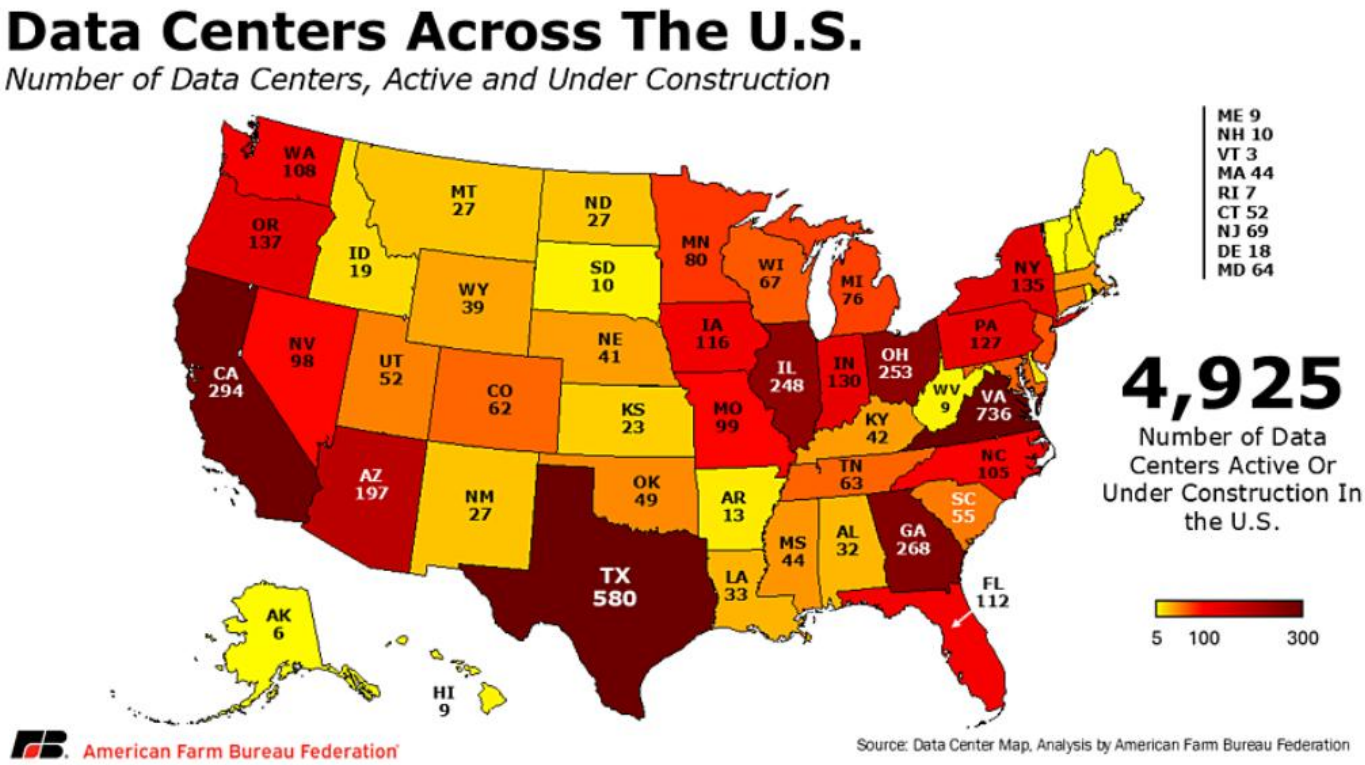
Data Centers

ISSUE: Should South Dakota Farm Bureau adopt policy surrounding the question of siting and permitting, utility usage, and tax policy pertaining to data centers and their development in South Dakota?

OVERVIEW: The last few years, there has been an explosive growth in the use and adoption of artificial intelligence (AI), leading to an increased demand for data centers.



Similar to other industries, competition to draw data centers to a state typically involves incentives whether it be the tax climate, infrastructure, workforce, etc. South Dakota taxes the electricity that would be used for a data center as well as the computers and equipment. There were efforts in the 2026 legislative session to remove the sales tax on computers and equipment; however, those efforts failed. Currently, almost 40 states authorize tax incentives for new data center development.

Considerations

1. Tax Policy

Data centers typically replace major computing equipment every three to five years, meaning that exempting these purchases from sales tax could result in tens of millions of dollars in foregone revenue over time. However, without such exemption, other states may outcompete South Dakota. Northern Virginia is home to the world's largest data center market due to elite fiber connectivity, tax incentives, and affordable, reliable power. Texas is in second place for U.S. data center markets due to its low energy costs, abundant land, regulatory environment, independent power grid, and tax incentives. In Texas and Virginia, qualifying data centers are exempt from state and local sales tax on hardware, software, cooling systems and emergency generators. Electricity and fuel used by qualifying Texas data centers are also exempt from sales tax. South Dakota currently requires sales tax to be paid on electricity and equipment.

2. Property Taxes

South Dakota also requires data centers to pay property taxes. In relation to property taxes, the impact of a data center in a community can be positive. The Sully Buttes School District recently dropped its capital outlay request, which is a property tax fund for equipment and building upgrades, by $600,000. That's nearly 13% of total education property taxes paid in the district in fiscal year 2024. The reduction in the capital outlay request was due to the construction and operation of a 30-megawatt data center.

3. Energy Demand

Growing electricity demand from data centers, electrification and digital infrastructure is adding pressure to an already aging grid. The Department of Energy estimates data centers used about 4.4% of U.S. electricity in 2023, a share projected to rise to between 6.7% and 12% by 2028. Furthermore, it is important to note that electrical demand is not constrained by state boundaries. While the South Dakota Public Utilities Commission does set rates for investor-owned utilities, the commission does not set rates for cooperatives. Additionally, a data center constructed over the border in Minnesota could still be relying on the same grid as South Dakota residents.

