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# **An Evaluation of Churchill Downs' Tax Increment Financing District**

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## **Abstract**

Tax Increment Financing Districts (TIFs) have become important local government tools in the USA over the last several decades as ways to help bring public and/or private investment dollars into inner city areas and/or older neighborhoods which are deemed to need revitalization. Within the last 10 years, the concept has become popular in Canada, and it has been used as a component piece of enterprise zone programs in other nations. This paper evaluates one of the first Kentucky USA TIFs started around 20 years ago with a preeminent Kentucky horse racing track, Churchill Downs, as the target for investment spending. Some of the desired spinoff effects of such investment are to help bring jobs, investment, and general economic growth to an older and low-income neighborhood which surrounds the track. This paper finds mixed results regarding these outcomes for the area surrounding Churchill Downs.

**Keywords:** Churchill Downs, Economic Development, Horse Racing, Sports, Tax Increment Financing Districts (TIFs)

## **Introduction**

A story a few years ago by a local, Louisville, Kentucky USA public radio station mentions Churchill Downs' state sponsored tax incremental financing (TIF) district among others in the Louisville-Jefferson County area as a way the city is pursuing economic development<sup>1</sup>. Churchill Downs is a premier horse racing track and hosts the Kentucky Derby each May, an event which has gambling revenue and is watched by viewers from around the world.<sup>23</sup> TIFs can be used either to help public or private entities, and in general, are local economic development initiatives in which a government sells bonds to redevelop infrastructure or pay for new parks or urban space in a particular areas or to assist a business or set of businesses within a specified geographic area with local tax rebates in return for these entities making certain investment amounts or meeting certain employment goals. Any private sector investment is assumed to have positive benefits to a local community. Businesses can either keep or have refunded to them certain taxes in lieu of or in consideration of a specified amount of investment within an agreed period of time. Any property tax differences between old amounts paid and newer amounts (post investment amounts) paid is recaptured by the investing business/businesses and in that way TIFs are somewhat different from business improvement districts (BIDs)<sup>2</sup>. For public works, expected future gains in property values among residents are often used to underwrite any bonds that are issued to make redevelopment possible with tax differentials going to pay for bond principal and interest<sup>4</sup>. Some TIFs within Jefferson County, the county in which Louisville is located, get money back on both local and state taxes whereas the one for Churchill Downs only receives back state tax dollars in return for making investment. The Churchill Downs TIF has an activation date of 2005 and has a time period of 20 years. The

amount of taxes estimated to be saved by Churchill Downs is up to \$25 million (state corporate income and state sales taxes) on up to \$125 million in investment<sup>5</sup>.

TIFs or something close to them probably have existed in one form or another in various parts of the world since at least the dawn of the enterprise zone (EZ) concept in the late 1970s which started in the United Kingdom and then spread to the US and other regions of the globe<sup>6</sup>. The EZ concept has as its main goal the redevelopment of older, deteriorated inner city neighborhoods through the fostering of private sector investment in these neighborhoods via less regulation, lower labor and capital costs, and lower taxation. Some of these programs have featured property tax abatement or property tax waiver programs, and so in that way TIFs have been around in other nations for quite some time although most of the literature on TIFs explored for this paper mention examples and programs from the US. Only recently has Canada adopted TIFs in some of its cities, and there they are called “community revitalization levies” or CRLs<sup>7</sup>.

One of the major aims of TIF districts whether in Kentucky or elsewhere is to spur economic development and advancement in “poor and blighted” areas<sup>8</sup>. Several metrics used to assess local rehabilitation are changes in the number jobs, changes in property values, changes in population numbers, and changes in income for the targeted areas. As US Bureau of the Census (Census Bureau for short)<sup>9</sup> data in Tables 1 and 2 below show, Jefferson County Census Tract 38 and US Post Office Zip Code 40208 in which Churchill Downs is located have been areas in some ways behind the rest of Jefferson County over the last two decades or so when it comes to economic vitality. Both time periods overlap with the Churchills Down TIF district era of 2005 to present, and both the tract and zip code have been the intended beneficiaries of the TIF district.

## Analysis

According to Table 1 below, Census Tract 38 in Louisville, which is just one tract among several within the 40208 zip code within Louisville, shows an increase in the unemployment rate greater than that of Jefferson County yet a decrease in the poverty rate compared to Jefferson County over the 2000 to 2019 period. Nonetheless, the unemployment and poverty rates are still higher than those of Jefferson County. Inflation adjusted median household income (base year = 2000) also grows for the tract from 2000 to 2019 but still lags behind that of the county<sup>10</sup>. This area also loses population from 2000 to 2019. Most of all, contrary to a TIF goal of increasing property values, Census Bureau data show that the median value of owner-occupied housing in the tract declined when adjusted for inflation and lost around \$15,000 in value.

**Table 1**

	<b>2000</b>	<b>2019</b>	<b>Chg.</b>
<b><u>Census Tract 38</u></b>			
Unemployment Rate	4.1%	9.7%	+5.6%
Inflation Adj. Median Household Income (2000 prices)	\$25,315	\$28,258 <sup>1</sup>	+\$2,934
Pct. Below Poverty	21.8%	16.7%	-5.1%
Population 16 years and over	3,256	2,548	-708
Inflation Adjusted Median Value Owner-Occupied Housing	\$58,000	\$42,763	-\$15,237
<b><u>Jefferson County</u></b>			
Unemployment Rate	3.3%	5.4%	+2.2%
Inflation Adj. Median Household Income	\$39,457	\$37,977	-\$1,480
Pct. Below Poverty	12.4%	14.2%	+1.8%
Population 16 years and over	543,567	615,691	+72,124
Inflation Adjusted Median Value Owner-Occupied Housing	\$103,000	\$117,171	\$14,171

