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Thomas E. Lambert

University of Louisville, thomas.lambert@louisville.edu

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The Economic Impact of Horse Racing Tracks and Historical Horse Racing in Kentucky

Thomas E. Lambert
Applied Economist
College of Business
University of Louisville
Louisville, KY 40292

The Commonwealth of Kentucky currently has 5 thoroughbred racing tracks and 3 harness racing tracks (Mint Julep Louisville 2021). As Table 1 below shows¹, the industry employees roughly 6,000 people (direct jobs), and these jobs annually support another 1,500 jobs or so throughout the state. These 1,500 jobs are jobs that are provided by the suppliers to the horse race tracks (indirect jobs) and jobs that are created by the spending of the race track employees and the employees of suppliers on food, housing, transportation, and clothing by vendors and retailers throughout the state (induced jobs). The direct jobs generate in 2019 dollars around \$170 million in payroll, and these in turn support another \$69 million in payroll among race track suppliers and other businesses in the state. With regard to state domestic product, the tracks create over a half-billion dollars in output while their suppliers and supported businesses contribute another \$223 million in domestic product. As of 2021, Kentucky state gross domestic product (GDP) is estimated to be \$190 billion.

Table 1

Impact	Employment	Labor Income	Output
1 – Direct	5,976.81	\$169,576,976.80	\$504,646,847.51
2 – Indirect	525.98	\$25,415,853.85	\$77,888,244.64
3 – Induced	941.09	\$44,051,403.78	\$140,808,729.52
Total	7,443.88	\$239,044,234.43	\$723,343,821.68
Multipliers	1.245460371	1.409650289	1.433366373

¹ These results are based upon pre-pandemic business activity and upon IMPLAN estimates.

The multipliers at the bottom of Table 1 illustrate that for every 10 jobs in the race tracks in Kentucky, another 2 jobs are supported or created whereas every \$1.00 in race track payroll supports another \$0.40 in payroll throughout the state's economy. Finally, state output is boosted by an additional 43% beyond what the tracks produce thanks to money earned by their ancillary industries.

Table 2 below illustrates the fiscal and governmental impacts of the 8 tracks. The tracks alone generate \$3.2 million in local (cities, school districts, etc.) income, property, sales and excise taxes; around \$435,000 in such taxes for various Kentucky counties; around \$8.7 million in such taxes for the state; and around \$34.5 million in taxes for the federal government. When considering taxes collected from their suppliers and from businesses supported by their employees and the employees of suppliers, around another \$3.2 million in tax revenues are created; almost another \$400,000 for county governments are created; around another \$7.5 million in state taxes; and around \$25 million in tax revenues for the federal government. Looking at the multipliers, each dollar the tracks pay in taxes is almost completely matched by other supported businesses at the local, county, and state government levels. Each dollar of federal taxes creates an extra 41 cents in federal taxes paid by supported businesses. Total taxes collected at the local, county, state, and federal levels for the direct, indirect, and induced levels amount to over \$72 million.

