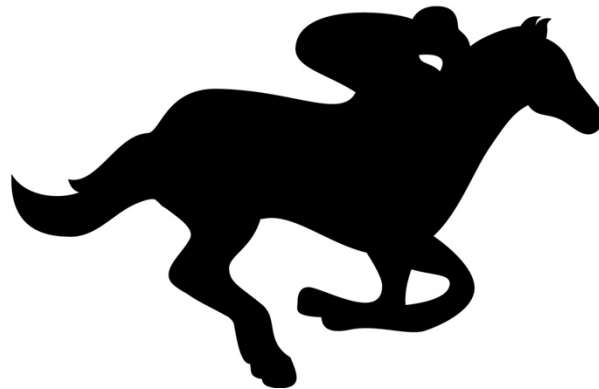


HBPA **KENTUCKY**



**Kentucky Horsemen's Benevolent
and Protective Association**

Maximizing the Impact of the KTDF

Pari-Mutuel Wagering Taxation Task Force

November 19, 2021

What is the Kentucky HBPA?

The Kentucky Horsemen's Benevolent & Protective Association (KHBPA) represents licensed owners and trainers at all five of Kentucky's Thoroughbred tracks. Horse owners comprise the largest single group of our membership, followed by trainers who are also owners, then trainers who do not own horses. As the organization designated as the horsemen's majority representative, the KHBPA negotiates contracts with each racetrack, including purse levels.

What is the KTDF?

Created in 1978, The Kentucky Thoroughbred Development Fund provides purse supplements available on non-claiming races for horses that have been registered as a Kentucky-bred. To be a Kentucky-bred requires not only that the foal be born in the Commonwealth, but the sire must have been a stallion in the state at the time of conception (unlike many other state-bred programs). The owner of the horse must have registered the foal with the Kentucky Thoroughbred Owners and Breeders. KTDF money is used only on races held in Kentucky. In 2022, it will cost \$75 to make a foal a registered Kentucky-bred, \$100 for a yearling and \$350 for a horse of racing age. The annual cost to make a stallion's progeny eligible for KTDF will be \$400-\$850, depending on the stallion's stud fee.

Under current regulations, KTDF supplements can only be applied to non-claiming races, which are stakes, allowance races, allowance races that offer a claiming option of \$25,000 or more and what are known as maiden special-weight races (versus races for winless horses where a claiming price is a condition of the race.)

The KTDF today is the most successful program in the country to reward horses born in a certain state. It is succeeding in spades with the mission of making it pay to own a Kentucky-bred. But there is one segment that accounts for about half the racing in Kentucky that is left out: the claiming horses.

What is a claiming race?

A race where one of the conditions (along with distance, surface, age, gender, eligibility based on numbers of wins or earnings) is a price for which prospective owners licensed in that jurisdiction can drop a “claim” before the race to buy the horse for that price. If successful — there is a “shake” or drawing by lot to determine the winner if more than one claim is dropped —the new owner does not get money earned in that race but afterward takes possession of the horse.

Claiming horses are an essential part of American racing, filling out the race programs for the better allowance and stakes horses. It’s an ingenious way to ensure that horses compete against comparable horses. Run the horse for a price above its abilities and the horse won’t be competitive. Run the horse for a lower price than the horse is worth, and horse is likely to be claimed. Claiming prices in Kentucky range from \$5,000 up to \$150,000.

Claiming horses cost as much to feed as stakes horses.

If horse owners have a shot to accrue a good part of their investment back, they are more likely to have more horses and stay in the game. Adding KTDF to claiming horses assures that the most successful state-bred purse supplement program in the country reaches every trainer and owner.

"A decade ago, the incentives to buy a Kentucky-bred to race in Kentucky were fairly negligible," said Classic winning trainer and lifelong Kentuckian, Dale Romans. "You arguably were better off with a New York-bred or Florida-bred, with their lucrative stakes programs, races and purse supplements restricted to those horses. The rise of the KTDF thanks to historical horse racing has significantly increased the value of the Kentucky-bred horses and the motivation to race in Kentucky. The Kentucky-bred has never been more valuable. The KTDF supplements can be the difference between turning a profit and losing money. When people turn a profit in horse racing, they enthusiastically reinvest. That applies to claiming horses as well as the upper tier."

Why Kentucky claiming and starter allowance races should have KTDF purse supplements:

While it's nice to have a horse that races in allowance and stakes races, those are the minority in this country. There has to be a place for horses that aren't good enough or fast enough for the better races. Those are claiming races - providing jobs not just for humans but for horses.

Increased claiming purses will keep horses in the state - and attract horses that aren't in the state. From this, a lot of good things happen:

It will further shore up the year-round circuit.

