



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100  
[www.kirklandwa.gov](http://www.kirklandwa.gov)

**MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance & Administration  
George Dugdale, Financial Planning Manager  
Camille Hastings, Recovery Intern

**Date:** July 16, 2021

**Subject:** June 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). Accordingly, June sales tax revenue relates to April retail activity in Kirkland.

**June 2021 vs. June 2020**

Business Sector Group	June		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	(222,752)	355,471	578,223	259.6%	-16.2%	14.7%
Contracting	490,954	534,638	43,684	8.9%	35.8%	22.1%
Communications	32,346	36,795	4,449	13.8%	2.4%	1.5%
Retail:						
Auto/Gas Retail	352,746	520,174	167,428	47.5%	25.7%	21.5%
Gen Merch/Misc Retail	196,329	253,981	57,652	29.4%	14.3%	10.5%
Retail Eating/Drinking	113,253	141,485	28,232	24.9%	8.3%	5.9%
Other Retail	240,763	334,932	94,169	39.1%	17.5%	13.8%
Wholesale	69,542	107,283	37,741	54.3%	5.1%	4.4%
Miscellaneous	99,520	133,557	34,037	34.2%	7.2%	5.5%
<b>Total</b>	<b>1,372,701</b>	<b>2,418,316</b>	<b>1,045,615</b>	<b>76.2%</b>	<b>100%</b>	<b>100%</b>

Comparing June 2021 to June 2020, sales tax revenue is up \$1,045,615, or 76.2 percent. However, this overstates the real growth as it includes repayment of two taxpayer remittance errors in June 2020 that totaled \$499,925. These errors overstated Services retail activity in January & March 2020 (resulting in

higher distributions to the City in March & May 2020) and were later removed in the June 2020 distribution by the Washington Department of Revenue (DOR). To show the true growth from June to June this amount should be excluded. The following table shows the June to June comparison excluding the \$499,925 correction.

**June Sales Tax Receipts excluding \$499,925 Correction**

Business Sector Group	June		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	277,173	355,471	78,298	28.2%	14.8%	14.7%
Contracting	490,954	534,638	43,684	8.9%	26.2%	22.1%
Communications	32,346	36,795	4,449	13.8%	1.7%	1.5%
Retail:						
Auto/Gas Retail	352,746	520,174	167,428	47.5%	18.8%	21.5%
Gen Merch/Misc Retail	196,329	253,981	57,652	29.4%	10.5%	10.5%
Retail Eating/Drinking	113,253	141,485	28,232	24.9%	6.0%	5.9%
Other Retail	240,763	334,932	94,169	39.1%	12.9%	13.8%
Wholesale	69,542	107,283	37,741	54.3%	3.7%	4.4%
Miscellaneous	99,520	133,557	34,037	34.2%	5.3%	5.5%
<b>Total</b>	<b>1,872,626</b>	<b>2,418,316</b>	<b>545,690</b>	<b>29.1%</b>	<b>100%</b>	<b>100%</b>

Excluding the remittance errors and subsequent correction, sales tax revenue is up \$545,690, or 29.1 percent in June 2021 compared to last year. As this period covers activity from April to April, the 2020 revenue reflects the economic impacts of the COVID-19 pandemic in Kirkland, as well as Governor Inslee's "Stay Home, Stay Healthy" order, in which only essential businesses remained open to the public. A mix of strong growth in 2021 retail activity and economic contraction in the same period in 2020 explain the increase in June 2021 sales tax revenue as compared to June 2020.

In June 2021, all categories reported growth, with the most significant gains in Auto/Gas Retail due to car sales (up \$167,428 or 47.5 percent), Other Retail (up \$94,169 or 39.1 percent), Services (up \$78,298 or 28.2 percent), and General Merchandise/Miscellaneous Retail (up \$57,652 or 29.4 percent). Although Retail Eating/Drinking continues to recover as the community is vaccinated and businesses reopen with fewer restrictions (up 24.9 percent), it has not fully returned to pre-pandemic levels, with April 2021 retail sales (June 2021 revenue) for the sector below the 2019 average.

