

PARI-MUTUEL WAGERING TAXATION TASK FORCE

Minutes of the 5th Meeting of the 2021 Interim

November 19, 2021

Call to Order and Roll Call

The 5th meeting of the Pari-Mutuel Wagering Taxation Task Force was held on Friday, November 19, 2021, at 10:00 a.m., in Room 169 of the Capitol Annex. Representative Adam Koenig, 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 Denise Harper Angel, and Christian McDaniel; Representatives Jonathan Dixon, Al Gentry, Matthew Koch, and Jason Petrie.

Guests: Rick Hiles, President, Kentucky Horsemen's Benevolent and Protective Association; Mike Stone, Kentucky Council on Problem Gambling; and Patrick Cummings, Thoroughbred Idea Foundation.

LRC Staff: Tom Hewlett, Jennifer Hays, Grant Minix, and Chase O'Dell

Approval of Minutes

A motion was made by Representative Koch, seconded by Representative Dixon, to approve the minutes from the October 4, 2021 meeting. The motion carried by voice vote.

Breakage

Patrick Cummings, Thoroughbred Idea Foundation, discussed breakage.

Mr. Cummings testified that horse racing's ecosystem in America requires both bettors and the revenue created by bettor participation. Bettors often feel unrecognized by legislative decisions regarding horse racing. Customer protections have not evolved.

Racing wagering totals have remained steady in recent years, but are much lower than highs from the early 2000s. Adjusted for inflation, total wagering on U.S. thoroughbred racing is down nearly 50 percent since 2003.

The Thoroughbred Idea Foundation recommends modernizing the way in which pari-mutuel winning dividends are calculated. Specifically, the foundation recommends adjusting breakage from the nearest dime to the nearest penny. Breakage is the difference

between what winning racing bettors should be paid on winning bets and what they are paid. Breakage is the rounding down of the return from winning pari-mutuel racing wagers. Kentucky statute requires that all pari-mutuel winnings be rounded down to the nearest ten cent unit. The breaks to the nearest lowest ten cent unit are retained by the bet-taker.

Kentucky tracks held more than \$310,000 in breakage from winning dividends paid on-track in fiscal year 2021. If the on-track breakage rate were extrapolated across all betting on races in Kentucky, the total dollars in breakage held by bet-takers would be estimated to total more than \$9.3 million. Over the last five fiscal years, more than \$2.5 million has been retained by race tracks in Kentucky. This money is split between tracks and horsemen through agreements. The estimated off-track breakage retained in the last five years totals almost \$33 million. An estimated 93 percent of all breakage on Kentucky racing from the last five fiscal years was retained by bet-takers.

The Thoroughbred Idea Foundation suggests amending the statutes which apply to breakage, shifting breaks from every ten cents to every penny. Most professional betting syndicates are rebated breakage.

In response to a question from Representative Gentry, Mr. Cummings testified that practices such as higher rates for on-track bets have been used to reward bets placed at tracks. The state of New York is the only state to address the topic of breakage and change its policies.

Representative Koenig stated that bettors need to be taken care of. He continued to say that addressing breakage is a good way to benefit bettors, tracks, and the state.

Importance of the Kentucky Thoroughbred Development Fund to Kentucky Racing

Rick Hiles, President, Kentucky Horsemen's Benevolent and Protective Association, discussed the importance of the Kentucky Thoroughbred Development Fund (KTDF) to Kentucky racing.

Mr. Hiles testified that the KTDF was established in 1978 to incentivize Kentucky-bred thoroughbreds to stay and race in Kentucky.

The Kentucky Horseman's Benevolent and Protective Association wants to change statute regarding KTDF to allow claiming horses to be eligible for KTDF funds. This will help owners as they will be running for more purse money. These changes will also help the state.

Representative Koch stated that purses for claiming horses should be increased, but that Kentucky should also ensure quality controls are in place for the races. Mr. Hiles stated

that smaller tracks would benefit more from the change. The change would also have to go before the KTDF advisory board.

