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Deadwood, South Dakota—Gambling, Historic Preservation, and Economic Revitalization

Gambling in Deadwood is responsible for increasing recreational visits and spending, generating nearly 1,800 new jobs in the town and surrounding communities, and boosting tax revenues. Increased tax and business revenues paid for infrastructure improvements and historic preservation that has brought back much of the 1890's Victorian look of the town. Gaming caused the loss of some retail activity and generated parking shortages and traffic congestion, but, overall, it has helped to preserve an important historical landmark and to revitalize the local economy.

POPULATION and economic activity continue to decline in small towns and cities in many rural areas of both the United States and Canada (Fuguitt; Stabler and Olfert). Maintaining essential retail and service businesses and adequate infrastructure are issues of concern to community residents and public officials in declining places. Both historic preservation and legalized gambling have been suggested as potential remedies to this continuing decline for some communities. [Editor's note: Recent *RDP* articles by Stenberg on historic preservation (vol. 11, no. 1, October 1995, pp. 16-21) and Jansen on gaming on American Indian reservations (vol. 10, no. 2, Feb. 95, pp. 2-7) provide extensive background on these issues.]

I conducted on-site research in Deadwood, SD, during the summers of 1994 and 1995 to compile a case study of the effectiveness of legalized gambling in generating sufficient economic activity to revitalize a declining city and provide the monetary resources for historic preservation (see "About the Study," p. 24, for details). Through interviews with local officials and reading of government reports, I found that gaming receipts and resultant tax revenues continue to increase in Deadwood despite wide-

spread legalization of gambling elsewhere. The city is working on the traffic congestion and parking problems caused by increased tourism. And many residents remain committed to using the positive aspects of gaming to maintain the city's new-found vitality.

Deadwood's Road to Gambling

Deadwood, the Lawrence County seat, is a small community of approximately 2,000 persons located at the bottom of a narrow gulch in the Black Hills of South Dakota. The city limits are severely constricted by topography and National Forest boundaries. Interstate Highway 90 is within 9 miles of Deadwood, connecting it to Rapid City, the largest town in the area, and points beyond.

Deadwood began with the gold rush to the Black Hills during the summer of 1875. Deadwood's economy progressed in a series of booms and busts, each new boom a function of new mining or milling technology that revived profitable mining in the area (Parker). Goldmining continues today at the Homestake mine located in nearby Lead, approximately 3 miles south of Deadwood.

Over the years, Deadwood developed a colorful and exciting history. The city was notorious for prostitution, gambling, and opium dens and boasted of such famous residents as Wild Bill Hickok and Calamity Jane. From its inception, Deadwood was a business center for the Black Hills mining region, and for generations it was the legal,

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mercantile, entertainment, railroad, and financial center of an immense area of the West (Parker).

Changes in transportation technology during the 1930's and 1940's caused Deadwood to lose its importance as a wholesale center. Businesses in Rapid City, more centrally located for both shipping and distribution of goods by truck, increasingly took over wholesale functions for the Black Hills region. Since the 1960's, Deadwood's retail prominence was lost as a result of I-90 bypassing the town, competition from a large regional mall in Rapid City, and the recent location of K-Mart and WalMart stores in nearby Spearfish.

As wholesale and retail activities declined, Deadwood was supported primarily by tourism. Tourism provided a living for a number of store owners and employees, but the activity was highly seasonal and did not provide adequate income to support major infrastructure improvements. City population fell from 3,045 in 1960 to 1,830 in 1990, and many retail outlets closed as a result of the eroding customer base.

Deadwood's designation as a National Historic landmark makes preservation particularly important. By the mid-1980's, however, deferred maintenance threatened many of the city's historic buildings, and the National Trust for Historic Preservation placed the entire city on their list of endangered sites. In 1989, estimates of the cost to meet the historic preservation goals of the city ran between \$20 and \$60 million.

Throughout the 1970's and 1980's, concerned local citizens and government officials had been searching for resources to save the historically significant, but decaying, infrastructure. However, traditional attempts to attract new businesses to Deadwood failed. Some of Deadwood's citizens refused to give up and in 1986 formed the "Deadwood U Bet" organization. This group advocated legalizing limited stakes gaming to generate additional tourist trade and to provide a source of funds to protect, revitalize, and restore the city. This initiative gained momentum when in 1987, a fire destroyed an important segment of the historic downtown and awakened citizens and the State government to the real peril facing the community.

