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, Senior Financial Analyst

Date: May 20, 2026

Subject: **Report on April Sales Tax Collections for May 5 Council Meeting**

RECOMMENDATION:

Staff recommends that the City Council receives the April 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.
- April 2026 sales tax receipts increased by $97,562 or 3.9%, compared to April 2025.
- Year-to-date sales tax revenue increased by $368,955 or 3.3% 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, April sales tax revenue relates to February retail activity in Kirkland.

DISCUSSION/ANALYSIS:

April 2026 vs. April 2025

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

Sectors	April		Dollar Change	Percent Change
	2025	2026		
Contracting	636,561	657,660	21,099	3%
Retail:				
Auto/Gas Retail	386,034	355,102	(30,932)	-8%
Other Retail	463,752	483,699	19,947	4%
Retail Eating/Drinking	158,964	168,559	9,595	6%
Gen Merch/Misc Retail	116,866	134,983	18,117	16%
Services	456,514	476,330	19,816	4%
Miscellaneous	130,124	166,593	36,469	28%
Wholesale	97,174	110,015	12,841	13%
Communications	42,579	33,189	(9,390)	-22%
Total Sales Tax Receipts	**$ 2,488,568**	**$ 2,586,130**	**$ 97,562**	**3.9%**

As shown in Figure 1, comparing April 2026 to April 2025, sales tax revenue receipts are up $97,562 or 3.9%. The sectors reporting the largest growth compared to April 2025, ranked by dollar change, include Miscellaneous, up $36,469, or 28%, followed by Contracting, up $21,099, or 3%; Other Retail, up $19,947, or 4%; and Services, up $19,816, or 4%.

Sectors with moderate increases include General Merch/Miscellaneous Retail, up by $18,117 or 16, and Wholesale, increased by $12,841 or 13%. Data also shows small increases in Retail Eating/Drinking, up by $9,595 or 6%.

Sectors with large decline include Auto/Gas Retail down by $30,932 or 8%. The decline is specifically due to revenues from the Motor Vehicle category. The other sector with a decline was Communications, down by $9,390, or 22%

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	2,634,967	2,813,549	178,582	7%
Retail:				
Auto/Gas Retail	1,842,634	1,638,801	(203,833)	-11%
Other Retail	2,155,989	2,249,689	93,700	4%
Retail Eating/Drinking	776,163	799,072	22,909	3%
Gen Merch/Misc Retail	585,226	614,198	28,972	5%
Services	2,079,051	2,243,481	164,430	8%
Miscellaneous	589,513	699,981	110,468	19%
Wholesale	474,866	459,283	(15,583)	-3%
Communications	172,105	161,415	(10,690)	-6%
Total Sales Tax Receipts	**$ 11,310,515**	**$ 11,679,469**	**$ 368,955**	**3.3%**

Comparing 2026 to 2025, year-to-date (YTD) sales tax revenue is up $368,955 or 3.3%.

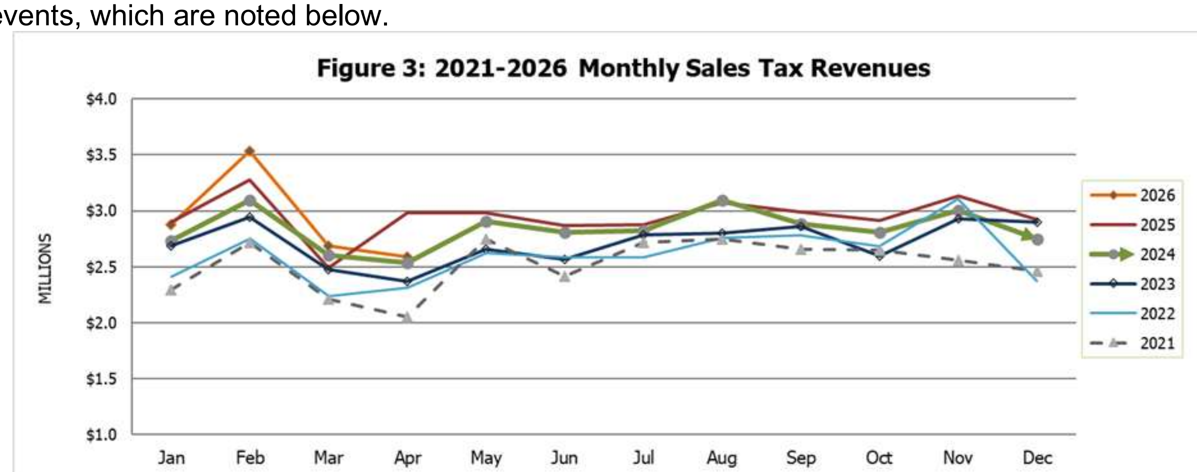
Looking at the business sectors, the most significant growth (ranked in order of dollar change) has occurred in Contracting, up $178,582 or 7%; Services, up $164,430 or 8%; Miscellaneous, up $110,468 or 19%; and Other Retail, up $93,700 or 4%.

