



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: June 18, 2021

Subject: May 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, May sales tax revenue relates to March retail activity in Kirkland.

May 2021 vs. May 2020

Business Sector Group	May		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	520,160	408,476	(111,684)	-21.5%	27.7%	14.9%
Contracting	523,615	758,400	234,785	44.8%	27.9%	27.6%
Communications	41,414	35,815	(5,599)	-13.5%	2.2%	1.3%
Retail:						
Auto/Gas Retail	81,138	501,125	419,987	517.6%	4.3%	18.2%
Gen Merch/Misc Retail	211,607	255,148	43,541	20.6%	11.3%	9.3%
Retail Eating/Drinking	72,291	130,590	58,299	80.6%	3.9%	4.7%
Other Retail	246,605	369,226	122,621	49.7%	13.1%	13.4%
Wholesale	87,372	141,462	54,090	61.9%	4.7%	5.1%
Miscellaneous	93,125	149,547	56,422	60.6%	5.0%	5.4%
Total	1,877,327	2,749,789	872,462	46.5%	100%	100%

Comparing May 2021 to May 2020, sales tax revenue is up \$872,462, or 46.5 percent. However, this includes a \$261,469 taxpayer remittance error, which overstated Services retail activity in March 2020 (resulting in higher distributions to the City in May 2020) and was later removed in the June 2020

distribution by the Washington Department of Revenue (DOR). **Excluding this remittance error from May 2020, sales tax revenue is up \$1,133,931 (70.2 percent) in May 2021.** As this period covers activity from March to March, the 2020 amount covers the first full month of economic impacts of the COVID-19 pandemic in Kirkland. The largest monthly decreases in March 2020 (as compared to February 2020) were in Auto/Gas Retail and Retail Eating/Drinking, although sales tax revenue was impacted in most sectors. A mix of strong growth in 2021 retail activity and sharp economic contraction in the same period in 2020 explain the very significant increase in May 2021 sales tax revenue as compared to May 2020.

In May 2021, significant growth occurred in Auto/Gas Retail (up \$419,987 or 517.6 percent), Contracting (up \$234,785 or 44.8 percent), Other Retail (up \$122,621 or 49.7 percent), Retail Eating/Drinking (up \$58,299 or 80.6 percent), Miscellaneous (up \$56,422 or 60.6 percent), Wholesale (up \$54,090 or 61.9 percent). A moderate decline occurred in Communications (down \$5,599 or 13.5 percent). After excluding the remittance error in the Services sector from May 2020, Services is up \$149,785, or 57.9 percent.

Although Retail Eating/Drinking continues to recover as the community is vaccinated and businesses reopen with fewer restrictions, it has not fully returned to pre-pandemic levels, with March 2021 retail sales (May 2021 revenue) for the sector 16.3 percent 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	1,939,070	1,778,151	(160,919)	-8.3%	18.4%	14.8%
Contracting	2,623,876	3,139,307	515,431	19.6%	24.9%	26.1%
Communications	217,665	194,923	(22,742)	-10.4%	2.1%	1.6%
Retail:						
Auto/Gas Retail	1,631,418	2,153,583	522,165	32.0%	15.5%	17.9%
Gen Merch/Misc Retail	1,167,733	1,352,536	184,803	15.8%	11.1%	11.2%
Retail Eating/Drinking	611,861	575,795	(36,066)	-5.9%	5.8%	4.8%
Other Retail	1,367,960	1,653,208	285,248	20.9%	13.0%	13.7%
Wholesale	440,697	554,771	114,074	25.9%	4.2%	4.6%
Miscellaneous	533,350	630,345	96,995	18.2%	5.1%	5.2%
Total	10,533,629	12,032,619	1,498,990	14.2%	100%	100%

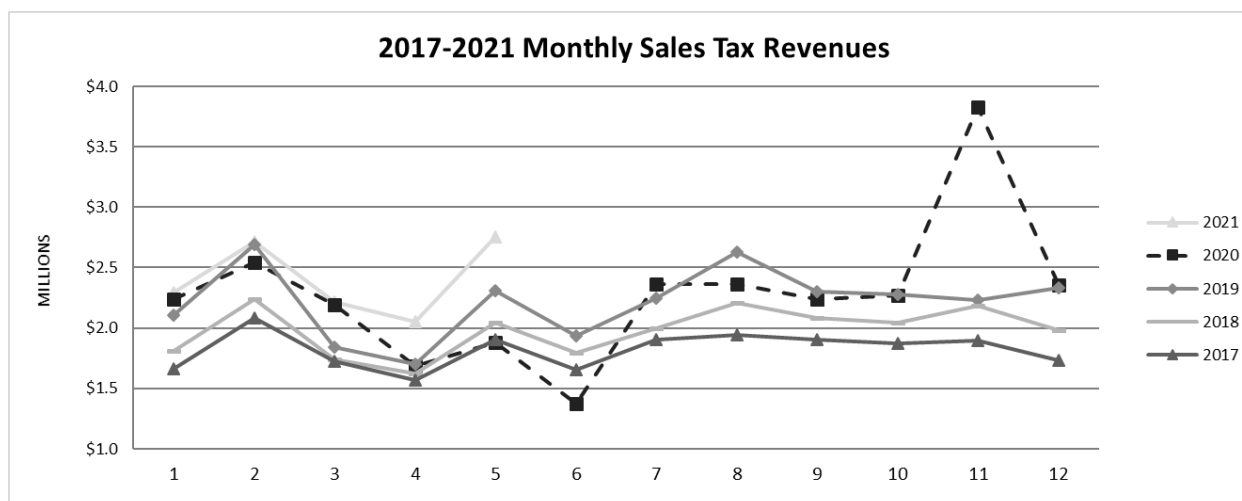
Comparing 2021 to 2020, year-to-date (YTD) sales tax revenue is up \$1,498,990, or 14.2 percent. However, this includes two taxpayer remittance errors totaling \$499,925, which overstated Services retail activity in January & March 2020 (resulting in higher distributions to the City in March & May 2020) and were later removed in the June 2020 distribution by the Washington Department of Revenue (DOR). **Excluding the March & May 2020 remittance errors in the Services sector, YTD sales tax revenue is up \$1,998,915 (19.9 percent) overall** and YTD Services sector is up \$339,006 (23.6 percent).

