

PARI-MUTUEL WAGERING TAXATION TASK FORCE

Minutes of the 4th Meeting of the 2021 Interim

October 4, 2021

Call to Order and Roll Call

The 4th meeting of the Pari-Mutuel Wagering Taxation Task Force was held on Monday, October 4, 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, and Christian McDaniel; Representatives Jonathan Dixon, Al Gentry, Matthew Koch, and Jason Petrie.

Guests: Senator John Schickel; Representative Daniel Fister; Dr. Tom Lambert, Professor, University of Louisville; Dr. Nancy Cox, Dean of the University of Kentucky College of Agriculture, Food and Environment, University of Kentucky; James MacLeod, Director of Equine Programs, University of Kentucky; Natalie Voss, alumna of Equine Programs, University of Kentucky College of Agriculture, University of Kentucky; Dr. Koffi Akakpo, President, Bluegrass Community and Technical College; Remi Bellocq, Equine staff, Bluegrass Community and Technical College, North American Racing Academy; Dixie Kendall, Program Coordinator, Bluegrass Community and Technical College; Sean Beirne, Director, Equine Industry Program, University of Louisville; Jack Sisterson, Trainer.

LRC Staff: Tom Hewlett, Jennifer Hays, Kevin Branscum, Grant Minix, and Mariah Derringer-Lackey.

Approval of Minutes

A motion was made by Chairman Koenig, seconded by Representative Gentry, to adopt the minutes of the September 13, 2021, meeting. The motion carried by voice vote.

Taxation Elasticity

Dr. Tom Lambert, Professor, University of Louisville discussed the theory of taxation elasticity, which includes the idea that when taxes are raised, it does not necessarily mean revenues will increase. One example Dr. Lambert provided includes gambling. Research shows that as taxes on gambling increase, there may be a proportional decrease in revenue. The decrease in revenue follows the decrease in payout to the patron

after the tax increase. With a decrease in payout, direct competition, and substitutions, generally the establishment loses patrons.

If the tax increase is placed on the gross revenue, then the effective rate of the tax is actually much higher than the tax increase. This is due to the establishment paying out approximately 90 to 95 percent of gross revenue to its patrons. Chairman Thayer agreed with the comments and mentioned that he had been telling the task force members for years about this.

Dr. Lambert mentioned a case study which showed that when taxes were raised on casinos in Illinois a few years ago, patrons from St. Louis, Missouri, who were gambling in Illinois, began to gamble back in St. Louis again. Patrons will gamble where the highest payout is, and this is seen across all forms of gambling, including sports gambling. Chairman Thayer spoke about Kentucky residents going to Indiana where sports wagering is legal, which brings more patrons into their facilities.

Dr. Lambert provided several graphs about revenue forecasts in relation to different elasticities. Dr. Lambert leaned towards there being a higher elasticity on historical horse racing (HHR) given the high direct competition of the regional gambling markets.

Dr. Lambert spoke on the possible addition of 2,000 more machines over several years at Turfway Park and Derby City Gaming. If all things remained constant, the addition of more machines could earn approximately \$286 million more per month, \$3.4 billion per year, and could increase state tax revenue by \$51 million per year. This estimate does not include what may happen if states like Ohio began to increase their payouts of gross revenues. Chairman Thayer commented that this estimate seemed to be on the conservative end and mentioned several tracks that plan to build more facilities in Kentucky, so the number of machines added could be north of 2,000. Whether or not the General Assembly does something, the General Fund will still receive more funds from the additional machines. The new facilities would also create economic growth through additional jobs.

Dr. Lambert summarized his presentation by saying that gambling has price elasticity of demand greater than one. If the tax rate is increased by a certain percentage, the falloff of the quantity demanded is greater in proportion to the increase; therefore the revenue does not increase as much as expected. There is also a tipping point where revenue could be lost in certain cases. The growth trend, in revenues, is if everything is held constant. This could change if competitors north or south of Kentucky began increasing their payouts.

