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**AN ANALYSIS OF PARI-MUTUEL RACING'S CONTRIBUTIONS
TO THE SOUTH DAKOTA TOURIST INDUSTRY AND
TO PUBLIC FINANCE IN THE STATE**

BY

GENE LOHRKE

A thesis submitted
in partial fulfillment of the requirement for the
degree Master of Science, Department of
Economics, South Dakota State
College of Agriculture
and Mechanic Arts

August, 1963

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**AN ANALYSIS OF PARI-MUTUEL RACING'S CONTRIBUTIONS
TO THE SOUTH DAKOTA TOURIST INDUSTRY AND
TO PUBLIC FINANCE IN THE STATE**

This thesis is approved as a creditable, independent investigation by a candidate for the degree, Master of Science, and is acceptable as meeting the thesis requirements for this degree, but without implying that the conclusions reached by the candidate are necessarily the conclusions of the major department.

Thesis Adviser

Head of the Major Department

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This thesis is dedicated to the memory of the author's mother.

GL

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CHAPTER I

INTRODUCTION

South Dakota income from the tourist trade in 1960 was greater than the value of all corn or wheat produced and approached one-fourth of the value of all livestock on South Dakota farms in 1960.¹ Thus, the tourist industry is an important factor in the economy of the state, and it is likely to become an even more important factor in the future.

A little known aspect of the South Dakota tourist industry is that a number of non-residents come into the state to attend pari-mutuel horse and greyhound dog racing and spend money during such attendance. This study proposes to investigate this aspect of the state's tourist industry.

Pari-mutuel racing is a spectator sport that is somewhat unique, when compared to such sports as football and basketball. Each and every race on the program is a separate challenge to the person's gambling instinct. This challenge is easily accepted by merely going to the pari-mutuel window and wagering two dollars. At the window, the racing fan pits his knowledge of the sport against that of others. He is sometimes right and often wrong, and usually not without an explanation for his mistakes.

¹Cooperative Extension Service, South Dakota State College, Bulletin F. S. 111, What Recreation Means to South Dakota, p. 1.

If a person has the ability to weigh the variables in a race correctly, and to make the correct wager, he will not only be able to satisfy his gambling instinct and ego, but will have his winnings to prove his prowess. A person cannot always win, but the losses can be rationalized.

Racing can be considered as a type of business as well as a sport, and indeed some people do make it a full time occupation, while others make it their primary avocation. Some of the similarities of business and gambling may be gathered from the following quotation by the famous English Economist, John Maynard Keynes, "The game of professional investment is intolerably boring and overexacting to anyone who is entirely exempt from the gambling instinct; whilst he who has it must pay to this propensity the appropriate toll."²

Objectives of the Study

The first objective is to show the number of dollars added to the South Dakota economy from wagering and non-wagering expenditures of non-residents in connection with their trips to South Dakota pari-mutuel race tracks, and to compare these expenditures with other types of tourist expenditures.

The second objective is to show the impact, the incidence, and the amount of the pari-mutuel tax; the amount of the tax paid by

²John Maynard Keynes, The General Theory of Employment, Interest, and Money, p. 157, Harcourt Brace and Company: New York, 1935.

non-residents; and to estimate the potential tax revenue from present and alternative pari-mutuel tax rates.

To attain the first objective of this study the following procedures were used:

(1) To determine the number of non-residents coming into the state to attend racing, a license plate survey was made at the three largest race tracks in South Dakota.

(2) To determine the amount of wagering and non-wagering expenditures of tourists attending pari-mutuel racing in the state, a questionnaire was used in connection with the study.

(3) To show the importance of this type of tourism, it was compared with several other types of non-resident tourist activities in South Dakota.

To attain the second objective the following procedures were used:

(1) The impact of the tax (those who make the initial tax payments) was presented by quoting the state statutory regulations in regard to pari-mutuel betting in South Dakota. The incidence of the tax (those who ultimately pay it) was assumed to be shifted to those wagering. The amount of tax payment is reported from the State Department of Audits and Accounts Report.

(2) To make a projection of future pari-mutuel racing tax revenues that may be received under the present South Dakota pari-mutuel tax rates, previous collections under this tax were used.

(3) To compare the South Dakota pari-mutuel tax rates with those of other states having pari-mutuel horse and greyhound racing, information was obtained from tax services and from state racing commissions regarding other pari-mutuel tax structures.

Method of Investigation

The number of non-residents coming into the state was estimated by making a license plate survey of the various South Dakota pari-mutuel tracks.

To estimate the amount of moneys spent by non-residents a questionnaire was distributed at the leading pari-mutuel tracks in South Dakota. These tracks include Sodrak Park, located near North Sioux City, South Dakota, and the Black Hills Kennel Club, located near Rapid City, South Dakota. Both of these tracks are greyhound racing tracks. The other important pari-mutuel track surveyed was Park Jefferson, a thoroughbred horse racing track, located near Jefferson, South Dakota. There are two other horse racing tracks within South Dakota that were not surveyed, one located at Aberdeen and the other at Fort Pierre. Non-resident expenditures at these tracks was thought to be rather insignificant because of their central location in the state and because each operated for less than nine days during the 1962 season.³ While non-resident expenditures will not be estimated for these two tracks the

³State of South Dakota, Department of Audits and Accounts, Report on Audit State Racing Commission, 1962; Pierre, South Dakota: p. 5.

total pari-mutuel wagering and taxes collected from them will be considered in this thesis.

The questionnaire used in the study was distributed on July 28, 1962, at both Park Jefferson and Sodrak Park. At the two tracks questionnaires were given to people who agreed to fill them out and return them by mail. Three hundred and twenty-one questionnaires were handed out at Park Jefferson, and 917 were handed out at Sodrak Park, of these 216 were returned or 17.4 percent of the total.

On August 4, 1962, 407 additional questionnaires were handed out at the Rapid City track with 39 being returned or 9.6 percent. At Rapid City the questionnaires were merely handed to patrons as they entered the gate with no attempt being made to ask them if they would be willing to fill in the questionnaire and return it, nor was any attempt made to explain, in person, the purpose of the survey. This probably accounts for the lower percentage of returns. The foregoing questionnaire was used to estimate both racing and non-racing expenditures.

The future tax revenues are projected on a basis of the receipts from pari-mutuel sales for the years 1954-1962 inclusive. The managers of the present tracks within the state were contacted to learn of any plans for expansion of present facilities. Expansion and improvement plans were taken into consideration in making the projection.

The tax rates of South Dakota were compared with those of all other states having both horse and greyhound racing; in addition three states were chosen for a closer and more direct comparison. These three states were compared not only in the area of tax yield, but in the area of costs of collection and administration of pari-mutuel racing.

CHAPTER II

WAGERING AND RELATED EXPENDITURES OF NON-
RESIDENTS ATTENDING PARI-MUTUEL RACING
IN SOUTH DAKOTA

The purpose of this chapter is to present information about non-residents coming into South Dakota to attend horse and greyhound racing. In particular this chapter will provide the reader with the following information:

- (1) the number of non-residents attending pari-mutuel racing in South Dakota,
- (2) the importance of racing in attracting non-residents to South Dakota,
- (3) the amount of money spent in South Dakota in 1962 by non-residents coming into the state, and attending racing,
- (4) the percentage of the pari-mutuel tax paid by non-residents, and
- (5) a comparison of the economic importance of non-residents attending racing in South Dakota with those coming into the state for the sporting activities of hunting and fishing.

The Number of Non-residents Attending the
Races in South Dakota

To estimate the number of people coming into South Dakota to attend racing, a survey was made of the total number of automobiles and of the license plates represented at the tracks in a single day. The

day chosen for this survey was Saturday, August 11, 1962. According to the various tracks holding racing on August 11, 1962, attendance totaled 7,937 on this particular Saturday. While it is recognized that some automobiles with non-resident licenses were perhaps owned by residents, it is also assumed that some automobiles with South Dakota licenses were owned by out-of-state residents. For estimation it was assumed that if these two adjustments were made they would cancel out.

The results of the non-resident attendance at Sodrac Park, Park Jefferson, and the Black Hills Kennel Club are given on the following pages.

Sodrac Park Non-Resident Attendance

There was a total of 1,969 automobiles license plates in the survey of Saturday, August 11, 1962, and 849 in the survey of Wednesday, September 5, 1962. The second survey was made in order to compare the results of the tabulation on a weekend evening with that of a mid-week evening. Table 1 shows the states that were represented by ten or more automobiles in these surveys.

Park Jefferson Non-Resident Attendance

In the survey of Park Jefferson, a total of 858 automobiles was tabulated on August 11, 1962. Only one survey was made of this pari-mutuel track. It operated only on weekends during the 1962 season. Table 2 shows the states that were represented by ten or more automobiles in this survey.

Table 1. Principal States Represented by Automobile License Plates at Sodrac Park August 11, and September 5, 1962

State	Number of automobiles		Percent of the total	
	August 11	September 5	August 11	September 5
Iowa	998	575	50.7	67.7
Nebraska	526	144	26.7	17.0
South Dakota	316	94	16.0	11.1
Minnesota	49	13	2.5	1.5
Florida	24	11	1.2	1.3
Missouri	14	--*	.7	---
Other states	<u>42</u>	<u>12</u>	<u>2.1</u>	<u>1.4</u>
Totals	1,969	849	99.9**	100

*Less than ten tabulated

**Total does not add to 100 percent because of rounding

The figures for the two parks indicate that about one-half of the total attendance is made up of residents from Iowa, about one-fifth from Nebraska, and one-sixth from South Dakota.