To sanction legalized gambling in Deadwood, the committee had to overcome several obstacles: (1) the constitution of South Dakota had to be amended to permit gambling, (2) the State legislature had to approve the measure, and (3) Deadwood voters had to approve by a majority of at least 60 percent. All of these requirements were successfully met, and legalized gaming officially began at high noon on November 1, 1989.



The Green Door (left) and Jackpot Charlie's (right) share the same 1880's facade; both buildings were vacant prior to the gambling initiative. ©William V. Ackerman

Gambling Provided Historic Preservation Funding and Spurred Local Growth

Deadwood's decision to use legalized gambling to revitalize and preserve their historic community was unique. At its inception, only Nevada and Atlantic City had legalized gambling; no other small community in the United States had tried such a solution to community revitalization and preservation.

The effect of gaming was large and immediate. In the first 8 months, a total of \$145.4 million was wagered in Deadwood, almost 73 times the amount the South Dakota Commission on Gaming had projected. Within a short time, 84 casinos were operating in Deadwood. Gaming activity in Deadwood has continued to increase despite fast-growing competition from other States. By 1994, 10 States allowed casino gaming, 25 others had tribal gambling, and approximately 2 dozen casino riverboats were active on the Mississippi River and the gulf coast. An estimated 70 percent of the U.S. population currently lives within 300 miles of a casino (Shapiro).

Each fiscal year from 1990 through 1995 has seen Deadwood's gaming activity increase and generate increasing revenues for the city, county, and State (table 1). In total, gaming generated taxes and fees of \$43.4 million during its first 6 years. Deadwood has received over half of these revenues for historic preservation activities.

The State has received \$5.2 million for operating expenses of the Commission on Gaming, \$1.7 million for the State Tourism Promotion Fund, and \$5 million for general use. Lawrence County has received \$1.6 million, and \$100,000 has been dedicated for historic preservation projects in other parts of South Dakota.

The tax revenues accruing to Deadwood are held by the City of Deadwood and administered by the Deadwood Historic Preservation Commission. The Commission has allocated these funds to provide for preservation of the built environment and to upgrade infrastructure to support the historic architectural resources. Projects have included (1) restoring and repairing public buildings and infrastructure, (2) improving visitor services, parking, and transit, (3) providing for adequate city planning and historic preservation supervision, (4) assisting the Deadwood Visitors Bureau in marketing programs, (5) funding low-interest loans for restoration of historic commercial and residential properties and grants to nonprofit organizations to restore historic buildings, (6) providing interpretive materials for historic walking tours and related programs, (7) funding the legal costs of historic preservation projects, and (8) providing professional archeological and engineering studies for private and public projects.

In addition to the tax receipts that have reverted to Deadwood, substantial private investment has been made in the city to refurbish historic buildings for use as gambling casinos. The dual requirements of historic preservation and commercial building codes have led owners to restore, to as great a degree as possible, the original Victorian Era appearance of their buildings and to bring their buildings up to code, including installation of sprinkler systems to limit the potential of major fires. The expected cost of improvements listed on building permits from 1990 through August 1994, the period of peak renovation, totaled \$26.8 million. The actual cost of improve-

ments is generally higher than that estimated on building permits. In Deadwood, the actual cost of improvements was underestimated by 70 to 100 percent (Madden and my Casino Owners and Managers Survey in 1994). Based on these figures, the private sector spent between \$34.8 and \$53.6 million on restoration through August 1994. The combined private/public sector investment in Deadwood from the approval of gaming through 1994 has amounted to between \$64.1 and \$82.8 million.

The improved business activity and higher property values in Deadwood also generated increased sales and property tax revenues for the city, county, and local school district. In 1989, Deadwood's total city budget was \$1,596,400. The city's 1995 budget was \$11,102,900. The need for city services also increased over the period, but the revenue increase is estimated to be over twice as fast as the increase in service needs. The major portion of the budget increase in Deadwood has come from gaming taxes and has been allocated to historic preservation, public works, and public safety. Lawrence County gained \$1.5 million in property tax revenues due to the increased value of Deadwood real estate, plus an additional \$1.6 million as their share of gaming taxes. These monies have been allocated to a number of projects used for general improvement in county services. The Lead-Deadwood school district budget increased from \$4.9 to \$6.1 million between 1989 and 1995. During the same period, school enrollment dropped by 25 students from 1,467 to 1,442, and school personnel increased by 5, from 177 to 182. Most of the increased revenue was used to raise the salaries and fringe benefits of teachers and support staff.

