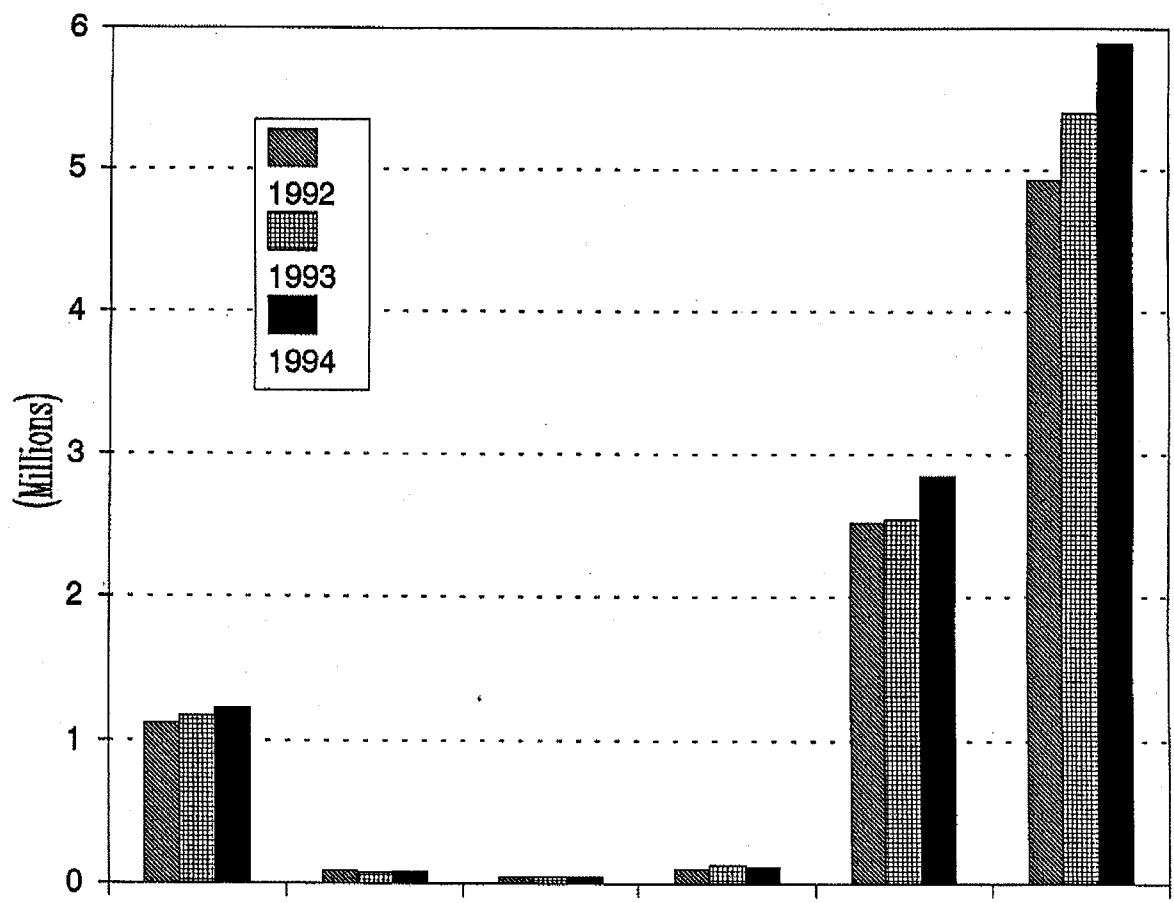
Two sectors form the critical basis of the analysis:

