



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
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**MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance & Administration  
 Chip Corder, Temporary Deputy Director-Budget  
 Robby Perkins-High, Senior Financial Analyst  
 Kevin Lowe Pelstring, Budget Analyst

**Date:** August 14, 2020

**Subject:** July 2020 Sales Tax Revenue

**Background**

The Financial Planning Division prepares a monthly sales tax revenue memo analyzing monthly and year-to-date activity by business sector, forecasting sales tax revenue in the current year, and tracking key economic indicators to provide additional context for the state of the economy. The general retail sales tax is the City's largest single revenue source, accounting for 19 percent of total budgeted revenues in the General Fund and funding, along with property tax and utility taxes, public safety and other general government (i.e., non-utility) services. It is also more sensitive to economic cycles than other tax revenues. Accordingly, it is monitored closely by staff—even more so given the economic disruption and uncertainty caused by COVID-19.

There is a two-month lag between when sales tax is generated and when it is distributed to the City by the Washington State Department of Revenue (DOR). Accordingly, July sales tax revenue relates to May retail activity in Kirkland.

**July 2020 vs. July 2019**

Business Sector Group	July		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	280,478	292,412	11,934	4.3%	12.5%	12.4%
Contracting	482,446	646,826	164,380	34.1%	21.4%	27.3%
Communications	247,116	37,026	(210,090)	-85.0%	11.0%	1.6%
Retail:						
Auto/Gas Retail	396,763	509,682	112,919	28.5%	17.6%	21.5%
Gen Merch/Misc Retail	220,842	244,075	23,233	10.5%	9.8%	10.3%
Retail Eating/Drinking	164,759	116,387	(48,372)	-29.4%	7.3%	4.9%
Other Retail	257,320	297,306	39,986	15.5%	11.4%	12.6%
Wholesale	95,755	107,217	11,462	12.0%	4.3%	4.5%
Miscellaneous	105,059	114,655	9,596	9.1%	4.7%	4.8%
<b>Total</b>	<b>2,250,538</b>	<b>2,365,586</b>	<b>115,048</b>	<b>5.1%</b>	<b>100%</b>	<b>100%</b>

Note: Communications includes a \$210,211 one-time back tax payment in July 2019.

**Comparing July 2020 to July 2019, sales tax revenue is up \$115,048 (5.1 percent).** However, July 2019 includes a \$210,211 back tax payment following a DOR audit of a Communications business. **Excluding this one-time payment, sales tax revenue is up \$325,259 (15.9 percent) in July 2020.**

Looking at business sectors, **the most significant growth occurred in Contracting (up \$164,380, or 34.1 percent), Auto/Gas Retail (up \$112,919, or 28.5 percent), and Other Retail (up \$39,986, or 15.5 percent).** In addition, there was significant growth in General Merchandise/Misc Retail (up 10.5 percent), Wholesale (up 12.0 percent), and Miscellaneous (up 9.1 percent), though each was less than \$24,000, which is not very consequential.

**Noteworthy declines occurred in Communications (down \$210,090, or 85.0 percent),** which was due to the \$210,211 back tax payment noted above, **and Retail Eating/Drinking (down \$48,372, or 29.4 percent),** which was due to the Governor’s stay-at-home order through May 31, 2020.

