



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: February 16, 2021

Subject: January 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, 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, January sales tax revenue relates to November retail activity in Kirkland.

January 2021 vs. January 2020

Business Sector Group	January		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	269,352	339,738	70,386	26.1%	12.0%	14.8%
Contracting	560,488	580,993	20,505	3.7%	25.0%	25.3%
Communications	38,303	41,577	3,274	8.5%	1.7%	1.8%
Retail:						
Auto/Gas Retail	543,155	396,566	(146,589)	-27.0%	24.3%	17.3%
Gen Merch/Misc Retail	222,529	275,060	52,531	23.6%	9.9%	12.0%
Retail Eating/Drinking	146,841	112,154	(34,687)	-23.6%	6.6%	4.9%
Other Retail	276,134	334,587	58,453	21.2%	12.3%	14.6%
Wholesale	80,385	96,413	16,028	19.9%	3.6%	4.2%
Miscellaneous	101,163	119,849	18,686	18.5%	4.5%	5.2%
Total	2,238,350	2,296,937	58,587	2.6%	100%	100%

Comparing January 2021 to January 2020, sales tax revenue is up \$58,587, or 2.6 percent. Significant growth occurred in Services (up \$70,386 or 26.1 percent), Other Retail (up \$58,453 or 21.2 percent), Gen

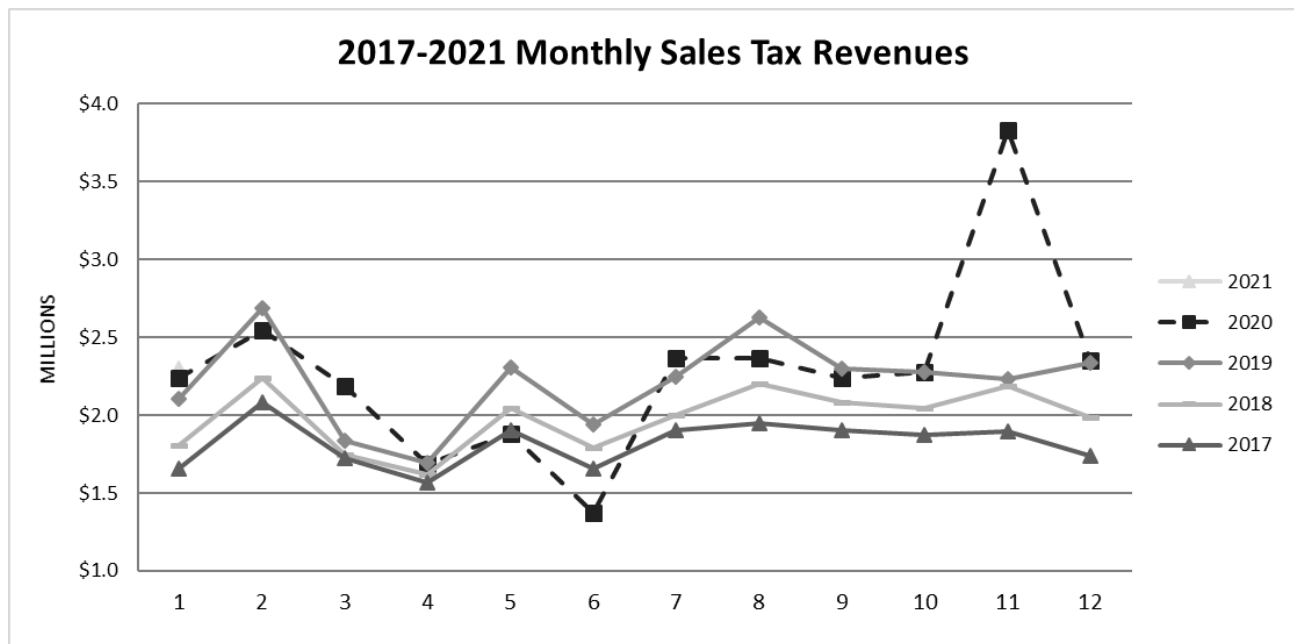
Merch/Misc. Retail (up \$52,531 or 23.6 percent), Miscellaneous (up \$18,686 or 18.5 percent), and Wholesale (up \$16,028 or 19.9 percent). Declines occurred in Auto/Gas Retail (down \$146,589 or 27.0 percent) and Retail Eating/Drinking (down \$34,687 or 23.6 percent).

YTD 2021 vs. YTD 2020

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	269,352	339,738	70,386	26.1%	12.0%	14.8%
Contracting	560,488	580,993	20,505	3.7%	25.0%	25.3%
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As this is the first monthly sales tax report of 2021, the Year-to-Date trends are the same as those presented in the monthly analysis section.

The chart below shows Kirkland’s monthly sales tax revenue through January 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
Consumer Confidence							
Consumer Confidence Index	January	Index	87.1	89.3	2.2	101.0	N/A
Unemployment Rate							
National	January	%	6.7	6.3	(0.4)	8.1	N/A
Washington State	November	%	5.5	5.6	0.1	8.4	N/A
King County	November	%	4.7	4.4	(0.3)	7.4	N/A
Kirkland	November	%	4.0	3.7	(0.3)	6.2	N/A
Housing							
New House Permits (WA)	November	Thousands	42.2	45.2	3.0	44.4	N/A
Case-Shiller Seattle Area Home Prices	November	Index	283.4	286.0	2.6	272.4	N/A
Inflation (CPI-W)							
National	January	% Change	1.4	1.6	0.2	1.2	N/A
Seattle	December	% Change	2.1	1.6	(0.5)	1.9	N/A
Car Sales							
New Vehicle Registrations	December	Thousands	24.0	22.5	(1.5)	19.7	N/A

The **Consumer Confidence Index** increased from 87.1 in December to 89.3 in January, which is 11.7 index points below the 2020 average.

The national **Unemployment Rate** dropped from 6.7 percent in December to 6.3 percent in January while the Washington State unemployment rate increased slightly from 5.5 percent in October to 5.6 percent in November, after hitting a high of 16.1 percent in April. King County's unemployment rate dropped from 4.7 percent in October to 4.4 percent in November, and Kirkland's unemployment rate fell from 4.0 percent in October to 3.7 percent in November.

New Housing Permits in Washington State have increased from 42,200 in October, to 45,200 in November, hovering around the 2020 average of 44,400. The **Case-Shiller Home Price Index** saw an increase of 2.6 points in November, well above the 2020 average of 272.4, reflecting a continually strong housing market despite the pandemic.

Inflation, as measured by the CPI-W, in the U.S. increased slightly in January to 1.6 percent from 1.4 percent in December, after going negative in May. For the Seattle-Tacoma-Bellevue region, the CPI-W decreased again from 2.1 percent in October to 1.6 percent in December.

New Vehicle Registrations decreased by 1,500 from November to December but remains roughly 1,800 above the 2020 average.