



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: April 20, 2021

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

March 2021 vs. March 2020

Business Sector Group	March		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	554,352	319,398	(234,954)	-42.4%	25.3%	14.4%
Contracting	447,873	578,328	130,455	29.1%	20.5%	26.1%
Communications	41,989	36,068	(5,921)	-14.1%	1.9%	1.6%
Retail:						
Auto/Gas Retail	319,373	434,658	115,285	36.1%	14.6%	19.6%
Gen Merch/Misc Retail	197,232	231,467	34,235	17.4%	9.0%	10.5%
Retail Eating/Drinking	148,090	107,113	(40,977)	-27.7%	6.8%	4.8%
Other Retail	261,687	290,480	28,793	11.0%	12.0%	13.1%
Wholesale	88,637	110,318	21,681	24.5%	4.0%	5.0%
Miscellaneous	129,438	105,613	(23,825)	-18.4%	5.9%	4.8%
Total	2,188,671	2,213,443	24,772	1.1%	100%	100%

Comparing March 2021 to March 2020, sales tax revenue is up \$24,772, or 1.1 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 this remittance error, sales tax revenue is up \$263,228 (13.5 percent) in March.** As this period covers activity from January to January, the 2020 amount was prior to impact of the COVID-19 pandemic being felt on the economy in Kirkland. Therefore, this increase is unrelated to the initial shock of COVID-19 on sales tax.

Significant growth occurred in Contracting (up \$130,455 or 29.1 percent), Auto/Gas Retail (up \$115,285 or 36.1 percent), Gen Merch/Misc Retail (up \$34,235 or 17.4 percent), and Wholesale (up \$21,681 or 24.5 percent). Declines occurred in Retail Eating/Drinking (down \$40,977 or 27.7 percent), Miscellaneous (down \$23,825 or 18.4 percent), and Communications (down \$5,921 or 14.1 percent). Excluding the remittance error, the Services sector is up \$3,502 or 1.1 percent.

Within the Auto/Gas Retail sector, the Motor Vehicle category is up \$115,017 or 37.4 percent compared to the same period in 2020, reflecting strong car sales.

YTD 2021 vs. YTD 2020

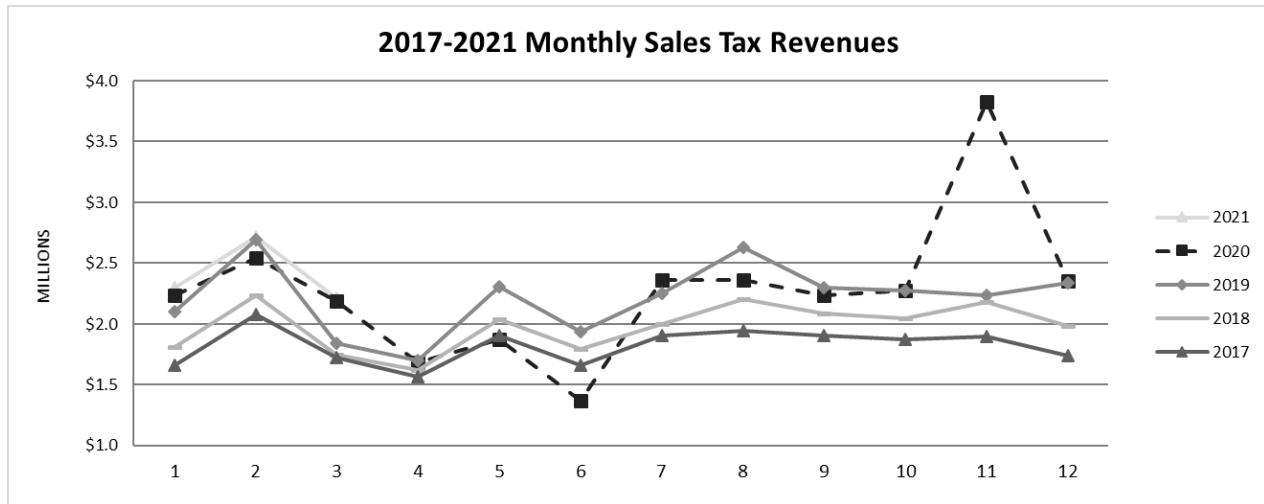
Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	1,185,322	1,053,682	(131,640)	-11.1%	17.0%	14.6%
Contracting	1,618,933	1,852,823	233,890	14.4%	23.2%	25.6%
Communications	137,784	121,337	(16,447)	-11.9%	2.0%	1.7%
Retail:						
Auto/Gas Retail	1,297,044	1,284,290	(12,754)	-1.0%	18.6%	17.8%
Gen Merch/Misc Retail	765,080	874,709	109,629	14.3%	11.0%	12.1%
Retail Eating/Drinking	457,462	335,156	(122,306)	-26.7%	6.6%	4.6%
Other Retail	883,451	1,015,811	132,360	15.0%	12.7%	14.1%
Wholesale	274,659	324,188	49,529	18.0%	3.9%	4.5%
Miscellaneous	352,614	366,380	13,766	3.9%	5.1%	5.1%
Total	6,972,348	7,228,376	256,028	3.7%	100%	100%

