

T E D S P E N C E R

Historical Musings

Show Me the Money! The Economics of Historic Preservation in South Dakota

As director of the State Historic Preservation Office (SHPO) for South Dakota, I take great pride in highlighting the accomplishments of a dedicated staff of historic preservationists and archaeologists who work diligently day in and day out to identify, preserve, and protect historic properties. All fifty states, the District of Columbia, and seven United States territories have SHPOs. In South Dakota, a small staff of eight employees has the daunting task of covering an area of 77,184 square miles, with over fifteen hundred listings to date on the state and national registers of historic places.¹ Many more historic structures, archaeological sites, monuments, and the like are eligible for listing, as well. The work of the SHPO in seeking out historic properties and administering the programs that help to preserve and restore them has important and often unrecognized impacts on the economy of the state and the nation.

The genesis for state historic preservation offices can be traced back to 1966, when the United States Conference of Mayors, through its Special Committee on Historic Preservation, addressed the need for a national historic preservation program. The nation's mayors ensured that this new initiative found its way to Congress, which resulted in passage of the National Historic Preservation Act (NHPA). This act authorized a state historic preservation officer for each state and created the National Register of Historic Places, a mechanism for better federal agency planning in identifying, documenting, and protecting historic places.²

1. South Dakota, Department of Tourism, Fact Sheet, May 2014; South Dakota State Historic Preservation Office (SHPO) database, July 2016.

2. William J. Murtagh, *Keeping Time: The History and Theory of Preservation in America* (New York: Wiley & Sons, 1997), pp. 61–62.

What brought about this concern on the part of mayors for their cities' historic places? Most preservation experts cite the tremendous expansion of built infrastructure during the post-World War II period—the interstate highway system, dams, bridges, pipelines, telecommunications systems, and electrical grids, as well as new megafactories, office space, shopping centers, and large residential housing tracts—as having severe negative impacts on the country's historic urban centers.³ Between 1950 and 1980, for example, the American population increased by 50 percent, and the number of automobiles increased by 200 percent (today, in Los Angeles, fully one-third of the land is consumed by highways, interchanges, and parking spaces).⁴ Downtown redevelopment and urban sprawl into rural America was taking place, and modernist architectural concepts provided further impetus to get rid of the old and bring in the new. As larger, modern buildings were being built at a feverish pace, historic downtowns and neighborhoods rapidly disappeared. Historians, academics, and lawmakers began to recognize the extent and magnitude of the destruction and started to look at ways to identify and protect the nation's remaining historic resources.

The first few paragraphs of the National Historic Preservation Act of 1966 clearly state why such legislation was deemed so necessary:

The Congress finds and declares that—

- (1) the spirit and direction of the Nation are founded upon and reflected in its historic heritage;
- (2) the historical and cultural foundations of the Nation should be preserved as a living part of our community life and development in order to give a sense of orientation to the American people;
- (3) historic properties significant to the Nation's heritage are being lost or substantially altered, often inadvertently, with increasing frequency;
- (4) the preservation of this irreplaceable heritage is in the public interest so that its vital legacy of cultural, educational, aesthetic, inspira-

3. Ibid., p. 62.

4. Constance E. Beaumont, *How Superstore Sprawl Can Harm Communities* (Washington, D.C.: National Trust for Historic Preservation, 1994), p. 3.

tional, economic, and energy benefits will be maintained and enriched for future generations of Americans;

(5) in the face of ever-increasing extensions of urban centers, highways, and residential, commercial, and industrial developments, the present governmental and nongovernmental historic preservation programs and activities are inadequate to insure future generations a genuine opportunity to appreciate and enjoy the rich heritage of our Nation.⁵

