



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Ave, Kirkland, WA 98033 · 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
David Goldman, Deputy Director of Finance & Administration
Robby Perkins-High, Senior Financial Analyst

Date: March 24, 2020

Subject: MONTHLY SALES TAX REPORTS

RECOMMENDATION:

It is recommended that the City Council receive the monthly Sales Tax Reports.

BACKGROUND DISCUSSION

These reports were previously provided to the Council Finance and Administration Committee and will now be presented to the City Council each month on the consent agenda. Finance staffing transitions have slowed some of the reporting. Providing the Council with both reports on April 7th brings the reports current. In the future the Council will only receive one monthly report.

The Sales Tax Report reports on the amount of sales tax Kirkland has received by Business Sector. The report presents the sales tax information by comparing the monthly sales tax amount to the prior year's monthly collection, as well as year-to-date actuals compared to the performance of the prior year. The report includes the performance of key economic indicators that may influence sales tax revenue as well.

The impacts to sales tax collections related to COVID19 will first be seen in the May Sales Tax Report as collections in March are remitted in May. In the interim, Financial Planning will complete an analysis of sales tax contributions by sector, as well as projections on which sectors are expected to be most impacted by the virus and associated regulation changes. Staff continue to monitor and project all city revenues that will be affected by COVID-19.



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From: Michael Olson, Director of Finance & Administration
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Date: March 19, 2020

Subject: January Sales Tax Revenue

January results reflect sales activity in November, due to the two-month lag in reporting sales tax data. Monthly sales tax revenue is **6.4 percent higher** than January 2019. Sector groups exhibiting growth included Contracting, Retail Eating/Drinking, and Auto Gas/Retail, while Communications and General Merchandise/Retail declined. The following sections discuss the highlights by business sector of the month-over-month analysis and year-to-date revenue as well as key economic variables that impact sales tax.

Comparing January 2020 to January 2019

Comparing collections from the month of January this year and last year provides a better insight into business sector performance, controlling for seasonal cycles in sales, as well as occasional adjustments.

2020 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	January		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	273,026	267,760	(5,265)	-1.9%	13.0%	12.0%
Contracting	419,734	560,093	140,359	33.4%	20.0%	25.0%
Communications	52,713	38,303	(14,410)	-27.3%	2.5%	1.7%
Retail:						
Auto/Gas Retail	522,521	543,155	20,633	3.9%	24.8%	24.3%
Gen Merch/Misc Retail	232,329	222,820	(9,508)	-4.1%	11.0%	10.0%
Retail Eating/Drinking	138,678	146,841	8,163	5.9%	6.6%	6.6%
Other Retail	276,231	277,425	1,194	0.4%	13.1%	12.4%
Wholesale	84,637	80,764	(3,873)	-4.6%	4.0%	3.6%
Miscellaneous	103,251	101,187	(2,065)	-2.0%	4.9%	4.5%
Total	2,103,118	2,238,348	135,229	6.4%	100%	100%

Comparing month-over-month growth, January sales tax collections this year are **\$135,229 (6.4 percent)** higher than January 2019. Following the trend from previous months, **Contracting** was once again the lead contributor, rising by **\$140,359 (33.4 percent)**. This accounted for more than 100% of the overall sales tax growth. Without this growth from Contracting, the month-over-month growth would have been -0.3 percent. The next largest contributors were **Auto/Gas Retail**, which grew by **\$20,633 (3.9 percent)**, and **Retail Eating/Drinking** which showed an uptick of **\$8,163 (5.9 percent)**.

Communications decreased significantly by **\$14,410 (27.3 percent)**, continuing a several month-long downward trend. **General Merchandise/Miscellaneous Retail** had the second largest decline at a decrease of **\$9,508 (4.1 percent)**.

Year-to-Date Review

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	273,026	267,760	(5,265)	-1.9%	13.0%	12.0%
Contracting	419,734	560,093	140,359	33.4%	20.0%	25.0%
Communications	52,713	38,303	(14,410)	-27.3%	2.5%	1.7%
Retail:						
Auto/Gas Retail	522,521	543,155	20,633	3.9%	24.8%	24.3%
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Miscellaneous	103,251	101,187	(2,065)	-2.0%	4.9%	4.5%
Total	2,103,119	2,238,348	135,229	6.4%	100%	100%

As this is the first monthly sales tax report of 2020, the Year-to-Date trends mirror those presented in the monthly analysis section.

