



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
Camille Hastings, Recovery Intern

Date: August 19, 2021

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

July 2021 vs. July 2020

| Business Sector Group | July | | Dollar Change | Percent Change | Percent of Total | |
|------------------------|------------------|------------------|----------------|----------------|------------------|-------------|
| | 2020 | 2021 | | | 2020 | 2021 |
| Services | 291,722 | 412,140 | 120,418 | 41.3% | 12.3% | 15.2% |
| Contracting | 647,641 | 691,154 | 43,513 | 6.7% | 27.4% | 25.4% |
| Communications | 37,539 | 36,520 | (1,019) | -2.7% | 1.6% | 1.3% |
| Retail: | | | | | | |
| Auto/Gas Retail | 510,019 | 512,471 | 2,452 | 0.5% | 21.6% | 18.8% |
| Gen Merch/Misc Retail | 244,178 | 320,430 | 76,252 | 31.2% | 10.3% | 11.8% |
| Retail Eating/Drinking | 116,387 | 179,218 | 62,831 | 54.0% | 4.9% | 6.6% |
| Other Retail | 296,363 | 336,171 | 39,808 | 13.4% | 12.5% | 12.4% |
| Wholesale | 107,075 | 102,610 | (4,465) | -4.2% | 4.5% | 3.8% |
| Miscellaneous | 114,663 | 129,347 | 14,684 | 12.8% | 4.8% | 4.8% |
| Total | 2,365,587 | 2,720,061 | 354,474 | 15.0% | 100% | 100% |

Comparing July 2021 to July 2020, sales tax revenue is up \$354,474, or 15.0 percent. As this period covers activity from May to May, the 2020 revenue reflects the economic impacts of the COVID-19 pandemic in Kirkland, Governor Inslee's "Stay Home, Stay Healthy" order, and recommendations urging residents to wear

face coverings in indoor public settings. A mix of strong growth in 2021 retail activity and economic contraction in the same period in 2020 explain the increase in July 2021 sales tax revenue as compared to July 2020. For example, Retail Eating/Drinking saw a decrease of 29.4 percent when comparing July 2020 to July 2019 but has increased 54 percent (up \$62,831) between July 2020 and July 2021. This sector is showing a strong recovery as the community is vaccinated and businesses reopen with fewer restrictions.

In July 2021, most business sector categories reported growth compared to July 2020, with the most significant gains in Services (up \$120,418 or 41.3 percent) and Gen Merch/Misc Retail (up \$76,252 or 31.2 percent). Communications and Wholesale saw slight decreases, 2.7 percent and 4.2 percent, respectively.

