CITY OF KIRKLAND
FINANCE AND ADMINISTRATION
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Kevin Pelstring, Financial Planning Manager
Nida Haroon, Budget Analyst

Date: August 20, 2025

Subject: **Report on July Sales Tax Collections for September 2, Council Meeting**

RECOMMENDATION:

Staff recommends that the City Council receives the July update on 2025 Sales Tax revenue.

EXECUTIVE SUMMARY:

- Staff recommends that Council receives the update on Sales Tax collections. No action by Council is required.
- Sales tax is up 1.7%, $46,879, comparing July 2025 to July 2024.
- Year-to-date sales tax is down 0.5%, $106,732, compared to the same period in 2024 primarily due to a one-time Communications payment in 2024.

BACKGROUND:

The Financial Planning Division prepares a monthly sales tax revenue memo analyzing monthly and year-to-date activity by business sector and tracking key economic indicators to provide 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 just over 26% of total 2025 budgeted revenues in the General Fund. Sales tax, along with property and utility taxes, funds 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. 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.

DISCUSSION/ANALYSIS:

July 2025 vs. July 2024

Figure 1: July 2025 vs. July 2024 Sales Tax by Sector

Sectors	July		Dollar Change	Percent Change
	2024	2025		
Contracting	698,391	693,825	(4,566)	-1%
Retail:				
Auto/Gas Retail	449,902	441,212	(8,690)	-2%
Other Retail	521,379	560,909	39,530	8%
Retail Eating/Drinking	211,850	206,570	(5,280)	-2%
Gen Merch/Misc Retail	131,000	140,923	9,923	8%
Services	518,153	460,426	(57,727)	-11%
Miscellaneous	148,512	214,925	66,413	45%
Wholesale	109,331	114,179	4,848	4%
Communications	38,363	40,791	2,428	6%
Total Sales Tax Receipts	**$ 2,826,881**	**$ 2,873,760**	**$ 46,879**	**1.7%**

Comparing July 2025 to July 2024 in Figure 1, sales tax revenue receipts are up $46,879 or 1.7%. The sector that reported the largest growth compared to July 2024, ranked in order of dollar change, was Miscellaneous, which increased by $66,413 or 45% largely due to Transportation and Warehousing. Other Retail followed suit and increased by $39,530 or 8%. Sectors with moderate to small increases include Gen Merch/Misc. Retail up by $9,923 or 8%, Wholesale up by $4,848 or 4%, and Communications up by $2,428 or 6%.

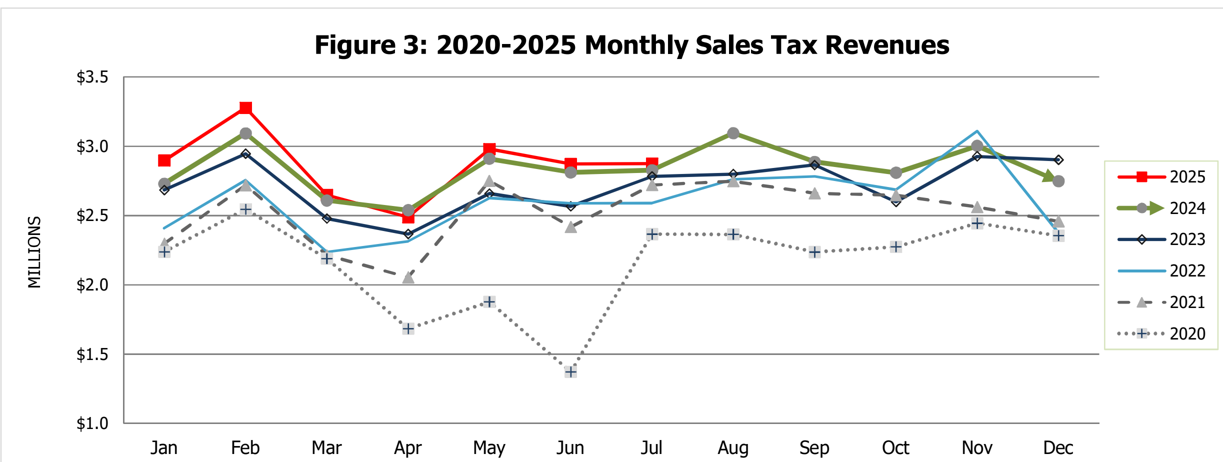
The data also shows large declines in Services, down by $57,727 or 11% due to a drop in the Professional, Scientific & Technical Services, and Repair & Maintenance categories. Other sectors with small declines include Auto/Gas Retail, which decreased by $8,690 or 2%, Retail Eating/Drinking down by $5,280 or 2%, and Contracting down by $4,566 or 1%.

