

WHO WILL GET RICH ?

If the tracks obtain casinos as desired 35% of the profits will go to the state. Since the tracks intend to designate where the money will go, it ties the hands of legislators both with regard to pork, but also prevents them from placing the money where genuinely needed which is the objective of most of our representatives. Legislators should not be interested in this kind of legislation. The state will not be a winner here.

Education will suffer. In 1990 44.3% of the state budget went to elementary and secondary education. In 2005 that was down to 41.2%.¹ The percentage of the KEEP proposal based on the amounts promised to local districts (although not exactly revealed) is even smaller than 41% so the elementary and secondary share of the state budget would decline further. The higher education share of the state budget has rapidly grown in the same period. As other tax revenues decline as casinos suck up the dollars the schools will not be the winners.

The proponents say this legislation will help the horse industry. They are correct, but it will not help all the industry uniformly. The tracks will handle the money, \$812 million by their estimates. They have promised small percentages to other horse breeds. They will increase purses. They will not, however, increase purses by the same factor of six times, as they increase gambling by that factor. So, breeders and owners will benefit, but nothing like the tracks intend to benefit.

The tracks would be the winners of hundreds of millions to spend as they please. They could refurbish the tracks. They would build the casinos, in some cases even lavishly. The largest tracks with the biggest casinos would make the most money in Louisville, Lexington, northern Kentucky, and in Simpson County drawing upon Nashville.

Churchill would have new millions to invest in other tracks to expand its simulcasting empire, as it has already been doing. Churchill could even move past Magna Entertainment in the world simulcasting environment. The tracks will get rich, empire build and pay much larger dividends. Thus, theoretically, the ultimate winners in this casino proposal are the stockholders in the tracks. The question then becomes who owns the tracks and will get rich?

KEENELAND:

Keeneland does not have shareholders. It is a not-for-profit corporation that invests in the horse industry gives a little to various charities. This does not prevent Keeneland from empire building, since it is a half owner in Turfway Park and a 12% owner of Kentucky Downs in Franklin. Purses could increase from

¹ Chris Kenning, "Schools seek more state revenue," *Louisville Courier-Journal*, October 11, 2005.

their present high level, benefiting breeders and owners. Additional investments will be made, and the charities will benefit.

Who are those charities? Not the ones you normally think of, like the Red Cross, The Salvation Army, or God's Pantry. Unfortunately, the percentage given to charities is smaller than the profits of even some of the beleaguered tracks. Much good press was derived, however, from the distribution of \$700,000 to charities on December 12, 2003. The sum of \$230,000 went to forty-nine organizations that specialize in health and human services (an average of \$4,600). These beneficiaries were followed by charities that really benefit the horse community, like the thoroughbred organizations. The largest amount went to a retraining and adoption facility at the Kentucky Horse Park for retired racing horses. Arts and cultural organizations received \$49,000, but over half that amount went to the Kentucky Horse Park Foundation for its exhibit "All the Queen's Horses." Educational projects received \$59,000.² Of the \$700,000 only \$220,000 went to non-horse related charities. The \$700,000 came from the spring and fall meets. At the fall meet alone \$111,000,000 had been bet on Keeneland races and for the year the figure was well over \$200 million. While revenues are a small percentage of this figure, this is an incredibly inefficient way to raise charitable dollars. By 2005 the amount given away had reached over \$1 million. Still the main recipients were horse related. An example was that Keeneland gave itself the final \$50,000 portion of a \$250,000 five year commitment to build its changing exhibits gallery. Similarly, it gave \$50,000 to Midway College in support of its equine program and counted this as an educational donation, albeit horse related. This is not charity in the usual sense.

TURFWAY

As of August 2005 Turfway is owned by Keeneland and Harrah's. G-Tech (Dreamport) sold its third to the other two partners who presumably each own half. Keeneland's reputation is great, although self-serving as noted above. Harrah's is a subsidiary of Promus, which is the largest casino corporation in the world. Harrah's owns or operates 36 casinos in twelve states with revenues exceeding five billion per year. This is a corporation whose stock is traded on the New York Stock exchange and three regional stock exchanges. In 2003 the net earnings per share were \$2.65 plus dividends of \$.60 while its stock was trading at \$40 to \$49 during that period. Return on average invested capital was 7.8% and return on average equity was 17.9%. Those with large stakes in Harrah's will make even more if the casinos come to Kentucky, but this will not help the horse industry.