#### YTD 2020 vs. YTD 2019

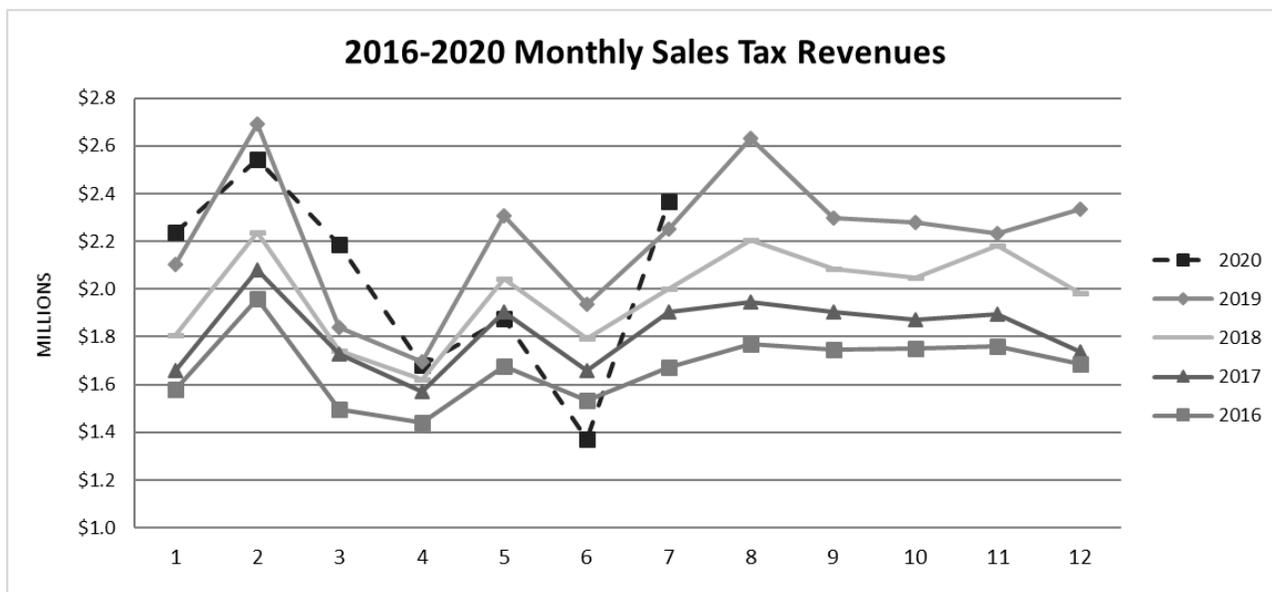
Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	1,858,593	2,003,387	144,794	7.8%	12.5%	14.0%
Contracting	3,496,377	3,760,858	264,481	7.6%	23.6%	26.4%
Communications	510,297	287,035	(223,263)	-43.8%	3.4%	2.0%
Retail:						
Auto/Gas Retail	2,888,299	2,490,972	(397,326)	-13.8%	19.5%	17.5%
Gen Merch/Misc Retail	1,526,690	1,608,380	81,690	5.4%	10.3%	11.3%
Retail Eating/Drinking	1,032,178	841,501	(190,677)	-18.5%	7.0%	5.9%
Other Retail	1,763,105	1,912,243	149,138	8.5%	11.9%	13.4%
Wholesale	664,271	619,798	(44,473)	-6.7%	4.5%	4.3%
Miscellaneous	1,086,602	747,744	(338,857)	-31.2%	7.3%	5.2%
<b>Total</b>	<b>14,826,412</b>	<b>14,271,919</b>	<b>(554,493)</b>	<b>-3.7%</b>	<b>100%</b>	<b>100%</b>

**Comparing 2020 to 2019, year-to-date (YTD) sales tax revenue is down \$554,493 (3.7 percent).** However, 2019 includes two large back tax payments totaling \$458,733 from the Communications and Miscellaneous business sectors. **Factoring out these one-time payments, YTD sales tax revenue in 2020 is down 0.7 percent relative to the same period in 2019.**

Looking at business sectors, **the most significant growth occurred in Contracting (up \$264,481, or 7.6 percent), Other Retail (up \$149,138, or 8.5 percent), and Services (up \$144,794, or 7.8 percent).** The growth in Other Retail has been led by the Electronics and Health & Personal Care sub-sectors. In Services, the growth has been concentrated in the Administration & Support and Publishing Services sub-sectors.

**Noteworthy declines occurred in Auto/Gas Retail (down \$397,326, or 13.8 percent), Miscellaneous (down \$338,857, or 31.2 percent), Communications (down \$223,263, or 43.8 percent), and Retail Eating/Drinking (down \$190,677, or 18.5 percent).** The drop in Auto/Gas Retail is primarily due to a \$410,305 (83.5 percent) decline in May 2020 (for March retail activity) versus May 2019. The significant decreases in Miscellaneous and Communications respectively relate to back tax payments of \$248,522, which was received in February 2019, and \$210,211, which was received in July 2019. As noted above, Retail Eating/Drinking is down due to the Governor’s stay-at-home order.

The chart below shows Kirkland’s monthly sales tax revenue through July 2020 compared to the prior four years.



### “What If” Forecast Scenarios (2020 Only)

Given current COVID-19 data trends in King County and the high level of economic uncertainty that accompanies it, three “what if” forecast scenarios are provided in the following table for 2020 sales tax revenue. Note that the 2020 budget of \$23,130,166 reflects the City’s two-year sales tax lag policy (2020 budget = 2018 estimate).

“What If” Scenario	2020 Forecast	2020 Budget	Surplus (Deficit)	Staff Forecast Assessment
2020 forecast is 5% below 2019 actual*	\$25,262,146	\$23,130,166	\$2,131,980	Likely
2020 forecast is 10% below 2019 actual*	\$23,932,560	\$23,130,166	\$802,394	Pessimistic
2020 forecast is 15% below 2019 actual*	\$22,602,973	\$23,130,166	(\$527,193)	Very pessimistic

\*2019 actual sales tax revenue = \$26,591,733.

As previously noted, sales tax revenue for January-July 2020 is down only 3.7 percent relative to the same period in 2019. This is considerably better than the 15.7 percent projected decline in taxable retail sales in 2020 vs. 2019 per the July 2020 King County Forecast Model, which was prepared by the Office of Economic and Financial Analysis.

**The key “takeaway” from these “what if” forecast scenarios is that 2020 budgeted sales tax revenue is 13 percent below 2019 actual sales tax revenue. That provides a significant “cushion” in 2020, reducing the financial impact of the three scenarios accordingly.**

To help frame staff’s assessment of the three “what if” forecast scenarios, the following three tables identify how much sales tax revenue would have to decline in the last five months of 2020 relative to the last five months of 2019 to end the year 5 percent, 10 percent, and 15 percent below 2019 actual sales tax revenue.