YTD 2025 vs. YTD 2024

Figure 2: YTD 2025 vs. YTD 2024 Sales Tax by Sector

Sectors	YTD		Dollar Change	Percent Change
	2024	2025		
Contracting	4,824,162	4,748,485	(75,677)	-2%
Retail:				
Auto/Gas Retail	3,081,407	3,275,760	194,353	6%
Other Retail	3,582,443	3,808,385	225,942	6%
Retail Eating/Drinking	1,393,059	1,438,899	45,840	3%
Gen Merch/Misc Retail	946,834	979,807	32,973	3%
Services	3,403,887	3,550,767	146,880	4%
Miscellaneous	1,100,589	1,122,024	21,435	2%
Wholesale	911,565	821,399	(90,166)	-10%
Communications	898,580	290,268	(608,312)	-68%
Total Sales Tax Receipts	**$ 20,142,526**	**$ 20,035,794**	**$ (106,732)**	**-0.5%**

Comparing 2025 to 2024 in Figure 2 on the prior page, year-to-date (YTD) sales tax revenue is down $106,732 or 0.5%. Looking at the business sectors, the most significant growth ranked in order of dollar change, occurred in Other Retail added $225,942 or 6%. Followed by Auto/Gas Retail up by $194,353 or 6%, and Services increased by $146,880 or 4%.
Sectors with small to moderate increases include Retail Eating/Drinking up by $45,840 or 3%, and Gen Merch/Misc Retail increased by $32,973 or 3%, and Miscellaneous increased by $21,435 or 2%.
The sector with the largest decline is Communications decreasing by $608,312 or 68% due to a one-time payment in 2024 received in lieu of an audit-reversal. Sectors with moderate declines include Wholesale, down by $90,166 or 10%, and Contracting, reduced by $75,677 or 2%.
Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which increased by 27% or $319,710. Second is Heavy and Civil Engineering Construction that grew by 14% or $22,643. The third is Construction of Buildings that decreased by 12% or $418,029. The decline in revenue in Construction of Buildings is driven by Commercial and Institutional Buildings, which is down 25% or $317,329, followed by New Single-Family Housing down 17% or $270,928 when compared to last year. As Contracting is a significant portion of the City's overall sales tax revenue, staff will continue to monitor this trend closely.
Figure 3 below shows Kirkland's monthly sales tax revenue from 2025 compared to the prior five years. To aid with comparison and the forecast below this chart, it excludes significant one-time events, which are noted below.



Note: A one-time back payment of $1,384,689 in December 2020, one-time audit payment of $360,049 in December 2022, audit results reversal of $1.53 million in October 2023, and one-time back payment of $627,520 from a telecommunications operator in May 2024 have been excluded from the above graph to allow for more accurate comparison of ongoing revenues.

2025 Sales Tax Forecast
In line with the forecasting methods used in 2023 and 2024, the baseline 2025 sales tax forecast was developed using first quarter revenues as a function of first quarter collections over the past 15 years to determine a lower bound, average, and upper bound to predict revenue collections. As shown in Figure 4 below.

Figure 4: Forecast Range Table

Category	2025 Q1 Revenues	Q1 Revenues % Total Revenue	Forecasted Annual Revenues	Percentage Change from 2024 revenues
Lower Bound	8,821,946	26.9%	32,827,560	-3.6%
Average	8,821,946	24.8%	35,522,332	4.3%
Upper Bound	8,821,946	23.9%	36,983,085	8.6%

Historically, Kirkland has seen consistent sales tax growth but given the current macroeconomic environment, staff are conservatively forecasting sales tax revenue to end the year at budget at **$34.52 million**. This represents a small increase of 1.4% over 2024 actual revenues. A large potential risk factor to sales tax revenue through the end of year is changing tariff policy, which may increase prices and impact supply chains.