A casino at Turfway would enrich the racetrack in Kentucky with the highest purses (Keeneland), and the largest casino corporation in the world (Promus). This hardly seems the kind of help the horse industry needs at the expense of Kentucky families.

² "Keeneland Gives Over \$700,000," *Lexington Herald-Leader*, December 12, 2003, p. E-3.

KENTUCKY DOWNS (Formerly Dueling Grounds)

Kentucky Downs is mainly a thoroughbred and steeplechase track with eight racing dates. Since 1997 it has been wholly owned by a partnership of Churchill Downs, Turfway Park (24%) and three other partners. Turfway Park provides the management for the track. This track stands to proportionately gain the most with a casino. The casino would draw on Nashville and could be as large as those in Lexington and Louisville or Cincinnati.

Who will get rich from Kentucky Downs? One wealthy track (Churchill), one track owned by Keeneland and Harrah's, and three other unnamed investors. By this time it is becoming very clear that the dominant force in Kentucky racing is Churchill Downs, Keeneland and Harrah's. These three entities will become even more wealthy from the casinos, while only relatively small amounts filter down to the rest of the industry. Is it worth it to make a few corporations extremely wealthy at the expense of Kentucky families?

CHURCHILL DOWNS

Churchill Downs has rapidly expanded during the past decade without casinos. Churchill owns four racetracks in 2008 (in KY, LA, IL FL) after divesting itself of two tracks. It owns several track support companies. It owns the second largest simulcasting network in the world. Churchill is very wealthy, with a large credit line and does not need saving on the backs of Louisville families. Churchill donated the track to the city for 25 years in exchange for partial freedom from property taxes and help in getting industrial development loans to refurbish the track. The city gets reduced income and intangibles like a healthy track. Not a balanced deal.

Churchill is publicly traded with hundreds of share holders who would be enriched by a casino through income and dividends. The largest of the shareholders is the wealthy Chicago businessman Duchossois with 30.7% of Churchill following the merger of Churchill with Arlington Park which Duchossois owned. His share of Churchill produces between four and five million a year in income for him. This would dramatically increase with a casino. Along with all the other shareholders (about 96%) who live out of state, all this money flows out of Kentucky, at least half of income after expenses. In addition a large part of the expenses are out of state as well. Kentucky families will support tracks in other parts of the country.

ELLIS PARK

Ellis Park was wholly owned by Churchill Downs. Churchill has managed racing dates and simulcasting to its advantage and not necessarily to the advantage of the local track or community. Churchill has since sold the track.

PLAYERS BLUEGRASS DOWNS

This is a wholly owned subsidiary of a major casino corporation. The profits from this casino would primarily flow out-of-state,

THE RED MILE

According to news reports approximately twenty horsemen own most of The Red Mile. While this track has not been profitable, it would suddenly become so, and these unnamed owners would become very rich, while Kentucky suffers.

THUNDER RIDGE

Thunder Ridge Racing and Entertainment Complex is privately held, and has been in bankruptcy for most of its existence. While it has over 30 racing dates, most of its income comes from simulcasting which has pulled it slowly from debt. The small group who own it would profit immensely. Thunder Ridge is not publicly owned and has no web site.

SUMMARY

Kentucky will benefit the most from casinos at Keeneland and Thunder Ridge because most of the money made by these two entities will stay in state. Possibly most of the profits from The Red Mile would stay in Kentucky, but that depends on how many of the owners are out-of-state. The list of owners is not available to the public.

Kentucky will suffer an outflow of cash from Churchill Downs, Ellis Park, Turfway Park and Kentucky Downs. The outflow is estimated at 50% or more of profits in each of these cases.

Kentucky would benefit the least from a casino at Bluegrass Downs (Paducah) with all the profits flowing out-of-state.

Since half or more of the profits from five of the eight casinos will go out of state a conservative estimate would be that \$254 million of the proposed \$812 million will go out of state. The \$254 million compares to the probable \$300 million that is gambled out of state now. The KEEP estimate of the amount gambled out-of-state is much higher but unrealistic. The \$300 million possibly recovered is much more realistic since much of the out of state gambling is in Vegas, Atlantic City and the Gulf Coast (before Katrina). This would only partially be recovered.

KEEP is asking Kentucky families to lose \$1.2 billion to recover a net of \$50 million of the out flowing dollars.

