CITY OF KIRKLAND
FINANCE AND ADMINISTRATION
123 Fifth Avenue, Kirkland, WA 98033
425-587-3000

MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: June 22, 2026

Subject: **Report on May Sales Tax Collections for July 7 Council Meeting**

RECOMMENDATION:

Staff recommends that the City Council receives the May update on 2026 sales tax revenue.

EXECUTIVE SUMMARY:

- Staff recommends that Council receives an update on Sales Tax collections. No action by Council is required.
- May 2026 sales tax receipts increased by $84,250, or 2.8%, compared to May 2025.
- Year-to-date sales tax revenue increased by $453,203, or 3.2%, compared to the same period in 2025.

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, accounting for just over 25% of total 2026 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, May sales tax revenue relates to March retail activity in Kirkland.

DISCUSSION/ANALYSIS:

May 2026 vs. May 2025

Figure 1: May 2026 vs. May 2025 Sales Tax by Sector

Sectors	May		Dollar Change	Percent Change
	2025	2026		
Contracting	706,468	701,918	(4,550)	-1%
Retail:				
Auto/Gas Retail	524,212	394,318	(129,894)	-25%
Other Retail	558,104	525,582	(32,522)	-6%
Retail Eating/Drinking	267,115	266,654	(461)	0%
Gen Merch/Misc Retail	129,529	142,964	13,435	10%
Services	488,926	664,986	176,060	36%
Miscellaneous	154,504	190,688	36,184	23%
Wholesale	114,662	138,050	23,388	20%
Communications	35,939	38,549	2,610	7%
Total Sales Tax Receipts	**$ 2,979,459**	**$ 3,063,709**	**$ 84,250**	**2.8%**

As shown in Figure 1, comparing May 2026 to May 2025, sales tax revenue receipts are up $84,250 or 2.8%. The sectors reporting the largest growth compared to May 2025, ranked by dollar change, include Services, up $176,060 or 36%; Miscellaneous, up $36,184 or 23%; and Wholesale, which increased by $23,388 or 20%.

Sectors with moderate increases include General Merch/Miscellaneous Retail, up by $13,435 or 10%; and Communications, up by $2,610 or 7%.

Sectors with large decline include Auto/Gas Retail down by $129,894 or 25%. The decline is specifically due to revenues from the Motor Vehicle category. The other sectors with a decline include Other Retail, down $32,522 or 6%; Contracting, down $4,550 or 1%; and Retail Eating/Drinking, down by $461 or 0.2%.

YTD 2026 vs. YTD 2025

Figure 2: YTD 2026 vs. YTD 2025 Sales Tax by Sector

Sectors	YTD		Dollar Change	Percent Change
	2025	2026		
Contracting	3,341,742	3,515,490	173,748	5%
Retail:				
Auto/Gas Retail	2,366,853	2,033,119	(333,734)	-14%
Other Retail	2,711,048	2,771,832	60,784	2%
Retail Eating/Drinking	1,043,464	1,065,944	22,480	2%
Gen Merch/Misc Retail	715,592	757,948	42,356	6%
Services	2,569,673	2,910,990	341,317	13%
Miscellaneous	744,020	890,549	146,529	20%
Wholesale	589,540	597,344	7,804	1%
Communications	208,044	199,964	(8,080)	-4%
Total Sales Tax Receipts	**$ 14,289,976**	**$ 14,743,180**	**$ 453,204**	**3.2%**

Comparing 2026 to 2025, year-to-date (YTD) sales tax revenue is up $453,204 or 3.2%.

Looking at the business sectors, the most significant growth (ranked in order of dollar change) has occurred in Services, up $341,317 or 13%; Contracting, up $173,748 or 5%; and Miscellaneous, up $146,529 or 20%.