Casino Workers' Earnings Also Contribute to Local Economic Growth

Through employment of workers, gaming has affected an even wider area. An employment survey I conducted in August 1994 recorded place of residence for the employ-

Table 1

Gross gaming receipts and distribution of tax revenues from gaming

Gaming receipts increased every year, providing increasing tax revenues for Deadwood, Lawrence County, and the State

Fiscal year	Gross gaming receipts	Taxes on gaming	Distribution of tax revenues to:		
			Deadwood	Lawrence County	State ¹
Million dollars					
1990	145.4	2.9	1.9	0.1	0.9
1991	330.0	7.5	5.1	.2	2.2
1992	389.4	7.5	5.1	.3	2.1
1993	417.9	8.1	5.6	.3	2.2
1994	430.8	8.4	5.5	.3	2.6
1995	488.4	9.0	6.2	.4	2.4

¹Includes operating expenses of the Commission on Gaming, contributions to the State Tourism Promotion Fund, amounts for general State revenues, and amounts dedicated to historic preservation activities in other parts of the State.

Source: Unpublished data from the South Dakota Commission on Gaming.

ees of all but one casino, a small operation that employed fewer than 10 persons. Total surveyed employment was 1,796 persons, not counting owners/managers. Of those, 33.2 percent lived in Deadwood, 27.6 percent in Lead, 19.2 percent in Spearfish, 7 percent in Sturgis, 6.5 percent in Rapid City, and 3.3 percent in Belle Fourche (table 2). An additional 3.2 percent commuted from various small towns around the Black Hills, including Newcastle and Upton, WY.

A wage survey by the Deadwood Gaming Association in March 1994 found that gaming employees were paid an average annual wage of \$13,494 without tips. Most workers indicated that they earn good tip income, so assuming a tip of 15 percent on top of their annual wage boosts their estimated annual earnings to \$15,519. Multiplying this estimate by the number of gaming employees in 1994 produces an estimate of \$27.9 million of income directly generated by gaming.

I estimated the income generated in local towns by multiplying the estimated average earnings by the number of employees living in each town. Under these assumptions, several million dollars in gaming earnings went to Deadwood, Lead, and Spearfish (table 2). Sturgis and Rapid City each got slightly less than \$2 million. Belle Fourche and other surrounding communities each got about \$900,000. Data are not available to document precisely where the increased earnings are spent. However, as a population's disposable income rises, most is spent on goods and services within normal commuting distance of their homes. Given the distribution of Deadwood's employment, most of the surrounding communities benefit from increased earnings. Rapid City, being the regional retail center, probably benefits the most.

Table 2

Employment and estimated income from gaming, 1994

Deadwood's casinos generated 1,800 jobs, bringing an estimated \$28 million in income to local communities

Residence	Working in Deadwood casinos:		Estimated income
	Employees	Share of total employees	
	Number	Percentage	Million dollars
Deadwood	596	33.2	9.2
Lead	495	27.6	7.7
Spearfish	344	19.2	5.3
Sturgis	125	7.0	1.9
Rapid City	118	6.5	1.8
Belle Fourche	59	3.3	.9
Other	59	3.3	.9

Source: Casino employment from the author's 1994 survey and income from the Deadwood Gaming Association's 1994 wage survey.