Table 2. Principal States Represented by Automobile License Plates at Park Jefferson, August 11, 1962

State	Number of automobiles	Percent of the total
Iowa	462	53.8
Nebraska	153	17.8
South Dakota	139	16.2
Minnesota	45	5.2
Florida	14	1.6
Other states	<u>45</u>	<u>5.2</u>
Totals	858	99.8*

*Total does not add to 100 because of rounding

From an analysis of the Iowa and Nebraska license plates in tables one and two, it was found that Woodbury County, Iowa, and Douglas County, Nebraska, the counties in which Sioux City, Iowa, and Omaha, Nebraska, are located made up 48.9 percent of the total automobiles in table one for the night of August 11, 1962, and 61.2 percent for September 5, 1962. In Table 2 the two counties made up 43.8 percent of the total attendance. Therefore, these two urban counties play a large role in the attendance picture of Park Jefferson and Sodracs Park.

The reason for a smaller non-resident population at the horse track could be partially attributed to the fact that the state of Nebraska also has pari-mutuel horse tracks within its borders. Nebraska does not have any greyhound tracks, however. This could explain why, on August 11, 1962, 17.8 percent of the automobiles at Park Jefferson carried Nebraska license plates, while on the same day 26.7 percent of the automobiles at Sodracs Park carried Nebraska license plates. Park Jefferson operated during the afternoon, while Sodracs Park operated during the evening. Thus, people were free to go to either one or both of the tracks in a single day.

Iowa residents have neither a horse track nor a greyhound track within their own state and, therefore, come into South Dakota in order to participate in pari-mutuel racing.

The percentage of non-residents attending pari-mutuel racing in southeastern South Dakota is believed to be large because of the following:

- (1) the tracks are located close to the borders of three

neighboring states,

(2) several large cities located in Iowa and Nebraska are within easy driving distance of the tracks,

(3) there is no pari-mutuel greyhound racing in Iowa, Nebraska or Minnesota, and no pari-mutuel horse racing in Iowa or Minnesota.

Black Hills Kennel Club Non-resident Attendance

At the Black Hills Kennel Club there was a total of 568 automobiles counted in the license plates tabulation. Table 3 shows the states represented by ten or more automobiles.

Table 3. Principal States Represented by Automobile License Plates at the Black Hills Kennel Club, August 11, 1962

State	Number of automobiles	Percent of the total
South Dakota	388	68.3
Nebraska	26	4.6
Minnesota	24	4.2
Iowa	16	2.8
Michigan	14	2.5
Colorado	12	2.1
Illinois	12	2.1
Other states ^{1/}	<u>76</u>	<u>13.4</u>
Totals	568	100

^{1/}The States represented in the other state classification and the number of license plates tabulated from each state were: Alabama 1, Arizona 2, California 9, Florida 3, Georgia 1, Hawaii 1, Idaho 1, Indiana 3, Kansas 4, Louisiana 2, Missouri 3, Montana 5, New Jersey 1, New Mexico 1, New York 4, North Carolina 2, North Dakota 9, Ohio 4, Oklahoma 1, Oregon 1, Pennsylvania 2, Texas 9, Washington 2, Wisconsin 7, Wyoming 8, British Columbia 1.

The Rapid City track does not draw as many non-residents as do the two southeastern South Dakota tracks. It is not located as near the border of neighboring states, and it is not near any large out-of-state city.

Of the total South Dakota population attending the Rapid City track during the night of the survey, about 75 percent came from Pennington County, the county in which Rapid City and the track is located.

Thirty-two different non-resident license plates were counted in the Rapid City survey. The survey indicated that most of these non-residents did not come to South Dakota for the purpose of attending the races, but came primarily to vacation in the Black Hills area.

Summary of Attendance at the Various Tracks

The study found that on August 11, 1962, there was a total of 4,244 automobiles on the parking lots of the three major South Dakota pari-mutuel race tracks, Park Jefferson, Sodracs Park, and the Black Hills Kennel Club. Of these automobiles 3,307 or 77.9 percent had license plates from states other than South Dakota. The license plate ratio of automobiles from resident and non-resident states will be used in this thesis to estimate the population ratio of residents and non-residents attending pari-mutuel racing in South Dakota.

It is expected that the distribution of these license plates will reflect the geographical distribution of people attending the pari-mutuel races. Some people do arrive at the race tracks in taxi cabs, which were not counted in the survey and, in the case of Sodracs Park,

a special bus from Omaha, Nebraska, is run to the track. On August 11, 1962, two busses made this trip.

Table 1 indicates that the attendance of South Dakota residents on August 11, 1962, at Sodrac Park was 16 percent of the total. This figure will be used as a weekend average for the year. On September 5, 1962, an estimated 11.1 percent of the total attendance was made up of South Dakota residents. Likewise, this figure will be used as a weekday average for the year.

According to estimates of Ken Guenther, general manager of Sodrac Park, the average attendance on week nights is somewhat over 2,000 persons. The average attendance on Friday nights is about 3,000 and on Saturday nights about 5,000. Thus, about one-half of the attendance is accounted for on the weekend evenings of Friday and Saturday. If the two totals are averaged, then the overall attendance of Sodrac Park is made up of about 13.6 percent residents and 86.4 percent non-residents.

At Park Jefferson, the license plate count may give a truer picture of the distribution of population between residents and non-residents as fewer people arrived in taxi cabs and no special busses were run on August 11, 1962.

Park Jefferson only operated on week-ends during the 1962 season and thus the attendance figures on non-residents for that track on August 11, 1962, was assumed to prevail during the entire season for the purposes of this study. The attendance figures for Park Jefferson were

then considered to be 16.2 percent residents and 83.8 percent non-residents.

In the survey of the Black Hills Kennel Club attendance was estimated to be made up of 68.3 percent residents and 31.7 percent non-residents. The above figures were used as estimates of the prevailing attendance ratios during the entire 1962 season.

The total attendance of the five pari-mutuel race tracks in South Dakota during 1962 was estimated to be 470,000.⁴

Replies to the questionnaire of July 28, 1962, showed that only 23 of the 255 people replying were attending the races for the first time. Thus, much of the attendance appears to be made up of people who attend the races regularly.

The attendance at Sodrak Park during the 1962 season was estimated at 245,682, Park Jefferson attendance was estimated to be 135,703, and at the Black Hills Kennel Club attendance was estimated at 80,000.⁵

Table 4 uses the resident and non-resident figures for the three parks to estimate the total number of non-residents attending racing during the 1962 season. As stated in the introduction, only the figures for Sodrak Park, Park Jefferson, and the Rapid City track will be given as it is believed that few non-residents are attracted to the two smaller tracks at Aberdeen and Fort Pierre.

⁴News item in Minneapolis Tribune, December 9, 1962.

⁵Ibid.

The total non-resident attendance figure is estimated to be 351,348, for the season of 1962.

Table 4. Estimated Attendance of Residents and Non-Residents at South Dakota's Major Pari-Mutuel Racing Tracks During the 1962 Season

Track	Total attendance	Resident attendance	Non-resident attendance
Sodrac Park 13.6% resident	245,682*	33,413	212,269
Park Jefferson 16.2% resident	135,703*	21,984	113,719
Rapid City 68.3% resident	<u>80,000*</u>	<u>54,640</u>	<u>25,360</u>
Totals	461,385	110,037	351,348

Source: *News item in Minneapolis Tribune, December 9, 1962, datelined Pierre, South Dakota.

Importance of Racing in Attracting Visitors to South Dakota

In the survey of Sodrac Park and Park Jefferson it was found that of the 198 non-residents returning questionnaires, 183 stated that they came into South Dakota for the primary purpose of attending the pari-mutuel races. Of the other 15, six did not answer the question, three stated that racing had played some part in their decision to come to South Dakota, but it was not their primary reason for coming. Therefore, of the non-resident attendance of these tracks, 92.4 percent came primarily for racing.

The reasons given for coming into South Dakota for those nine people who did not come primarily for racing were as follows:

Business-----	2	Buy Livestock-----	1
Sightseeing-----	2	Fishing-----	1
Visit Relatives---	2	Trapshooting-----	1

In the survey of the Rapid City track it was found that of the 13 non-residents returning questionnaires, one stated that he had come into South Dakota for the primary purpose of attending the pari-mutuel races. Of the other 12, four stated that racing had played some part in their decision to come to South Dakota, but that it was not their primary reason for coming. Therefore, despite the small sample, it will be assumed for the purposes of this study that of the non-resident attendance at the Rapid City track 7.6 percent came primarily for racing.

The reasons given for coming into South Dakota for those 12 people who did not come primarily for racing were as follows:

Vacation-----	9	Military service----	1
Business-----	1	Work-----	1

Tax Money Collected From Non-Residents Attending Pari-Mutuel Racing

The reported amount wagered at Sodrac Park in 1962 was \$9,970,503; at Park Jefferson \$4,147,396; and at the Black Hills Kennel Club \$2,538,003.⁶

Allocating the tax on the basis of the percent of resident and non-resident attendance at each track, it can be seen in Table 5 that

⁶State of South Dakota, Department of Audits and Accounts, op. cit., p. 5.

the total amount of pari-mutuel tax collected from non-residents, was \$551,598.62.

The questionnaire used as a part of this survey showed betting rates of residents and non-residents to be nearly equal. On the sample night, residents attending Sodracs Park wagered an average of \$48.00, while non-residents wagered an average of \$49.00.