Estimated Revenue Impact of Kirkland Urban and The Village at Totem Lake Redevelopment

Since July 2016, Financial Planning has been monitoring revenues from Contracting businesses known to be working on the redevelopment projects at Kirkland Urban and The Village at Totem Lake. Sales tax revenues through December 2019 from these projects, as shown by the following chart, have been a significant component of overall sales tax revenue growth.



From July 2016 to January 2020, the City has received close to **\$3.7 million** from companies known to be working on these large redevelopment projects. This represents over 19% of total collections from contracting over that period; however, this should be considered an *approximation* rather than a precise number, as this amount includes all activity from some contractors, even though some of their contributions may be from other locations within Kirkland. It also does not include sales tax from contracting firms that are only small contributors to these locations that are doing other work in Kirkland. The chart above also shows sales tax revenues from new businesses that have opened at The Village at Totem Lake. It is worth noting that for retailers with multiple locations in Kirkland, only a portion of their sales are allocated to the new businesses for the purpose of this chart.

National and Regional Economic Context

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as to predict future performance. The combination of consumer confidence, unemployment levels, housing data, inflation and auto sales provides a broader economic context for key factors in sales tax revenues. The table below includes the most recently available data and prior month's readings, for some of the most relevant indicators.

2020 Wider Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Current	Previous	Change	2020	2019
Consumer Confidence							
Consumer Confidence Index	January	Index	130.4	126.5	3.9	N/A	128.1
Unemployment Rate							
National	January	%	3.6	3.5	0.1	N/A	3.7
Washington State	December	%	4.0	4.0	0.0	N/A	4.5
King County	November	%	2.3	2.7	(0.4)	N/A	3.0
Kirkland	December	%	2.0	2.2	(0.2)	N/A	2.9
Housing							
New House Permits	December	Thousands	56.8	61.5	(4.7)	N/A	48.7
Seattle Area Home Prices	December	Index	254.3	253.8	0.5	N/A	252.2
Inflation (CPI-W)							
National	January	% Change	2.5	2.3	0.2	N/A	1.7
Seattle	December	% Change	2.0	1.7	0.3	N/A	2.1
Car Sales							
New Vehicle Registrations	January	Thousands	23.3	22.8	0.5	N/A	23.7

The Conference Board **Consumer Confidence Index** was up in January, increasing to 130.4 from 126.5 in December.

The national **Unemployment Rate** in January rose slightly to 3.6 percent. Washington State unemployment maintained a level of 4.0 percent from October to December. King County unemployment also dropped from 2.7 to 2.3 percent. Subsequently, Kirkland unemployment declined from 2.2 percent to 2.0 percent in December.

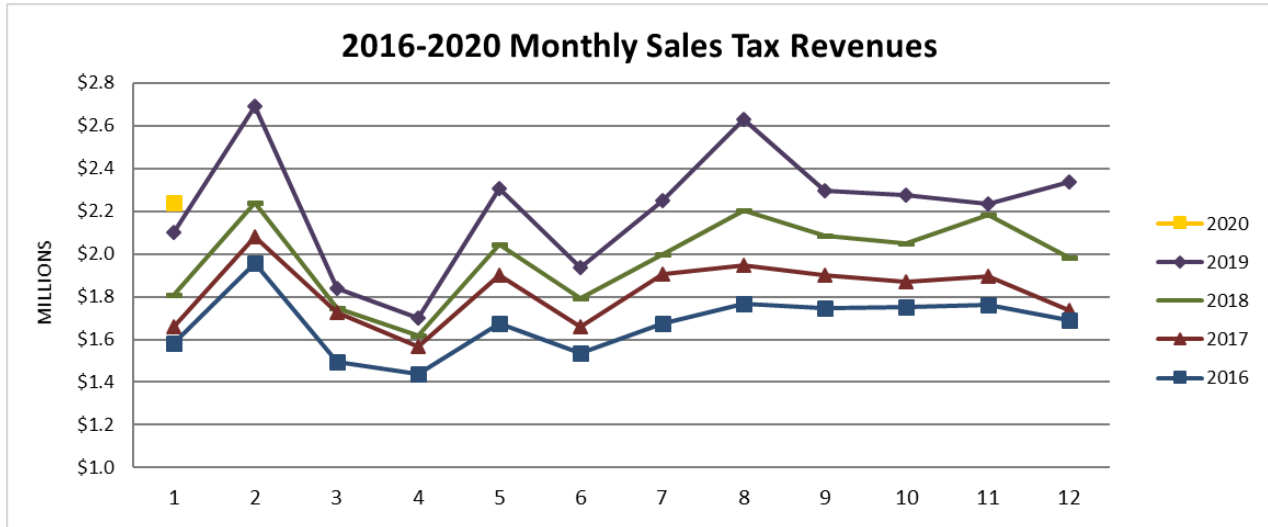
The **New Housing Permits** decreased from 61,500 in November to 56,800 in December. The **Case-Shiller Home Price Index** saw a slight uptick, and remains high at 10.0 points greater than the same point in time last year.