Senator Thayer voiced his support for the proposed change allowing KTDF funds to be used for Kentucky-bred horses which run in claiming races. He said that care must be taken to ensure that purse money is commensurate with the value of the horses running. Senator Thayer stated that if the statute is changed, it should be left broad so that the KTDF advisory board can make recommendations and set the rules through the racing commission. In response to a question from Senator Thayer, Mr. Hiles testified that he supported the legislature changing statute to allow KTDF money to be used for Kentucky-breds that run in claiming and starter allowance races. The details of the changes should be left to the KTDF advisory board to decide, and the Kentucky Racing Commission would have final approval. Senator Thayer added that Kentucky's program is one-of-a-kind. Every other state has races restricted to horses bred in the state.

Representative Gentry stated that the legislature needs to give the KTDF advisory board the right to set the rates for the claiming races and expressed his support for the concept.

In response to a question from Senator McDaniel, Senator Thayer stated that the Kentucky Sire Stakes will potentially be expanded.

Problem Gambling

Mike Stone, Executive Director, Kentucky Council on Problem Gambling and John Arnett, member of the board, Kentucky Council on Problem Gambling, discussed problem gambling.

The Kentucky Council on Problem Gambling is not against gambling. Its mission is to increase awareness of problem gambling, promote prevention and research, and advocate for the availability of treatment. Excessive gambling is a public health issue which can be best addressed through a state-operated program of evidence-based approaches to prevention, mitigation, and counseling. The council is not advocating to receive funding for itself. Rather, the council is advocating for services for the problem gambler and their family.

The council urges the General Assembly to authorize a publicly funded program for problem-gambling education, prevention, and treatment in Kentucky, and to establish a recurring funding mechanism from legal gambling revenues. Most Kentucky adults gamble. Gambling expansion has made it easier to gamble.

A gambling problem is evident when someone continues to gamble in spite of recurring negative consequences resulting from, or linked to, the gambling activity. A survey conducted by the University of Kentucky Survey Research Center showed 9,000

addicted gamblers and 51,000 problem gamblers in Kentucky, as well as 190,000 at risk of developing a gambling problem. Society pays for the criminal justice and government social services in place to address problems stemming from gambling. Studies indicate that each addicted gambler costs society between \$1,200 to as much as \$19,000 each year.

Problem gambling could cost Kentucky as little as ten million dollars annually, or as much as \$313 million each year. The 40 states and territories with publically funded problem gambling services spend an average of 23 cents per person. In Kentucky, that would extrapolate to slightly more than one million dollars. The Kentucky Council on Problem Gambling developed a five-year plan implementing problem gambling services. The implementation would cost \$1.4 million in the first year and \$3.7 million in year 5. The state receives around \$300 million annually from legislatively sanctioned gambling. Even dedicating five percent of those revenues would fund a credible problem gambling program.

Mr. Arnett spoke to his experience with his gambling addiction. He continued to express his support for the creation of a problem gambling program funded by legal gambling.

In response to a question from Representative Gentry, Mr. Stone spoke to the additional societal costs that stem from problem gambling. The spouse and family of an addicted gambler may suffer from abuse that needs to be treated. Loss of productivity, unemployment insurance, and bankruptcy costs can all stem from problem gambling. Criminal justice costs can also result from problem gambling. Addicted gamblers have a higher rate of suicide than any other addictive disorder. Mr. Stone continued to say that all of the horseracing tracks in Kentucky are members of the Kentucky Council on Problem Gaming and utilize awareness materials. Mr. Stone spoke to the history of the council's founding.

Mr. Arnett spoke to the inadequate number of certified problem gambling counselors and treatment options in Kentucky.

Review of Draft Report of the Task Force and Recommendations

A motion was made by Senator Thayer, seconded by Senator Harper Angel, to approve the draft report of the task force. The motion carried by voice vote.

With no further business before the committee, the meeting was adjourned.