Table 5. Estimated Amount of Tax Paid by Residents and Non-Residents at South Dakota's Major Pari-Mutuel Racing Tracks During the 1962 Season

Track	Total mutuel tax collected	Residents share of the tax	Non-residents share of the tax
Sodracs	\$478,525.15	\$ 65,079.42	\$413,445.73
Jefferson	\$124,421.88	\$ 20,156.34	\$104,265.54
Black Hills	<u>\$106,900.15</u>	<u>\$ 73,012.80</u>	<u>\$ 33,887.35</u>
Totals	\$709,847.18	\$158,248.56	\$551,598.62

The state of South Dakota collected a total of \$717,722.96 from the pari-mutuel tax in 1962.⁷ Of this total, \$709,847.18 was collected at the three major tracks shown in Table 5. The remaining sum of \$7,875.78 was collected from the tracks at Aberdeen and Fort Pierre. Thus, about 76.8 percent of South Dakota's pari-mutuel tax was paid by non-residents in 1962.

⁷Ibid.

Other Expenditures of Non-Residents Coming Into
South Dakota for the Purpose of Attending
Pari-Mutuel Racing

On July 28, 1962, 1,238 questionnaires were distributed at Sodracs Park and Park Jefferson. Of this total 216 were returned. One hundred and ninety-eight of those returned came from non-residents and 18 from residents. These questionnaires were distributed primarily to obtain information on expenditures of race track patrons.

On August 4, 1962, 407 additional questionnaires were distributed at the Rapid City track with 39 being returned. Of these, 13 were from non-residents while 26 were returned from residents of South Dakota. A total of 255 replies were thus received in the survey, of which 211 replies came from non-residents and 44 from residents of South Dakota.

Because of the geographical location of Sodracs Park and Park Jefferson, much of the money spent by patrons attending these two tracks for such items as food, drinks, amusements, and lodging, is spent in Iowa or Nebraska. There are no large cities in South Dakota located near either of these tracks, and the several small towns in the area cannot compete very successfully with Sioux City, Iowa, or South Sioux City, Nebraska. The facilities for handling a large number of tourists are much better in both of these cities than they are in nearby South Dakota towns.

Table 6 shows the total moneys spent by non-residents on this trip to Park Jefferson and/or Sodracs Park. This table excludes money spent on wagering. The total is shown to be \$1,925.56. This is an average of \$8.91 per the 216 non-residents replying.

Table 6. Estimated Number of People Making Expenditures in South Dakota on Various Items and Estimated Amount of These Expenditures as Reported by Non-Residents Attending Racing at Park Jefferson or Sodrak Park Race Tracks, July 28, 1962

Type of expenditure	Total in sample	Total replies listing this expenditure	Total moneys expended on this item	Percent of total expenditures
Food	216	115	\$ 806.05	41.9
Lodging	216	3	\$ 30.00	1.6
Amusements other than racing	216	26	\$ 144.60	7.5
Beer & Liquor	216	81	\$ 325.20	16.9
Gasoline	216	72	\$ 313.12	16.3
Automobile Expenses	216	9	\$ 40.00	2.0
Miscellaneous Expenses	<u>216</u>	44	<u>\$ 266.50</u>	<u>13.8</u>
Totals	216		\$1,925.56	100

Note. The total expenditures shown in Table 6, when divided by the 216 persons in the sample gives an average expenditure of \$8.91 for each questionnaire returned.

For about 80 percent of the questionnaires the figure included expenses for the entire family. For the other 20 percent the expenses were for a single person.

The \$8.91 figure is not a large expenditure, but when this is multiplied by the estimated total of non-resident attendance at the two southeastern South Dakota pari-mutuel tracks, given in (Table 4), its

importance to the economy of South Dakota can better be realized. This has been done in Table 8 with the \$8.91 figure being reduced to \$6.00 because the larger figure represents expenses for a family unit and it is assumed that about one-third of the attendance was made up of persons from the same family unit.

Table 7 is an estimate of the total moneys spent by non-residents on their trips to the Rapid City track. The \$30.53 average expenditure

Table 7. Estimated Number of People Making Expenditures in South Dakota on Various Items and Amount of These Expenditures as Reported by Non-Residents Attending Racing at the Rapid City Race Track, August 4, 1962

Type of expenditure	Total in sample	Total replies listing this expenditure	Total moneys expended on this item	Percent of total expenditures
Food	13	9	\$102.95	26.0
Lodging	13	8	\$112.00	28.2
Amusements other than racing	13	7	\$ 76.75	19.3
Beer & Liquor	13	5	\$ 19.20	4.8
Gasoline	13	8	\$ 72.00	18.1
Automobile Expenses	13	2	\$ 8.00	2.0
Miscellaneous Expenses	<u>13</u>	1	<u>\$ 6.00</u>	<u>1.5</u>
Totals	13		\$396.90	99.9*

Note. The total expenditures shown in Table 7, when divided by the 13 persons in the sample gives an average expenditure of \$30.53 for each questionnaire returned.

figure shown in Table 7 has also been reduced by about one-third or to \$20.00 for the purposes of Table 8. This too was done because the figure represents money spent by family units.

The largest expenditure of those attending the Rapid City track was for lodging, while the largest expenditure at the two southeastern South Dakota tracks was for food. This is true largely because most persons attending the southeastern tracks reported that they returned to their homes the same day, while most of those attending the Rapid City track purchased lodging in South Dakota.

For those non-residents who attended Park Jefferson or Sodorac Park but did not come to the state primarily to attend the races, seven of the nine replied that they spent an additional \$129.00 because they attended the races. This is an average of \$14.33 for the nine questionnaires returned in this category. This figure does not include money spent on wagering.

For those non-residents who attended the Rapid City track but did not come to the state primarily to attend the races, nine of the twelve replied that they spent an additional \$240.00 because they attended the races. This is an average of \$20.00 for the 12 questionnaires returned in this category. This figure, also, does not include moneys wagered.

No attempt has been made to determine exactly what, if any, part of the money spent while attending the races, might have been spent in South Dakota on other goods. It is likely that at least some of the money would have been spent in the state had there been no opportunity to attend and spend at the races. It would seem, however, that at least

some of this money represents additional expenditures, and such expenditures result in additional tourist dollars which should help to stimulate the economy of South Dakota.

The total moneys spent by non-residents coming into South Dakota to attend the various pari-mutuel race tracks is estimated in Table 8 to be about \$4,287,227.31. This total assumes that 86 percent of the moneys wagered, minus "breaks"* is returned to non-residents in winning tickets. Thus, the money paid in tax and the money retained by the tracks is spent by non-residents in South Dakota.

The \$6.00 and \$20.00 used as multipliers in line five of Table 8 are estimates of money spent by non-residents, and reflect figures arrived at on pages 19 and 20. The \$9.55 and \$13.33 used as multipliers in line seven of Table 8 reflect totals arrived at on page 18. These totals have, however, been reduced by about one-third, or from \$8.91 to \$6.00 and from \$30.53 to \$20.00 for line five. For line seven they have been reduced from \$14.33 to \$9.55 and from \$20.00 to \$13.33. This was done because the figures represent expenses for a family unit, and it was felt that at least some of the attendance at the various tracks was made up of more than one member of the family unit. Single persons would not be much affected by this; however, some married persons would have most likely taken other members of their family to attend the races and have been counted in the attendance figures of the various tracks. One-third of the total attendance was considered to be of this type.

*Defined in chapter three on page 37.

Table 8. Data on the Estimated Amount of Money Spent in 1962 by Non-Residents Attending the Various Pari-Mutuel Race Tracks in South Dakota

	Park Jefferson & Sodrac Park	Black Hills Kennel Club	Totals
(1) Total pari-mutuel tax paid by non-residents	\$ 517,711.27	\$ 33,887.35	\$ 551,598.62
(2) Money wagered by non-residents that in retained by South Dakota tracks minus the state pari-mutuel tax	\$1,267,263.53	\$ 84,475.82	\$1,351,739.35
(3) Percent of non-residents coming to South Dakota primarily for racing	92.4	7.6	
(4) No. of persons ^{1/} attending primarily for racing	301,312	193	
(5) Total moneys spent ^{2/} by those included in group (4) above not including money wagered.	\$1,807,872.00	\$ 3,860.00	\$1,811,732.00
(6) No. non-residents ^{3/} attending racing that did not come primarily for racing	24,775	25,173	
(7) Total moneys spent ^{4/} by those included in group (5) not including wagering	\$ 236,601.25	\$335,556.09	\$ 572,157.34

Table 8 (continued)

	Park Jefferson & Sodrac Park	Black Hills Kennel Club	Totals
Total			\$4,287,227.31

Source: Line one, taken from Table 5 of this study.

Line two, taken from State of South Dakota, Department of Audits and Accounts, Report on Audit of State Racing Commission, 1962, p. 8, 9, 10; and from resident and non-resident attendance figures in Table 4 of this study.

Line three, taken from page fourteen of this study.

Note: 1/ The line four figures were obtained by multiplying line three figures by non-resident attendance given in Table 4.

2/ The line five figures were obtained by multiplying line four figures by six dollars and twenty dollars respectively.

3/ The line six figures were obtained by subtracting line four figures from those given in Table 4.

4/ The line seven figures were obtained by multiplying line six figures by \$9.55 and \$13.33 respectively.

A Comparison of Non-Resident Expenditures in South Dakota as a Result of Pari-Mutuel Racing with Those of the Sports of Hunting and Fishing

During the 1961 season non-residents purchased 50,013 small game hunting licenses in South Dakota costing a total of \$1,250,325.⁸ The same year 8,186 non-resident season fishing licenses were sold resulting in \$40,930 revenue to South Dakota.⁹ In addition 35,040 "visitor"

⁸ South Dakota Department of Game, Fish and Parks, Conservation Highlights, 1961-1962, p. 47.

⁹Ibid.

fishing licenses were sold in the state in 1961 resulting in \$35,040 in revenue.¹⁰ Therefore, during the year 1961 about 95,000 non-residents came into South Dakota for the purposes of small game hunting and/or fishing.

