

# **PARI-MUTUEL WAGERING TAXATION TASK FORCE**

## **Minutes of the 2nd Meeting of the 2021 Interim**

**August 9, 2021**

### **Call to Order and Roll Call**

The 2nd meeting of the Pari-Mutuel Wagering Taxation Task Force was held on Monday, August 9, 2021, at 3:00 PM, in Room 169 of the Capitol Annex. Senator Damon Thayer, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Damon Thayer, Co-Chair; Representative Adam Koenig, Co-Chair; Senators Julie Raque Adams, Denise Harper Angel, Christian McDaniel, and Stephen West; Representatives Jonathan Dixon, Al Gentry, Matthew Koch, and Jason Petrie.

Guests: Elisabeth Jensen, Executive Vice President, Kentucky Equine Education Project; and Chauncey Morris, Executive Director, Kentucky Thoroughbred Association.

LRC Staff: Tom Hewlett, Jennifer Hays, Kevin Branscum, and Chase O'Dell.

### **Approval of Minutes**

A motion was made by Representative Koch, seconded by Representative Koenig, to approve the minutes from the July 16, 2021, meeting. The motion passed by voice vote.

### **State of the Horse Industry in Kentucky**

Elisabeth Jensen, Executive Vice President, Kentucky Equine Education Project, discussed the state of the horse industry in Kentucky.

Ms. Jensen testified that the General Assembly and Governor Andy Beshear should be commended for taking decisive action in reinvigorating Kentucky's signature horse industry and protecting historical horse racing. Senate Bill 120 of the 2021 Regular Session paved the way for continued significant investment in Kentucky's horse industry, which will lead to new jobs and economic growth throughout the Commonwealth.

The direct value of Kentucky's horse industry totals \$832 million. There are nearly 80,000 direct and indirect jobs provided by the industry and industry-related tourism. In Kentucky, 30.5 percent of households are home to a horse enthusiast. Equine-related tourism brings in \$233 million to the state. The horse competition sector provides an additional \$209 million in direct impact to the state. Overall, the horse industry's total

economic impact in Kentucky totals \$6.5 billion in annual direct and indirect economic activity.

Because of its impact on purses at Kentucky racetracks, historical horse racing provides an incentive for equine businesses to relocate to Kentucky. Several industries benefit when equine businesses are created or relocate to Kentucky. Local communities benefit from the ripple effects of the horse industry.

Nearly one billion dollars of capital has been invested in the last decade. This has led to temporary construction jobs as well as new full-time jobs for expanded and renovated racetracks. Historical horse racing is generating significant funds for the state and keeping community members employed.

One horse creates many jobs, a majority of which cannot be automated or moved overseas. Kentucky is home to two world-renowned equine veterinary facilities. These facilities and the smaller veterinary offices across the state have many high paying jobs.

Historical horse racing provides a steady stream of revenue to educational programs that provide collegiate training related to horse handling, veterinary medicine, industry business management, riding, and more. Without historical horse racing, the ability to offer these many programs would not exist.

Thanks to historical horse racing, standardbred racing has seen tremendous growth, with two new tracks being built and purses tripling. The Kentucky Sire Stakes program has seen nearly five times the growth in the number of eligible horses compared to the time before historical horse racing. The Kentucky Proud Series fair program went from being on the verge of failure to seeing growth in purses and field sizes. Standardbred breeding and sales in the state continues to grow, and before long Kentucky will be a national leader in the standardbred industry. This would not be possible without historical horse racing.

Kentucky's horse industry is on a positive trajectory. Despite recent setbacks from the Kentucky Supreme Court and the pandemic, the industry has continued to move forward investing and growing in communities across the state. Historical horse racing fuels the growth in the industry. Because of historical horse racing, more jobs and economic benefits will follow. Additionally, greater revenues will flow into the industry incentive programs, educational programs, and the state's general fund.

Representative Koch stated that almost 80 percent of graduates from Kentucky equine programs stay in the state.

Senator Thayer stated that the program whereby the General Assembly appropriates money to reserve veterinary school slots at Auburn University for Kentucky students would not be possible without racehorses of all breeds to be taken care of in Kentucky. He

continued to say that only the University of Louisville, Morehead State University, Murray State University, and Western Kentucky University equine programs receive funds from the General Assembly.

