

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2022 REGULAR SESSION**

MEASURE

2022 BR NUMBER 1026

HOUSE BILL NUMBER 607GA

TITLE AN ACT relating to pari-mutuel wagering and making an appropriation therefor.

SPONSOR Representative Adam Koenig

FISCAL SUMMARY

STATE FISCAL IMPACT: YES NO UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ACTUARIAL ANALYSIS
 LOCAL MANDATE CORRECTIONS IMPACT HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: Horse Racing Commission

FUND(S) IMPACTED: GENERAL ROAD FEDERAL RESTRICTED RA Administration Fund, Thoroughbred Development Fund, Thoroughbred Breeders Incentive Fund, Standardbred Breeders Incentive Fund

| FISCAL ESTIMATES | 2021-2022 | 2022-2023 | 2023-2024 | ANNUAL IMPACT AT FULL IMPLEMENTATION |
|------------------|-----------|----------------|----------------|--------------------------------------|
| REVENUES | | Indeterminable | Indeterminable | Indeterminable |
| EXPENDITURES | | | | |
| NET EFFECT | | Indeterminable | Indeterminable | Indeterminable |

() indicates a decrease/negative

PURPOSE OF MEASURE: The purpose of this measure is to set the pari-mutuel tax rate on all tracks conducting live racing, telephone and advanced deposit account wagering, and intertrack and simulcast wagering to 1.5%, and specifies deductions from the revenue generated. The bill also eliminates the race track admissions tax and requires all expenses of the Kentucky Horse Racing Commission and the compensation of certain employees to be paid by the licensee conducting a horse race meeting or historic horse racing.

FISCAL EXPLANATION: Currently, the excise tax on live racing is 1.5% if a track's daily average handle is less than \$1.2 million and 3.5% if greater than \$1.2 million. All Kentucky track's daily average handle is less than \$1.2 million, therefore, all tracks currently pay 1.5%. This bill sets the excise tax on live racing to 1.5% and removes the tiered percentages, which will cause no fiscal impact since this is the current percentage tracks are paying.

The excise tax on advanced deposit wagers increases from 0.5% to 1.5%, which is estimated to generate an additional \$525,000 per FY to the General Fund. Meanwhile, the simulcast and intertrack wagering excise tax is decreased from 3% to 1.5%, which is estimated to decrease tax revenue by \$293,000 per FY.

This measure also increases the allocation to the Equine Industry Program at the University of Louisville and adds new allocations to the equine industry programs at the University of Kentucky (UK) and the Bluegrass Community and Technical College (BCTC), which will reduce the pari-mutuel tax revenues going to the General Fund by approximately \$1.35 million per FY.

The bill caps the historical horse racing distribution of excise tax revenue to the Kentucky Thoroughbred Development Fund (KTDF) at \$40 million. If this limit is reached, the distribution percentage to KTDF will reduce from 0.75% to 0.4%, and as a result, the distribution percentage to the General Fund will increase by 0.35%. This is estimated to positively impact the General Fund by approximately \$280,000 in FY 23 and \$292,000 in FY 24.

The race track admissions tax is eliminated in this bill, which would reduce General Fund revenue by \$200,000 per FY.

The bill also requires the expenses and certain personnel costs of the Kentucky Horse Racing Commission to be paid by the licensee conducting a horse race meeting or pari-mutuel wagering on historic horse racing, however; the commission already assesses tracks for applicable costs of regulation, therefore, any additional expenditures will be passed through to the tracks.

All of these impacts combined will cause a loss to the General Fund of approximately \$945,000 each FY, however, there are several factors from the bill that make the full impact indeterminable. First, additional distributions are allocated to the UK and BCTC equine programs, however, the amount of the 0.2% from live wagers to be distributed is not indicated.

Second, the tax rate on simulcast, intertrack, and telephone account wagering decreases from 3.0% to 1.5%. The revenue from these wagers has set distributions, however, this tax deduction will result in distributing more tax revenue than the amount of tax revenue generated.

Third, the commission receives General Fund support for the administration and regulation of racing. By requiring tracks to pay the expenses and personnel costs of the commission, General Fund appropriations may be reduced or eliminated in the budget bill and cause further shortfalls within the commission.

A final consideration is that the numbers used to calculate General Fund impact do not include the historical horse racing facility opened by Kentucky Downs in Bowling Green, a new historical horse racing facility that will be opened by Keeneland and Kentucky Downs in Williamsburg, and a new harness track that is being developed in Corbin. These additional facilities will have a positive impact on the pari-mutuel tax contributions to the General Fund.

DATA SOURCE(S): LRC Staff, Horse Racing Commission

PREPARER: Sara Rome NOTE NUMBER: 187 REVIEW: JAB DATE: 3/25/2022