



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

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance & Administration  
 George Dugdale, Financial Planning Manager  
 Kevin Lowe Pelstring, Budget Analyst

**Date:** May 17, 2021

**Subject:** April 2021 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 after Property Tax, accounting for 18 percent of total budgeted revenues in the General Fund and, along with property and utility taxes, funding 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). Therefore, April sales tax revenue relates to February retail activity in Kirkland.

**April 2021 vs. April 2020**

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	233,485	315,772	82,287	35.2%	13.9%	15.4%
Contracting	481,137	528,303	47,166	9.8%	28.6%	25.7%
Communications	38,464	37,764	(700)	-1.8%	2.3%	1.8%
Retail:						
Auto/Gas Retail	252,122	367,829	115,707	45.9%	15.0%	17.9%
Gen Merch/Misc Retail	191,275	221,749	30,474	15.9%	11.4%	10.8%
Retail Eating/Drinking	82,108	110,050	27,942	34.0%	4.9%	5.4%
Other Retail	238,056	269,363	31,307	13.2%	14.1%	13.1%
Wholesale	79,719	89,253	9,534	12.0%	4.7%	4.3%
Miscellaneous	87,587	114,373	26,786	30.6%	5.2%	5.6%
<b>Total</b>	<b>1,683,953</b>	<b>2,054,456</b>	<b>370,503</b>	<b>22.0%</b>	<b>100%</b>	<b>100%</b>

Comparing April 2021 to April 2020, sales tax revenue is up \$370,503, or 22.0 percent. As this period covers activity from February to February, the 2020 amount was prior to the full impact of the COVID-19 pandemic being felt on the economy in Kirkland. Therefore, this increase is mostly unrelated to the initial shock of

COVID-19 on sales tax, though some early reports of local cases may have affected retail activity in some sectors (e.g., Retail Eating/Drinking, which fell notably in February 2020).

Significant growth occurred in Auto/Gas Retail (up \$115,707 or 45.9 percent), Services (up \$82,287 or 35.2 percent), Gen Merch/Misc Retail (up \$30,474 or 15.9 percent), Retail Eating/Drinking (up \$27,942 or 34.0 percent), and Miscellaneous (up 26,786 or 30.6 percent). A negligible decline occurred in Communications (down \$700 or 1.8 percent).

Within the Auto/Gas Retail sector, the Motor Vehicle category is up \$115,114 or 47.7 percent compared to the same period in 2020, reflecting strong car sales, although YTD increases are more modest and are only up 6.9 percent.

### YTD 2021 vs. YTD 2020

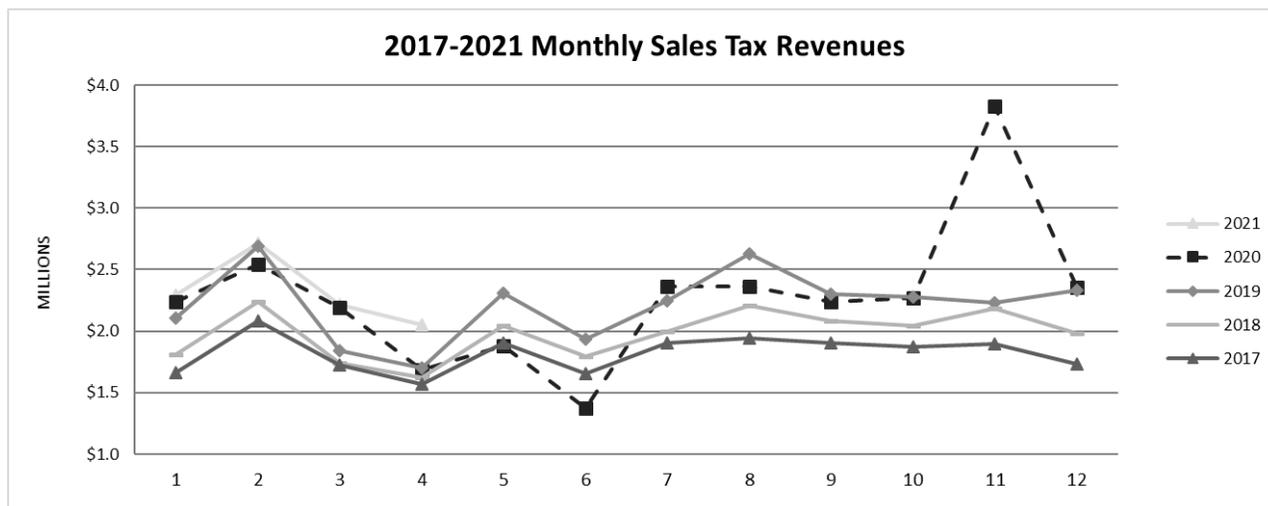
Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	1,418,869	1,369,448	(49,421)	-3.5%	16.4%	14.8%
Contracting	2,100,261	2,380,907	280,646	13.4%	24.3%	25.6%
Communications	176,248	159,101	(17,147)	-9.7%	2.0%	1.7%
Retail:						
Auto/Gas Retail	1,550,280	1,652,458	102,178	6.6%	17.9%	17.8%
Gen Merch/Misc Retail	956,141	1,097,510	141,369	14.8%	11.0%	11.8%
Retail Eating/Drinking	539,570	445,206	(94,364)	-17.5%	6.2%	4.8%
Other Retail	1,121,363	1,284,091	162,728	14.5%	13.0%	13.8%
Wholesale	353,345	413,313	59,968	17.0%	4.1%	4.5%
Miscellaneous	440,225	480,798	40,573	9.2%	5.1%	5.2%
<b>Total</b>	<b>8,656,303</b>	<b>9,282,832</b>	<b>626,529</b>	<b>7.2%</b>	<b>100%</b>	<b>100%</b>