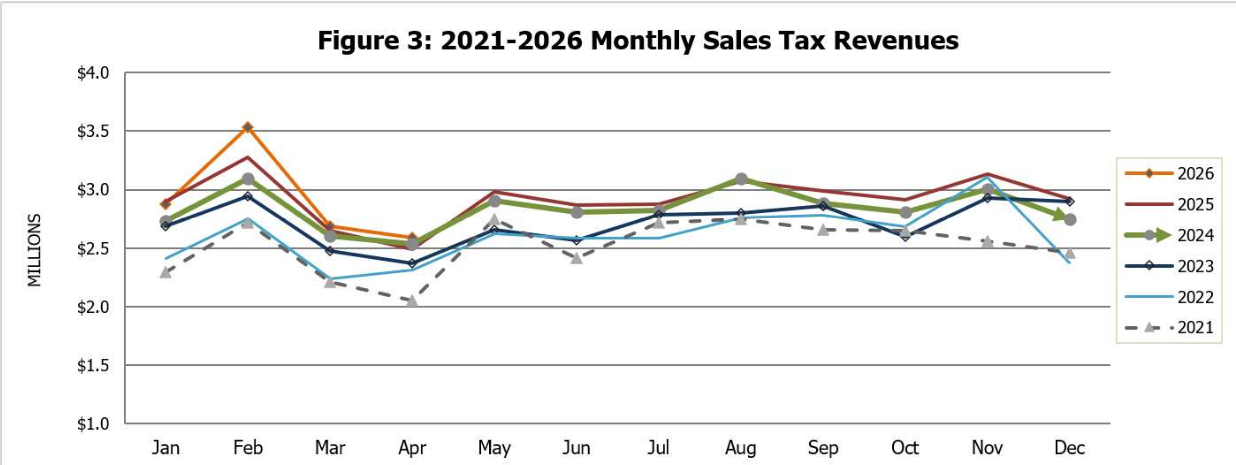
Note that the continued increase from the Miscellaneous and Services sectors over the past five months likely reflects the expansion of services subject to retail sales tax effective October 1, 2025 (first received in December) following the passage of the state's Senate Bill (SB) 5814. Given the changes that have occurred within and across individual retailers, it is not possible to track the specific increase from this tax change. However, staff continues to monitor the change and will provide more analysis as the year goes on and larger trends can be extrapolated.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2026 over the same period in 2025 by $10,583 or 1%. The second is Heavy and Civil Engineering Construction, up by $34,775 or 26%. The third is Construction of Buildings, which has increased by $128,390 or 6%. Overall, Contracting sales tax revenue has continued to be inconsistent over the past years and will be monitored closely to best prepare for the 2027-2028 budget.

Sectors with small increases include Other Retail, up $60,784 or 2%; General Merchandise/Miscellaneous Retail, up $42,356 or 6%; Retail Eating/Drinking, up $22,480 or 2%; and Wholesale, up $7,804 or 1%.

The sector with a large decline in sales tax is Auto/Gas Retail, down $333,734 or 14%. There is some data at the national level that high inflation and car prices over the past few years are driving customers to delay the purchase of new cars and/or purchase less expensive vehicles, which could be driving the year-over-year decline.[1] The other sector in decline is Communications, down $8,080 or 4%.

Figure 3 below shows Kirkland's monthly sales tax revenue from 2026 compared to the prior five years. To aid comparison and the forecast below this chart, it excludes significant one-time events, which are noted below.



Note: The following are excluded from the above graph to allow for more accurate comparison of ongoing revenues: a one-time back payment of $1,384,689 in December 2020; a one-time audit payment of $360,049 in December 2022; audit results reversal of $1.53 million in October 2023; a one-time back payment of $627,520 from a telecommunications operator in May 2024; and one-time audit payment of $527,495 from a retailer in October 2025.

2026 Forecast

Sales tax revenue began 2026 with moderate growth, up 3.2% (roughly $453,000) through May compared to the same period in 2025. Through the first quarter, 26.3% of budgeted sales tax revenues have been collected, and it's likely that revenues will end the year at or slightly ahead of budget, due in part to the City's conservative two-year sales tax lag. To give a better sense of the potential additional sales tax revenue that could be collected in 2026, staff have developed the following forecast for sales tax revenue, shown below in Figure 4.

Using a method consistent with the past few cycles, staff assessed first quarter revenues as a function of first quarter collections over the past 16 years (excluding one-time payments) and determined a lower bound, average, and upward bound of revenue collections in 2026. Staff forecast retail sales tax to come in 6.0% above budget (4.4% above 2025 revenues excluding a one-time payment) in 2026, expecting growth in taxable sales mainly due to the City's two-year sales tax lag and steady inflation (reported 4.5% in April) as measured by CPI-W in the Seattle-Bellevue-Tacoma area.

As ever, there is considerable uncertainty in the forecast over the next year given the ongoing disruption to the global oil and gas market, which could have lasting impacts on the regional economy.

[1] https://www.cnbc.com/2026/05/03/why-some-americans-are-buying-simpler-cars.html

On the other hand, the expansion of sales tax to additional services under SB 5814, effective October 2025, is likely to further buoy revenues beyond 2025 levels. Earlier this year, Washington State adopted SB 6346 (sometimes called "the millionaire's tax"), which creates a new tax on very high-income earners while also rolling back portions of the 2025 expansion of sales taxes on services beginning in 2030 and creating new sales tax exemptions for products such as diapers, hygiene products, and certain over-the-counter medications. As a result, some of the recent or upcoming sales tax revenue gains are temporary.

