

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4116H.01I  
 Bill No.: HB 2431  
 Subject: Cities, Towns, and Villages; Taxation and Revenue - Sales and Use; Political Subdivisions  
 Type: Original  
 Date: March 30, 2026

Bill Summary: This proposal authorizes the City of Lexington to levy a sales tax whose revenues are dedicated to public safety, upon voter approval.

**FISCAL SUMMARY**

**ESTIMATED NET EFFECT ON GENERAL REVENUE FUND**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue	\$0 or \$336*	\$0 or \$2,054	\$0 or \$2,095
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or \$336</b>	<b>\$0 or \$2,054</b>	<b>\$0 or \$2,095</b>

\*Oversight notes the potential fiscal impact for FY2027 is lesser because FY2027 is a partial year (2 months).

**ESTIMATED NET EFFECT ON OTHER STATE FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

**ESTIMATED NET EFFECT ON FEDERAL FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

**ESTIMATED NET EFFECT ON LOCAL FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Local Government</b>	<b>\$0 or \$33,230*</b>	<b>\$0 or \$203,366</b>	<b>\$0 or \$207,433</b>

\*Oversight notes the potential fiscal impact for FY2027 is lesser because FY2027 is a partial year (2 months).

**FISCAL ANALYSIS**

**ASSUMPTION**

**§94.900 – Public Safety Sales Tax**

Officials from the **Office of Administration - Budget and Planning** note B&P defers to the local government in the City of Lexington for the fiscal impact. DOR’s retained collection fee will increase TSR because DOR will be able to collect its 1% administration fee for handling the collection of the tax. B&P defers to DOR for more specific estimates of actual collection costs.

Officials from the **Department of Revenue (DOR)** note this proposal would allow a city of more than four thousand four hundred but fewer than four thousand nine hundred inhabitants to have a public safety sales tax up to one half of one percent. DOR believes this would be the City of Lexington.

DOR shows that the City of Lexington has taxable sales of:

Fiscal Year	Jul-Sept	Oct-Dec	Jan-Mar	April- June	Total
2020	\$7,881,371	\$8,044,115	\$8,118,467	\$7,551,435	\$31,595,388
2021	\$8,327,251	\$8,698,472	\$8,534,687	\$8,449,229	\$34,009,639
2022	\$8,496,149	\$9,395,156	\$8,689,810	\$8,597,091	\$35,178,205
2023	\$9,372,321	\$9,035,645	\$8,465,838	\$8,583,499	\$35,457,304
2024	\$9,037,114	\$9,080,939	\$9,178,210	\$10,658,956	\$37,955,219

Sales Tax only

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact DOR will assume the one-half of one percent sales tax is adopted. However, for informational purposes DOR is showing how much would be collected if they just chose a lesser amount than the full one-half percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Lexington would collect and the fee retained by DOR as:

**Lexington 1/4 of 1% Tax**

Fiscal Year	DOR 1% Fee	Local Collection
2027	\$0	\$0
2028(8 months)	\$685	\$67,789
2029	\$1,048	\$103,716

Lexington 1/2 of 1% Tax

DOR 1% Fee	Local Collection
\$0	\$0
\$1,369	\$135,577
\$2,095	\$207,433

DOR notes that this proposal has an emergency clause and could become effective in July, 2026, and the first election this issue could be presented to the voters would be the November 2026 general election. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be April 1, 2027 (FY 2027) if adopted by the voters. Sales tax is remitted one month behind collection of the tax, so DOR estimates an impact for FY 2027 of 2 months.

Lexington 1/2 of 1% Tax

Fiscal Year	DOR 1% Fee	Local Collection
2027 (2 months)	\$336	\$33,230
2028	\$2,054	\$203,366
2029	\$2,095	\$207,433

If the tax is adopted, DOR would need to update the department’s sales tax website, put out notices to its retailers by various means, update the department’s distribution and tracking systems. Each system update is \$1,887 per system. This would result in a cost of \$5,661.

**Oversight** notes the DOR requests a one-time cost for website, form changes and computer updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine website updates and will not show those costs in the fiscal note.

Oversight notes this section of the proposal has an emergency clause. Oversight assumes the first election this proposal could be presented to voters is the November 2026 election. Oversight assumes the proposed sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be April 1, 2027 (FY 2027) if adopted by the voters. Sales tax is remitted one month behind collection of the tax, so Oversight will show an estimated impact for FY 2027 of 2 months.

Oversight will range the fiscal impact from \$0 (not approved by voters) to the estimates calculated by DOR for 2 months in FY 27 and reflect a full year of sales tax revenue for FY 28 and FY 29.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (2 Mo.)	FY 2028	FY 2029
<b>GENERAL REVENUE</b>			
<u>Revenue Gain</u> – DOR (\$94,900) 1% Collection Fee, <b>if</b> approved by voters p.3-4	<u>\$0 or \$336</u>	<u>\$0 or \$2,054</u>	<u>\$0 or \$2,095</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$0 or \$336</u></b>	<b><u>\$0 or \$2,054</u></b>	<b><u>\$0 or \$2,095</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (2 Mo.)	FY 2028	FY 2029
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Gain</u> – City of Lexington (\$94,900) Public safety sales tax, <b>if</b> approved by voters p.3-4	<u>\$0 or \$33,230</u>	<u>\$0 or \$203,366</u>	<u>\$0 or \$207,433</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0 or \$33,230</u></b>	<b><u>\$0 or \$203,366</u></b>	<b><u>\$0 or \$207,433</u></b>

FISCAL IMPACT – Small Business

Certain small businesses in the City of Lexington could be impacted by this proposal (pending voter approval).

FISCAL DESCRIPTION

The proposed legislation authorizes the city of Lexington to levy a sales tax whose revenues are dedicated to public safety, upon voter approval.

This bill has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Revenue

Office of Administration - Budget and Planning



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March 30, 2026



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