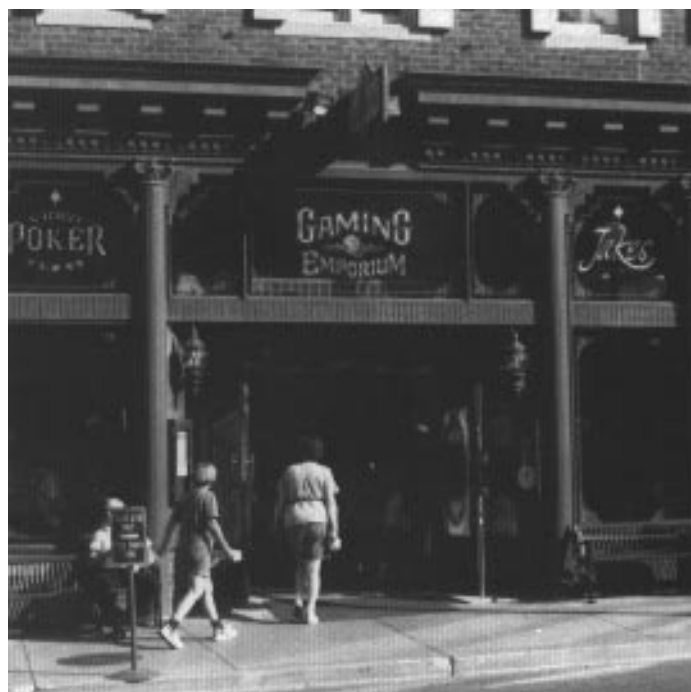
Some Retail Stores Were Lost

Legalized gambling provided badly needed jobs and funds for economic revitalization and historic preservation. However, gaming dramatically changed the business functions in Deadwood. With the onset of gambling, approximately three-fourths of the businesses on the historic Main Street became casinos. Deadwood lost businesses offering new car sales, ladies clothing, ladies shoes, and appliances along with the town's only department store and its only furniture store. Given the depressed pre-gaming economic climate of Deadwood, many of these businesses were already struggling to survive and many likely would have been forced to close even if the casinos had not opened. Other small towns in Saskatchewan and the Northwestern United States have lost population and business functions without gaining replacement businesses (Stabler and Olfert; Fuguitt).

Many landowners, seeing the opportunity for increased profits, quickly turned existing businesses into gambling enterprises, others sold to investors at prices 4 to 10 times previous appraised values. Some elected to lease to gambling operations, and a few continued to operate their original businesses without gaming devices. A map of historic main street documents land use in August 1994 (fig. 1).

Most Casinos Have Started Showing Profits

While the casinos were viewed by many as an opportunity for increased profits, Deadwood's gaming establishments, on average, did not show a profit until 1992.

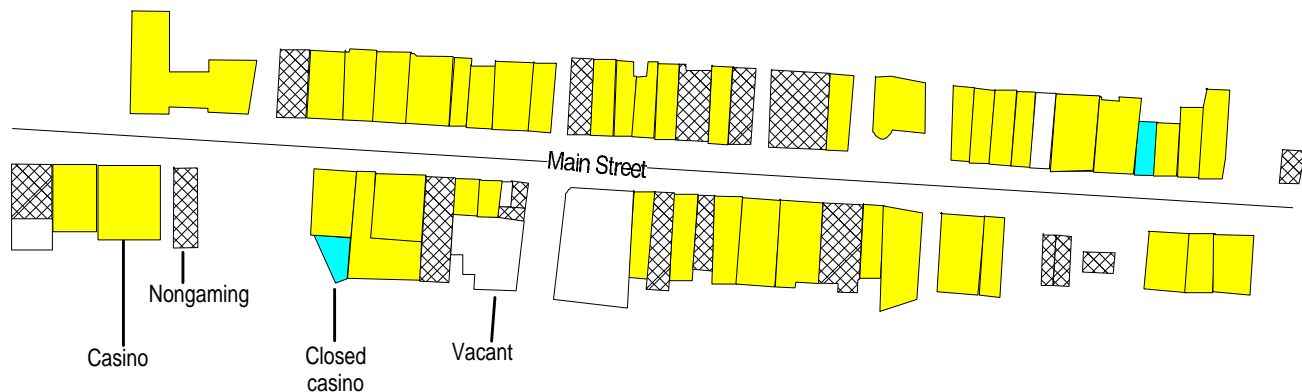


This building had long been a ladies clothing store before actor Kevin Costner bought, restored, and opened it as the Midnight Star casino and Jakes restaurant. ©William V. Ackerman

Figure 1

Deadwood's Main Street in August 1994

Two-thirds of the stores were casinos; two of the vacancies were closed casinos



Note: Casinos are also located in other parts of Deadwood.

Source: Author's observation and mapping.

During 1992-94, casinos reported an average profit of 4.9 percent, with 62 percent of them reporting profits and 38 percent reporting losses. Currently, three casinos in the historic district are closed. With a third unprofitable and a few closed, can gaming sustain long-term growth and historic preservation in Deadwood?