The City's forecast of 4.4% above 2025 revenues sits below bullish regional forecasts – the Puget Sound Economic Forecaster's Q1 Annual Forecast expects a 17.3% growth in taxable retail sales in King County (up from 14.9% in January), and King County's March forecast expects 6.85% growth in local and optional sales tax. Both are expecting a significant bump from summer retail activity related to the six FIFA World Cup games being held in Seattle. Although Kirkland will benefit from increased tourism and retail activity related to the World Cup as with the region, it will likely have a much smaller impact.

Figure 4: 2026 Retail Sales Tax Forecast

Category	2026 Q1 Revenues	Q1 Revenues % Total Revenue	Forecasted Annual Revenues	Percentage Change from 2025 revenues	Percentage Change from Budget
Lower Bound	9,094,453	26.9%	33,841,595	-3.5%	-2.0%
Average	9,094,453	24.8%	36,608,474	4.4%	6.0%
Upper Bound	9,094,453	23.7%	38,370,140	9.4%	11.1%

Figure 5 below shows the forecasted $36.6 million by month, incorporating average seasonality since 2010.

Figure 5: 2026 Sales Tax Forecast Seasonality by Month

Allocation	Year	2026 Actual Sales Tax Revenue	2026 Forecast	Variance	% Variance
8.0%	January	2,878,960	2,915,716	(36,756)	-1.3%
9.1%	February	3,530,287	3,315,290	214,997	6.5%
7.5%	March	2,684,092	2,731,297	(47,205)	-1.7%
7.2%	April	2,586,129	2,637,220	(51,091)	0.0%
8.5%	May	3,063,710	3,126,391	(62,680)	0.0%
8.1%	June		2,973,086		0.0%
8.5%	July		3,098,725		0.0%
8.9%	August		3,247,644		0.0%
8.7%	September		3,183,902		0.0%
8.4%	October		3,067,200		0.0%
9.0%	November		3,306,333		0.0%
8.2%	December		3,005,670		0.0%
100%	**YTD Total**	**14,743,179**	**36,608,474**	**17,265**	**0.0%**

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 6 below can function as leading indicators for where sales taxes may go in future reports. All indicators displayed below reflect the most recently published final data.

Figure 6: National and Regional Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2025	2026
Inflation (CPI-W)							
National	May	% Change	3.9	4.4	0.5	2.6	3.2
Seattle	April	% Change	3.8	4.5	0.7	2.6	4.2
Consumer Confidence							
Consumer Confidence Index	May	Index	93.8	93.1	(0.7)	95.8	91.8
Unemployment Rate							
National	May	%	4.3	4.3	0.0	4.2	4.3
Washington State	March	%	5.7	5.1	(0.6)	4.7	5.5
King County	March	%	5.5	4.8	(0.7)	4.3	5.3
Kirkland	January	%	5.0	5.7	0.7	4.2	5.7
Housing							
New House Permits (WA)	April	Thousands	31.5	53.0	21.5	34.2	41.5
Case-Shiller Seattle Area Home Prices	March	Index	383.5	388.4	4.9	393.7	384.9
Car Sales							
New Vehicle Registrations	May	Thousands	22.3	22.9	0.6	22.8	21.1

National inflation, as measured by CPI-W, increased from 3.9% in April to 4.4% in May. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 3.8% in February to 4.5% in April. At their June meeting, the Federal Reserve maintained the federal funds rate at a range of 3.5% to 3.75%. The decision reflects a cautious approach to inflation given higher gas/oil prices with room for potential adjustments later in the year.

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead, decreased by 0.7 points from 93.8 in April (revised) to 93.1 in May. Consumer confidence recovered slightly in Q1 after falling to its lowest measured level since May 2014 (82.2) in January.

The national **Unemployment Rate** remained unchanged at 4.3% from April to May. Washington's unemployment rate decreased from 5.8% in January to 5.1% in March. For King County, the unemployment rate decreased from 5.7% in January to 4.8% in March. The unemployment rate in Kirkland increased from 5.0% in November to 5.7% in January.

New Housing Permits in Washington State increased from 31,500 in March to 53,000 in April, the highest amount since February 2023. The most recent **Case-Shiller Home Price Index** for Seattle area home prices increased by 4.9 points from 383.5 in February to 388.4 in March.

New Vehicle Registrations in Washington State increased from 22,300 in April to 22,900 in May. Washington car and truck sales have been trending down since reaching a peak of 26,300 in April 2025. Total new vehicle registrations for May were 4.2% lower compared to May 2025.

NEXT STEPS:

None.

ATTACHMENTS:

None.