



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

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance & Administration  
Sri Krishnan, Deputy Director of Finance & Administration  
Kevin Lowe Pelstring, Budget Analyst  
Radu Smintina, Budget Intern

**Date:** December 15, 2020

**Subject:** November 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 18 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, November sales tax revenue relates to September retail activity in Kirkland.

**November 2020 vs. November 2019**

Business Sector Group	November		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	312,460	359,145	46,685	14.9%	14.0%	9.4%
Contracting	593,053	689,943	96,890	16.3%	26.6%	18.0%
Communications	41,134	31,376	(9,758)	-23.7%	1.8%	0.8%
Retail:						
Auto/Gas Retail	407,267	420,344	13,077	3.2%	18.2%	11.0%
Gen Merch/Misc Retail	224,736	254,361	29,625	13.2%	10.1%	6.6%
Retail Eating/Drinking	164,895	127,340	(37,555)	-22.8%	7.4%	3.3%
Other Retail	272,045	329,885	57,840	21.3%	12.2%	8.6%
Wholesale	102,031	106,187	4,156	4.1%	4.6%	2.8%
Miscellaneous	115,044	1,510,952	1,395,908	1213.4%	5.2%	39.5%
<b>Total</b>	<b>2,232,665</b>	<b>3,829,533</b>	<b>1,596,868</b>	<b>71.5%</b>	<b>100%</b>	<b>100%</b>

Comparing November 2020 to November 2019, sales tax revenue is up \$1,596,868, or 71.5 percent. This seemingly unprecedented growth is in large part due to about \$1.4 million in excise audits which are accounted for in the Miscellaneous category. Of these audits, \$1,384,689 came from 2016 back payments from a "Rental and Leasing Services" company as the result of a Department of Revenue audit. Staff will get detail from the Department of Revenue to verify the validity and accuracy of this one-time payment. Without these back payments November 2020 sales tax revenues are still up about 9.5 percent relative to November 2019.

Looking at business sectors aside from Miscellaneous, the most significant growth occurred in Contracting (up \$96,890 or 16.3 percent), Services (up \$46,685 or 14.9 percent), and Other Retail (up \$37,555, or 22.8 percent). Noteworthy declines occurred in Retail Eating/Drinking (down \$37,555, or 22.8 percent) and Communications (down \$9,758, or 23.7 percent).

#### YTD 2020 vs. YTD 2019

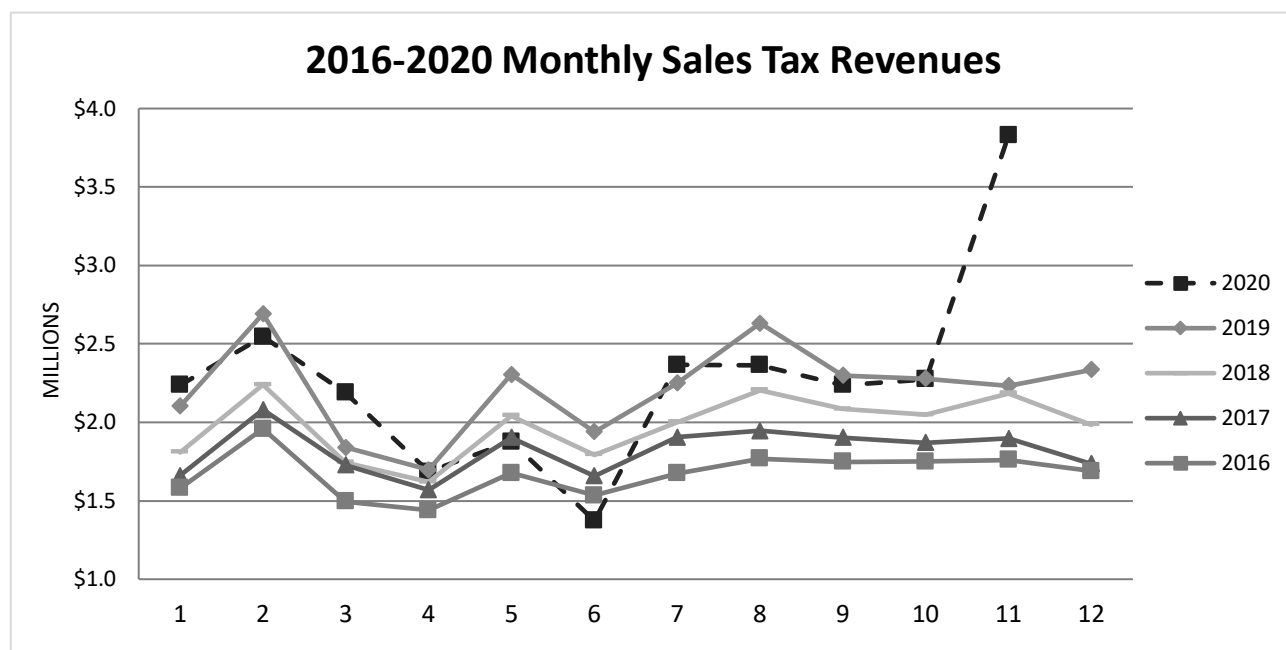
Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	3,154,761	3,287,393	132,632	4.2%	13.0%	13.2%
Contracting	6,058,569	6,135,894	77,325	1.3%	25.0%	24.6%
Communications	664,752	424,841	(239,911)	-36.1%	2.7%	1.7%
Retail:						
Auto/Gas Retail	4,690,676	4,240,633	(450,043)	-9.6%	19.3%	17.0%
Gen Merch/Misc Retail	2,473,997	2,658,912	184,915	7.5%	10.2%	10.6%
Retail Eating/Drinking	1,713,657	1,353,699	(359,958)	-21.0%	7.1%	5.4%
Other Retail	2,852,365	3,134,038	281,673	9.9%	11.8%	12.5%
Wholesale	1,055,149	1,065,910	10,761	1.0%	4.3%	4.3%
Miscellaneous	1,603,177	2,674,395	1,071,218	66.8%	6.6%	10.7%
<b>Total</b>	<b>24,267,102</b>	<b>24,975,715</b>	<b>708,613</b>	<b>2.9%</b>	<b>100%</b>	<b>100%</b>

Comparing 2020 to 2019, **year-to-date (YTD) sales tax revenue is up \$708,613, or 2.9 percent.** However, 2019 includes two large back tax payments totaling \$458,733 from the Communications and Miscellaneous business sectors, while 2020 includes \$1,384,689 in back payments from the Miscellaneous sector as discussed above.