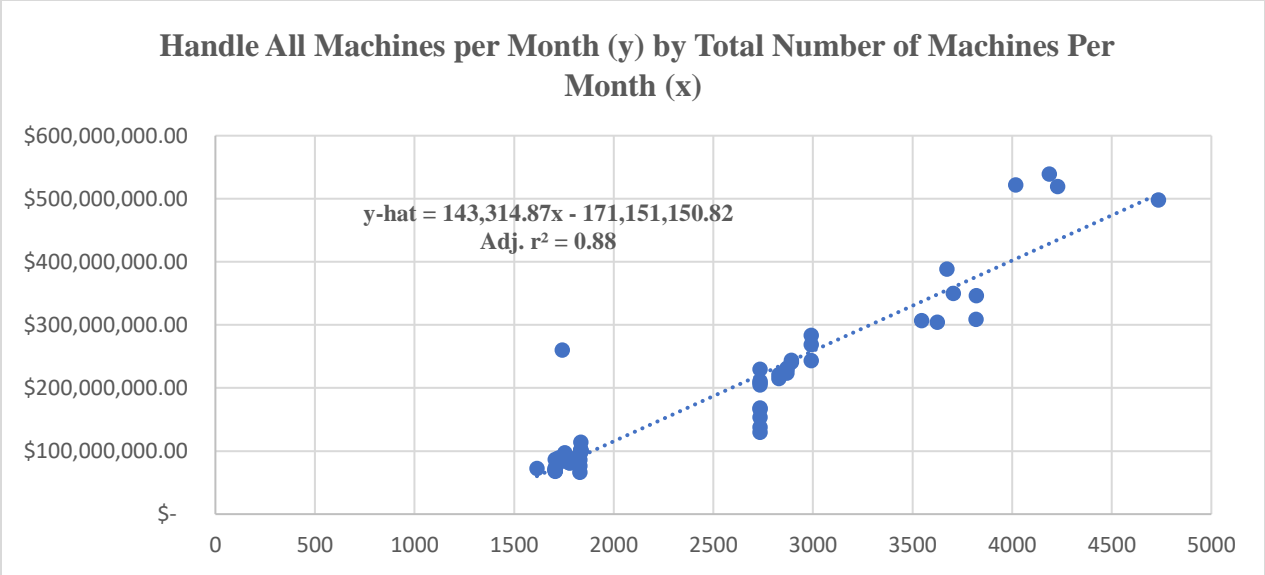
Table 2

Impact	Local	County	State	Federal	Total
1 - Direct	\$ 3,190,891.53	\$ 434,887.97	\$ 8,743,754.24	\$ 34,481,391.50	\$ 46,850,925.23
2 - Indirect	\$ 771,728.08	\$ 99,583.92	\$ 1,900,460.38	\$ 4,944,625.56	\$ 7,716,397.94
3 - Induced	\$ 2,413,921.49	\$ 288,607.04	\$ 5,538,496.83	\$ 9,221,015.52	\$ 17,462,040.89
Total	\$ 6,376,541.11	\$ 823,078.92	\$ 16,182,711.45	\$ 48,647,032.58	\$ 72,029,364.06
Multipliers	1.998357215	1.892622875	1.850773822	1.410819879	1.537416043

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 revenues per month for all HHR machine as of a particular month in the state. The upward sloping trend line explains around 88% of the variation in 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.²

² 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.



Source: Kentucky Horse Racing Commission.

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.

Meanwhile, the gaming centers which house HHR machines can be analyzed using the same input-output models used above to estimate race track impacts. Table 3 below illustrates the annual contributions (direct, indirect, induced, and total) of Kentucky’s 5 current (as of June 2022) gaming centers which contain mostly HHR machines. The gaming centers³ employ around 4,500 people, and these jobs help to create another 2,100 or so jobs in the state. Payroll

³ Unlike casinos, gaming centers in Kentucky do not have table games, regular slot machines, or betting on sports events.

for these centers along with their supported businesses total around \$248 million, and the centers and their associated establishments generate around \$923 million in state domestic product. These last two totals exceed the payroll and output of the race tracks, and the multipliers for the centers for employment, labor income, and output are also greater than those of the tracks. These are strong results for an industry which has not been in existence that long and which support the tracks since much of their earnings go to fund purses for races in the state's tracks.

Table 3

Impact	Employment	Labor Income	Output
1 – Direct	4,454.64	\$137,035,245.70	\$590,774,383.08
2 – Indirect	1,272.02	\$66,421,689.30	\$189,902,257.72
3 – Induced	956.45	\$44,804,950.19	\$143,151,755.51
Total	6,683.11	\$248,261,885.20	\$923,828,396.30
Multipliers	1.500258158	1.811664466	1.563758387

In examining Table 4 below, the gaming centers generate a great amount of local, county, state, and federal taxes. Much of this, of course, just as with the employment, labor income, and output impacts are probably due to the fact that these centers are open year-round and almost every day of the week whereas track operations are seasonal. Total local taxes are around \$20 million; county taxes are around \$2.3 million; state taxes are around \$45 million; and federal taxes sum to almost \$57 million.

Table 4

Impact	Local	County	State	Federal	Total
1 - Direct	\$15,424,572.06	\$1,744,954.58	\$33,749,960.80	\$34,260,641.68	\$85,180,129.11
2 - Indirect	\$2,151,945.60	\$274,427.57	\$5,256,982.71	\$12,958,560.48	\$20,641,916.35
3 - Induced	\$2,451,579.73	\$293,154.17	\$5,625,644.59	\$9,376,780.67	\$17,747,159.16
Total	\$20,028,097.39	\$2,312,536.32	\$44,632,588.10	\$56,595,982.82	\$123,569,204.62
Multipliers	1.298454007	1.325270208	1.322448591	1.651924192	1.450681114

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