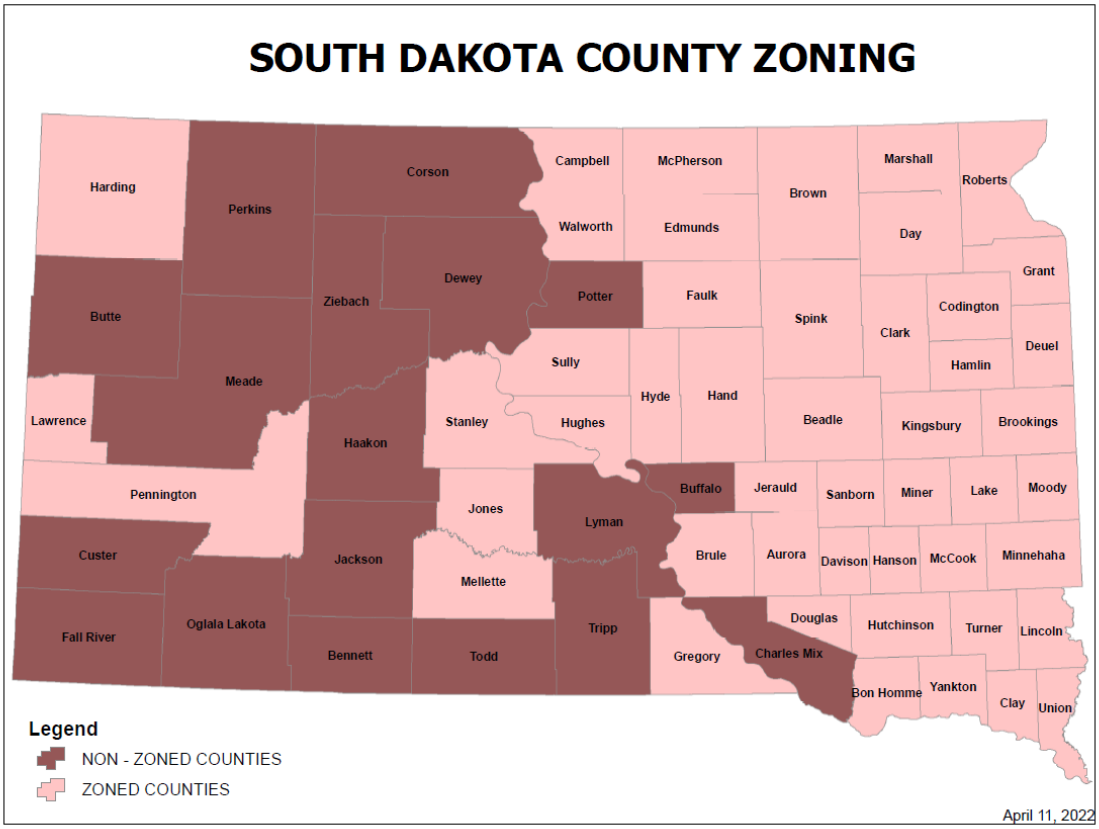
4. Water Usage

Water usage for data centers falls into three categories: water used to generate the electricity needed by a data center, water consumed during manufacturing processor chips, and water for cooling systems. Emerging technology is significantly reducing the amount of water needed for cooling systems; however, increased demand could potentially lead to competition for water resources.

5. Siting and Permitting

Land use, infrastructure availability, and local control play a significant role in siting decisions. Data centers require large tracts of land, access to high-capacity transmission lines, reliable fiber connectivity, and proximity to water resources (depending on cooling systems).

In South Dakota, siting and permitting authority may involve multiple layers, including county zoning boards, township input on road-haul agreements, and state-level permitting for utilities (if over 100 MW). This can create both opportunities and challenges. Additionally, there are some counties in South Dakota that do not have any zoning. This can create a unique situation in the permitting process.



6. Workforce Needs

The construction of a large data center can require a substantial number of skilled workers, including electricians, equipment operators, welders, HVAC technicians, utility workers, concrete crews, engineers, and construction managers; however, once operational, data centers typically require a smaller but highly skilled workforce to manage facility operations. Along with the actual workers, demands for housing as witnessed in communities like Abilene, Texas, can drastically increase cost of rents due to lack of available housing units already available.

Policy

American Farm Bureau Policy

We support:

Responsible development of data centers, server facilities and other similar facilities in rural communities, recognizing their potential economic benefits while prioritizing responsible stewardship of local resources and respect for private property rights. Energy consumption must be managed responsibly through efficiency measures to minimize strain on local grids;

Legislative and regulatory efforts to ensure data centers be sited and operated in a manner that safeguards agricultural water supplies, including transparent reporting of projected water use and the adoption of water-efficient technologies, such as closed loop cooling system;

The prioritization of water resources for residential, animal agriculture, and irrigation use during adverse weather conditions, such as drought or extreme freezes;

Prioritizing residential and agricultural electrical usage demands over large load users like data centers; and

The implementation of large load tariff rates to ensure large load users like data centers are paying their fair share for energy so as to not put further strain on residential and agricultural electricity costs.

*South Dakota Farm Bureau does not have specific policy related to data centers.

Discussion Questions

1. Should SDFB engage in discussions on data center development, or remain neutral unless agriculture is directly impacted?
2. What protections should be in place to ensure agricultural operations are not negatively impacted by increased energy costs?
3. How should local communities be involved in siting decisions?
4. What role should the Public Utilities Commission have in the data center conversation?
5. If SDFB were to take a stance, what level of involvement is appropriate? Should it be informational, supportive, neutral, or opposed?