- 1. Lodging**
- 2. Eating and Drinking Establishments**

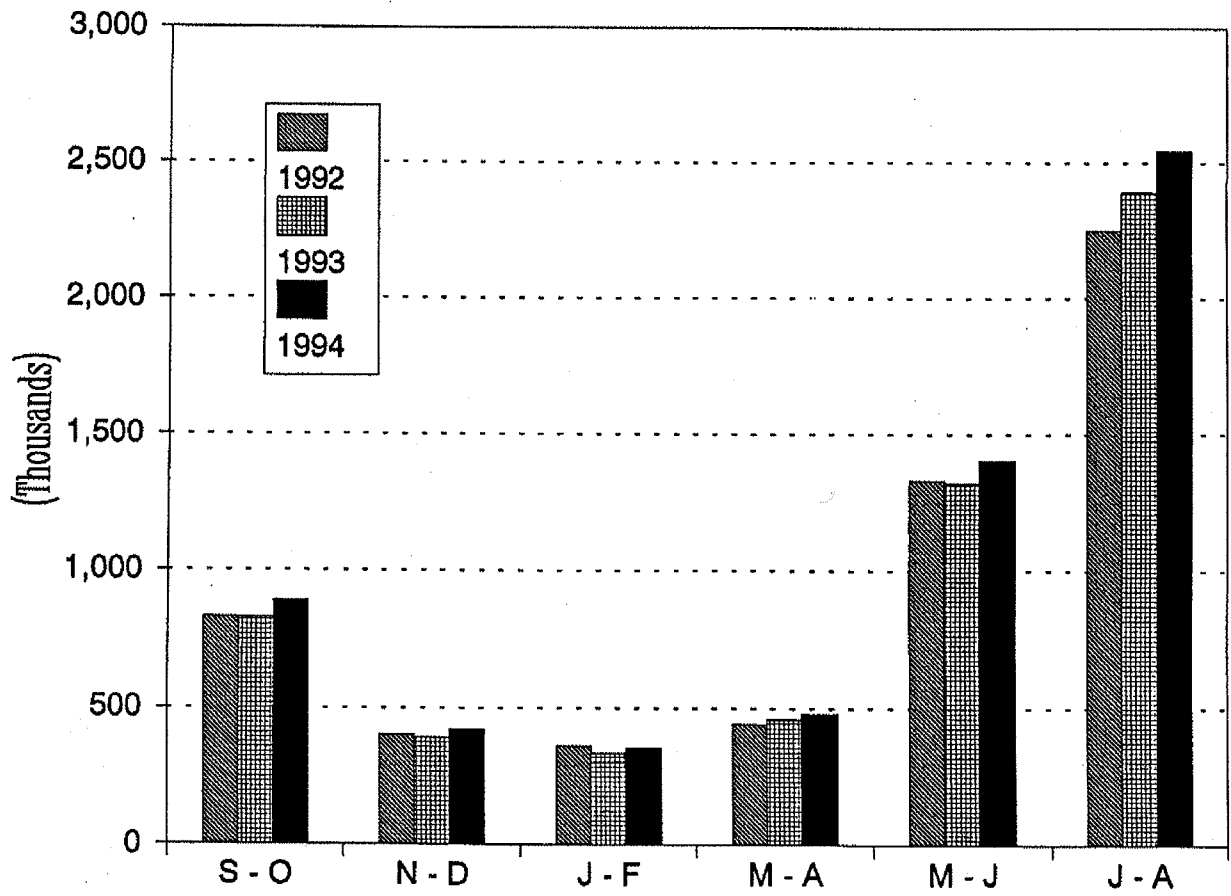
They are critical because nearly all visitors interact with these sector. They distribute the balance of their spending in a wide variety of other sectors.

The obvious visitor impact on these sectors is apparent when viewing the following two graphs pertaining to Custer County as an example.