Put simply, the National Historic Preservation Act of 1966 was an initial attempt by the federal government to provide historic preservationists and concerned citizens a legal means to give pause and reflect on the adverse impacts of such rapid growth and development. The significance of the legislation should not be underestimated. Until that time, preservation activities focused on established landmarks, but the 1966 act made historic preservation an integral part of society, expanding citizen interest and involvement to a level never previously imagined. Today, more than four thousand preservation organizations actively engage in public education, advocacy, and preservation projects of various kinds.⁶

Congress followed up this landmark legislation with the Tax Reform Act of 1976, providing tax-incentive programs for the rehabilitation of historic structures, and the Historic Preservation Fund (HPF), a source of preservation grants, in 1977. The HPF was authorized at \$150 million per year and funded by Outer Continental Shelf oil-lease revenues, not tax dollars, the idea being that the exploitation of one resource should benefit another. However, the HPF has never been fully funded at its authorized level. In fiscal year 2014, Congress appropriated \$56,410,000 from the fund for historic preservation projects. This sum was only slightly more than one-third of the amount authorized in 1977 and represented an actual reduction of \$19 million since 2010.⁷

5. Public Law 89-665, 89th Cong., 2d sess (15 Oct. 1966), *National Historic Preservation Act of 1966*; *U.S. Statutes at Large* 80 (1966): 915.

6. Norman Tyler, *Historic Preservation: An Introduction to Its History, Principles, and Practice* (New York: W. W. Norton & Co., 2000), p. 45.

7. National Conference of State Historic Preservation Officers, "Historic Preservation Fund," <http://ncshpo.org/issues/historic-preservation-fund/>; U.S., Department of

Historic Preservation Fund matching grants to states, tribes, and local governments serve as catalysts for preserving and protecting the country's irreplaceable heritage, leveraging private and nonfederal investment while creating jobs that expand local economies.

The National Park Service administers the HPF on behalf of the secretary of the interior. Each SHPO manages this annual appropriation to perform the preservation responsibilities required under the NHPA. The South Dakota SHPO is, in fact, primarily funded via the HPF grant program. Preservation activities may be carried out directly by states, or through subgrants and contracts with public and private agencies, nonprofit organizations, educational institutions, and individuals. The HPF allows each state the flexibility to shape a program according to its needs, as long as it meets the overall responsibilities outlined by the NHPA. Subsequent amendments to the act in 1980 created the Certified Local Government (CLG) program and in 1992 established Tribal Historic Preservation Offices (THPOs) to carry out SHPO responsibilities on tribal lands.⁸ South Dakota has nine active THPOs operating on tribal reservations in the state. States, tribes, local governments, and nonprofits use HPF funding for projects such as survey and inventory, National Register nominations, preservation education, architectural planning, historic structure reports, and numerous community preservation planning activities. Overall, the NHPA legislation, which marked its fiftieth anniversary of passage this year, has been a tremendous success.

In the decades since passage of the 1966 act, the preservation movement itself has undergone significant change. The notion of historical significance has evolved from a focus on saving aged national landmarks as museum pieces to recognizing many more buildings and entire districts for their historic importance. Additionally, through the new concept of adaptive reuse, alterations that enable buildings to continue to contribute to the economic vitality of a community are allowed. America's bicentennial year of 1976 brought a public celebra-

the Interior, National Park Service, Report to Congress, Congressional Printing Office, 2014.

8. National Park Service, "State, Tribal and Local Plans and Grants," www.nps.gov/orgs/1623/whatwedo.htm.

tion of the country's heritage and a significant shift from public-sector involvement to private-sector initiative. By the 1980s, preservationists were firmly established in the "business" of preservation.⁹ Rather than being viewed as impediments to development, older structures were now seen as financial opportunities, especially when combined with federal, state, and local financial-incentive programs to preserve historic buildings.

