

## Why David Williams' tax plan wouldn't have worked for Kentucky

The horse industry in Kentucky is facing a threat. That's not hyperbole; it's fact. While the solution is far from simple, the last thing our industry needs is a government-funded bailout or stimulus package. Yet that's exactly what Kentucky State Senate President David Williams was proposing under his plan to boost purses.

Williams' plan would have called for:

- A 10 percent tax on lottery tickets
- A 1.5 percent tax on out-of-state betting on Kentucky racing, which may violate interstate commerce provisions
- Shifting additional tax revenue from the General Fund

Notice what word shows up numerous times in Williams' proposal—"tax."

It's encouraging to see that Sen. Williams acknowledges that the Kentucky horse industry is in need of financial help, but the solution to this crucial problem shouldn't be increased taxes and government funding. Rather we must allow Kentucky's race tracks the right to invest their own money to expand gaming operations so that they can compete successfully with those in surrounding states.

Why wouldn't Williams' plan have worked? Let's break down the elements:

First of all, a tax on lottery tickets would lead to decreased sales.

- No other North American lottery imposes a surcharge or sales tax on lottery tickets.
  - In 1989, a province in Canada charged a 10 percent tax on lottery tickets, which resulted in a 13 percent sales loss within the first four months, prompting the government to quickly rescind the tax.
- The Kentucky Lottery Commission further estimates that a tax on lottery tickets would result in the loss of \$60 million in sales of tickets purchased through instant ticket vending machines and decrease retailers' commissions (and increase their

costs). This would directly negatively impact the Kentucky Educational Excellence Scholarship (KEES) program.

- The lottery would experience decreased player interest because people realize they aren't winning as much proportionally. This would put Kentucky's lottery at a competitive disadvantage with lotteries in neighboring states.
- The loss on ticket sales would not be the only downside. There would have also been a ripple effect that would negatively impact lottery ticket retail establishments, for example, small businesses, local corner markets, gas stations, convenience stores, etc.
- Also, the Powerball game rules explicitly prohibit participating lotteries from charging more than \$1.00, therefore the proposed surcharge could not have been added to Powerball ticket sales.

Secondly, taxing out-of-state bets would handcuff distribution of Kentucky races. Senator Williams wants to place a 1.5 percent tax on Kentucky's simulcast racing product. Clearly, he doesn't understand the economics of our industry. Simulcast wagering accounts for more than 80 percent of the total U.S. handle. Kentucky tracks send their race signal to out-of-state wagering sites and in return, are paid a host fee. This is the lifeblood of tracks across the country. As you can imagine, with the number of tracks operating, it's a highly competitive market. Most Kentucky tracks charge a three percent host fee for their signal which means Williams' tax plan is a 50 percent increase for simulcast customers.

- As a result, for example, Mary Troilo, simulcast director for Turfway Park, said, "Larger outlets such as New York, New Jersey, Nevada and California will not budge on price and will replace Kentucky signals with other states."
- Increasing the pari-mutuel tax on out-of-state wagers in effect raises takeout which would increase the tax on our own customers.
- Many states have laws, rules and regulations that mandate the host fee they can pay.
- Historically, General Fund purse subsidies have not worked as we have seen in Maryland, New Jersey and Illinois. For a successful horse industry, participants need to look for long-term solutions as it relates to financing. That simply has not been the case with legislative earmarks with General Fund taxes.

Thirdly, Williams' plan only addressed racing purses. It did not contribute to Kentucky's Breeders' Incentive Fund and provided no support for any non-racing breeds. It cannot be considered a bill in support of the entire horse industry in Kentucky.

Lastly, the horse industry is not looking for a bailout or subsidy which would redirect taxpayer dollars from other General Fund programs. In fact, the industry is looking for the opportunity to invest more than \$500 million in its race tracks for capital improvements.

- Williams' plan would redirect to the horse industry \$19 million in existing tax revenues that currently go to the General Fund—a Fund that has seen numerous budget cuts in recent years and already faces more than a \$100 million shortfall next year.
- As a matter of fact, if race tracks are allowed to expand gaming operations, they will actually generate new state jobs and new state tax revenue—to the tune of more than \$300 million annually.

Williams' plan simply won't work. Instead, Kentucky lawmakers should look to the examples of other states that have successfully built alternative gaming operations at race tracks and vote to legalize VLTs here. Installing VLTs in Kentucky will:

- Provide a major source of new revenue for the Commonwealth;
- Help ensure the economic longevity of the horse industry; and
- Protect the \$4 billion in statewide economic benefit that the industry creates and the 100,000 jobs supported by the industry.