In response to a question from Representative Koenig, Ms. Jensen stated that she would figure out how many students in Kentucky participated in the equine education programs and would share that information with staff.

Senator Thayer stated that because of Senate Bill 120, Kentucky Downs announced that it will increase purses by eight percent for its fall meet. He continued to say that the presence of racehorses in Kentucky is driven by purses.

Representative Gentry questioned whether the cap on allocations to the University of Louisville equine education program could be reviewed.

Senator Thayer stated that there are people who believe that the University of Kentucky and Bluegrass Community and Technical College equine programs should receive state funds from the General Assembly. He continued to say that the task force should hear from the University of Kentucky and Bluegrass Community and Technical College on why they deserve state funds before it looks at increasing the amount of funds that the University of Louisville receives.

### **State of the Thoroughbred Industry in Kentucky**

Chauncey Morris, Executive Director, Kentucky Thoroughbred Association, discussed the state of the thoroughbred industry in Kentucky.

Mr. Morris discussed the challenges faced by the thoroughbred industry, ranging from the pandemic to challenges with controversy. Mr. Morris testified that thanks to Kentucky's competitive business environment, the thoroughbred industry has thrived through major reinvestment in infrastructure for horses and fans, safety and integrity initiatives, marketing, and hard work.

Kentucky is the largest producer of thoroughbred horses in the United States. Kentucky is a net exporter of horses to buyers around the world. Thanks to public-private coordination since COVID-19, Kentucky racing has eclipsed New York on purses for the first time. Kentucky has used historical horse racing revenue wisely by attracting better horses, making better fields, and increasing wagering on live racing products. Since 2012, Kentucky is the only state other than New York to increase its level of grade one and grade two graded races.

Prize money attracts horse fields. In Kentucky, field size and purses have grown as a result of historical horse racing and the live racing product. Field size is important because it increases the pot of money available for payouts in pari-mutuel wagering. Senator Thayer

stated that the larger the field, the more money is wagered, which increases purses and revenues to the general fund.

The Kentucky Thoroughbred Association believes that Kentucky racing will remain competitive, based on current tax rates. Other states are attempting to cut into Kentucky's success and attract its inventory of race horses through profitable forms of gaming which return less proceeds to the patron.

In response to Senator Thayer, Mr. Morris testified that trainers are keeping satellite operations in Kentucky year-round. The number of horses of racing age in Kentucky is growing. Additionally, major owners and trainers are buying homes in Lexington or Louisville and are establishing training centers or buying farms. Several tracks in the state are making major reinvestments to principal places of operations or to satellite training centers in order to increase stall size. Everybody wants to be in Kentucky. In response to Senator Thayer, Mr. Morris stated that condition books provide extensive details on upcoming races. Senator Thayer pointed out that Kentucky has eclipsed the total purses offered in New York, California, and Florida, all of which have more population than Kentucky, and two of which, New York and Florida, have purses propped up by casino proceeds.

In response to a question from Representative Gentry, Mr. Morris testified that in 2020, the Commonwealth paid out \$17.5 million in Kentucky Thoroughbred Development Fund supplements. In 2012, the Commonwealth only paid out six million dollars. The Kentucky Thoroughbred Development Fund receives 0.75 percent of the pari-mutuel tax on all wager types except for advanced deposit account wagering. Senator Thayer added that in the past, Kentucky's thoroughbred industry was at a competitive disadvantage compared to other states, but that Kentucky now has an advantage, in part because of historical horse racing. Mr. Morris added that Kentucky's business environment is more user-friendly than other states, and that the state's racing and breeding industry is more competitive as a result of public policy achievements.

In response to Senator Thayer, Mr. Morris stated that Kentucky became attractive for breeding and training because it was cheaper to do so in Kentucky compared to other states. Additionally, many of the larger breeders in the United States are spending more time in Kentucky because the racing has improved in Kentucky.

With no further business before the committee, a motion was made by Representative Koch, seconded by Representative Gentry, to adjourn the meeting. The motion passed by voice vote.