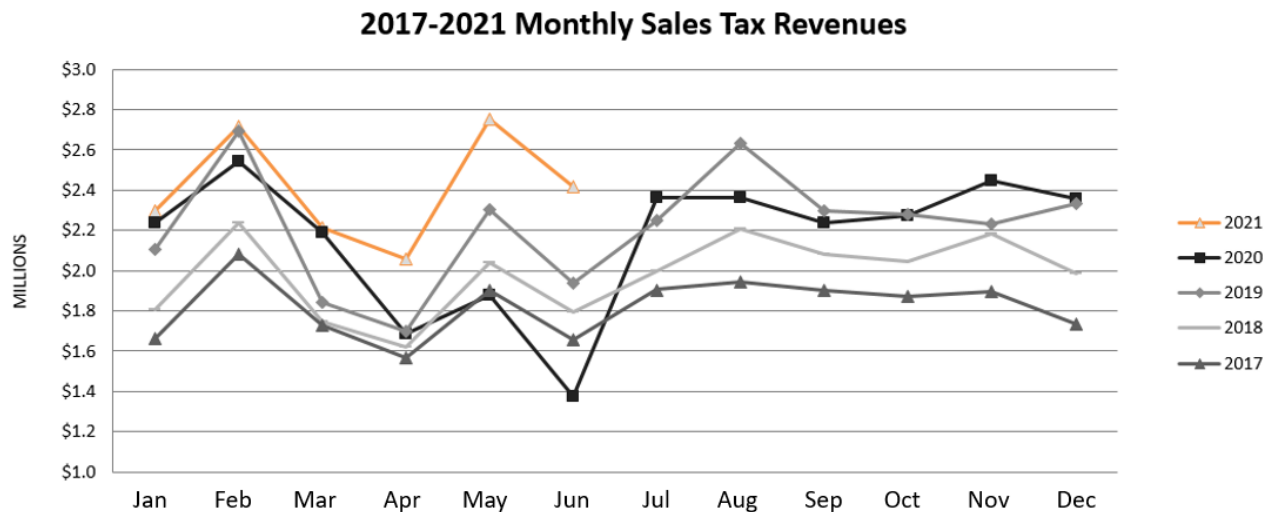
**YTD 2021 vs. YTD 2020**

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	1,716,325	2,129,894	413,569	24.1%	14.4%	14.7%
Contracting	3,114,829	3,674,545	559,716	18.0%	26.2%	25.4%
Communications	250,011	234,859	(15,152)	-6.1%	2.1%	1.6%
Retail:						
Auto/Gas Retail	1,984,164	2,673,756	689,592	34.8%	16.7%	18.5%
Gen Merch/Misc Retail	1,364,006	1,606,628	242,622	17.8%	11.5%	11.1%
Retail Eating/Drinking	725,114	717,280	(7,834)	-1.1%	6.1%	5.0%
Other Retail	1,608,780	1,988,029	379,249	23.6%	13.5%	13.8%
Wholesale	510,246	662,055	151,809	29.8%	4.3%	4.6%
Miscellaneous	632,859	763,891	131,032	20.7%	5.3%	5.3%
<b>Total</b>	<b>11,906,334</b>	<b>14,450,937</b>	<b>2,544,603</b>	<b>21.4%</b>	<b>100%</b>	<b>100%</b>

As the taxpayer remittance errors occurring earlier in 2020 were corrected in June, year-to-date (YTD) sales tax revenue is up \$2,544,603, or 21.4 percent in 2021.

Looking at business sectors, the most significant growth was in Auto/Gas Retail (up \$689,592 or 34.8 percent, most of which has occurred in the past two months), Contracting (up \$558,716 or 18 percent), Services (up \$413,569 or 24.1%), and Other Retail (\$379,249 or 23.6 percent). Marginal declines occurred in Communications (down \$15,152 or 6.1 percent). Retail Eating/Drinking is also down 1.1 percent, reflecting the Governor's social distancing and restaurant capacity requirements, which have limited the number of customers that can be served throughout the 2021 YTD period. This report shows April 2021 retail activity, which is the first month following the Governor's 'Roadmap to Recovery' phased reopening plan in which King County moved from Phase 2 to Phase 3 at the end of March.

The graph below shows Kirkland's monthly sales tax revenue through June 2021 compared to the prior four years.



Note: A one-time back payment of \$1,384,689 in November 2020 was excluded from the above graph to allow for more accurate comparison of ongoing revenues.