Inflation for Seattle-Tacoma-Bellevue, as measured by the CPI-W, rebounded from 1.7 percent in October to 2.0 percent in December. Unlike previous trends, the local CPI-W was lower than the national average in December. Meanwhile on the national level, inflation increased from 2.3 percent in December to 2.5 percent in January.

New Vehicle Registrations increased by 500 from December to January.

Conclusion

The chart below shows Kirkland's monthly sales tax revenues through January 2020 compared to the four prior years.



Contracting is the primary driver in growth, accounting for greater than 100% of the YTD gains (contracting sales tax increased by \$140,539 while total sales tax increased by \$135,229).

Looking at all sectors combined, 2020 year-to-date revenues are **6.4 percent** above those seen at the same time last year.



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MEMORANDUM

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Date: March 19, 2020

Subject: February Sales Tax Revenue

February results reflect sales activity in December, due to the two-month lag in reporting sales tax data. Monthly sales tax revenue is **5.4 percent lower** than February 2019. While the General Merchandise/Retail, Services, and Other Retail Sector sectors showed growth, Miscellaneous and Auto/Gas Retail business decreased. The following sections discuss the highlights by business sector of the month-over-month analysis and year-to-date revenue as well as key economic variables that impact sales tax.

Comparing February 2020 to February 2019

Comparing collections from the month of February this year and last year provides a better insight into business sector performance, controlling for seasonal cycles in sales, as well as occasional adjustments.

2020 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	February		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	320,244	360,493	40,249	12.6%	11.9%	14.2%
Contracting	580,207	610,307	30,100	5.2%	21.6%	24.0%
Communications	50,812	57,492	6,680	13.1%	1.9%	2.3%
Retail:						
Auto/Gas Retail	483,904	434,516	(49,388)	-10.2%	18.0%	17.1%
Gen Merch/Misc Retail	300,575	345,937	45,362	15.1%	11.2%	13.6%
Retail Eating/Drinking	154,041	162,531	8,490	5.5%	5.7%	6.4%
Other Retail	313,813	346,328	32,516	10.4%	11.7%	13.6%
Wholesale	102,900	105,648	2,748	2.7%	3.8%	4.2%
Miscellaneous	384,697	122,077	(262,620)	-68.3%	14.3%	4.8%
Total	2,691,192	2,545,329	(145,863)	-5.4%	100%	100%

Comparing month-over-month growth, February sales tax collections this year are **\$145,863 (5.4 percent)** lower than February 2019. **General Merchandise/Retail** had the largest increase, exceeding 2019 revenues by **\$45,362 (15.1 percent)**. Most other sectors showed increases as well, with **Other Retail** going up by **\$32,516 (10.4 percent)**, largely due to bumps in clothing and furniture sales. **Services** was the next biggest contributor with growth of **\$40,249 (12.6 percent)**.

The negative growth in overall sales tax compared to February 2019 can be attributed to the **Miscellaneous** sector, which decreased by **\$262,620 (68.3 percent)**. This is an abnormality, as February 2019 revenues were 235.6% above 2018, driven primarily by an audit where a business had to pay back

taxes. Compared to 2018 revenues of \$114,604, the Miscellaneous sector shows growth of 6.5 percent. **Auto/Gas Retail** was also down, caused by a \$53,499 decrease in revenues from motor vehicle sales.