LODGING ESTABLISHMENTS TAXABLE SALES, CUSTER COUNTY

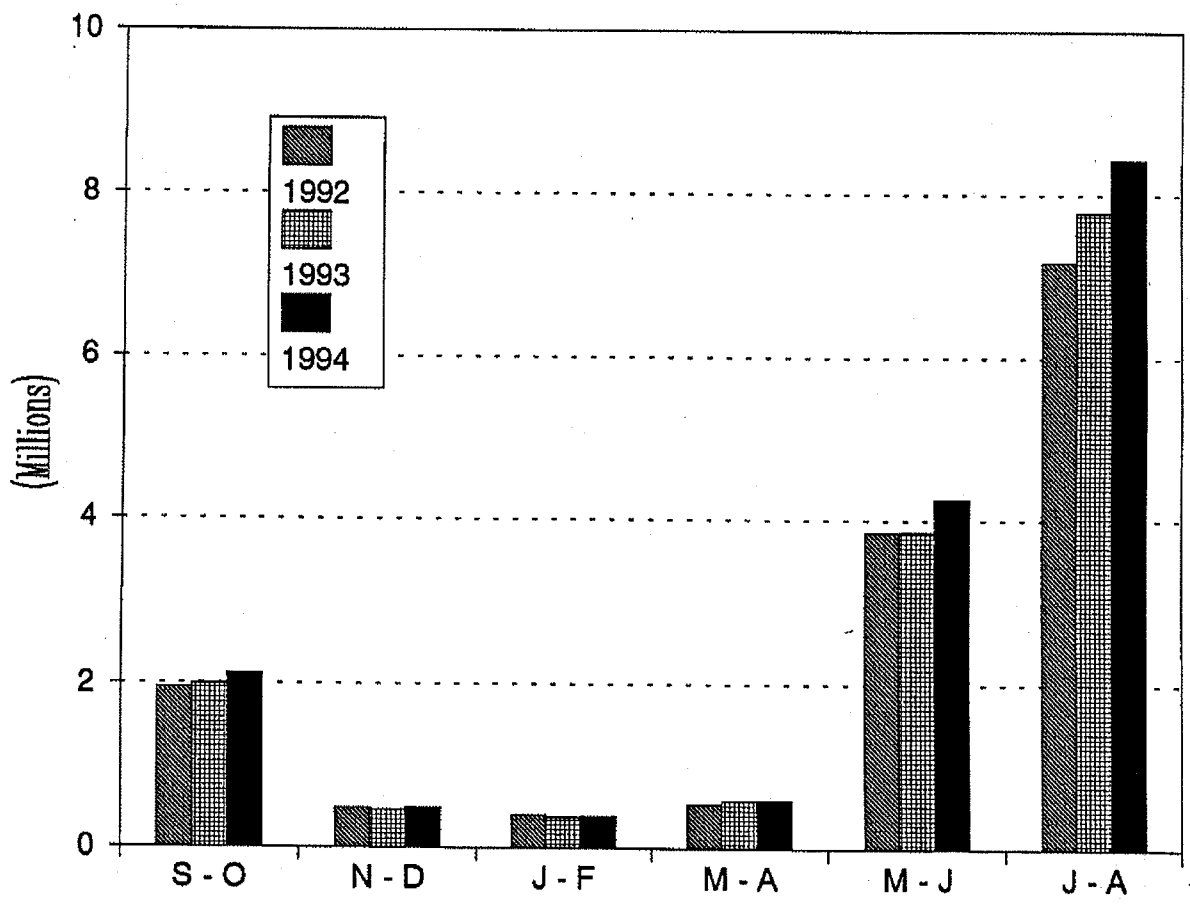


EATING AND DRINKING EST. TAXABLE SALES, CUSTER CO.



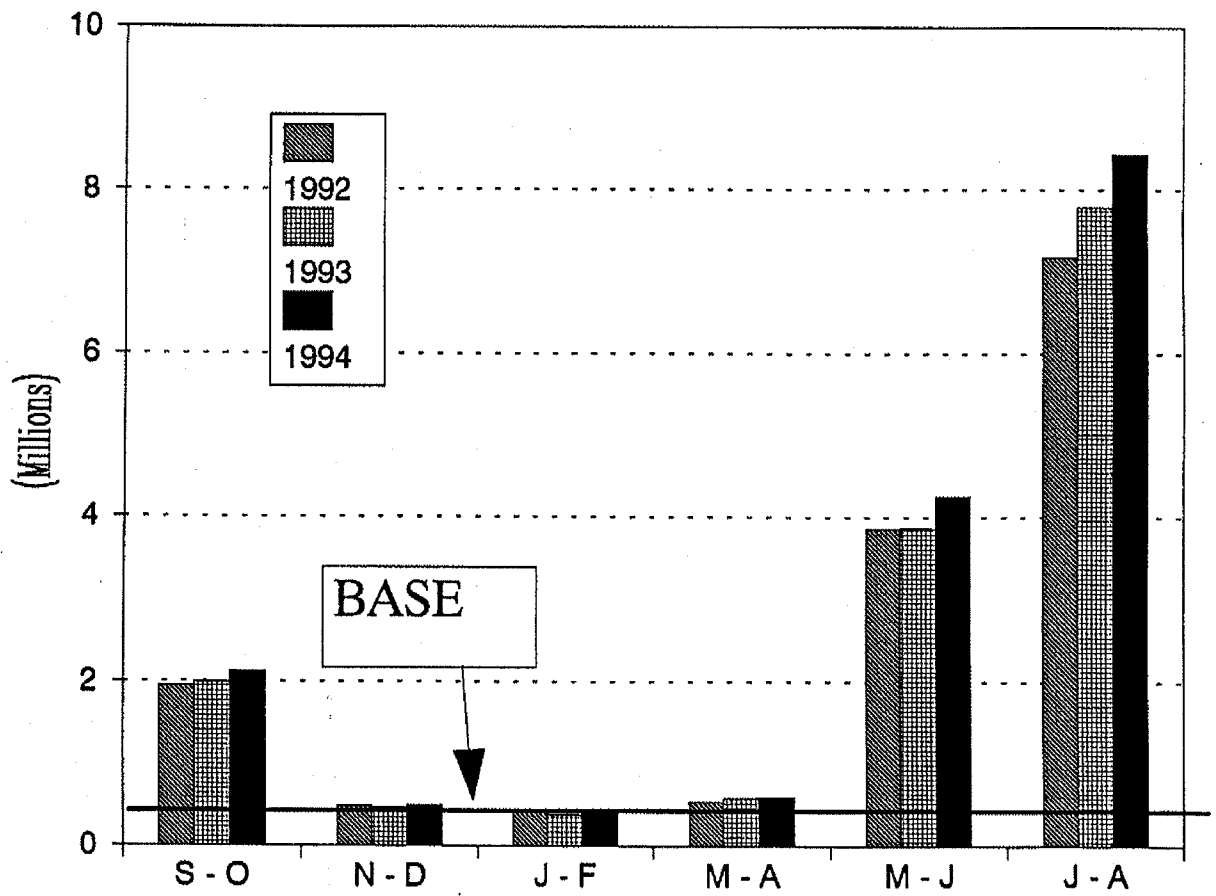
These two sectors are then combined into one. The impact on these two sectors produced by visitors is obvious when observing the bimonthly data as shown on the following graph.