Comparing 2021 to 2020, year-to-date (YTD) sales tax revenue is up \$256,028, or 3.7 percent. **Excluding the remittance error in the Services sector, YTD sales tax revenue is up \$494,484 (7.3 percent) overall** and YTD Services sector is up \$106,816 (11.3 percent).

Looking at business sectors, the most significant growth has occurred in Contracting (up \$233,890, or 14.4 percent), Other Retail (up \$132,360, or 15.0 percent), Gen Merch/Misc Retail (up \$109,629 or 14.3 percent), and Wholesale (up \$49,529 or 18.0 percent). The growth in Other Retail has been led by the Electronics, Sporting Goods, Building & Garden, and Non-store Retailers sub-sectors.

Noteworthy declines occurred in Retail Eating/Drinking (down \$122,306, or 26.7 percent), and Communications (down \$16,447, or 11.9 percent). Retail Eating/Drinking is down due to the Governor's stay-at-home order, which was renewed on November 17th through January 4th, 2021, as well as social distancing requirements, which limit the number of customers that can be served. This report shows January 2021 retail activity which is the first month of the Governor's 'Roadmap to Recovery' phased reopening plan in which King County moved from Phase 1 to Phase 2 on January 29th.

The chart below shows Kirkland's monthly sales tax revenue through March 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	March	Index	90.4	109.7	19.3	101.0	96.3
Unemployment Rate							
National	March	%	6.2	6.0	(0.2)	8.1	6.2
Washington State	February	%	6.8	6.4	(0.4)	8.4	6.6
King County	January	%	5.8	6.3	0.5	7.6	6.3
Kirkland	January	%	4.8	5.3	0.5	6.2	5.3
Housing							
New House Permits (WA)	February	Thousands	66.7	70.9	4.2	44.6	68.8
Case-Shiller Seattle Area Home Prices	January	Index	288.8	293.0	4.2	273.8	293.0
Inflation (CPI-W)							
National	March	% Change	1.9	3.0	1.1	1.2	2.2
Seattle	February	% Change	1.6	1.7	0.1	1.9	1.7
Car Sales							
New Vehicle Registrations	March	Thousands	24.5	24.0	(0.5)	19.4	23.5

The **Consumer Confidence Index** increased from 90.4 in February to 109.7 in February, a 19.3-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** dropped from 6.2 percent in February to 6.0 percent in March 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 increased from 5.8 percent in December to 6.3 percent in January, and Kirkland's unemployment rate increased from 4.8 percent in December to 5.3 percent in January – both of which may reflect year-end adjustments made by

the U.S. Bureau of Labor Statistics (BLS). Preliminary results show decreases to both the King County and Kirkland unemployment rates in February 2021.

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 4.2 points in January to 292.96, 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 March to 3.0 percent from 1.9 percent in February, after going negative in May 2020. For the Seattle-Tacoma-Bellevue region, the CPI-W increased slightly from 1.6 percent in December to 1.7 percent in February. 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 further increase inflation.

New Vehicle Registrations in Washington State increased from 21,900 in January to 24,500 in February, and decreased slightly to 24,000 in March, remaining roughly 4,100 above the 2020 average. March 2020 sales tax receipts in the Motor Vehicle category (January retail activity) show a 37.4 percent increase over the same period in 2020, which may reflect the beginning effects of this surge in new vehicle purchases in Kirkland.