**Table 2**

	<b>2004</b>	<b>2019</b>	<b>Chg.</b>
<b><u>Zip Code 40208 Business Data</u></b>			
Number of Establishments	312	290	-22
Number of Employees	5,536	5,842	+306
Inf. Adj. Annual Payroll	\$190.95 M	\$192.8 M	+\$1.85 M
<b><u>Jefferson County Business Data</u></b>			
Number of Establishments	20,008	19,914	-94
Number of Employees	400,096	459,514	+59,818
Inf. Adj. Annual Payroll	\$13.076 M	\$16.5 M	+\$3.42 M

In looking at Table 2 above, both the zip code and the county lose private sector employers but gain in jobs from 2004 to 2019. The loss of business establishments is around 7% for the zip, and it is 0.4% for the county. The gain of 306 jobs for the tract is 5.5% over its 2004 level whereas the gain of nearly 60,000 jobs for Jefferson County since 2004 is almost 15%. The zip code gains almost 10% in inflation adjusted annual payroll whereas the county gains roughly 27% in payroll. According to IMPLAN<sup>11</sup>, Churchill Downs has approximately 2,000 employees many of whom would work in the 40208 zip code.

### **Discussion**

Given that the tract and the areas within the 40208 zip code can be considered “poor and blighted” because of their year 2000 circumstances, can one consider the Churchill Downs TIF to be successful regarding an economic boost to its surrounding neighborhood? Holding all else constant, the results appear to be mixed at best. Gains have been made yet not at the same rate as Jefferson County in general. If all of Churchill Downs’ tax credits have been taken or claimed by it, and if all the promised investment has been undertaken since 2005 and within the first few

years of the TIF being created, then each of the 306 jobs created since 2004 in the area have cost taxpayers \$81,700 per jobs and have required around \$408,500 in investment per job. This seems to be fairly expensive. Unfortunately it is problematic to pinpoint how much of the investment and incentive dollars have been spent or exercised. In correspondence with Mr. Tim Bennett of the Kentucky Department of Revenue, the author has learned that Kentucky Revised Statute (KRS) 131.190 prevents releasing such information. Only aggregate numbers for TIF credits are disclosed, and even then only for the last few years<sup>12</sup>. However, it is doubtful that Churchill Downs would wait very long after 2005 in order to exercise the incentives given the impact of inflation over time as well as various reports over the years citing renovations at the track totaling millions of dollars. For example, Finley<sup>13</sup> writes that \$121 million in renovations had been completed by May 2005 after a three year construction time frame. The track's TIF was authorized in 2002 and activated in January 2005. Since then one press account notes various renovation projects and their completions in subsequent years up to 2016 totaling around \$230 million<sup>14</sup>.

On the other hand, as attendance at Churchill Downs has declined over the year from around 923,541 in 2003 to 776,227 in 2014, the last year for which the Kentucky Horse Racing Commission gives attendance numbers in its annual reports<sup>15</sup>, and with a decline in on track betting over the years due to the growth of online gambling outlets for both horse racing and other sports or games and due to intense competition from lotteries and casinos<sup>16</sup>, the need for more workers at Churchill Downs or nearby restaurants and hotels may not be as great as it has been in the past. In this way, with horse racing wagering slumping, the investment may appear to have been wasted on upgrading track facilities. As Barton notes, only around 25% of Churchill Downs' total revenues now come from its track as the corporation has diversified into

casinos and racinos (an establishment which is a combination casino and racetrack) in other parts of the United States<sup>17</sup>. Finally, although many firms will take government tax incentives offered to them in return for making investments, there is evidence that often the investment would have been undertaken by the firms regardless of the incentives offered<sup>18</sup>. Considerations of returns on investment often involve more than just tax considerations alone.

### **Conclusion**

Nonetheless, if the overall economic impact of the Kentucky Oaks and Kentucky Derby, two of the premier horse racing events of the world every May at Churchill Downs is estimated to be over \$400 million annually for the Louisville metro area<sup>19</sup>, then one possibly could justify heavy tax incentives or investment per job. Also, on a twenty-year basis, the \$25 million in incentives amount to only \$1.25 million per year in nominal terms over a twenty-year period. At the same time, Louisville and Jefferson County already have several other large employers in the area (Ford Motor Co., GE Appliance Park, United Parcel Service, etc.) which receive or have received substantial tax breaks in the past. According to IMPLAN, Ford has over 10,000 employees in Jefferson County and contributes nearly \$25 *billion* annually to the Louisville economy through its operations and those of its suppliers. However, it is not part of any TIF district.

At best, the TIF for Churchill Downs has seen some benefits for the city and county in general in that the track has been upgraded for two major, annual sports events but has come up short with respect to other goals of greatly alleviating the challenges of the neighborhood surrounding it. Any positive “spillover effects” to surrounding neighborhoods and businesses appear to be very small. Despite the fact that TIFs are usually claimed to help increase residential property values throughout a targeted area<sup>20</sup>, this does not appear to be the case with



the Churchill Downs TIF. Perhaps this would not be so if horse racing's popularity had not gone into a period of decline and had there been more activity at the track during all racing meets during the year rather than those for just two days in May. Churchill Downs might not have been able to anticipate this in the early part of the current century, however, and might have underestimated the intense competition from other forms of gambling.

#### **About the author:**

Thomas Lambert is an Assistant Professor of Economics and Equine Administration at the University of Louisville's College of Business. He has published in various journals such as the *Cambridge Journal of Economics*, *Economic Development Quarterly*, *Regional Science Policy and Practice*, and *Journal of Economic Issues*. Much of his research has focused on local and regional economic development.

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