In a study prepared by the South Dakota Department of Highways, it was found that the average mid-west party vacationing in South Dakota and purchasing lodging during the summer of 1961 spent an average of \$12.64 per person per day.¹¹ In the same study it was found that the average party stayed 3.4 days.¹² Using these figures as a guide, Table 9 assumes that each non-resident hunter spent an average of \$12.00 per day in South Dakota and stayed an average of four days within the state, and the average non-resident fisherman spent an average of \$12.00 per day and stayed an average of three days within South Dakota.

Neither of the foregoing figures include money spent for non-resident hunting or fishing licenses.

The 1962 estimate of expenditures made by non-residents coming into South Dakota and attending the pari-mutuel races of \$4,287,227.31, compares favorably with the 1961 estimate of the expenditures for non-resident small game hunters and/or fisherman. The estimate is about

¹⁰Ibid.

¹¹South Dakota Department of Highways, Publicity Division, South Dakota Vacation Survey, 1961, p. 15.

¹²Ibid., p. 14.

\$636,000 higher than that of the expenditures of small game hunters, and about \$2,655,000 higher than that for non-resident fisherman.

Table 9. An Estimate of Moneys spent by Non-Residents Coming into South Dakota for Small Game Hunting and/or Fishing in 1961

Type of activity	No. of non-residents buying licenses	Cost of licenses	Other expenses at \$12.00 per day	Total moneys spent in South Dakota
Small game hunting	50,013*	\$1,250,325*	\$2,400,624	\$3,650,949
Fishing	<u>43,226*</u>	<u>\$ 75,970*</u>	<u>\$1,556,136</u>	<u>\$1,632,106</u>
Totals	93,239	\$1,326,295	\$3,956,760	\$5,283,055

Source: *South Dakota Department of Game, Fish and Parks, Conservation Highlights, 1961-1962, p. 47.

The numbers of non-residents coming into South Dakota for hunting and/or fishing will likely vary directly with the prospects of hunting or fishing success, and this in turn depends to some extent on winter and spring weather conditions. Attendance at the pari-mutuel race tracks, does not have this variable. The attendance may be affected to some extent by summer weather conditions, however.

CHAPTER III

THE PARI-MUTUEL TAX IN SOUTH DAKOTA

AND OTHER STATES

The purpose of this chapter is to examine equity and revenue aspects of the pari-mutuel tax. To achieve this purpose the following procedures were deemed necessary:

- (1) to examine the general criteria of tax equity and relate it to the pari-mutuel tax,
- (2) to estimate the incidence of the pari-mutuel tax,
- (3) to indicate the fiscal importance of the pari-mutuel tax to South Dakota,
- (4) to present and compare the pari-mutuel tax rate structures in South Dakota and other states having both horse and greyhound pari-mutuel racing within their borders,
- (5) to present the distribution of pari-mutuel racing pool deductions between the sponsors of racing and the state of South Dakota, and
- (6) to estimate the cost of collection and administration of the pari-mutuel tax.

A. Equity in Relation to Pari-Mutuel Taxation

The problem of equity in taxation has two major aspects:

- (1) equal treatment of persons in like circumstances, and (2) fair treatment of persons in unlike circumstances. The first part of this chapter will deal with the problem of equity in taxation in general, and with the equity of the pari-mutuel tax in particular.

Today, there are two generally recognized approaches to the problem of equity: (1) the ability to pay principle, and (2) the benefits received principle.

The ability to pay principle requires a system whereby every individual pays to support government according to his ability to do so. This principle is often urged as the proper one to use in distributing taxes.¹³

The pari-mutuel tax, as can be seen in Table 11, does not use this principle of taxation to any great extent.

The benefits received principle of taxation applies the commercial rule to taxation that says, goods should be paid for by the user. The philosophy behind this principle calls for taxes to be in a relationship to the benefits received by the taxpayer.¹⁴ One of the best examples of this tax is the levy on gasoline used for highway purposes. The pari-mutuel tax cannot be closely related to the benefits received principle of taxation. It is true that the persons paying the tax do receive certain benefits from state supervision of the tracks, but, as can be seen from Table 17, only about 10 percent of the tax collected in South Dakota goes for this purpose.

The pari-mutuel tax does not seem to fit well under either of the two generally recognized approaches to taxation equity. However, there

¹³Harold M. Groves, Financing Government, p. 19, Henry Holt and Company: New York, 1958.

¹⁴John F. Due, Government Finance, p. 110, Richard D. Irwin, Inc.: Homewood, Illinois, 1959.

are features of this tax that do make it a "good" tax in some respects, although they do little to further tax equity.

Three features of this tax that make it popular are: (1) it is a hidden tax and few persons know exactly how much tax they are paying, (2) it is a tax that produces substantial revenue and is not paid in a lump sum by those wagering, and (3) it is paid only when persons choose to wager.

Perhaps it is realistic to conclude that this tax rests primarily upon the Machiavelian principle of taxation--"most feathers for the least squawking."¹⁵ This is a time-honored principle and it may be difficult to finance modern government without some application of it.

B. Incidence of the Tax by Selected Income Groups

It is assumed in this thesis that the tax is shifted to those wagering at the tracks. Under this assumption, Tables 10, 11, and 12 show the statistics used to estimate the incidence of the pari-mutuel tax in South Dakota. These statistics are tabulations developed from the surveys taken at the three South Dakota pari-mutuel tracks operating on July 28, and on August 4, 1962.

It is interesting to note in table 10, that up to the \$15,000 level the mean amount wagered increases as income increases. In the upper bracket there is a slight decline. This decline may be due to the fact that two persons in the group were attending racing for the first

¹⁵Harold M. Groves, Financing Government, op. cit., p. 256.

Table 10. Estimates of Money Wagered by Persons in Various Income Groups at South Dakota Pari-Mutuel Race Tracks During the 1962 Racing Season

(1)	(2)	(3)	(4)
Income range	No. having this income	Total moneys wagered by income groups during the 1962 racing season	Mean amount wagered per person per season in these groups
000-3000	12	\$ 5,454.00	\$ 454.00
3000-6000	45	\$17,806.00	\$ 396.00
6000-9000	57	\$47,724.00	\$ 837.00
9000-12000	33	\$34,171.00	\$1,035.00
12000-15000	10	\$12,347.00	\$1,235.00
15000 & over	<u>15</u>	\$17,822.00	\$1,188.00
Total	174		

time. It was noted from sample replies that persons tend to wager less money on their first visit to the tracks, then those with similar incomes who have attended regularly.

The regressive nature of the pari-mutuel tax becomes apparent when one examines column four and six in Table 11. It can be noted from column six, however, that the tax remains at about the same level for incomes from the \$3,000 to the \$15,000 level.

Table 12 indicates that persons in the \$3,000 to \$12,000 income range make up the largest segment of the total attendance of the various pari-mutuel race tracks in South Dakota. This seems to be a reasonable

Table 11. Estimates of Tax Paid* During the 1962 Season by Various Income Groups at South Dakota Pari-Mutuel Tracks

(1) Income range	(2) Mean amount wagered per season	(3) Mean income of these groups	(4) Percent of income wagered	(5) Tax on average amount wagered	(6) Tax as percent of average income
000-3000	\$ 454	\$ 1,775	25.6	\$19.25	.011
3000-6000	\$ 396	\$ 4,360	9.1	\$16.80	.004
6000-9000	\$ 837	\$ 7,040	11.8	\$35.50	.005
9000-12000	\$1,035	\$ 9,750	10.6	\$43.88	.0045
12000-15000	\$1,235	\$12,850	9.6	\$52.35	.0041
15000 & over	\$1,177	\$25,700	4.6	\$56.37	.0020

*Tax is computed at the 1962 rate of 4.24 percent of pari-mutuel sales.

finding, as those with a much lower income could not well afford to attend the races often, while those with higher incomes could afford other types of entertainment.

Demand for this type of recreation appears to be inelastic. South Dakota increased the size of the deduction from pari-mutuel pools on July 1, 1961, from 12 to 14 percent.¹⁶ This meant that the cost of this type of recreation was increased by about two percent. Pari-mutuel sales at Sodrak Park for the period of June 14-27, 1961, before the tax increase, totaled \$1,114,611; sales for the period June 14-27, 1962,

¹⁶ State of South Dakota, Department of Audits and Accounts, op. cit., 1961, p. 8.

Table 12. Estimates of Total Amount Wagered per Visit by Various Income Groups Attending Pari-Mutuel Racing in South Dakota During the 1962 Season

(1)	(2)	(3)	(4)	(5)	(6)
Income range	No. in this group	Total visits made by persons in these income groups	Average no. of visits per season	Total wagered	Mean average wagered per visit
000-3000	12	173	14.4	\$ 5,454	\$ 31.50
3000-6000	45	813	18.	\$17,806	\$ 21.90
6000-9000	57	1,088	19.8	\$47,724	\$ 43.85
9000-12000	33	557	16.9	\$34,171	\$ 61.35
12000-15000	10	84	8.4	\$12,347	\$147.00
15000 & over	<u>15</u>	<u>156</u>	10.4	\$17,822	\$114.25
Total	174	2,871			

after the tax increase, totaled \$1,223,533.¹⁷ In this period, sales increased by about 10 percent despite the increase in tax. The sales of Park Jefferson showed an increase for the two periods of \$21,322, or 5.5 percent.¹⁸ However, for this period, sales of the Rapid City track showed a decrease of \$28,568 or 7.8 percent.¹⁹ Thus, the increase in

¹⁷State of South Dakota, Department of Audits and Accounts, op. cit., 1961, 1962, p. 9.

¹⁸Ibid., p. 8.