While these developments were happening at the federal level, many states also began to recognize the negative effects of frenetic post-World War II economic expansion and initiated similar legislation. The South Dakota SHPO was created in 1972 to carry out the preservation activities mandated under the 1966 act.¹⁰ In 1973, the state legislature passed South Dakota Codified Law (SDCL) 1-19A, "Preservation of Historic Sites," and in 1974 enacted SDCL 1-19B, "County and Municipal Historic Preservation Activities." These statutes replicated to some extent many of the aspects of the NHPA legislation. Key components included creation of a state register of historic places, surveys to document historic properties, a state preservation plan, a state historical society review board, tax moratoriums on historic properties, and county and municipal historic-preservation commissions.¹¹

The state legislature also strongly reaffirmed that South Dakota's historic and cultural resources are a critical component of the state's heritage and identity. In fact, lawmakers codified this concept in SDCL 1-19A-1, finding that "it is in the best interests of the state and its citizens to provide for the preservation of its historical, architectural, archeological, paleontological, and cultural sites by protecting, restoring, and rehabilitating sites, buildings, structures, and antiquities of the state."¹² In 1978 and 1979, the legislature followed up these statements with passage of financial programs to incentivize owners of his-

9. Tyler, *Historic Preservation*, p. 51; Antoinette J. Lee, *Past Meets Future: Saving America's Historic Environments* (Washington D.C.: Preservation Press, 1992), p. 74.

10. South Dakota, State Historic Preservation Office, *Statewide Preservation Plan 2016–2020*, p. 6, http://history.sd.gov/preservation/InTheSpotlight/2016-2020_HP_Plan_Final_Dec4_2015.pdf.

11. South Dakota, *Codified Laws*, secs. 1-19A, 1-19B.

12. *Ibid.*, sec. 1-19A-1.



A successful example of adaptive reuse, the 1915 firehouse on Main Street in Rapid City now houses a popular brewery and restaurant.



In Brookings, business thrives in the downtown historical district, which retains much of its original appearance.

toric buildings and homes to restore their properties, either through new property-tax moratoriums or direct grants.

As with the nation as a whole, South Dakotans came to realize that historic structures are sources of pride that help to define and distinguish communities. They are also an excellent measure of quality of life and a highly visible means of conveying that quality to potential visitors, residents, and business owners. Historic and cultural resources can be used to generate jobs, stabilize or expand tax bases, encourage tourism, create affordable housing, benefit the environment, and create direction for the future by improving our knowledge of the past.

In South Dakota in 2012, the SHPO commissioned a study by the Center for Urban Policy Research at Rutgers University to analyze the economic impacts of historic preservation in the state.¹³ Because South Dakotans tend to be conservative and practical by nature, and although there are significant environmental, cultural, and aesthetic reasons for preserving historic structures, it was important to quantify for decision-makers in government, as well as concerned local citizens, the economic justification for preserving older buildings.

Tourism is the second most important industry in South Dakota, now accounting for almost \$2 billion in revenue annually. What many do not know, however, is that heritage tourism accounts for nearly one-quarter of the tourism dollars spent in the state. Each year, nearly three million people visit Mount Rushmore, known worldwide as a symbol of freedom and democracy. The colorful legends of Wild Bill Hickok and Calamity Jane make Deadwood a nationally recognized destination. The Mammoth Site in Hot Springs, the Laura Ingalls Wilder homestead and related sites in De Smet, unique businesses such as Wall Drug, as well as old gold mines and fur-trading posts, fascinating archaeological sites, and richly detailed historic neighborhoods are all a wonderful testament to the impressive culture and history of our state.¹⁴

13. *Economic Impacts of Historic Preservation in South Dakota, Executive Summary* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University, in collaboration with the State Historic Preservation Office of the South Dakota State Historical Society, 2013).