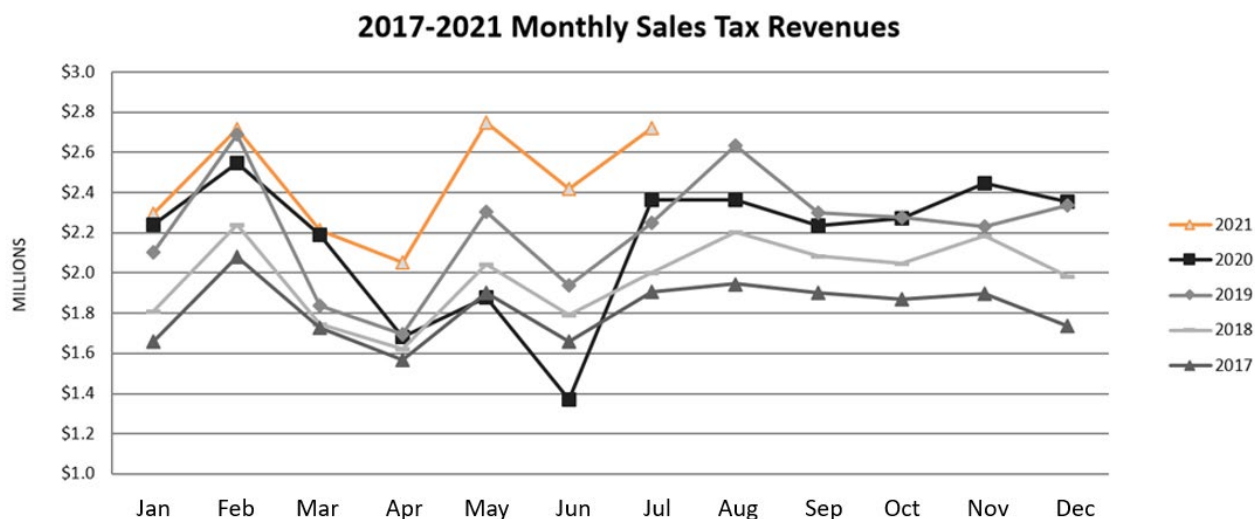
YTD 2021 vs. YTD 2020

| Business Sector Group | YTD | | Dollar Change | Percent Change | Percent of Total | |
|------------------------|-------------------|-------------------|------------------|----------------|------------------|-------------|
| | 2020 | 2021 | | | 2020 | 2021 |
| Services | 2,007,948 | 2,541,986 | 534,038 | 26.6% | 14.1% | 14.8% |
| Contracting | 3,762,546 | 4,369,848 | 607,302 | 16.1% | 26.4% | 25.4% |
| Communications | 287,550 | 271,379 | (16,171) | -5.6% | 2.0% | 1.6% |
| Retail: | | | | | | |
| Auto/Gas Retail | 2,494,183 | 3,186,228 | 692,045 | 27.7% | 17.5% | 18.6% |
| Gen Merch/Misc Retail | 1,608,601 | 1,927,585 | 318,984 | 19.8% | 11.3% | 11.2% |
| Retail Eating/Drinking | 841,501 | 896,499 | 54,998 | 6.5% | 5.9% | 5.2% |
| Other Retail | 1,904,695 | 2,319,537 | 414,842 | 21.8% | 13.3% | 13.5% |
| Wholesale | 617,344 | 764,669 | 147,325 | 23.9% | 4.3% | 4.5% |
| Miscellaneous | 747,550 | 893,270 | 145,720 | 19.5% | 5.2% | 5.2% |
| Total | 14,271,918 | 17,171,001 | 2,899,083 | 20.3% | 100% | 100% |

Year-to-date (YTD) sales tax revenue is up \$2.9 million, or 20.3 percent in 2021 compared to last year.

Looking at business sectors, the most significant growth was in Auto/Gas Retail (up \$692,045 or 27.7 percent, most of which is recovery from a sharp decline in the previous year), Services (up \$534,038 or 26.6 percent), and Wholesale (up \$147,325 or 23.9 percent). Marginal declines occurred in Communications (down \$16,171 or 5.6 percent). Retail Eating/Drinking showing modest growth (up \$54,998 or 6.5 percent), reflecting the lifting of some 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 May 2021 retail activity, the month that the state updated guidance regarding masks for fully vaccinated individuals.

The graph below shows Kirkland's monthly sales tax revenue through July 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 |
| Consumer Confidence | | | | | | | |
| Consumer Confidence Index | July | Index | 128.9 | 129.1 | 0.2 | 101.0 | 112.8 |
| Unemployment Rate | | | | | | | |
| National | July | % | 5.9 | 5.4 | (0.5) | 8.1 | 6.0 |
| Washington State | May | % | 5.6 | 5.0 | (0.6) | 8.4 | 6.0 |
| King County | May | % | 4.9 | 4.6 | (0.3) | 7.6 | 5.3 |
| Kirkland | May | % | 4.2 | 4.0 | (0.2) | 6.2 | 4.5 |
| Housing | | | | | | | |
| New House Permits (WA) | May | Thousands | 47.5 | 51.8 | 4.3 | 44.6 | 58.1 |
| Case-Shiller Seattle Area Home Prices | May | Index | 324.9 | 335.4 | 10.5 | 273.8 | 313.7 |
| Inflation (CPI-W) | | | | | | | |
| National | July | % Change | 6.1 | 6.0 | (0.1) | 1.2 | 4.1 |
| Seattle | June | % Change | 3.7 | 6.3 | 2.6 | 1.9 | 3.9 |
| Car Sales | | | | | | | |
| New Vehicle Registrations | June | Thousands | 25.5 | 22.4 | (3.1) | 19.4 | 24.2 |

The **Consumer Confidence Index**¹ increased 0.2 points between June and July, following a jump of over 10 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 the economy moves toward reopening fully, but the prevalence of the COVID-19 Delta variant may have a negative impact in the coming months.

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.

The national **Unemployment Rate** saw a 0.5 percentage point decrease in the past month, from 5.9 percent in June to 5.4 percent in July. Locally, Washington State's unemployment decreased from 5.6 percent in April to 5.0 percent in May. Similarly, King County's unemployment rate decreased by 0.3 percentage points from 4.9 to 4.6 percent (April-May), and Kirkland's decreased from 4.2 to 4.0 percent (April-May).

New Housing Permits in Washington State increased from 47,500 in April to 51,800 in May. The 2021 yearly average of 58,100 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 10.5 points in May to 335.4 (following a 9.6-point increase in the previous month), reflecting a continually strong local housing market despite the pandemic.

Inflation, as measured by the CPI-W in the U.S., decreased 0.1 points in July to 6.0 percent. For the Seattle-Tacoma-Bellevue region, the CPI-W increased sharply 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 may contribute to further inflation as vaccines become widely administered. 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 has fluctuated in 2021, increasing to a high of 27,000 in April before decreasing to 25,500 in May and 22,400 in June. Despite this, the 2021 yearly average (24,200) remains above the 2020 average (19,400).

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.