¹⁹Ibid., p. 10.

tax did not seem to lower the demand for pari-mutuel wagering, except perhaps at Rapid City.

It is difficult to definitely determine whether the tax increase may have lessened pari-mutuel sales despite the gain in total sales. While sales may have been depressed to some extent, because of the tax increase, the foregoing sales gains would indicate the depressing effect was small.

There is reason to believe that the demand for pari-mutuel racing is decidedly inelastic, though perhaps not quite so inelastic as indicated in the following quotation:

I used to say that increase in the take would soon reduce the volume of play, not only because of a prudent rebellion of circumspect horseplayers, but because the others would soon go broke. I have learned to go from my first extreme statement to the other extreme and say that if the take were raised to 99% the crowd would still be there, lined up at the sellers' windows.²⁰

The inelastic nature of the demand for this type of recreation and the present regional monopoly on dog racing enjoyed by South Dakota tracks, would likely permit the state to increase pari-mutuel rates even further and thereby obtain even more revenue. The somewhat regressive nature of the tax rates, however, is one factor that should be considered before this course of action is taken.

²⁰Dr. Albert Hammond, "The Intolerable Squeeze," Sports Illustrated, vol. XVIII (May 6, 1963), pp. 34-47.

C. The Importance of the Pari-Mutuel Tax to South Dakota

The total collections from the pari-mutuel tax in 1962 amounted to \$717,722.96.²¹ This amount of revenue placed the pari-mutuel tax ahead of several other sources of South Dakota revenue.

During the 1961-1962 fiscal year, the Department of Revenue collected \$16,887,167.51 from the retail sales and use tax, \$686,238.89 from liquor and wine stamp sales, and \$548,096 from butter substitute stamp sales.²²

Thus, the pari-mutuel tax collections during 1962 were of greater importance to South Dakota revenue wise than were the stamp sales on either liquor and wines or butter substitutes, and were 4.25 percent of the total received from the state retail sales and use tax.

The South Dakota Department of Audits and Accounts gives the following statement of receipts from pari-mutuel racing in South Dakota during the year 1962: (1) total license fees \$6,218., (2) commissions from the pari-mutuel tax \$717,722.96, (3) commissions over-remitted \$.36 (4) fines \$955., (5) interest on bonds \$10,162.32. Total receipts in 1962 from pari-mutuel racing were \$735,058.64. The bulk of this total is made up of receipts from the pari-mutuel tax.

²¹State of South Dakota, Department of Audits and Accounts, op. cit., p. Introduction.

²²State of South Dakota, Department of Revenue, Statement of Collections, Fiscal Year, 1961-1962.

The Disposition of Pari-Mutuel Tax Moneys in South Dakota

All South Dakota pari-mutuel tracks withhold 14 percent of all moneys wagered as commission.²³ This commission is divided between the track and the state in the ratio stated in the appendix.

The following summary of rules that apply to the distribution of moneys remitted to the state in payment of the pari-mutuel racing tax, were taken from the 1960 revision of the South Dakota Code, Chapter 53.0507:

1. The moneys are first used to pay compensation and expenses of the racing commission, commission's secretary, and employees of the Department of Audits and Accounts,
2. Secondly, there is transferred to the county treasurer of each county where racing takes place, a sum equivalent to five percent of the total amount which the tracks in each county send into the State Treasury, but in no case more than four thousand dollars,
3. Thirdly, a sum of one hundred and twenty five thousand dollars is transferred to the State Department of Agriculture, and
4. Finally, the remaining sums are then transferred to the state general fund.

It may be noted from the above summary that part of the pari-mutuel tax revenue is not subject to legislative control.

Table 13 gives the disposition of funds in 1962 under the provisions of the South Dakota Code previously stated.

²³ State of South Dakota, Department of Audits and Accounts, op. cit., p. 5.

Table 13. Disbursements from the Racing Fund During the Year 1962 Under Provisions of the State Code

Disbursement	Amount	Totals
Brown County	\$ 224.16	
Pennington County	\$4,000.00	
Stanley County	\$ 191.43	
Union County	\$4,000.00	
Total county receipts		\$ 8,415.59
State Fair Board		\$125,000.00
State General Fund		\$438,047.68
Expenditures of Commission and others		\$ 73,056.00
Total disbursements		\$644,520.22

Source: State of South Dakota, Department of Audits and Accounts, Report on Audit of State Racing Commission, 1962, p. 1, 4.

In addition to the above moneys received by the various counties from pari-mutuel racing, Union County assessed a total of \$17,933.29 in property taxes on the properties of Park Jefferson and Sodrac Park during 1962. These taxes were not payable until 1963, however.²⁴

D. Pari-Mutuel Tax Rates of Other States

Twenty-seven of our 50 states now have laws regarding pari-mutuel wagering.²⁵ Of these 27 only Arizona, Arkansas, Colorado, Florida,

²⁴Personal correspondence with Charlotte Grossman, Director of Equalization for Union County, South Dakota, April 18, 1963.

²⁵Commerce Clearing House Incorporated, State Tax Guide second edition, 1959, p. 3001-3002.

Massachusetts, Montana, Oregon, and South Dakota have greyhound racing tracks within their borders.²⁶ A complete statement of pari-mutuel tax rates that apply in the eight states having both horse and greyhound racing appears in the appendix. From these rates it can be seen that:

(1) With the single exception of Montana, South Dakota has the lowest pari-mutuel tax rates of any of these states. The median rate is five percent compared to a three percent rate in South Dakota (which rises to five percent after the first million dollars in the case of dog racing only.)

(2) Three states place a tax on "breaks," the residue left to the tracks because of their practise of paying off in even multiples of ten cents. South Dakota has no such tax.

(3) Fees and licenses on jockeys, trainers and others in some states appear to be regulatory in purposes and to yield little or no net revenue. Most states do not state these fees in their regular rates. Arkansas levies a license fee of \$300 per day of operation on dog tracks and \$500 per day on horse tracks. South Dakota taxes these tracks at \$25.00 and \$10.00 per day respectively.

(4) Two of the states tax admissions to the race tracks. South Dakota does not have an admissions tax in its rates.

(5) Four of the states use a sliding scale feature in their pari-mutuel tax structure. Since the tax comes out of the betting pool, the

²⁶Greyhound Racing Record, July 23, 1960, "Track Calendar," XIV No. 30, p. 8.

sliding scale has the approximate result of making it easier for the tracks to recover their fixed costs before the higher rates apply.

Meaning of the Term "Breaks" as used in Pari-Mutuel Racing

"Breaks" as used in connection with pari-mutuel wagering, refers to the practice of tracks paying back only even money on winning tickets. If the money in the pari-mutuel pool does not come to an even ten cents when the amount is divided by the number of winning tickets, the track keeps the odd cents. This factor seems to be a rather small item, but for the 1962 season the total amount of "breaks" going to the tracks in South Dakota was \$131,238.68.²⁷ Perhaps some provision could be placed in the law to return some of this money to the public by placing a tax on "breaks." Thirteen of the 27 states having pari-mutuel taxes do have such a provision in their laws.²⁸

A Comparison of South Dakota Pari-Mutuel Tax Revenues with Revenues South Dakota Would Have Received Under the Higher Rates of Arizona, Arkansas, and Colorado

The rates of many of the states are quoted as a tax on the daily receipts of the various tracks. The information on the daily receipts of the tracks in South Dakota was not available to the author of the study. Thus, it is very difficult to compare the rates of certain states, except in a general way, with those of South Dakota.

²⁷State of South Dakota, Department of Audits and Accounts, op. cit., p. 5.

²⁸Commerce Clearing House Incorporated, op. cit., pp. 3022-3045.

The rates of Arizona, Arkansas, and Colorado were selected for direct comparison with South Dakota rates, because many of the tracks operating within their borders have about the same volume of pari-mutuel sales as do the three largest pari-mutuel tracks in South Dakota. These three states also have their rates stated so that they may be easily compared with South Dakota rates.

The three foregoing states do differ somewhat from South Dakota in that they allow the tracks to deduct 15 percent of the total moneys in all pari-mutuel polls.²⁹ In South Dakota, as stated on page 34, only 14 percent is deducted from pari-mutuel pools. Thus, the tracks in the other three states may receive nearly as much money from a given volume of pari-mutuel sales as do South Dakota tracks, despite the somewhat higher state tax rates.

Table 14 applies the rates of Arizona, Arkansas, and Colorado to the 1962 South Dakota pari-mutuel sales.

Had the rates been the same as those of Montana, South Dakota's revenue would have undoubtedly been somewhat less than under its own rates. The rates of Oregon are similar to those of South Dakota and, therefore, should have produced about the same amount of revenue. The rates of both Florida and Massachusetts are somewhat higher than those of South Dakota and should have produced a greater amount of revenue.

²⁹John Scarne, Scarne's Complete Guide To Gambling, p. 55, Simon and Schuster Company, New York, 1961.

Table 14. Estimated 1962 South Dakota Pari-Mutuel Tax Yield
at Alternative Rates

Tax on	South Dakota rates	Arizona rates	Arkansas rates	Colorado rates
Pari-mutuel tax greyhound races	\$585,425	\$750,510	\$ 625,425	\$625,425
Pari-mutuel tax horse racing	\$132,298	\$176,396	\$ 220,496	\$220,496
2/3 tax on "breaks"	00	00	\$ 87,404	00
10 cents tax on admissions	00	00	\$ 4,738	00
Per day tax on greyhound racing	\$ 4,125	00	\$ 49,500	00
Per day tax on horse racing	<u>\$ 550</u>	<u>00</u>	<u>\$ 27,500</u>	<u>00</u>
Total	\$717,723	\$926,906	\$1,015,063	\$845,921
Increased revenue South Dakota would have received under rates of the three other states		<u>\$209,183</u>	<u>\$ 297,340</u>	<u>\$128,198</u>

Source: State of South Dakota, Department of Audits and Accounts,
Report on Audit of State Racing Commission, 1962, p. 1.