14. South Dakota, Department of Tourism, Annual Report 2014, p. 4, <http://sdvisit>

Nowhere else in America can visitors find these unique historic sites. Our economic study clearly showed that heritage travelers stay longer, spend more, and come in larger groups than the average tourist. As visitors explore the more well-known sites in our state, they also begin to discover and explore our sixteen national historic landmarks and six national parks, as well as over sixty-seven hundred unique buildings, structures, monuments, and sites listed on the National Register of Historic Places.¹⁵

This large annual influx of heritage tourism dollars demonstrates the importance of ensuring that our history and heritage infrastructure remains intact for future generations. Through a combination of technical assistance, educational outreach, and key financial-incentive programs, the South Dakota SHPO plays an integral, yet often overlooked, role in the state's economy. Among the financial-incentive programs the office administers is the Federal Historic Tax Credit program, which provides a 20 percent federal tax credit for the certified rehabilitation of historic structures. Nationwide in 2014, more than \$4.32 billion in private economic investment occurred through the rehabilitation of commercial historic properties under the program.¹⁶ In South Dakota, the SHPO approved thirty-six projects in fourteen communities between 2006 and 2015, generating a total private economic investment of more than \$55 million, at a cost to taxpayers of approximately \$11 million.¹⁷

Another important financial program is the State Property Tax Moratorium. The legislature has provided certain property-tax benefits for the rehabilitation of qualifying historic structures. Specifically, property tax assessments may not be increased due to certified improvements made in the course of rehabilitating a building for an eight-year period. Under this program, 217 projects were approved in twenty-eight com-

.com/tools/annualreport/_pdf/2015/15annrpt.pdf; South Dakota, State Historic Preservation Office, *Statewide Preservation Plan 2016–2020*, foreword.

15. *Economic Impacts of Historic Preservation in South Dakota*, pp. 1, 16.

16. U.S., Department of the Interior, National Park Service, *2014 Historic Preservation Fund Annual Report*, p. 3, www.nps.gov/shpo/downloads/2014%20Historic%20Annual%20Report_Web.pdf.

17. Data compiled from administrative records of the South Dakota State Historic Preservation Office, 2005–2015, South Dakota State Historical Society, Pierre.

munities from 2006 to 2015, for a total private economic investment of over \$86 million.¹⁸ This large infusion of dollars into the local communities far outweighed the benefits of modest gains to the tax base for these same properties.

A third financial-incentive program for historic preservation managed by the South Dakota SHPO is the Deadwood Fund Grants program. Funded by a portion of the gambling revenue generated in Deadwood, grants ranging from \$1,000 to \$25,000 are given to projects that retain, restore, or rehabilitate historic buildings, structures, and archaeological sites for commercial, residential, or public purposes. This popular program requires recipients to provide a minimum one-for-one match for any grant monies they receive. From 2006 to 2015, a total of 106 grants were awarded for historic rehabilitation projects in forty-six communities, costing the state a total of \$1,183,593 in grant outlays. However, the private economic investment for these projects exceeded \$10 million, a ten-to-one ratio in private match funding.¹⁹ We are truly getting our economic “bang for the buck” with this program, while incentivizing local developers, private citizens, and community organizations to restore older properties.

As these incentive programs for historic preservation show, small preservation investments from federal and state governments can be leveraged exponentially into a much greater private economic stimulus for South Dakota communities. This concept is critical, because the top priorities for any economic development effort are creating jobs and increasing local household income. The rehabilitation of historic buildings is particularly vital to achieving these goals. As a rule of thumb, costs for new construction will be divided equally between materials and labor. Rehabilitation, on the other hand, normally comes in at around 70 percent for labor and 30 percent for materials. The labor-intensive activity of rehabilitation directly affects local economies. An HVAC system, for example, may be shipped from Ohio and lumber may come from Idaho, but the services of plumbers, electricians, and carpenters are purchased locally. Pipes, wires, and wood spend no money, but the plumber, electrician, and carpenter buy gro-

18. Ibid.

19. Ibid.

ceries, get haircuts, join the YMCA, and the like, thereby recirculating their paychecks and generating more funds for local communities.²⁰ In a purely economic sense, rehabilitating older structures generates far more benefits for local economies than new construction.

