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Historical Horse Racing Dominates Gambling Expenditures in Kentucky—Even Outperforms the Lottery. But Why?

By

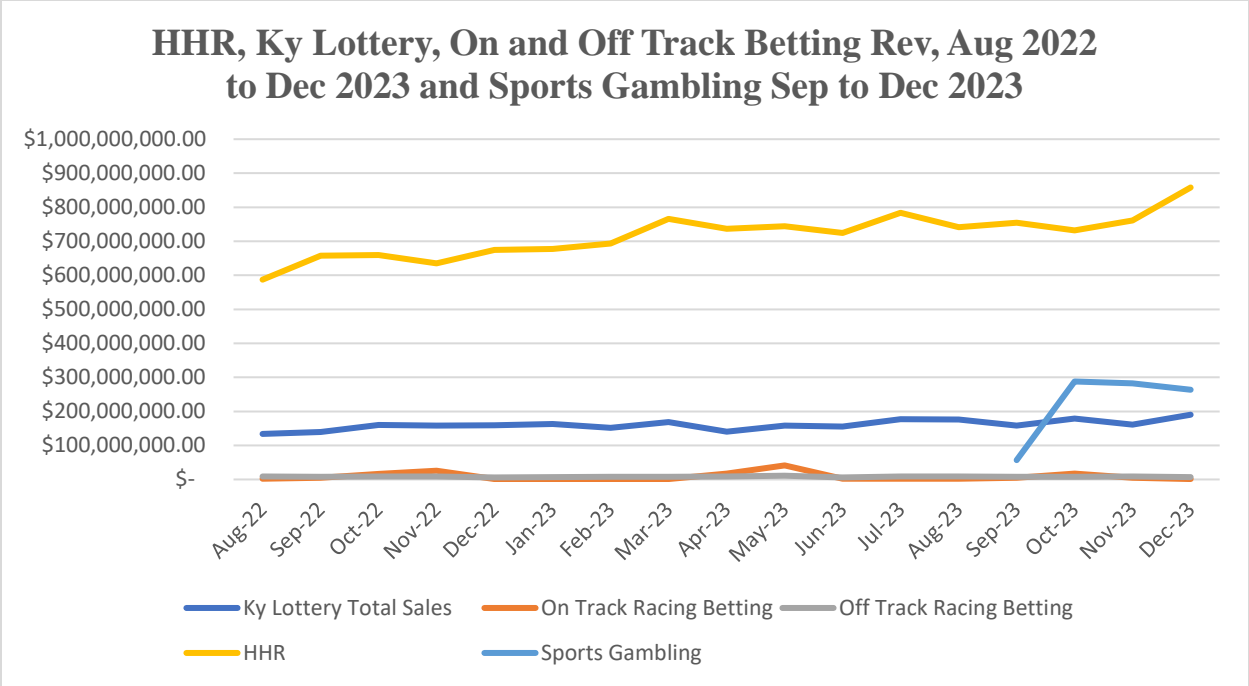
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With sports gambling coming to the Commonwealth of Kentucky in September 2023, another competitor to various gaming activities in the state raises the question of how it is doing relative to the others, especially its major competition. As can be seen in the table below, for its first four months of operation, sports gambling in the state brings in almost \$900 million and averages around \$223 million per month. This average is better than typical monthly lottery sales which come in at around \$161 million per month and is far above on and off-track (including simulcasting) racing betting which averages only between \$8 and \$9 million monthly. But what is most interesting is the size of historical horse racing (HHR) gaming revenues. It is far and above the leader when it comes to gambling revenues in the state and averages from August 2022 to December 2023 around \$716 million per month. A graph further below illustrates the magnitude of the difference among the different forms of gaming.

Total and Average Revenues from August 2022 to December 2023 except for Sports Gambling

	<u>Sum</u>	<u>Average</u>
Ky Lottery Total Sales	\$ 2,731,028,000.00	\$ 160,648,705.88
On Track Racing Betting	\$ 145,975,821.00	\$ 8,586,813.00
Off Track Racing Betting	\$ 137,449,834.00	\$ 8,085,284.35
HHR	\$ 12,186,246,456.00	\$ 716,838,026.82
Sports Gambling (partial)	\$ 891,370,163.00	\$ 222,842,540.75

Sources: Kentucky Lottery Corporation and Kentucky Horse Racing Commission.



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Lambert (2023) shows that US lottery revenues when adjusted for inflation and put on a per capita basis outpace standalone casino revenues when these too are adjusted for inflation and put on a per capita basis. However, these forms of gambling, including charitable gambling and horse racing gambling, have shown stagnating revenues over the last 15 to 20 years when the revenues are adjusted for inflation and put on a per capita basis. Casino hotel revenues, however, do slightly better than lottery revenues, and in the aggregate, casino gambling outpaces lottery gambling in the US (Kilday 2023). Reports also usually lump sports gambling in with casino revenues since the major casino corporations have dominated sports gambling for decades. At the same time, when most Americans indicate in surveys that they gamble at least somewhat, their preferred choice is by far the lottery (Lambert 2022). Casino or casino type gambling and sports gambling usually come next in popularity. Similar to the rest of the US, around 30% of Kentuckians claim that they do not gamble at all (Lambert 2022). The most popular lottery game

in Kentucky is the scratch-off ticket according to Kentucky Lottery Corporation reports. Their reports also indicate a payout rate to patrons/customers at a maximum of around 71% for these tickets to as low as around 50% for other games (Kentucky Lottery Corporation 2023).

The lottery has also been available at a greater number of venues than other forms of gambling with sales available at many retailers in any given area in the state, and it is also available online now. There is no data, unfortunately, which shows how many individuals play the lottery per month or how many attend a gaming center featuring HHR machines. However, HHR gaming centers, or quasi-casinos, are located in the state's urban areas which make up around half of the state's population. All else held constant, one would expect lottery sales to be higher than HHR revenues given state population numbers and that HHR machines are not available in many communities.

However, there is a simple explanation for all of this. If the best payout rate for the Kentucky lottery is 71% (scratch offs) and yet for HHR is usually around 90%, then given that payout elasticities for gambling are fairly high, or that is, patrons have elastic demand and shop around for the highest payout rates available among their gambling choices, then one can infer that one key reason for the success of HHR is due to its higher payout rates (Lambert 2023, Kilday 2023). The author's own calculations show that payout rates for HHR venues in Kentucky are slightly higher than those for the slot machines in a casino in southern Indiana and near Louisville (around 85-88% on average according to reports) as well as for those for horse racing (anywhere less than 90% but more than 80%). HHR payout rates are also slightly better the average payout rate for sports gambling in the state which hovers around 88%. What probably keeps the Kentucky Lottery in a distant second place is its easy availability in so many retailing and now online settings. It is also promoted as somewhat of a "public good" in that it

helps with college education in the state. It appears that for HHR its difference in its payout rate helps it to generate substantial revenues. Such is to be expected in a competitive environment where the demand for a particular form of gambling is greatly driven by its payout rate.

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