Commerce Clearing House Incorporated, State Tax Guide, second
edition 1959, p. 3022, 3023, 3024, 3040.

All the foregoing estimates assume that increased tax rates would
have had little effect on the daily volume of betting, and would not
have induced track sponsors to shorten the season.

E. The Distribution of Pari-Mutuel Racing
Pool Deductions between Racing
Sponsors and South Dakota

Table 15 gives the distribution of revenue between the sponsors of racing and the state of South Dakota as provided for by the pari-mutuel tax law. This table also gives the percentage of revenue that is received by sponsors and the state. This material is being presented to enable the reader to better examine the distribution of these moneys. The amount received by the sponsors does include moneys that were received from "breaks," but does not include moneys received from failure of persons to cash willing tickets.

As has been stated on page 34, 14 percent of the total moneys wagered on a race are deducted from the pool and this amount is divided in the proper ratio between the sponsors and the state. The remainder minus "breaks" is returned to those who cash winning tickets.

Table 15. Revenues and Percentages Received by Track Sponsors and South Dakota from the 14 percent Deduction of Pari-Mutuel Pools

Location of track	Amount to sponsors	Percent to sponsors	Amount to state	Percent to state
Fort Pierre	\$ 15,291.18	81	\$ 3,584.52	19
Aberdeen	\$ 18,282.34	81	\$ 4,291.26	19
Jefferson	\$ 508,319.92	80.3	\$124,421.88	19.7
Rapid City	\$ 266,485.25	71.4	\$106,900.15	28.6
North Sioux City	\$ 973,716.95	67	\$478,525.15	33
Total	\$1,782,095.64	71.3	\$717,722.96	28.7

Source: State of South Dakota, Report on Audit of State Racing Commission, 1962, pp. 6-10.

Table 15 shows that dog racing provides South Dakota with a much larger percentage of revenue than does horse racing. However, dog racing sponsors still receive a much larger share of the 14 percent deduction than does the state.

F. Cost of Collecting and Administrating the Pari-Mutuel Tax

In South Dakota the costs associated with racing have averaged about 10 percent of the amount received from the pari-mutuel tax. These costs include all expenses of state supervision of the various race tracks.

Pari-mutuel racing is a legal sport in South Dakota and, therefore, some state supervision of the tracks would likely be necessary with or without a pari-mutuel tax. Thus, perhaps not all of the cost of administration should be allocated to the pari-mutuel tax, but a substantial portion of it would seem to be chargeable to this tax.

In Table 16 the entire cost of state supervision of pari-mutuel racing has been deducted from the pari-mutuel tax revenues to show the net receipts of the state.

While the computation of the costs of the various taxes given below are not comparable, the information is presented to give the reader some basis for comparing the pari-mutuel tax with other state taxes. In a letter written to the author of this study by Mr. Bruce Gillis, Commissioner of Revenue for South Dakota, he stated that the cost of collecting the sales tax was $98/100$ of one percent of the revenue received and the liquor tax cost was $99/100$ of one percent.

Table 16. Cost of Supervising, Collecting, and Administrating the Pari-Mutuel Tax in South Dakota, for the Years 1957-1962

Year	Revenue received	Cost of collection & administration	Net to the state	Percentage cost
1957	\$244,672.14	\$26,520.79	\$218,153.35	10.8
1958	\$374,808.15	\$34,200.05	\$340,608.10	9.1
1959	\$443,082.72	\$37,536.14	\$405,546.58	8.5
1960	\$472,113.24	\$53,354.10	\$418,759.14	11.3
1961	\$630,547.88	\$65,154.30	\$565,393.58	10.3
1962	\$717,722.96	\$73,056.95	\$644,666.01	10.2

Source: State of South Dakota, Department of Audits and Accounts, Report on Audit of State Racing Commission, 1961, p. Introduction.

State of South Dakota, Department of Audits and Accounts, Report on Audit of State Racing Commission, 1962, p. Introduction.

In an early attempt to deal with the problem of taxation cost, Adam Smith stated in his book, An Inquiry into the Nature and Causes of the Wealth of Nations, first published in 1776, the following relevant passage:³⁰

Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways. First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose prerequisites may impose another additional tax upon the people... .

³⁰ Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, p. 778, The Modern Library: New York, 1937.

The high cost of collecting and administrating the pari-mutuel tax in South Dakota then is an objection that can be made to this tax having some support among economists.

Greater volume should reduce the percentage cost of collecting this tax, but it can be seen from Table 15, that this has not happened to any great degree in South Dakota during the period 1957-1962.

Table number 16 gives a comparison of the cost of collecting and administrating the pari-mutuel tax in Arizona, Arkansas, Colorado, and South Dakota. This table shows that while the South Dakota percentage cost of collection and administration is high, the per day cost is somewhat lower than that of the other three states.

Tables 16 and 17 indicate that while South Dakota's percentage costs have not declined as pari-mutuel sales and revenues have risen; were sales to increase to the levels currently prevailing in the other three states, the percentage cost of collecting the tax would probably be considerably reduced.

Table 17. Comparison of the Cost of Supervising Collecting, and Administrating the Pari-Mutuel Tax in South Dakota, for 1961-1962 Season in Arizona, and the 1962 Season in Arkansas, Colorado, and South Dakota

State	Days of racing	Pari-mutuel sales	Paid to state	Cost of administration	Percentage cost	Cost per day of racing
Arizona	501	\$51,482,184	\$2,807,875.24	\$182,266.62	6.5	\$363.80
Arkansas	143	\$32,602,985	\$1,862,232.25	\$ 56,353.12	3.0	\$394.08
Colorado	322	\$55,153,122	\$2,757,656.10	\$116,187.70	6.	\$516.11
South Dakota	220	\$16,918,428	\$ 717,722.96	\$ 73,056.95	10.2	\$332.07

Source: State of Arizona, Arizona Racing Commission, 13th Annual Report, 1961-1962, pp. 4, 9, 15.

State of Arkansas, Arkansas Racing Commission, Personal Correspondence, April 18, 1963.

State of Colorado, Colorado Racing Commission, 14th Annual Report 1962, pp. 16, 17.

State of South Dakota, Department of Audits and Accounts, Report on Audit State Racing Commission, 1962, p. Introduction.

CHAPTER FOUR

REVENUE POTENTIAL OF RACING IN SOUTH DAKOTA

The purpose of this chapter is to project the future revenues from racing, and to examine the possibility of new race tracks being operated in new South Dakota trade areas.

Improvements Planned for Pari-Mutuel Tracks in South Dakota

South Dakota race tracks have enjoyed a considerable increase in pari-mutuel sales over the past years. This increase in sales has also been accompanied by an increase in attendance. To make racing even more attractive to present customers and to add new customers, both greyhound racing tracks planned improvements in their facilities for the summer season of 1963. Such improvements should help boost both attendance and mutuel sales at the respective tracks.

The owners of Sodracs Park completed, for use in the 1963 season, a glass-enclosed, air-conditioned clubhouse that provides accommodations for about 1,000 guests.³¹ The Black Hills Kennel Club management indicated that their immediate plans call for spending \$15,000 on parking lot and race track for the 1963 season.³² Both tracks plan further improvements in future years.

³¹Personal Correspondence with Ken Guenther, General Manager of Sodracs Park, Feb. 25, 1963.

³²Personal Correspondence with A. F. Krall, President of Black Hills Greyhound Racing Ass'n., Feb. 5, 1963.

**Projection of Future Growth in South Dakota
Pari-Mutuel Sales**

Table number 18 shows the increase in pari-mutuel sales for the years 1954-1962. It can be seen from this table that sales have increased substantially over this nine year period.

Table 18. South Dakota Pari-Mutuel Sales for the
Years 1954-1962, (in thousands)

Year	Sales
1954	\$ 2,500
1955	\$ 7,230
1956	\$ 9,900
1957	\$ 8,260
1958	\$12,400
1959	\$14,800
1960	\$15,750
1961	\$15,910
1962	\$16,920

Source: State of South Dakota, Annual Report of State Treasurer, for Fiscal Year 1955, p. 75.

State of South Dakota, Annual Report of State Treasurer, for Fiscal Year 1956, p. 74.

State of South Dakota, Annual Report of State Treasurer, for Fiscal Year 1957, p. 71.

State of South Dakota, Report on Audit State Racing Commission, 1962, p. Introduction.

State of South Dakota, Report on Audit State Racing Commission, 1962, p. Introduction.

A simple regression analysis was used in studying the trend of pari-mutuel sales in South Dakota. A logarithmic curve of the form $Y = A + B \log X$ seemed to fit the data best. The variables used were: $Y =$ mutuel sales, $X =$ year (1954 was used as the base year). The regression equation for this data was $Y = 2,400,661 + 14,636,000 \log X$. A correlation coefficient of $R = .97$ was significantly different from zero at the level of five percent. The explained variance, R^2 , is .94. Thus, 94 percent of the variance in actual pari-mutuel sales, can be explained by the change in years.

The projected change in South Dakota pari-mutuel sales and tax revenues is shown in Table 19. This table assumed the 1962 rate of return of 4.24 cents to South Dakota on each dollar of pari-mutuel sales would continue.³³ It should be remembered, however, that as pari-mutuel sales increase, the figure of 4.24 cents may also increase slightly, because of the somewhat progressive nature of the South Dakota pari-mutuel rates for greyhound racing.