Note that the continued increase from the Miscellaneous sector—and to a less obvious degree the Services sector—over the past four months likely reflects the expansion of services subject to retail sales tax effective October 1, 2025 (first received in December) following the passage of 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 is monitoring 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 $23,750 or 3%. The second is Heavy and Civil Engineering Construction, up by $54,357 or 61%. The third is Construction of Buildings, which has increased by $100,474 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 Retail Eating/Drinking, up $22,909 or 3% and General Merchandise/Miscellaneous Retail, up $28,972 or 5%. Sectors with moderate decline include Wholesale, down $15,583 or 3%, and Communications, down $10,690 or 6%. The sector with a large decline in sales tax is Auto/Gas Retail, down $203,833 or 11%. 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]

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.

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

2026 Forecast
Sales tax revenue began 2026 with moderate growth, up 3.3% (roughly $369,000) through April 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 3.8% in February) 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 war in Iran that has destabilized the global oil and gas market, which could have lasting impacts on the regional economy.

On the other hand, the expansion of sales tax to additional services under ESSB 5814, effective October 2025, is likely to further buoy revenues beyond 2025 levels. Earlier this year, the Legislature passed ESSB 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		3,126,391		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**	**11,679,469**	**36,608,474**	**79,946**	**0.2%**

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 4 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. The federal government shutdown in Q3 2025 has led to missing, incomplete, and at times questionable data in some recent Bureau of Labor Statistics (BLS) reports, so staff notes that some indicators should be viewed cautiously for now.

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	April	% Change	3.3	3.9	0.6	2.9	2.6
Seattle	April	% Change	3.8	4.5	0.7	3.5	2.6
Consumer Confidence							
Consumer Confidence Index	April	Index	92.2	92.8	0.6	104.3	95.8
Unemployment Rate							
National	April	%	4.3	4.3	0.0	4.0	4.2
Washington State	January	%	5.3	5.8	0.5	4.5	4.7
King County	January	%	4.9	5.7	0.8	4.1	4.3
Kirkland	January	%	5.0	5.7	0.7	3.9	4.2
Housing							
New House Permits (WA)	February	Thousands	38.5	43.0	4.5	36.4	34.2
Case-Shiller Seattle Area Home Prices	February	Index	382.8	383.5	0.7	386.6	393.7
Car Sales							
New Vehicle Registrations	April	Thousands	19.8	22.3	2.5	22.8	22.8

National inflation, as measured by CPI-W, increased from 3.3% in March to 3.9% in April. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 3.8% in February to 4.5% in April. At their April 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 the 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, increased by 0.6 points from 92.2 in March (revised) to 92.8 in April. Consumer confidence recovered slightly in Q1 after falling to its lowest measured level since May 2014 (82.2) in January but still remains well below the 2025 average of 104.3.

The national **Unemployment Rate** remained unchanged at 4.3% from March to April. Washington's unemployment rate increased from 5.3% in December to 5.8% in January. For King County, the unemployment rate increased from 4.9% in November to 5.7% in January. The unemployment rate in Kirkland increased from 5.0% in November to 5.7% in January.

New Housing Permits in Washington State increased from 38,500 in January to 43,000 in February. Housing units authorized by building permits in March were 11.4% down compared to February 2026 and 8.0% lower than March 2025. The most recent **Case-Shiller Home Price Index** for Seattle area home prices increased by 0.7 points from 382.8 in January to 383.5 in February.

New Vehicle Registrations in Washington State increased from 19,800 in March to 22,300 in April. Washington car and truck sales have been trending down since reaching a peak of 26,300 in April 2025. Total new vehicle registrations for April were 14.3% lower compared to April 2025.

NEXT STEPS:

None.

ATTACHMENTS:

None.