Casino profit margins are limited by State-mandated payouts. State law currently requires that a minimum of 80 percent of gaming receipts be returned to the bettors. Casinos can return more if they choose, and since the inception of gaming the average payout to players in Deadwood has averaged 90 percent. Profits are also related to the volume of players, location of the casino, business skills of owners and managers, taxes, licensing fees, and many other factors. In Deadwood, casino profit margins are significantly affected by taxes. In addition to the State and Federal taxes all businesses pay, each gaming establishment is required to pay an annual licensing fee of \$2,000 per device (slot machine, gaming table), and each casino is allowed a maximum of 30 devices. In addition, casinos pay an 8-percent tax on revenues. Between FY 1990 and FY 1995, the licensing fee plus the revenue tax combined to generate an average tax of 18.5 percent of operating revenue. The licensing fee, being a regressive tax, affects low-volume operators most, reaching an effective tax rate of 50 percent of operating revenue for some operations (unpublished data from the South Dakota Commission on Gaming).

In any line of business, a certain amount of failure is the norm, especially during the first few years of operation. The failure of a business in Deadwood, however, may be a concern because it creates a vacant building. Excessive

vacancy could damage the city's image and add to the difficulty of protecting the historic environment.

Traffic and Property Tax Problems

Gaming has generated two other problems for Deadwood that need to be resolved: (1) traffic congestion and scarce parking, and (2) rapidly rising property taxes. An additional concern voiced by Stubbles that gaming would greatly increase crime in the community has proved unfounded.

Parking and Traffic Congestion. The number of visitors to Deadwood increased by two to three times following the legalization of gaming, reaching an estimated 1.5 to 2.0 million visitors annually. This increase generated an immediate need to provide adequate parking and to minimize peak-period traffic congestion. Visitors surveyed during 1991 and 1992 cited lack of adequate parking as their most frequent problem (Caneday and Zeiger). Parking problems are expected to further intensify as current building projects will double Deadwood's lodging capacity from 600 to 1,200 rooms.

Peripheral parking development is limited by Deadwood's location in a narrow canyon surrounded by the Black Hills National Forest. Changing the built environment of the city to accommodate additional streets and parking is constrained by its historic landmark status. In 1995, Deadwood officials were granted funds by the Historic Preservation Commission and the Business Improvement District to develop plans for a 375-space multi-level parking structure to be located off the main street near the city center. The bonding for this project has been approved and construction was to begin after Labor Day 1996. The town, in cooperation with the



Mannequins in the upper windows of Wild Bill's Bar represent the days of the gold rush and widespread prostitution.

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Dunbar Corporation, has also developed an imaginative approach to solving the traffic and parking problem, while adding to the historic flavor of the region. They propose to rebuild an abandoned rail link from the small city of Whitewood, approximately 9 miles north of Deadwood and situated on I-90. This project will allow parking for large numbers of automobiles near the Whitewood station and provide visitors a scenic rail trip to Deadwood. Part of the restoration is currently out for bid, and the Northern Hills Railroad Authority is setting up a bond issue for the balance of the project. Operation is optimistically expected to begin in 1998.

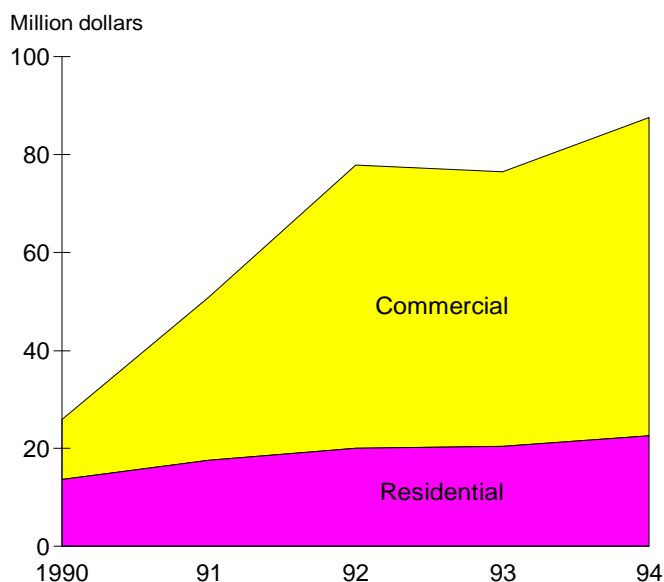
Property Taxes. Rapidly escalating property values and taxes are a burden on Deadwood residents and businesses alike and impede progress toward Deadwood's goal to diversify the economy. New, nongaming businesses are unlikely to locate in Deadwood given the high cost of land and the existing tax structure. The assessed value of property within the city increased from \$25.9 million in 1990 to \$87.6 million in 1994, a jump of 338 percent over 4 years (fig. 2). The assessed value of commercial property has increased by 527.9 percent, the value of residential property has increased 166.2 percent. The increased tax generated annually by the change in valuation exceeded \$2 million in 1994.