Projected figures in Table 19 are based on the assumptions that: (1) economic conditions remain stable, (2) racing seasons for present tracks remain the same, (3) no new race tracks are operated in South Dakota, (4) South Dakota tax rates do not change, (5) demand for racing does not diminish or shift to other forms of recreation, or that demand does not greatly increase or shift from other forms of recreation to racing.

³³State of South Dakota, Department of Audits and Accounts, op. cit., 1962, Introduction.

Table 19. Data Showing the Expected Increase in Pari-Mutuel Sales and Tax Revenue in South Dakota for the Years 1963-1967

Year	Approximate projected pari-mutuel sales	Approximate projected state gross revenue from the pari-mutuel tax
1963	\$17,100,000	\$725,040,000
1964	\$17,650,000	\$748,360,000
1965	\$18,200,000	\$771,680,000
1966	\$18,650,000	\$790,760,000
1967	\$19,100,000	\$809,840,000

Figure I, shows the projected pari-mutuel sales for the years 1963-1967, plus the sales from the years 1954 through 1962.

Possibility of New Pari-Mutuel Race Tracks in the State

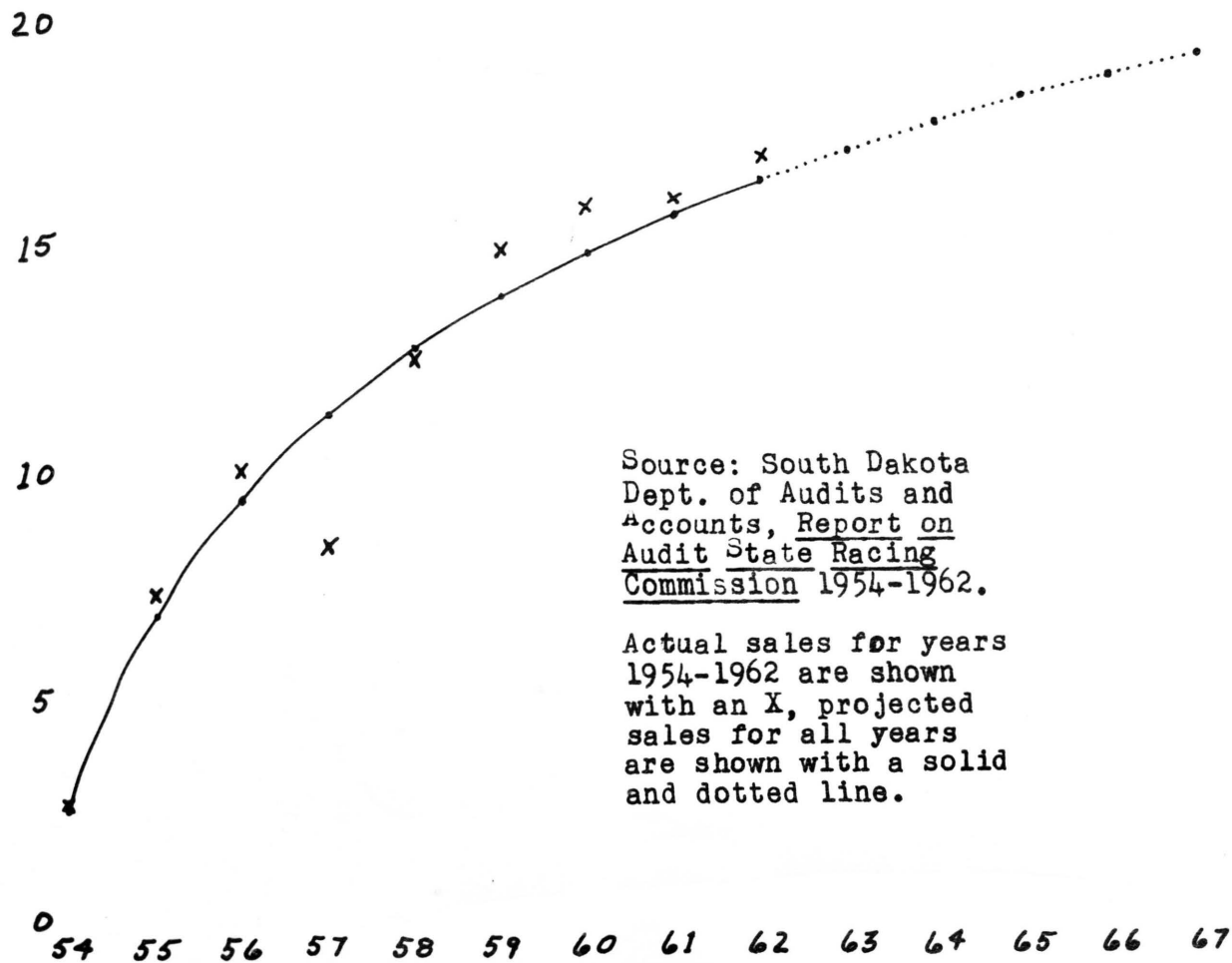
Horse racing has not proved as popular in South Dakota as greyhound racing. The total pari-mutuel sales of the two greyhound tracks in 1962 was \$12,508,506 while the total pari-mutuel sales of the three horse tracks was \$4,409,922.³⁴ In the five year period 1958-1962 pari-mutuel sales from horse racing have increased from \$3,100,366 to the \$4,409,922 mentioned above.³⁵ Pari-mutuel sales of the three horse tracks actually showed a drop in the period 1961-1962, while the sales of the greyhound tracks rose by \$1,094,831.³⁶

³⁴State of South Dakota, Department of Audits and Accounts, op. cit., p. Introduction.

³⁵Ibid.

³⁶Ibid.

**Figure I. Pari-Mutuel Sales in South Dakota
1954-1962, and Projected Sales for
1963-1967**



Source: South Dakota
Dept. of Audits and
Accounts, Report on
Audit State Racing
Commission 1954-1962.

Actual sales for years
1954-1962 are shown
with an X, projected
sales for all years
are shown with a solid
and dotted line.

The previous statistics indicate that the possibility for more successful tracks in the state favor the establishment of greyhound tracks rather than horse tracks.

All greyhound tracks operating in the United States during the year 1960 were located either in or near a large metropolitan area or near an area that has a large number of summer or winter tourists.³⁷

Using the criteria of needing a large metropolitan area population or an area that is frequented heavily by tourists, it would seem that there are few possibilities of any new pari-mutuel tracks being constructed in South Dakota. The present dog track at Rapid City is located in South Dakota's largest vacation area, and this track, judging from attendance figures given in Table 4, has additional attendance capacity.

Park Jefferson and Sodrac Park are located in one of the more heavily populated areas of the state, and the attendance at these tracks is drawn largely from non-residents of South Dakota. However, there are no other large cities located close enough to South Dakota's borders to provide a large population from which a new South Dakota race track could draw its attendance. Perhaps then the only location in South Dakota where an additional pari-mutuel track could be located and prove successful is near the state's largest city, Sioux Falls.

³⁷Greyhound Racing Record, loc. cit.

A greyhound track located near Sioux Falls would have the population of the Sioux Falls Standard Metropolitan Area (86,575 in 1960)³⁸ to draw customers from. The corresponding population figure for the Sioux City, Iowa, Standard Metropolitan Area in 1960 was 107,849.³⁹

In arriving at an estimate of the attendance of a greyhound track in Sioux Falls, a ratio of track attendance to population of the two Standard Metropolitan Areas, was computed. This ratio was then applied to the population of the Sioux Falls Standard Metropolitan Area to determine the probable attendance figure for a Sioux Falls track. Using this ratio the study assumes that the attendance of a greyhound track in Sioux Falls after several years of operation would be about 190,000 for an 83 day season. This number of people, again using Sodrac Park figures, would wager about \$7,700,000, and provide South Dakota with about \$365,000 in pari-mutuel tax revenue. An analysis of license plates at Sodrac Park, showed that about 10 percent of the automobiles at the North Sioux City track may be diverted to a track in Sioux Falls. This figure was arrived at by subtracting all of the attendance from Minnesota, all of the South Dakota attendance except that from Union and Clay counties, and that from Lyon County, Iowa, from Sodrac Park's attendance on August 11, and September 5, 1962.

³⁸U. S. Bureau of the Census, U. S. Census of Population: 1960, Number of Inhabitants, South Dakota, U. S. Govt. Printing Office, Washington D. C., p. 23.

³⁹Ibid., Iowa, p. 30.

A greyhound track at Sioux Falls would be located in an area that has been growing rapidly during the period 1950-1960. The Sioux Falls Standard Metropolitan Area expanded its population from 70,910 to 86,575, in this period, for an increase of 22.1 percent.⁴⁰ The Sioux City Standard Metropolitan Area's population has remained relatively stable over the ten year period, increasing from 103,917 to 107,849, or an increase of 3.8 percent.⁴¹

The foregoing statistics indicate that a greyhound track located in the Sioux Falls area would provide additional tax revenue and tourist dollars for South Dakota's economy. Whether it would be economically feasible to operate such a track is a question that would require further investigation.

⁴⁰U. S. Bureau of the Census, U. S. Census of Population: 1960, Number of Inhabitants, South Dakota, loc. cit.

⁴¹Ibid., Iowa, loc. cit.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS, AND CONCLUSIONS

The pari-mutuel racing industry in South Dakota adds employment, income, and tax revenue to the state's general economy. The tax is paid largely by non-residents, and the tax revenue depends almost entirely on the amount of wagering. The pari-mutuel tax thus agrees with Adam Smith's third canon of taxation which deals with convenience of payment.

Summary

In Chapter Two this study found that the number of residents attending pari-mutuel racing in South Dakota was much less than the number of non-residents attending such races. Sodrac Park and Park Jefferson located in the southeastern section of South Dakota accounted for about 80 percent of the total attendance at pari-mutuel race tracks within the state in 1962. At these two tracks resident attendance ranged from a low of 11.1 percent to a high of 16.2 percent of the total attendance. The different percentages apply to different days of the week and the differences in the two race tracks.