To underscore this point, many older buildings and historic districts are centered around small-town main streets, where the community's businesses are typically located. A comprehensive study undertaken in Iowa in the early 1990s during the expansion of discount superstores showed that profits come at the expense of small local businesses. The study clearly demonstrated that an increase in annual sales for towns as a whole after the construction of a new discount superstore (such as Walmart) averaged around \$9 million, while the loss in sales by existing merchants averaged around \$11 million. Therefore, most communities in Iowa experienced an average net loss of \$2 million in revenue.²¹

Of course, new construction is often necessary. Every project is site specific, and there is no way of knowing whether or not rehabilitation will always be cheaper than new construction. Numerous studies on this issue have been conducted, and construction cost manuals can provide line-item by line-item comparisons for rehabilitation versus new construction. However, every project comes with its own unique set of variables, which can be difficult to predict before actual work begins. Nevertheless, one component that is often overlooked are the embedded energy costs of a project. Embedded, or embodied, energy is the total expenditure of energy involved in creating a structure, including its constituent materials. Thus, when we throw away a historic building, we simultaneously throw away the energy embodied in it. Put another way, if one makes a point of recycling aluminum cans but tears down a small (25 feet wide by 120 feet deep) historic building, the entire environmental benefit of 1,344,000 recycled aluminum cans has been negated.²²

Another aspect to consider is the cost of construction materials. What are most historic homes and buildings made from? Brick, plas-

20. Donovan D. Rypkema, "Economics, Sustainability, and Historic Preservation," *Preservation Magazine* (Winter 2006): 33-34.

21. Kenneth E. Stone, *Executive Summary: The Impact of Wal-Mart Stores on Other Businesses and Strategies for Co-Existing* (Ames: Iowa State University, 1993), p. 4.

22. Donovan D. Rypkema, *The Economics of Rehabilitation* (Washington, D.C.: Na-



A worker removes old shingles at the start of a project to rehabilitate the Miller House in Pierre.



The current owners of the Miller House received a state property-tax moratorium on certified improvements to the home, shown here as the project neared completion.

ter, concrete, and timber—among the least energy-consumptive materials. What are the major components of new buildings? Plastic, steel, vinyl, and aluminum—among the most energy-consumptive materials. The United States has historically been a country endowed with natural resources in such abundance that little regard was given to their supply. Land, minerals, and timber, when converted to other forms—when hauled, sawed, hammered, bolted, and transformed to create buildings—were generally not viewed as resources anymore. However, over the last few decades, America's older buildings and homes have come to be seen as extraordinary storehouses of our natural resources, such as the wood, stone, mortar, brick, and the energy used to assemble them. Most of the country's old-growth forests are gone, and the highest-grade iron ore has already been mined, but these resources can still be found embedded in our historic structures.²³ Does it not make economic sense to find viable alternative uses for these properties? Often they already contain precious natural woods and construction materials that would be cost-prohibitive to reproduce or impossible to obtain. It may seem simpler to tear down the old and build something new, but with forethought and analysis, the economics of reusing and restoring older structures more often than not makes perfect economic sense.

Our comprehensive study of the effects of historic preservation in South Dakota provided some detailed economic data. Most of the analysis focused on the period 1982 through 2011. In 2011 alone, the study found that historic preservation accounted for 5,511 jobs and produced a cumulative effect of \$716.2 million in economic value—all generated from an annual preservation investment of \$275.4 million. The total economic impact of all historic rehabilitation in South Dakota from 1982 to 2011 was over \$920 million, from an investment of \$329.7 million during this period.²⁴

tional Trust for Historic Preservation, 2010), p. 7; Rypkema, "Economics, Sustainability, and Historic Preservation," p. 30.

23. Rypkema, "Economics, Sustainability, and Historic Preservation," p. 32; Frank Stella, ed., *Business and Preservation* (New York: Publishing Center for Cultural Resources, 1978), p. 2.