*2020 Forecast is 5% below 2019 Actual (Staff Forecast Assessment: Likely)*

Sales Tax Revenue	2019	2020	\$ Change	% Change
January-July (actual)	\$14,826,412	\$14,271,918	(\$554,494)	-3.7%
August-December (2019 actual & 2020 forecast)	\$11,765,321	\$10,990,228	(\$775,093)	<b>-6.6%</b>
<b>Total</b>	<b>\$26,591,733</b>	<b>\$25,262,146</b>	<b>(\$1,329,587)</b>	<b>-5.0%</b>

*2020 Forecast is 10% below 2019 Actual (Staff Forecast Assessment: Pessimistic)*

Sales Tax Revenue	2019	2020	\$ Change	% Change
January-July (actual)	\$14,826,412	\$14,271,918	(\$554,494)	-3.7%
August-December (2019 actual & 2020 forecast)	\$11,765,321	\$9,660,642	(\$2,104,679)	<b>-17.9%</b>
<b>Total</b>	<b>\$26,591,733</b>	<b>\$23,932,560</b>	<b>(\$2,659,173)</b>	<b>-10.0%</b>

*2020 Forecast is 15% below 2019 Actual (Staff Forecast Assessment: Very Pessimistic)*

Sales Tax Revenue	2019	2020	\$ Change	% Change
January-July (actual)	\$14,826,412	\$14,271,918	(\$554,494)	-3.7%
August-December (2019 actual & 2020 forecast)	\$11,765,321	\$8,331,055	(\$3,434,266)	<b>-29.2%</b>
<b>Total</b>	<b>\$26,591,733</b>	<b>\$22,602,973</b>	<b>(\$3,988,760)</b>	<b>-15.0%</b>

Sales tax revenue would have to decline 6.6 percent, 17.9 percent, and 29.2 percent respectively in August-December 2020 to end the year 5 percent, 10 percent, and 15 percent below 2019 actual sales tax revenue. The latter two reduction scenarios are unlikely provided that a second "stay at home" order is not issued between now and the end of the year.

**Staff will finalize its 2020-2022 sales tax forecast at the end of August for the 2021-2022 Preliminary Budget.** However, it will be subject to change based on the monthly sales tax distributions in September and October as well as other relevant economic data. If necessary, the 2020-2022 sales tax forecast can be adjusted as late as December, when the 2021-2022 Final Budget is adopted by the Council.

### Key Economic Indicators

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland and 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. Since the sales tax figures reported above are from two months prior, some of the figures in the table below can function as leading indicators for where sales taxes may go in future reports.

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2019	2020
<b>Consumer Confidence</b>							
Consumer Confidence Index	July	Index	98.3	92.6	(5.7)	128.1	106.3
<b>Unemployment Rate</b>							
National	July	%	11.1	10.2	(0.9)	3.7	8.7
Washington State	May	%	16.1	14.8	(1.3)	4.5	9.0
King County	May	%	14.9	14.4	(0.5)	3.0	8.0
Kirkland	May	%	13.0	12.0	(1.0)	2.9	7.0
<b>Housing</b>							
New House Permits	May	Thousands	28.6	56.6	28.0	48.7	46.9
Case-Shiller Seattle Area Home Prices	May	Index	270.0	271.5	1.5	252.2	264.7
<b>Inflation (CPI-W)</b>							
National	June	% Change	(0.1)	0.5	0.6	1.7	1.1
Seattle	June	% Change	1.5	1.0	(0.5)	2.1	1.7
<b>Car Sales</b>							
New Vehicle Registrations	June	Thousands	9.4	16.6	7.2	23.7	17.2

The **Consumer Confidence Index** dropped from 98.3 in June to 92.6 in July. The 2020 average is 21.8 points below the 2019 average.

The national **Unemployment Rate** dropped from 11.1 percent in June to 10.2 percent in July, while the Washington State unemployment rate dropped from 16.1 percent in April to 14.8 percent in May. King County and Kirkland's unemployment rates also fell in May, with the County decreasing slightly from 14.9 to 14.4 percent and Kirkland going from 13.0 to 12.0 percent. Preliminary data (not included in the above table) indicates that unemployment rates will likely fall in June for Washington, King County and Kirkland, each potentially falling below 10 percent.

**New Housing Permits** rebounded significantly from April, increasing by 28,000 in May. The **Case-Shiller Home Price Index** saw an increase of 1.5 points in May, and the 2020 average currently sits 12.5 points above the 2019 average.

**Inflation** for Seattle-Tacoma-Bellevue, as measured by the CPI-W, fell from 1.5 percent to 1.0 percent between April and June. On the national level, inflation turned moderately positive, increasing from -0.1 percent in May to 0.5 percent in June.

**New Vehicle Registrations** increased by 7,200 from May to June, rebounding from the COVID-19 crisis, which began in March.