LODGING & EATING AND DRINKING TAXABLE SALES, CUSTER COUNTY



The base spending which would occur in these sectors in the absence of the travel industry is illustrated on the next graph. Any bimonthly spending which lies above the Jan-Feb base for Custer County is reasoned to occur in connection with the visitor.

LODGING & EATING AND DRINKING TAXABLE SALES, CUSTER COUNTY

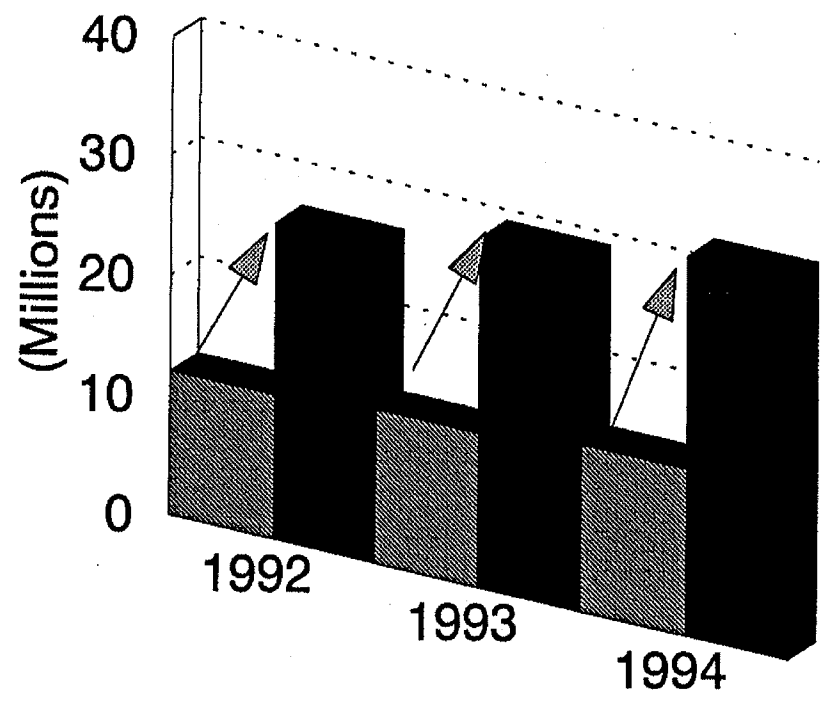


Finally, using research which has identified expenditure patterns for visitors in South Dakota, the estimated spending within the balance of sectors is determined. This factor is utilized to mathematically determine TOTAL spending.

The result for Custer County is shown on the following graph.