24. *Economic Impacts of Historic Preservation in South Dakota*, p. 7.

The full two-hundred-page economic study completed by Rutgers University in 2013 uses years of detailed financial data, surveys, and standardized methodologies in calculating the second- and third-order effects of preservation. The two economic sectors benefiting the most from historic preservation spending in South Dakota are retail trade and services. Because of our interconnected economy, however, sectors ranging from wholesale trade to real estate realize gains, as well.²⁵ A comparison of the effects on employment due to investment in historic preservation versus investment in other sectors of the economy, such as manufacturing, banking, and farming, shows that investments in historic preservation typically have a much bigger “economic bang” per \$1 million.

While the 2013 study did not explore in depth how historic preservation efforts enhanced the quality of life in South Dakota, several of the report’s case studies provided evidence that quality of life grew in communities across the state due to improvements in local economies and tax revenues brought about by historic preservation activities. Good quality of life, in turn, realizes further economic gains by attracting and retaining professionals, generally enhancing worker efficiency, reducing medical expenses, and the like.²⁶ In the small town of Gary, for example, the former South Dakota School for the Blind, a long-vacant landmark, has been returned to productive life as a beautiful executive retreat and resort, now employing 56 people in the community of 240. Increased tourism and visitation in the area have resulted in higher sales-tax collections and increased property values. In downtown Yankton, the historic Charles Gurney Hotel was transformed from a vacant building into safe, secure living facilities for the disabled and elderly. Over \$3.9 million in project costs were rolled back into the local economy, enhancing the quality of life for the larger community as well as the residents of thirty-four new units of affordable, centrally located housing.²⁷

The 2013 economic study emphasized that the specific multimillion-

25. *Ibid.*, p. 19.

26. *Ibid.*, p. 28.

27. Data compiled from administrative records of the South Dakota State Historic Preservation Office, 2005–2015.

dollar economic and tax gains documented are a considerable understatement of the larger recurring economic activity associated with historic preservation. This activity would include the year-after-year operation of businesses and employment of people in adaptively reused buildings, the economic appreciation of such properties, and improved quality-of-life factors. All of these items result in multiple rounds of added revenue for state and local tax coffers.²⁸

Most communities across South Dakota have embraced their historic properties as a way to promote themselves to potential visitors, businesses, and residents. From the distinctive quartzite buildings in Dell Rapids to the bustling streets of downtown Rapid City, residents recognize that their historic buildings, structures, and sites are significant factors in distinguishing their communities from others and giving their cities unique character and charm.

Strip malls look the same in Aberdeen, Rapid City, or Sioux Falls, and new construction and modern facilities lack the variety of materials and level of detail found in historic buildings. Historic preservation therefore promotes not only economic development but also civic pride, tourism, quality of life, and ongoing sustainability. These multifaceted benefits are why historic preservation is an important community revitalization strategy.

South Dakota's historic properties are a reflection of the state's fascinating and varied history. Like the places they protect, preservationists in South Dakota are a diverse group. People from all walks of life contribute both directly and indirectly to the daily business of understanding and saving historic places. Even so, much work remains to be done. Responsibility for preserving historic sites is greatest at the local level, where the decision to save a site is ultimately made. State and federal programs can help local preservation efforts by offering technical assistance and, in some cases, financial incentives. It takes local desire and organization, however, to preserve a community's historic resources. Demonstrating the economic benefits of these activities to the state's hard-working, practical citizens is critical to ensuring that we continue to meet the preservation challenges within our state.

28. *Economic Impacts of Historic Preservation in South Dakota*, p. 29.

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On the cover: The Interstate 90 bridge over the Missouri River at Chamberlain is one of just nine highway crossings connecting the eastern and western portions of South Dakota. In this issue, Steven J. Bucklin examines the development of the Interstate Highway System, which marked its sixtieth anniversary in 2016.

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