Comparing 2021 to 2020, year-to-date (YTD) sales tax revenue is up \$626,529, or 7.2 percent. However, this includes a \$238,456 taxpayer remittance error, which overstated Services retail activity in January 2020 (resulting in higher distributions to the City in March 2020) and was later adjusted in June 2020 by the Washington Department of Revenue (DOR). **Excluding the March 2020 remittance error in the Services sector, YTD sales tax revenue is up \$864,985 (10.3 percent) overall** and YTD Services sector is up \$189,035 (16.0 percent).

Looking at business sectors, the most significant growth has occurred in Contracting (up \$280,646 or 13.4 percent), Other Retail (up \$162,728 or 14.5 percent), Gen Merch/Misc Retail (up \$141,369 or 14.8 percent), and Wholesale (up \$59,968 or 17.0 percent). The growth in Other Retail has been led by the Sporting Goods, Non-store Retailers, Electronics, and Building & Garden sub-sectors.

Noteworthy declines occurred in Retail Eating/Drinking (down \$94,364, or 17.5 percent), and Communications (down \$17,147, or 9.7 percent). Retail Eating/Drinking is down due to the Governor's stay-at-home order, which was in effect from November 17th through January 4th, 2021, as well as social distancing requirements, which have limited the number of customers that can be served throughout 2021 YTD period. This report shows February 2021 retail activity which is the first full month following the Governor's 'Roadmap to Recovery' phased reopening plan in which King County moved from Phase 1 to Phase 2 on January 29<sup>th</sup>.

The chart below shows Kirkland’s monthly sales tax revenue through April 2021 compared to the prior four years.



### 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	2020	2021
<b>Consumer Confidence</b>							
Consumer Confidence Index	April	Index	109.0	121.7	12.7	101.0	102.5
<b>Unemployment Rate</b>							
National	April	%	6.0	6.1	0.1	8.1	6.2
Washington State	February	%	6.8	6.4	(0.4)	8.4	6.6
King County	February	%	6.3	5.4	(0.9)	7.6	5.9
Kirkland	February	%	5.3	4.4	(0.9)	6.2	4.9
<b>Housing</b>							
New House Permits (WA)	February	Thousands	66.7	70.9	4.2	44.6	68.8
Case-Shiller Seattle Area Home Prices	February	Index	292.9	300.0	7.0	273.8	296.4
<b>Inflation (CPI-W)</b>							
National	April	% Change	3.0	4.7	1.7	1.2	2.8
Seattle	April	% Change	1.7	3.7	2.0	1.9	2.7
<b>Car Sales</b>							
New Vehicle Registrations	March	Thousands	24.5	24.0	(0.5)	19.4	23.5

The **Consumer Confidence Index** continued to surge from 109.0 in March to 121.7 in April, a 12.7-point jump reflecting positive consumer confidence with expanding vaccine access and individual federal stimulus payments from the American Recovery Plan Act (ARPA).

The national **Unemployment Rate** increased slightly from 6.0 percent in March to 6.1 percent in April and the Washington State unemployment rate decreased slightly from 6.8 percent in January to 6.4 percent in February, after hitting a high of 16.1 percent in April 2020. King County’s unemployment rate decreased from 6.3 percent in January to 5.4 percent in February, and Kirkland’s unemployment rate decreased from 5.3 percent in January to 4.4 percent in February.

**New Housing Permits** in Washington State have continued to increase, climbing from 49,400 in December, to 70,900 in February (up 43.5 percent over those months), well exceeding the 2020 average of 44,600, as the housing inventory in Puget Sound region remains low. The **Case-Shiller Home Price Index** saw an increase of 7.0 points in February to 300.0, well above January 2020 index of 256.16, reflecting a continually strong local housing market despite the pandemic.

**Inflation**, as measured by the CPI-W, in the U.S. increased in April to 4.7 percent from 3.0 percent in March. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 1.7 percent in February to 3.7 percent in April. The CPI-W is reported as the percentage change over the last 12 months so inflation will likely remain higher in 2021 as a result of falling prices in 2020 during the impacts of the first wave of COVID-19 on the national and regional economy. Additionally, the effects of recent federal stimulus and reopening of retail activity as vaccines become widely administered may contribute to further inflation.

**New Vehicle Registrations** in Washington State increased sharply from 21,900 in January to 24,500 in February and decreased slightly to 24,000 in March. The 2021 average remains 4,100 above the 2020 average.