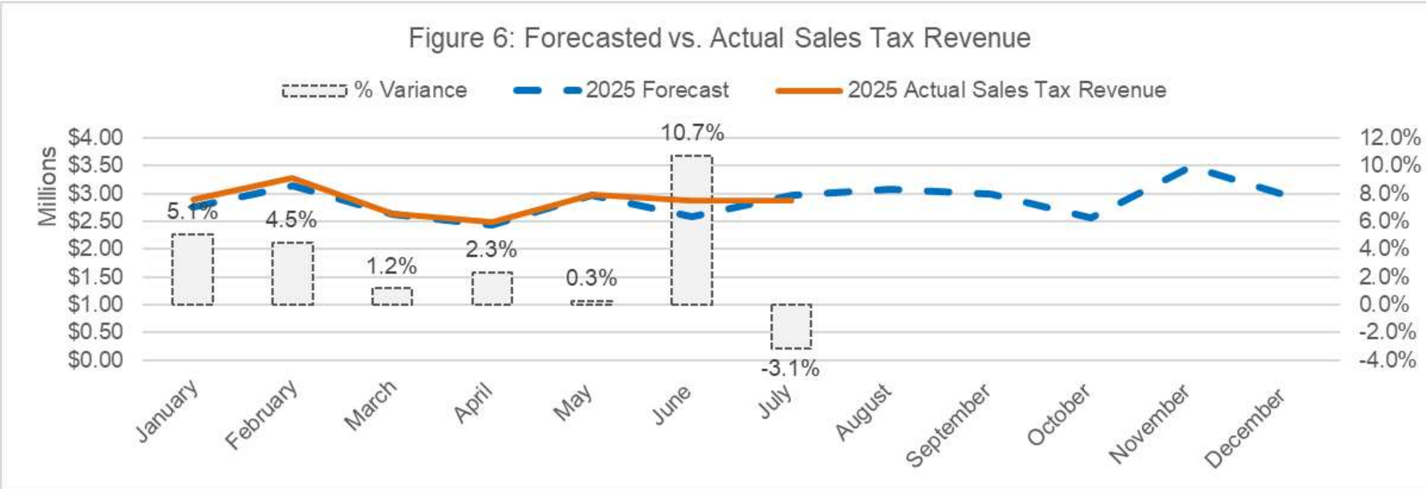
Actual vs. Forecasted Sales Tax Revenue

To incorporate seasonality into the forecast, staff have analyzed the revenue received each month between 2020 and 2024 and allocated the total budgeted amount based on the average revenue received over that period. For example, February revenue (which represents December sales) typically contributes 9.1% of annual revenue, whereas April (February sales) contributes 7.0% of revenue, as shown in Figure 5 below.

Figure 5: Table of Sales Tax Revenues Compared to Forecast by Month

Allocation	Year	2025 Actual Sales Tax Revenue	2025 Forecast	Variance	% Variance
8.0%	January	2,896,502	2,756,891	139,611	5.1%
9.1%	February	3,276,960	3,136,903	140,057	4.5%
7.6%	March	2,648,484	2,617,989	30,494	1.2%
7.0%	April	2,488,570	2,432,129	56,441	2.3%
8.6%	May	2,979,461	2,971,510	7,951	0.3%
7.5%	June	2,872,058	2,595,077	276,981	10.7%
8.6%	July	2,873,760	2,966,338	(92,578)	-3.1%
8.9%	August		3,066,655		
8.7%	September		2,992,134		
7.4%	October		2,564,930		
10.1%	November		3,480,305		
8.5%	December		2,946,672		
100%	**YTD Total**	**20,035,794**	**34,527,533**	**558,957**	**1.6%**

Through seven months of the year, approximately 58% of the budgeted revenues have been collected with less than a 5% margin of error from the 2025 forecast. Year-to-date (YTD) revenues are 1.6% ahead of forecast. July sales tax fell slightly short of monthly expectations due to a decline in the Services sector. Figure 6 below shows actual sales tax revenue compared to the forecast.



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 Figure 7 below can function as leading indicators for where sales taxes may go in future reports.

Figure 7: National and Regional Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2024	2025
Inflation (CPI-W)							
National	July	% Change	2.6	2.5	(0.1)	2.9	2.5
Seattle	June	% Change	1.6	2.7	1.1	3.5	2.3
Consumer Confidence							
Consumer Confidence Index	July	Index	95.2	97.2	2.0	104.3	96.1
*Unemployment Rate**							
National	July	%	4.1	4.2	0.1	4.0	4.1
Washington State	May	%	4.2	4.3	0.1	4.5	4.5
King County	May	%	4.0	4.1	0.1	4.1	4.1
Kirkland	May	%	3.9	3.9	0.0	3.9	3.9
Housing							
New House Permits (WA)	May	Thousands	35.1	30.3	(4.8)	36.4	32.6
Case-Shiller Seattle Area Home Prices	May	Index	402.3	402.4	0.1	386.6	396.0
Car Sales							
New Vehicle Registrations	June	Thousands	23.9	22.4	(1.5)	22.8	24.1

* 2024 Yearly Averages updated based on revised data from Bureau of Labor Statistics.

National inflation, as measured by CPI-W, decreased from 2.6% in June to 2.5% in July. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 1.6% in April to 2.7% in June. The Federal Reserve held the federal funds rate steady at 4.25%-4.5% at its July 2025 meeting. The decision is aligned with the Fed's goal of achieving inflation rate of 2 percent over the longer run.[1]

[1] https://www.federalreserve.gov/monetarypolicy/monetary20250730a.htm

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months increased from 95.2 in June (revised) to 97.2 in July. Consumer confidence has stabilized since May, rebounding from April's plunge although tariffs and interest rates remain top of mind for consumers.

The national **Unemployment Rate** increased from 4.1% in June to 4.2% in July. At the state level, Washington's unemployment rate increased from 4.2% in April to 4.3% in May. Locally, the unemployment rate for King County increased from 4.0% in April to 4.1% in May. The City of Kirkland's unemployment rate remained unchanged at 3.9% from April to May.

New Housing Permits in Washington State decreased from 35,100 in April to 30,300 in May. Housing permits remain significantly below the recent peak of 61,100 units permitted in the fourth quarter of 2021. Housing units authorized by building permits in May were 2.0% below their April level and 1.0% below compared to May 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices increased very slightly from 402.3 in April to 402.4 in May.

New Vehicle Registrations in Washington State decreased from 23,900 in May to 22,400 in June. The number of registrations decreased 6.2% in June from the previous month and were up 8.0% over the year in June.

NEXT STEPS:

None.

ATTACHMENTS:

None.