### 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	June	Index	117.2	127.3	10.1	101.0	109.9
<b>Unemployment Rate</b>							
National	June	%	5.8	5.9	0.1	8.1	6.1
Washington State	April	%	6.3	5.6	(0.7)	8.4	6.3
King County	April	%	5.5	4.9	(0.6)	7.6	5.5
Kirkland	April	%	4.8	4.2	(0.6)	6.2	4.7
<b>Housing</b>							
New House Permits (WA)	April	Thousands	53.4	47.5	(5.9)	44.6	59.6
Case-Shiller Seattle Area Home Prices	April	Index	315.3	324.9	9.6	273.8	308.3
<b>Inflation (CPI-W)</b>							
National	June	% Change	5.6	6.1	0.5	1.2	3.8
Seattle	June	% Change	3.7	6.3	2.6	1.9	3.9
<b>Car Sales</b>							
New Vehicle Registrations	May	Thousands	27.0	25.5	(1.5)	19.4	24.6

The **Consumer Confidence Index**<sup>1</sup> increased 10.1 points between May and June, following a decrease of 0.3 points in the previous month. Consumer confidence is currently at its highest level since March 2020, a potential reflection of consumers' optimism regarding continued economic recovery and a sign that consumer spending will continue to support economic growth in the short-term (Consumer Confidence Survey). Overall confidence seems to be stable and resilient as vaccination rates continue to increase and the economy moves toward reopening fully.

The national **Unemployment Rate** saw a 0.1 percentage point increase in the past month, from 5.8 percent in May to 5.9 percent in June. Locally, Washington State's unemployment decreased from 6.3 percent in March to 5.6 percent in April. Similarly, King County's unemployment rate decreased by 0.6 percentage points from 5.5 to 4.9 percent (March-April), and Kirkland's decreased from 4.8 to 4.2 percent (March-April).

**New Housing Permits** in Washington State decreased 11 percent from 53,400 in March to 47,500 in April. Despite this, the 2021 yearly average of 59,600 remains well above the 2020 average of 44,600 due to increases in the early months of 2021. The **Case-Shiller Home Price Index** saw another increase of 9.6 points in April to 324.9, reflecting a continually strong local housing market despite the pandemic.

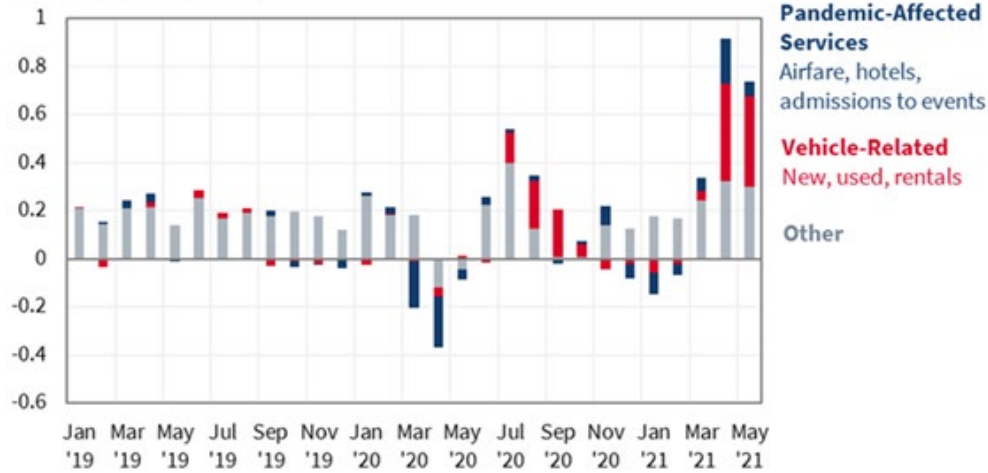
**Inflation**, as measured by the CPI-W in the U.S. increased in June to 6.1 percent from 5.6 percent in May. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 3.7 percent in April to 6.3 percent in June. The CPI-W is reported as the percentage change over the last 12 months so inflation 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 the economy as vaccines become widely administered despite supply bottlenecks in some sectors may contribute to further inflation. As described in the graph from the White House Council of Economic Advisors below, much of the inflation<sup>2</sup> is driven by increases in the prices of vehicles and travel, where a sudden return of demand is outpacing supply restricted by the pandemic.

<sup>1</sup> The Consumer Confidence Index transitioned to an online survey this year and all monthly indices have been restated and updated with the new methodology from January to May 2021.

<sup>2</sup> Inflation measure in the graph is Core CPI, which removes energy and food prices due to their increased volatility. The City of Kirkland uses the CPI-W, which is the Consumer Price Index for Urban Wage Earners and Clerical Workers

## Contributions to Monthly Core CPI Inflation

Percentage points, monthly rate



Source: BLS, CEA analysis.

**New Vehicle Registration** in Washington State increased sharply from 24,000 in March to 27,000 in April, before decreasing to 25,500 in May. Registration numbers were not updated in June 2021, but it is anticipated that they will rise in the coming months to reflect increased vehicle purchases. Despite this, the 2021 yearly average remains 5,200 above the 2020 average.