Year-to-Date Review

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	593,270	628,254	34,984	5.9%	12.4%	13.1%
Contracting	999,940	1,170,399	170,459	17.0%	20.9%	24.5%
Communications	103,525	95,795	(7,730)	-7.5%	2.2%	2.0%
Retail:						
Auto/Gas Retail	1,006,425	977,671	(28,754)	-2.9%	21.0%	20.4%
Gen Merch/Misc Retail	532,904	568,758	35,854	6.7%	11.1%	11.9%
Retail Eating/Drinking	292,720	309,372	16,653	5.7%	6.1%	6.5%
Other Retail	590,044	623,754	33,710	5.7%	12.3%	13.0%
Wholesale	187,537	186,412	(1,125)	-0.6%	3.9%	3.9%
Miscellaneous	487,948	223,264	(264,685)	-54.2%	10.2%	4.7%
Total	4,794,312	4,783,678	(10,635)	-0.2%	100%	100%

Continuing trends from recent months, **Contracting** continues to exhibit the most growth for the year, showing an increase of **\$170,459 (17 percent)** over 2019 levels. It accounts for close to a quarter of total sales tax revenue in 2020. **General Merchandise/Retail, Services, Retail Eating/Drinking, and Other Retail** show moderate increases in revenues between 5 and 7 percent above the prior year. As previously discussed, the significant decrease in **Miscellaneous** sector is due to a large back tax payment in 2019. **Auto/Gas Retail** is down **\$28,574 (2.9 percent)**, and **Communications** has declined by **\$7,730 (7.5 percent)**.

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Unemployment Rate							
National	February	%	3.5	3.6	(0.1)	N/A	3.7
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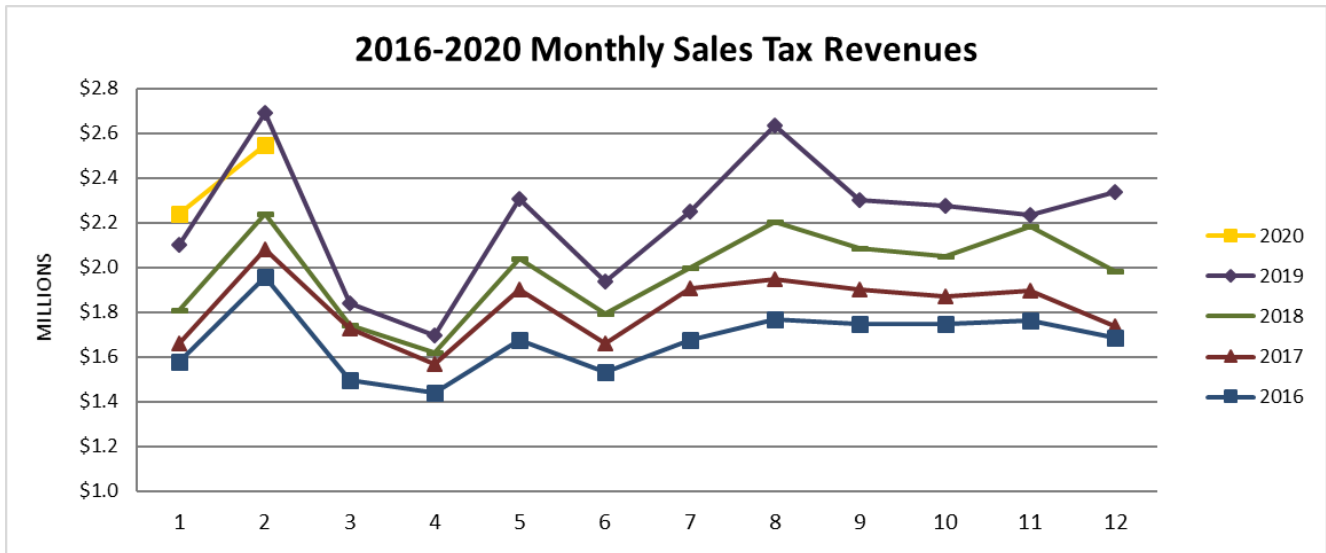
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Contracting is the primary driver in growth, accounting for greater than 100% of the YTD gains (contracting sales tax increased by \$170,459 while total sales tax has decreased by \$10,635).

Looking at all sectors combined, 2020 year-to-date revenues are **0.2 percent** below those seen at the same time last year. If the miscellaneous sector was removed (controlling for the impact of the large back tax payment in 2019), sales tax revenues are **5.9 percent** above the previous year-to-date.