Looking at business sectors, the most significant growth occurred in Miscellaneous (up \$1,071,218, or 66.8 percent), Other Retail (up \$281,673, or 9.9 percent) and General Merchandise/Miscellaneous Retail (up \$184,915, or 7.5 percent), and Services (up \$132,632, 4.2 percent). The growth in Other Retail has been led by the Electronics, Sporting Goods, Building & Garden, and Health & Personal Care sub-sectors.

Noteworthy declines occurred in Auto/Gas Retail (down \$450,043, or 9.6 percent), Retail Eating/Drinking (down \$359,958, or 21.0 percent), and Communications (down \$239,911, or 36.1 percent). The significant decline in Communications relates to back tax payments of \$210,211, which were received in July 2019. Retail Eating/Drinking is down due to the Governor's stay-at-home order, which was in effect from March 25<sup>th</sup> to May 31<sup>st</sup>, and renewed on November 17<sup>th</sup> through January 4<sup>th</sup>, 2021 as well as social distancing requirements, which limit the number of customers that can be served.

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



### 2020 Sales Tax Budget to Actuals Comparison

Given the large back payment from the Miscellaneous sector received in November 2020, sales tax receipts do not directly reflect the relative strength of 2020 taxable retail activity in Kirkland. Below are the year-to-date (YTD) budget to actuals for sales tax revenue with and without the \$1,384,689 back payment. Note that the 2020 budget of \$23,130,166 reflects the City's modified two-year sales tax lag policy (2020 budget = 2018 estimate).

Forecast Scenario	2020 YTD Actual	2020 Budget	% Received
2020 Thru November <b>including</b> \$1.38 mil Miscellaneous Back Payment	\$24,975,715	\$23,130,166	108.0%
2020 Thru November <b>without</b> \$1.38 mil Miscellaneous Back Payment	\$23,591,026	\$23,130,166	102.0%

\*2019 YTD actual sales tax revenue (i.e., January-November) = \$24,267,102 or 101.2 percent of the 2019 budget.

Overall, this shows that even without the back payment, 2020 YTD sales tax revenue is slightly ahead of budget on a budget-to-actual basis with revenue at 102 percent of budget, significantly above the 91.6 percent budget threshold through November.

### Placing Sales Tax Back Payment in Human Services Reserve

The \$1.38 million back payment is an unusually significant one-time payment. Normally back payments would be included in the 2020 final reconciliation process where total surplus funds would be brought to the Council around June of 2021 for allocation. Given the potential eviction challenges that may face Kirkland early in 2021, staff will be recommending that this \$1.38 million instead be placed in the Human Services reserve created by the Council to hold the reallocated 2021 body-worn camera funds. This early allocation will allow the City to be nimble in responding to emerging human services emergencies.

## 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	November	Index	100.9	96.1	(4.8)	128.1	102.5
<b>Unemployment Rate</b>							
National	November	%	6.9	6.7	(0.2)	3.7	8.2
Washington State	September	%	8.4	7.8	(0.6)	4.5	9.0
King County	September	%	7.2	6.9	(0.3)	3.0	8.0
Kirkland	September	%	5.7	5.5	(0.2)	2.9	6.7
<b>Housing</b>							
New House Permits (WA)	October	Thousands	50.9	42.2	(8.7)	48.7	44.4
Case-Shiller Seattle Area Home Prices	September	Index	277.0	280.3	3.3	252.2	269.7
<b>Inflation (CPI-W)</b>							
National	November	% Change	1.3	1.3	0.0	1.7	1.2
Seattle	October	% Change	2.4	2.1	(0.3)	2.1	1.9
<b>Car Sales</b>							
New Vehicle Registrations	November	Thousands	23.3	24.0	0.7	23.7	19.4

The **Consumer Confidence Index** decreased from 100.9 in October to 96.1 in November. The 2020 average is 25.6 points below the 2019 average.

The national **Unemployment Rate** dropped from 6.9 percent in October to 6.7 percent in November while the Washington State unemployment rate decreased from 8.4 percent in August to 7.8 percent in September, after hitting a high of 16.1 percent in April. King County's unemployment rate dropped from 7.2 percent in August to 6.9 percent in September, and Kirkland's unemployment rate fell from 5.7 percent in August to 5.5 percent in September.

**New Housing Permits** in Washington State have decreased from 50,900 in September, to 42,200 in October and the 2020 average sits 4,300 below the 2019 average. The **Case-Shiller Home Price Index** saw an increase of 3.3 points in September, and the 2020 average is 17.5 points above the 2019 average, reflecting a strong housing market despite the pandemic.

**Inflation**, as measured by the CPI-W, in the U.S. stayed constant relative to October at 1.3 percent in November, after going negative in May. For the Seattle-Tacoma-Bellevue region, the CPI-W decreased from 2.4 percent in September to 2.1 percent in October.

**New Vehicle Registrations** increased by 700 from October to November, but the 2020 average is 4,300 below the 2019 average.