Ellis Park and Turfway Park will be the largest beneficiaries because it will keep horses in the state. However, every track will benefit, including our icons. Keeping horses in Kentucky in the summer to race at Ellis Park instead of going to Saratoga (or Monmouth Park, Colonial Downs) also helps Churchill Downs' September meet. More horses at Turfway will help Keeneland's spring meet from competition from Arkansas' Oaklawn Park, which will open in December for the first time and race through Derby Week (Dec. 3-May 8).

"It would be huge for Ellis," says Director of Racing Operations for Ellis Park Racing Secretary Jeff Hall. "We probably run 60 percent KTDF races. We don't make as many of the claiming races go because of the money. It's tough to fill claiming races, but we need them. During the summer it definitely impacts us at Ellis because the claiming races are so comparable between Indiana and Ellis, and their purses sometimes are higher than ours. KTDF would make a significant difference."

Horsemen follow the money. Instead of heading to Arkansas, Louisiana, Florida or New York for the winter, more trainers and horse owners will take a hard look at having their horses, or at least a good part of them, race at Turfway, especially if their home and family are in Kentucky. If claiming purses can share in the growth of other races in the state, there is less incentive to leave the state - no matter the kind of stock you have.

The result will be more racing.

Kentucky horsemen's frustration with claiming races used to be getting into races because of so many entries. Now many of those races offered don't attract enough entries to be used.

Ellis Park's management says getting claiming races to where those purses are superior to Indiana and Colonial Downs would lead to additional races per card and perhaps even additional racing days.

"For the huge strides Kentucky has made the last five years toward being the country's pre-eminent circuit, there remains a gaping hole that impacts a large group of horses," veteran trainer Bret Calhoun. "There is little incentive to run a horse in a claiming race at Ellis Park or Turfway when the money is better in other states. The result is that horsemen ship those horses to run out of state, so the Kentucky claiming races often don't have enough entries to be used, which only encourages more horsemen to send their claiming horses out of state. If the KTDF were used to beef up claiming purses for Kentucky-breds, not only would I race a lot more horses at Ellis Park, I'd bring up horses from my Southwest and Louisiana divisions to run in the state."

More horses in the state creates more jobs.

Trainers need help to care for the horses. Trainers are small-business owners - and some of them are medium and even large-business owners. Horses mean jobs, and jobs mean people paying for groceries, housing etc. in the state.

It will make Kentucky bred horses even more valuable and help promote value for breeders.

Even if a horse doesn't turn out to be a stakes or allowance horse, prospective buyers know their horse can still race for good money in the state, having a reasonable chance to get at least part of their investment back. One reason people - even Kentuckians - send mares to foal out of state is to take advantage of those states' breeding incentives. If the money figures to be good for ALL horses in Kentucky, there's less incentive to send a lesser-quality mare out of state to give her foals the

best chance to make money. Ask farms that board horses: Having mares of all levels, not just the top end, pays the bills.

Every claim sends money to the General Fund.

Every time a horse is claimed in Kentucky, the 6-percent state sales tax is applied - no matter how many times a horse might be claimed. This goes straight into the General Fund.

If you think this is small potatoes, consider that in the first seven dates of Churchill Downs' 2021 fall meet, a total of \$1.8 million in horses were claimed - resulting in \$108,000 to the General Fund. In seven days, just from the sales tax on claiming horses. Through Nov. 13, a total of 923 horses had been claimed in Kentucky for a total of \$22,400,500 with 27 days of racing left in the 2021. That accounts for \$1,362,030 in sales tax.

Claiming a horse is the simplest way to get new owners in the game.

New owners are essential for the industry to prosper, and there is no quicker way to get into the game than claiming a current runner.

This would grow the market.

People claim horses mainly for racing, but also for acquiring a well-bred mare to breed. Some claim for the growing popularity of Off-The-Track-Thoroughbreds as show and performance horses. Just more reasons for breeders to produce more horses.

What are the costs of expanding KTDF?

Claiming and starter allowance races represent 17% of total purses in Kentucky while accounting for 50% of races. Based on the range of percentages KTDF purse supplements make up of current purses, the cost of including claiming and starter allowance races would be between \$5-\$10 million annually. KTDF revenue from HHR has increased by over \$3 million (81.9%) during the first two

months of FY 2022 over the period of FY 2021. Given the planned expansion of current HHR facilities and the establishment of new facilities over the next 18 months, making all Kentucky races eligible for KDTF supplements would not negatively impact those races that are currently subsidized.

Conclusion:

The KTDF is doing what it was designed to do. Now is the time to maximize the impact of this successful program by providing its benefits to all levels within Kentucky's racing circuit. Extending KTDF supplements to all races will ensure Kentucky remains at the forefront of North American Thoroughbred racing.

Thank you!

The Kentucky HBPA recognizes the strong support for our signature industry state legislators have demonstrated over the years. We pledge to assist in your ongoing efforts to promote and protect this important part of the Commonwealth's culture and economy.