Responding to a question from Representative Petrie, Dr. Lambert commented that it was hard to determine the current elasticity, as there has been no tax changes since historical horse racing (HHR) began. Dr. Lambert referred to research by Dr. Talheimer

and Dr. Ali, where they estimated the elasticity at about two percent, which was based on racetracks in Northern Kentucky versus Cincinnati.

Responding to a question from Representative Petrie, Dr. Lambert confirmed that casinos with house odds operate differently than HHR or pari-mutual wagering.

Responding to a question from Representative Petrie, Dr. Lambert testified that with an increase in the taxation of pari-mutuel wagering, tracks would likely decrease payouts to patrons.

Responding to another question from Representative Petrie, Dr. Lambert stated that the profitability of HHR is competitive with other forms of the gambling industry. There are some dips in profitability that follow the availability of discretionary income and profits seems to follow the economy.

Chairman Thayer recommended Representative Petrie follow up with Dr. Lambert with any additional questions.

Chairman Thayer commented that legally in order to have HHR, a facility must operate a racetrack. He spoke to the very high, fixed overhead costs of running a racetrack.

Representative Gentry commented about direct competition. He thanked Churchill Downs for bringing back discretionary income to Kentucky from Indiana. Profit margins are higher in machine gaming. Anything that can be done to keep patrons here in Kentucky would be worth doing. Chairman Thayer agreed with Representative Gentry and believed competitive facilities in other states would be brainstorming to make their facilities more competitive against Kentucky's.

Postsecondary Institutions Not Receiving Funding from the Pari-Mutuel Tax

Dr. Nancy Cox, Dean of the University of Kentucky (UK) College of Agriculture, Food and Environment, discussed the mission of the equine program which includes work-ready graduates, world-renowned research, and service to the industry and state. The program is dedicated to addressing industry issues including an equine survey, responding to a new virus, researching medication, and researching track surfaces. UK's equine program also has several outreach and engagement programs for the horse community.

Mr. James MacLeod, Director of Equine Programs, University of Kentucky, discussed the Equine Science and Management Bachelor's Degree. Even though the degree was only approved 12 years ago, the program has over 500 alumni who fill a variety of jobs across the equine industry. Speaking on the idea of a "Brain Drain" where students or workers leave the state of Kentucky for more lucrative opportunities, Mr. MacLeod argued that UK's equine program is a "Brain Gain." Over the course of the entire program,

approximately 70 percent of their students come from other states and a majority of the students stay in Kentucky after graduation.

Ms. Natalie Voss, alum of the Equine Program, University of Kentucky, testified to the success of UK's equine program. Ms. Voss spoke to the numerous opportunities and experiences offered to her as a student in the equine program and how the experiences helped her in determining her career.

Dr. Cox discussed the current operating budget for the equine program which totals \$500,000 annually. The budget consists of financial management, student internship coordinator, student advising, teaching, the director, and communications functions. The equine program relies on 17 faculty from other departments teaching in the equine program part time. The equine program was built on funding allocated from the Agriculture, Food and Environment allotment. Dr. Cox thought that the \$500,000 was a slight underestimate considering the program borrows staff from other departments.

Dr. Cox commented on priorities for the new investment that would include graduate programs, youth education programs, enhancing infrastructure, and stabilizing the operating budget.

Responding to a question from Chairman Thayer, Dr. Cox stated there are approximately 75 graduates a year from the UK equine program.

Responding to a question from Representative Koenig, Mr. MacLeod stated that in-state tuition is about \$15,000 per year and out-of-state tuition is twice that. Dr. Cox made the clarification that tuition does not go directly to the college and that the budget numbers she presented were conservative.

Chairman Thayer spoke to his interest in using the dollars generated by the pari-mutuel tax to fund the equine programs at places like University of Louisville (UofL), UK, and Bluegrass Community and Technical College (BCTC). He believes there should be a way to allocate money to all three programs.

Ms. Dixie Kendall, Program Coordinator, Bluegrass Community and Technical College (BCTC), discussed the education opportunities available through the program. The benefits of the program include a hands-on approach to the training, ease of transfer of credit hours, and the ability to continue employment while going through the program.

