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11-2021

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#### Original Publication Information

Lambert, Thomas E., An Evaluation of Churchill Downs' Tax Increment Financing District. 2022, *Journal of Urban Regeneration & Renewal*, 15(4): 354-359.

#### ThinkIR Citation

Lambert, Thomas E., "An Evaluation of Churchill Downs' Tax Increment Financing District" (2021). *Faculty Scholarship*. 693.

<https://ir.library.louisville.edu/faculty/693>

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# **An Evaluation of Churchill Downs' Tax Increment Financing District**

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A story a few years ago by a local, Louisville public radio station mentions Churchill Downs' state sponsored tax incremental financing (TIF) district among others in the Louisville-Jefferson County area (Ryan 2016). In general, a TIF is a local economic development initiative in which a business or set of businesses within a specified geographic area (census tract, census block, zip code, etc.) can either keep or have refunded to them certain taxes in lieu of or in consideration of a specified amount of investment within an agreed period of time. Any property tax differences between old amounts paid and newer amounts (post investment amounts) paid is recaptured by the investing business/businesses (Ryan 2016). Some TIFs within Jefferson County get money back on both local and state taxes whereas the one for Churchill Downs only receives back state tax dollars. The Churchill Downs TIF has an activation date of 2005 and has a time period of 20 years. The amount of taxes estimated to be saved by Churchill Downs is up to \$25 million (state corporate income and state sales taxes) on up to \$125 million in investment (Ryan 2016).

One of the major aims of TIF districts whether in Kentucky or elsewhere is to spur economic development and advancement in "poor and blighted" areas (Kentucky Cabinet for Economic Development 2019, Fisher, Leite, and Moe 2020). As US Census (2000, 2004, and 2019) data in Tables 1 and 2 below show, Jefferson County Census Tract 38 and US Post Office Zip Code 40208 in which Churchill Downs is located have been areas in some ways behind the rest of Jefferson County over the last two decades or so when it comes to economic vitality. Both time periods shown overlap with the Churchills Down TIF district era of 2005 to present.

**Table 1**

	<b>2000</b>	<b>2019</b>	<b>Chg.</b>
<b><u>Census Tract 38</u></b>			
Unemployment Rate	4.1%	9.7%	+5.6%
Inflation Adj. Median Household Income (2000 prices)	\$25,315	\$28,258 <sup>1</sup>	+\$2934
Pct. Below Poverty	21.8%	16.7%	-5.1%
Population 16 years and over	3256	2548	-708
<b><u>Jefferson County</u></b>			
Unemployment Rate	3.3%	5.4%	+2.2%
Inflation Adj. Median Household Income	\$39,457	\$37,977	-\$1,480
Pct. Below Poverty	12.4%	14.2%	+1.8%
Population 16 years and over	543,567	615,691	+72,124

According to Table 1, Census Tract 38, which is just one tract among several within the 40208 zip code, shows an increase in the unemployment rate greater than that of Jefferson County yet a decrease in the poverty rate compared to Jefferson County over the 2000 to 2019 period. Nonetheless, the unemployment and poverty rates are still higher than those of Jefferson County. Inflation adjusted median household income also grows for the tract from 2000 to 2019 but still lags behind that of the county. This area also loses population from 2000 to 2019.

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<sup>1</sup> Estimates are based on the US Bureau of Labor Statistics Inflation Calculator at [https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm).

**Table 2**

	<b>2004</b>	<b>2019</b>	<b>Chg.</b>
<b><u>Zip Code 40208 Business Data</u></b>			
Number of Establishments	312	290	-22
Number of Employees	5536	5842	+306
Inf. Adj. Annual Payroll	\$190.95 M	\$192.8 M	+\$1.85 M
<b><u>Jefferson County Business Data</u></b>			
Number of Establishments	20,008	19,914	-94
Number of Employees	400,096	459,514	+59,818
Inf. Adj. Annual Payroll	\$13.076 M	\$16.5 M	+\$3.42 M

In looking at Table 2 above, both the tract and the county lose private sector employers but gain in jobs from 2004 to 2019. The loss of business establishments is around 7% for the zip, and it is 0.4% for the county. The gain of 306 jobs for the tract is 5.5% over its 2004 level whereas the gain of nearly 60,000 jobs for Jefferson County since 2004 is almost 15%. The zip code gains almost 10% in inflation adjusted annual payroll whereas the county gains roughly 27% in payroll. According to IMPLAN (2019), Churchill Downs has approximately 2,000 employees many of whom would work in the 40208 zip.

Given that the tract and the areas within the 40208 zip code can be considered “poor and blighted” because of their year 2000 circumstances, can one consider the Churchill Downs TIF to be successful regarding an economic boost to its surrounding neighborhood to improve? Holding all else constant, the results appear to be mixed. Gains have been made yet not at the same rate as Jefferson County in general. If all of Churchill Downs’ tax credits have been taken

and all of its investment undertaken since 2005 and within the first few years of the TIF being created, then each of the 306 jobs created since 2004 in the area have cost taxpayers \$81,700 per jobs and have required around \$408,500 in investment per job. This seems to be fairly expensive.<sup>2</sup> On the other hand, as attendance at Churchill Downs has declined over the year from around 923,541 in 2003 to 776,227 in 2014, the last year for which the Kentucky Horse Racing Commission gives attendance numbers in its annual reports (KHRC 2003 and 2019) and with a decline in on track betting over the years due to the growth of online gambling outlets for both horse racing and other sports or games and due to intense competition from lotteries and casinos (Lambert 2021), the need for more workers at Churchill Downs or nearby restaurants and hotels may not be as great as it has been in the past. As Barton notes, only around 25% of Churchill Downs' total revenues now come from its track as the corporation has diversified into casinos and racinos in other parts of the United States (Barton 2017). Finally, although many firms will take government tax incentives offered to them in return for making investments, there is evidence that often the investment would have been undertaken by the firms regardless of the incentives offered (Lambert and Coomes 2001, Lambert and Bewley 2016, Lambert 2020). Considerations of returns on investment often involve more than just tax considerations alone.

Nonetheless, if the overall economic impact of the Kentucky Oaks and Kentucky Derby every May is estimated to be over \$400 million annually for the Louisville metro area (Graves

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<sup>2</sup> Unfortunately it is problematic to pinpoint how much of the investment and incentive dollars have been spent or exercised. In correspondence with Mr. Tim Bennett of the Kentucky Department of Revenue, the author has learned that Kentucky Revised Statue (KRS) 131.190 prevents releasing such information. Only aggregate numbers for TIF credits are disclosed, and even then only for the last few years. However, it is doubtful that Churchill Downs would wait very long after 2005 in order to exercise the incentives given the impact of inflation over time as well as various reports over the years citing renovations at the track totaling millions of dollars. For example, Finley (2005) writes that \$121 million in renovations had been completed by May 2005 after a three year construction time frame. The CD TIF was authorized in 2002 and activated in January 2005. Since then one press account notes various renovation projects and their completions in subsequent years up to 2016 totaling around \$230 million (WDRB 2016).

2021), then one possibly could justify heavy tax incentives or investment per job. Also, on a 20 year basis, the \$25 million in incentives amount to only \$1.25 million per year in nominal terms over a 20 year period. At the same time, Louisville and Jefferson County already have several other large employers in the area (Ford Motor Co., GE Appliance Park, UPS, etc.) which receive or have received substantial tax breaks in the past. According to IMPLAN, Ford has over 10,000 employees in Jefferson County and contributes nearly \$25 billion annually to the Louisville economy through its operations and those of its suppliers. However, it is not part of any TIF district.

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