

Overview of Video Lottery Terminal Legislation

General Provisions of the Legislation:

- Authorizes the operation of Video Lottery Terminals (VLTs) administered and regulated by the Kentucky Lottery Corporation at approved tracks licensed by the Kentucky Horse Racing Authority
- The number of locations is limited to communities with licensed tracks subject to action by the local government.
- Requires the Kentucky Lottery Corporation to include in their ongoing financial reporting, information relating to gross terminal revenue, net terminal revenue, distribution of VLT funds and lottery expenses relating to the administration and oversight of VLTs.
- VLTs shall be located and operated only on or contiguous to approved track premises.
- Tracks may operate a temporary facility in the same county as the track premises for no more than 12 months but may renew the temporary license for one additional 12 month period.
- Individuals must be 21 years of age to enter a VLT facility, which will be strictly enforced.
- Strict enforcement and oversight of the operations will be conducted by the Kentucky Lottery Corporation.
- Minimum payout (handle returned as prizes) is 85% of amount wagered
- Track facilities must pay an initial application fee of \$25,000 plus an

additional license fee as follows:

- - Turfway Park - \$100 million
 - - Keeneland/Red Mile - \$75 million
 - - Churchill Downs - \$75 million
 - - Kentucky Downs - \$50 million
 - - Ellis Park - \$20 million
 - - Bluegrass Downs - \$20 million
 - - Thunder Ridge - \$20 million
- Licenses for 10 years with subsequent 5 year renewals.
- Allows for one additional license at an approved track and a license fee not to exceed \$100 million -License fee is payable in 2 installments
 - First payment due on date of license approval.
 - Second payment due on one year anniversary of license approval.
 - Lottery Corporation shall establish a central communication system for monitoring, auditing and regulating all VLTs.
 - After initial implementation costs, the Lottery Corporation will be allocated no more than \$2 million annually to administer and oversee VLTs.
 - The tax rate on track facilities operating VLTs shall be:
 - 25% of net terminal revenue in the first 5 years
 - 35% of net terminal revenue after 5 years
 - Net terminal revenue=amount wagered less payout

- Because of the state of the horse industry, a significant portion of the revenue generated shall be allocated to equine interests as follows:
 - .15% of each approved track's net terminal revenue paid to the Ky Quarter Horse Purse Program in all years no approved track runs Quarter Horses as its primary breed
 - 14.5% of net terminal revenue allocated to enhancement of thoroughbred, standardbred and quarter horse equine interests through purse supplements and other incentives
 - 1% of net terminal revenue allocated to Equine Breed Authority which is created to promote non-racing breeds and economic development opportunities within the equine industry
 - \$4 million to the Kentucky Horse Racing Authority
 - .50% of the funds allocated to the tracks shall be spent on capital improvements to backside track facilities

- There shall be no more than 9 total licenses granted by the Horse Racing Authority for live racing

- Additional license shall not be approved at any new facility within a 60 mile radius of an existing facility

Taxation Provisions

- Beginning in tax year January 1, 2010, there shall be a nonrefundable individual income tax credit equal to 50% of the state property tax paid on motor vehicles registered to the taxpayer, not to exceed \$500 per tax year - Estimated savings for taxpayers is approximately \$30 million

- Beginning in tax year January 1, 2011, Kentucky will the exempt all active duty military pay from individual income tax. - Estimated cost is \$18 million. Currently the active duty military pay exemption only covers active duty military pay for military personnel serving in a combat zone (eg. Iraq, Afghanistan).

- Additional sales tax relief is provided for various purchases related to

the breeding, raising, training or transporting equine. Examples of the exemption include machinery, feed, farm chemicals, and on-farm equine facilities. The exemption does not include barns or automobiles, truck and truck-trailer combinations.

- Revenues generated from the VLTs cover the tax reductions associated with the income tax credit for state property taxes on cars, the active duty military pay income tax exemption, and the sales tax exemptions for the equine industry.

- To ensure proper compliance with the Kentucky's income tax laws, the Lottery Corporation will automatically withhold income taxes from each person with VLT winnings in excess of \$1,200.