Looking at business sectors, the most significant growth has occurred in Auto/Gas Retail (up \$522,165 or 32 percent), Contracting (up \$515,431 or 19.6 percent), Other Retail (up \$285,248 or 20.9 percent), Gen Merch/Misc Retail (up \$184,803 or 15.8 percent), Wholesale (up \$114,074 or 25.9 percent), and Miscellaneous (up \$96,995 or 18.2 percent). The growth in Other Retail has been led by the Sporting Goods, Non-store Retailers, and Building & Garden sub-sectors.

Noteworthy declines occurred in Communications (down \$22,742, or 10.4 percent). Retail Eating/Drinking is down 5.9 percent 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 March 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 on March 22nd.

The chart below shows Kirkland's monthly sales tax revenue through May 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
<i>Consumer Confidence</i>							
Consumer Confidence Index	May	Index	117.5	117.2	(0.3)	101.0	106.4
<i>Unemployment Rate</i>							
National	May	%	6.1	5.8	(0.3)	8.1	6.1
Washington State	March	%	6.4	6.3	(0.1)	8.4	6.5
King County	March	%	5.4	5.5	0.1	7.6	5.7
Kirkland	March	%	4.4	4.8	0.4	6.2	4.8
<i>Housing</i>							
New House Permits (WA)	April	Thousands	53.4	47.5	(5.9)	44.6	59.6
Case-Shiller Seattle Area Home Prices	March	Index	300.0	315.3	15.3	273.8	302.7
<i>Inflation (CPI-W)</i>							
National	May	% Change	4.7	5.6	0.9	1.2	3.4
Seattle	April	% Change	1.7	3.7	2.0	1.9	2.7
<i>Car Sales</i>							
New Vehicle Registrations	May	Thousands	27.0	25.5	(1.5)	19.4	24.6

The **Consumer Confidence Index**¹ decreased marginally from 117.5 to 117.2 between April and May, a 0.3-point decrease directly following a 12.7-point surge in the previous month. This could represent retreating short-term optimism, a potential reflection of consumer concerns regarding rising inflation rates and decreasing governmental support. However, overall confidence seems to be stable and resilient as vaccination rates continue to increase and the economy moves toward reopening fully.

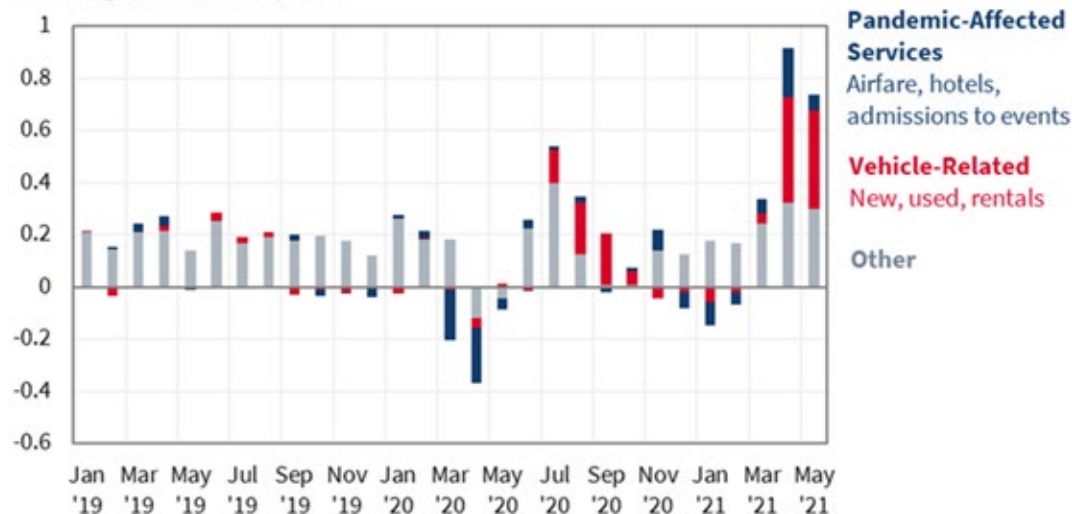
The national **Unemployment Rate** saw a 0.3 percentage point decrease in the past month, from 6.1 percent in April to 5.8 percent in May. Similarly, Washington State's unemployment also decreased from 6.4 percent in February to 6.3 percent in March. In contrast, King County's unemployment rate increased from 5.4 to 5.5 percent (February-March), and Kirkland's increased from 4.4 to 4.8 percent (February-March).

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 15.3 points in March to 315.3, reflecting a continually strong local housing market despite the pandemic.

Inflation, as measured by the CPI-W in the U.S. increased in May to 5.6 percent from 4.7 percent in April. 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 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 inflation² is driven by increases in the prices of vehicles and travel, where a sudden return of demand is outpacing supply restricted by the pandemic.

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. The 2021 yearly average remains 5,200 above the 2020 average.

¹ 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.

² 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