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ThinkIR Citation

Lambert, Thomas E., "Historical Horse Racing Trends over the Last Five Years: How Much does each Machine Earn?" (2021). *Faculty Scholarship*. 541.

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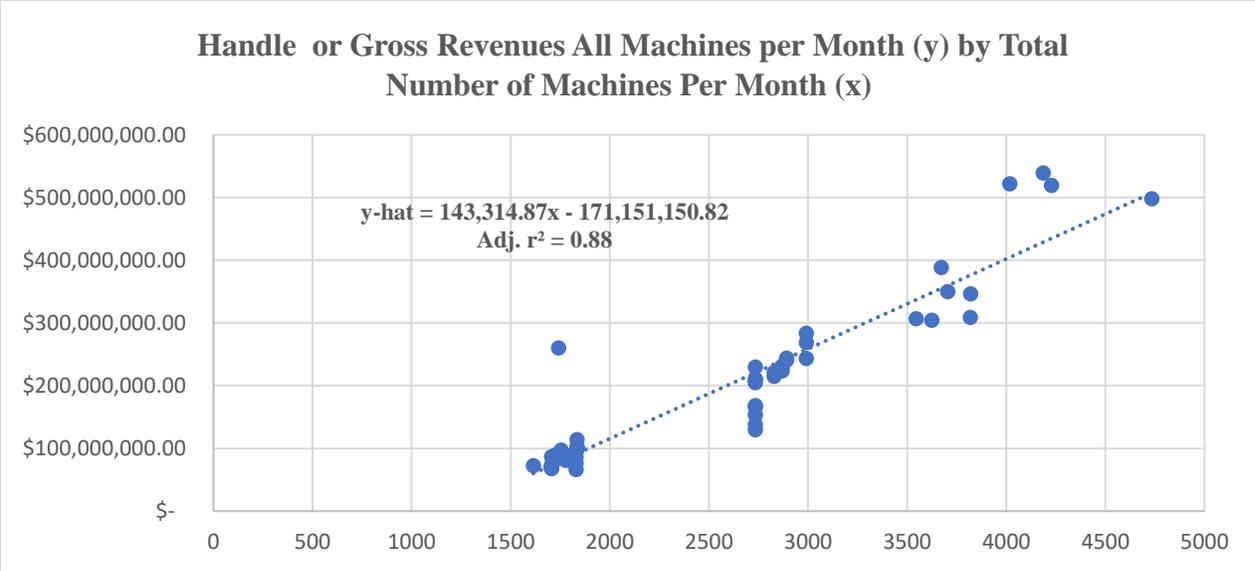
Historical Horse Racing Trends over the Last Five Years: How Much does each Machine Earn?

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Historical Horse Racing (HHR) machines have made a strong contribution to the horse racing industry in several states over the last 5 years or so thanks to the fact that HHR revenues have been used by various race tracks to supplement purses for races. In Kentucky, HHR machines have recently been classified by the legislature as a form of pari-mutuel wagering after a court ruling questioned their legitimacy from a state constitutional perspective. The re-classification allows HHR machines to continue to operate, and with that race tracks and gaming centers across the state plan to expand the number of machines.

Using Kentucky Horse Racing Commission reports of monthly revenues from 2016 to 2021, the figure below shows the trend in the contributions in gross revenues or handle per month for all HHR machines as of a particular month in the state. The upward sloping trend line explains around 88% of the variation in gross revenues per day per machine. Each machine contributes about \$143,000 per month to total gross revenues on average. Usually payouts to customers are at least 90% of gross revenues. Therefore, 2,000 machines (the state currently has several thousand) should yield \$286 million per month or around \$3.4 billion per year. At a tax rate of 1.5%, this produces around \$51 million in tax revenues for the Commonwealth per year on average and holding all else constant.¹

¹ These numbers are adjusted for and account for reduced operating hours in 2020 due to Covid-19 restrictions and precautions. Usually payouts to customers are at least 90% of gross revenues.



With low labor and maintenance costs that accompany HHR machines, it is easy to see why race tracks and gaming centers in the state want to add more of these machines. According to recent press reports, Turfway Park in Florence and Derby City Gaming in Louisville plan to add around 2000 machines combined over the next several years. All else held constant, such machines could earn Churchill Downs (the owner of Turfway Park and Derby City Gaming) around \$286 million more per month, or \$3.4 billion per year, and should increase state tax revenues by approximately \$51 million per year.