2

RELATION BETWEEN E&D AND LODGING AND TOTAL SPENDING

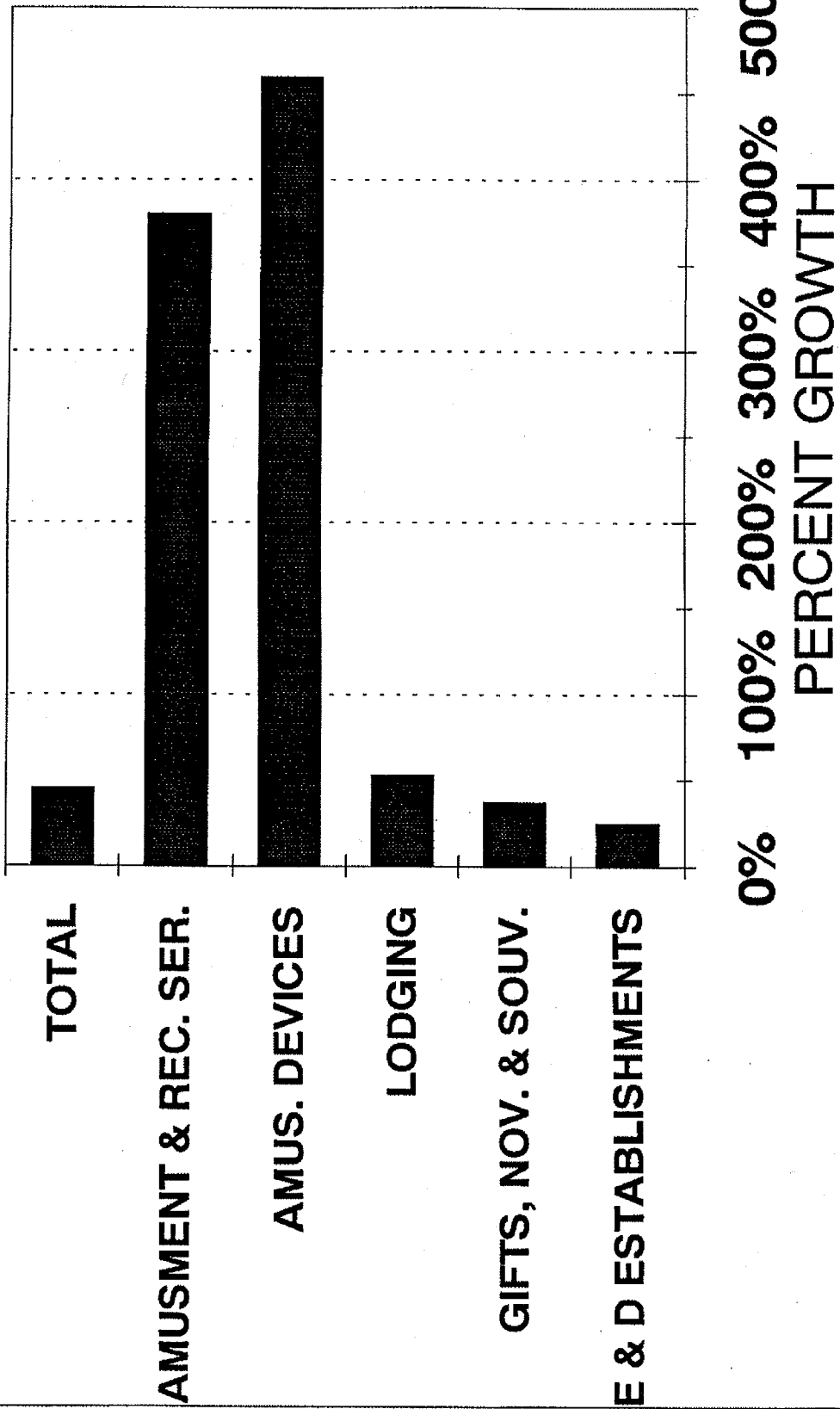


■ E&D AND LODGING ■ TOTAL SPENDING

This process is repeated for all of the Counties in South Dakota to track spending patterns and industry growth. Since 1986, it is estimated that vacation travel spending has increased about 105%. Some of this spending increase is attributed to rising prices for goods and services and some is traced to real growth in the travel industry.

Approximately 60% of this increase in spending since 1986 is attributed to real spending increases. It is the rise in real spending which gives rise to growth in State employment. This growth in employment is verified by examining data developed by the South Dakota Labor Market Information Center. See the following graph.

**PERCENT GROWTH BY SELECTED
TRAVEL SECTOR 1986 to 1993**



The following graphs compare changes in employment which have occurred in other sectors as estimated by the South Dakota Labor Market Information Center. The changes in travel related employment is estimated by the South Dakota Tourism Department using the model described above.