Property taxes have increased the most on commercial property in the gaming district where real estate values

Figure 2

Property valuations in Deadwood

Values have risen rapidly, especially for commercial properties



Note: Amounts do not reflect an \$8.7-million reduction in appraised value of commercial property resulting from a 1977 tax moratorium on historic preservation projects.

Source: Lawrence County Director of Equalization.

have escalated dramatically. In 1990, the average assessed value for main street businesses was \$37,442. By 1994, that average had increased to \$451,772, an increase of more than 1,200 percent. The average annual property tax bill has increased from \$1,225 to \$14,777. Perhaps the most inequitable impact from increased property tax affects those businesses in the gaming district that have chosen not to become gambling establishments. For example, a hardware store that benefits very little from tourist trade experienced an increase in annual property taxes of \$10,114. Under a 1977 South Dakota law, the cost of historic preservation work can be deducted from the appraised value of the property for a period of 8 years. While this helps some property owners finance restoration, it does not protect against increased valuation based on escalating real estate values.

Conclusions

Although not all Deadwood residents are comfortable with the changes in their community, the majority are proud of the restoration that has taken place and do not want to return to pre-gaming economic problems. Rather, their vision for Deadwood involves using the positive aspects of gaming to make the city a better place to live.

Total gaming receipts and resultant tax revenues continue to increase despite widespread legalization of gambling across the United States. The city is working on its traffic congestion and parking problems. If casino closures or

increasing property taxes become too burdensome to sustaining the local economy, the city, county, and State governments and the citizens who worked to bring legalized gambling to Deadwood will undoubtedly work to solve those problems as well.

Deadwood appears to enjoy a situational advantage over many competitors. The city is located in the scenic Black Hills, is near Mount Rushmore, has an exciting history of gold and gunfighters, and combines all this with legalized gaming. Such a mixture appears to provide a solid base for continued economic success.

For Further Reading

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About the Study

At high noon on November 1, 1989, Deadwood, SD, a National Historic Landmark, began an experiment to see if legalized gambling could generate sufficient economic activity and tax revenue to revitalize its declining economy and decaying infrastructure. This study was undertaken to evaluate the success of that experiment. I was specifically interested in (1) the financial impact of gaming and its ability to provide the monetary resources for historic preservation, (2) changes in Deadwood's land use and overall urban function, (3) the regional labor market effect, (4) profitability of the gaming industry, and (5) problems associated with gaming.

I spent the summers of 1994 and 1995 in Deadwood to gather the data necessary to prepare the case study. The nature of this study required the cooperation of a number of local persons. I want to acknowledge the contributions made by Grant Gubbrud of the South Dakota Commission on Gaming; Mark Wolfe, and the entire staff at the City of Deadwood Department of Planning, Zoning and Historic Preservation; Eileen Walsh of the Deadwood Visitors Bureau; Dave Larson, member of the Historic Preservation Commission; Mary Dunne, local businesswoman, for her insight on changes in pre-gaming and post-gaming commercial activity; Ardene Rickman, Deadwood Finance Officer; and Terry Kranz of the Dunbar Corporation for providing me with up-to-date information on the progress of the proposed Deadwood-Whitewood rail link. I also want to acknowledge all of the owners/managers of Deadwood's casinos who gave freely of their valuable time to answer my questions about actual cost of renovation and provide me with place of residence data for their employees.

In addition to reports cited in the "For Further Reading" section, I found the following documents to be very valuable in completion of this research: "Comprehensive Historic Preservation Plan: City of Deadwood, SD," prepared by Community Service Collaborative in 1990; "Alternative for Rail Transportation Service to the Deadwood Historic District," a report to the Federal Transit Administration prepared by Northwestern Engineering in 1994; and "Report on Historic Preservation and Restoration in Deadwood," prepared by the South Dakota State Historical Preservation Center in 1990.