Mr. Remi Bellocq, Bluegrass Community and Technical College, discussed what support from the pari-mutuel tax revenue would allow the Equine program to do. The support would allow BCTC to continue to provide equine education at a community college cost; care for their 12 horses including stabling; recruitment for minority and international students; increased course offerings and credentials; and the international student exchange

program with other horse racing programs. Mr. Bellocq also stated that the BCTC equine program has the same level of expenses as the sister schools such as UK and UofL but BCTC does not have the same level of tuition to offset those expenses.

Responding to a question from Representative Koenig, Dr. Koffi Akakpo, President, Bluegrass Community and Technical College, stated that the equine program would not close if BCTC did not get an allocation of money from the pari-mutuel tax; but it would offset some of the expenses the equine program has. Ms. Kendall also commented on the question stating that the funding would go to expand operations to offer more courses and credentials to students that make them employment-ready and scholarships to low income students. Mr. Bellocq added that it costs approximately \$130,000 to run the barn. The out-of-state tuition for BCTC is about \$7,500 a year and about \$2,100 for an in-state resident.

Representative Koch expressed a soft spot for technical colleges since he attended one before transferring to UK. Ms. Kendall discussed BCTC's dual credit classes with Locust Trace Technical High School, where BCTC professors teach the courses. The biggest restriction with this partnership is transportation and getting the students to the Thoroughbred Training Center on the BCTC campus. Ms. Kendall mentioned this might be another place where funding would help.

Chairman Thayer mentioned he visited the training center and thought the program was neat.

Postsecondary Institutions Receiving Funding from the Pari-Mutuel Tax

Mr. Sean Beirne, Director of the Equine Industry Program (EIP), University of Louisville (UofL), discussed the overview of the program, education degree opportunities, full time faculty, student careers, and retention rates. The Equine Industry Program is funded through pari-mutuel tax on live, simulcast, and HHR. There is a cap on the amount of funding the program can receive from HHR which is \$650,000. In fiscal year 2021, there was a 15.25 percent decrease in funding due to the decrease of on-track attendance and simulcast wagering. The HHR tax was approximately 83.79 percent of the revenue source for the program in fiscal year 2021, and has increased since fiscal year 2019. HHR is the primary source of funding for the Equine Industry Program (EIP) and is allocated to operations, faculty, student recruitment and retention, marketing, and research. The EIP has another source of funding that is the capital expenditure funding available to other equine programs in Kentucky; however, over the past 18 months, EIP has not accepted any money from this funding. The presentation included a chart showing the funding EIP has received for the past five years.

Racing Officials Accreditation Program (ROAP) is one way UofL educates the industry as well as the staff who support the industry. The program was started at UofL, and it educates the stewards, judges, and other racing officials. The education includes information about the track, backstretch, and the pari-mutuel industry.

New to the EIP is a horse racing business certificate, a graduate level certificate. It was created through focus groups, nationally and internationally. The certificate hours can count toward a UofL MBA. Also, EIP is working on a pilot program in equine business with Locust Trace. EIP hopes to recruit under represented students into the industry with a business degree. EIP wants to spread this program across the commonwealth.

Mr. Jack Sisterson, Trainer, testified to the success of UofL's EIP and the opportunities provided to him that allowed him to have the career he has now. Time management is the most important thing he took from the program, because the trainings are on such a strict schedule that needs to be done before the track opens for racing. If the schedule is not maintained, some horses may not receive their training for the day.

Representative Gentry made comments about the saving grace of HHR to the horse industry. He also spoke about the opportunity for growth. However, there is a decrease in funding in EIP, because funding from HHR is capped and the other streams of revenue are declining. EIP has not had to cut anything or make any other funding changes; however, it is something that could occur. Representative Gentry pointed out that the organizations have non-resident students stay in Kentucky.

Chairman Thayer also spoke about the cap on the HHR that was assigned by the General Assembly.

The next meeting is November 19, 2021, at 10 a.m. With no further business before the committee, the motion to adjourn was made by Representative Koch and seconded by Representative Koenig at 4:46 p.m.