The percentage of residents attending the Rapid City track for all races was much higher than at the two southeastern South Dakota tracks. It was estimated that 68.3 percent of the attendance at this track was made up of residents of South Dakota.

Thus, the three major pari-mutuel tracks differed in that the pari-mutuel tax levied at the Rapid City track was largely paid by residents, while the taxes levied at the southeastern South Dakota tracks were largely paid by non-residents.

The total attendance at pari-mutuel race tracks in South Dakota during the 1962 season was found to be 470,000; of this total, the study estimated, about 354,000 were non-residents of the state.

Estimates of the study were that non-residents contributed over 75 percent of the total state pari-mutuel tax collections in 1962.

The total moneys spent and retained in South Dakota as a result of non-residents attending the various pari-mutuel tracks in South Dakota during the 1962 season, was estimated to be in excess of four million dollars.

In Chapter Three the study found the pari-mutuel tax to be a regressive type of tax, and it therefore violates the ability to pay principle of taxation. Seven states other than South Dakota had pari-mutuel tax laws which applied to both greyhound and horse racing. Of these seven states, only Montana had a pari-mutuel tax rate that was clearly lower than that of South Dakota. Had South Dakota rates been the same as those of Arizona, Arkansas, or Colorado in 1962, and if the same volume of pari-mutuel sales would have prevailed under these higher rates, South Dakota would have received from \$128,198 to \$297,340 in additional revenue. It was considered as a possibility, however, that total pari-mutuel sales might drop as a result of higher tax rates.

This lessening of sales would have decreased the expected increase in revenue, somewhat.

Chapter Three also presented information showing that in 1962 South Dakota received more revenue from the pari-mutuel tax than it did from either liquor and wine stamp taxes or for butter substitute stamp taxes.

Chapter Four dealt with the potential of the pari-mutuel racing industry in South Dakota and the future of present race tracks in the state. Prospects for present race tracks appeared quite good. Total pari-mutuel sales for 1967 were projected to be somewhat over 19 million dollars. With this volume of pari-mutuel sales, South Dakota would receive over 800 thousand dollars in tax revenue, if present pari-mutuel tax rates were maintained.

Chapter Four also dealt with the possibility of additional revenue accruing to South Dakota because of the expansion of this industry. It was shown in this chapter that there was little possibility of any other large sales volume pari-mutuel tracks being operated in South Dakota. Any new track of this type that may be operated in the state would likely be located in the Sioux Falls area.

Recommendation for Increasing Non-Resident Pari-Mutuel Tax Receipts

One possibility of increasing non-resident attendance at South Dakota pari-mutuel race tracks and tourist travel in the state, would be to better inform the non-resident tourist of South Dakota race tracks. This could be done by including such information in materials sent out

to non-residents telling about the vacation attractions in the state. Many non-residents may not be aware that South Dakota has pari-mutuel racing. It is certainly possible that more people may decide to come to South Dakota for a vacation, if they know they can participate in the sports of horse and/or greyhound dog racing while in the state. By carefully publicizing its race tracks or increasing the present amount of publicity, South Dakota may help to increase both non-resident tourist expenditures and tax receipts. Non-residents, of course, are not only subject to the pari-mutuel tax when they attend South Dakota pari-mutuel tracks, but they are also subject to the sales tax on such items as gasoline and food that are purchased while in the state.

Recommendations on Pari-Mutuel Tax Rate Changes

From the statistics gathered in this study, it appears that South Dakota's pari-mutuel tax rates could be changed. A tax increase would put South Dakota more in line with most other states having similar tax laws. The author believes that this tax increase could be put into effect without greatly affecting the incentive of racing sponsors for operating and improving present tracks, or for building a new one. Under the present rates both major greyhound tracks are apparently willing to plow back into their business a significant portion of present profits.

If a tax increase seems justifiable, the author believes this increase should be of a type that would make the tax rate more progressive; that is to have the rates increase as the amount of pari-mutuel

sales and profits increase. As sales increase, fixed costs become less of a factor in the track's profit picture. Thus, it would seem that the state should share in some of the increased profitability. Many of the states whose rates appear in the appendix have tax rates that are more steeply progressive than are rates in South Dakota.

The following are the author's suggestions for increasing the South Dakota pari-mutuel tax rates:

- (1) Retain the present $1\frac{1}{4}$ percent deduction of pari-mutuel pools.
- (2) Retain present tax rates on pari-mutuel sales of less than three million dollars.
- (3) Place a tax of 50 percent on "breaks" at all pari-mutuel racing tracks.
- (4) Raise the rates to $\frac{4}{14}$ th. for the state on horse racing pari-mutuel sales of over three million dollars, and $\frac{6}{14}$ th. for the state on greyhound racing pari-mutuel sales of over three million dollars.

If the preceding rates were applied to the 1962 volume of South Dakota pari-mutuel sales, the total tax return to the state would have been \$864,521.25, or an increase of \$146,798.29. This increase would be made up from the sources as follows:

Increase in tax for Park Jefferson		\$ 11,473.96
Increase in tax for Sodracs Park		\$ 69,705.03
50% of "breaks", Aberdeen	\$ 1,273.86	
50% of "breaks", Ft. Pierre	\$ 1,073.97	
50% of "breaks", Park Jefferson	\$26,053.18	
50% of "breaks", Sodracs Park	\$28,185.84	
50% of "breaks", Rapid City	\$ 9,032.49	
Total of "breaks"		\$ 65,619.30
Total tax increase		\$146,798.29

If further information should prove the above tax increases excessive, the author believes that at least some tax on "breaks" should be included in the South Dakota pari-mutuel tax rate structure.

Conclusions

This study concludes that pari-mutuel racing is an economic asset to South Dakota in at least two ways: (1) it provides an important source of tax revenue to the state, largely from non-residents; (2) it increases both non-resident tourist travel and expenditures within South Dakota. Both of these help to stimulate the largely agricultural economy of South Dakota and increase the total income of the state.

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APPENDIX

Arizona - Rates:⁴²

Dog tracks must pay six percent of the gross pari-mutuel pool. Horse or harness race tracks pay four percent of the pari-mutuel pool up to \$100,000, and six percent over \$100,000.

Arkansas - Rates:⁴³

Greyhound racing franchise holders pay five percent of all moneys wagered, together with $\frac{2}{3}$ of all the "breaks", plus 10 percent of admissions, or 10 cents per admission, whichever is greater. The license fee shall be \$300 per day. Horse racing franchise holders must pay five percent of all moneys wagered, together with $\frac{2}{3}$ of all the "breaks" plus 10 percent of all admissions, or 10 cents per admission, whichever is greater. The license fee shall be \$500 per day.

Colorado - Rates:⁴⁴

The tax is five percent of the gross receipts of the pari-mutuel wagering at any meet.

Florida - Rates:⁴⁵

Operators of horse and dog racing tracks must pay three percent of the total contributions to all pari-mutuel pools on every race and 15 percent of all admission receipts or 10 cents on each admission, whichever is greater plus an additional tax of five percent of the pools for horse races and four percent for dog races.

In addition, the smaller horse and greyhound tracks may elect to be taxed at a fixed daily rate of from \$4,000 to \$21,000 for horse tracks, and \$150 to \$400 for dog tracks, depending on the size of pari-mutuel sales.

In addition operators of horse and dog racing tracks must pay all the "breaks" as tax.

⁴²Commerce Clearing House Incorporated, op. cit., p. 3022.

⁴³Ibid., p. 3023.

⁴⁴Ibid., p. 3024.

⁴⁵Ibid., p. 3025.

Massachusetts - Rates⁴⁶

Persons conducting racing meetings in connection with state or county fairs must pay three and one-half percent of the total amount wagered above \$65,000 daily. The tax on dog racing meeting not held in connection with fairs is three and one-half percent of the daily amount wagered up to \$75,000, five percent from \$75,000 to \$110,000, six percent from \$110,000 to \$140,000, seven percent from \$140,000 to \$250,000, eight and one-quarter percent from \$250,000 to \$375,000, and eight and three-quarters percent of the amount over \$375,000. An additional tax of half the "breaks" must be paid.

Montana - Rates:⁴⁷

The license tax, based on the amount of bets, wagered or entrance fees handled daily, is at the following rates: up to \$10,000, one-quarter of one percent; on the next \$5,000 one-half of one percent; on the next \$5,000, three-quarters of one percent; on the next \$5,000, one percent; on the next \$10,000, two percent; on any excess over \$35,000, three percent. There is a minimum tax of \$25.00 per racing day.

Oregon - Rates:⁴⁸

The tax on daily gross receipts from mutuel wagering is either one and one-half percent for nonprofit organizations and state and county fairs and for all others, three percent up to \$66,000, four percent from \$66,001 to \$133,000, five percent from \$133,001 to \$200,000, and six percent of the amount over \$200,000; or, the pari-mutuel tax is five percent up to \$133,000, six percent from \$133,001 to \$200,000, and seven percent of the amount over \$200,000.

South Dakota - Rates⁴⁹

The following rates apply: for those holding horse racing licenses three-fourteenths of the total of all moneys retained as commissions; and for those holding dog racing licenses, three-fourteenths of the total of all moneys retained as commissions on the first \$1,000,000;

⁴⁶Ibid., p. 3031.

⁴⁷Ibid., p. 3033-2.

⁴⁸Ibid., p. 3037-3.

five-fourteenths of the total of all moneys retained as commissions in excess of \$1,000,000.

⁴⁹Ibid., p. 3040.