



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

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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:** May 20, 2025

**Subject:** **Report on April Sales Tax Collections for June 3, 2025 Council Meeting**

### RECOMMENDATION:

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

### EXECUTIVE SUMMARY:

- Staff recommends that Council receives the update on Sales Tax collections for the month of April. No action by Council is required.
- Sales tax is down 2.0%, or \$49,958, comparing April 2025 to April 2024.
- Year-to-date sales tax is up 3.1%, or \$342,592, comparing to the same period 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 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 2025 vs. April 2024**

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

Sectors	April		Dollar Change	Percent Change
	2024	2025		
Contracting	661,832	637,674	(24,158)	-4%
Retail:				
Auto/Gas Retail	400,945	386,028	(14,917)	-4%
Other Retail	423,697	464,617	40,920	10%
Retail Eating/Drinking	171,505	158,959	(12,546)	-7%
Gen Merch/Misc Retail	110,525	116,486	5,961	5%
Services	480,591	454,999	(25,592)	-5%
Miscellaneous	139,262	129,996	(9,266)	-7%
Wholesale	114,953	97,233	(17,720)	-15%
Communications	35,219	42,579	7,360	21%
<b>Total Sales Tax Receipts</b>	<b>\$ 2,538,529</b>	<b>\$ 2,488,571</b>	<b>\$ (49,958)</b>	<b>-2.0%</b>

Comparing April 2025 to April 2024 in Figure 1, sales tax revenue receipts are down \$49,958 or 2.0%. Analyzing sales tax revenue over the last ten years shows that 80% of the time April has been the month with the lowest collections. This is likely because both construction and retail activity are historically slower in February following the holiday season.

Other Retail posted the most notable growth among business sectors compared to April of the previous year, increasing by \$40,920, or 10%. Communications also saw moderate growth with a \$7,360 increase, which is a 21% gain, followed by General Merchandise/Miscellaneous Retail, which grew by \$5,961, or 5%.

However, several sectors experienced declines. The Services sector came in lower by \$25,592, marking a 5% decrease. Contracting revenue was down by \$24,158, or 4%, and Wholesale declined by \$17,720, or 15%. Other sectors with smaller but notable declines included Auto and Gas Retail, which fell by \$14,917, or 4%; Retail Eating and Drinking, down \$12,546, or 7%; and Miscellaneous, which declined by \$9,266, or 7%.

## 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	2,598,439	2,638,755	40,316	2%
Retail:				
Auto/Gas Retail	1,704,930	1,842,617	137,687	8%
Other Retail	2,096,446	2,160,245	63,799	3%
Retail Eating/Drinking	742,582	774,684	32,102	4%
Gen Merch/Misc Retail	561,211	582,189	20,978	4%
Services	1,938,285	2,074,587	136,302	7%
Miscellaneous	639,327	590,059	(49,268)	-8%
Wholesale	530,804	475,275	(55,529)	-10%
Communications	155,900	172,105	16,205	10%
<b>Total Sales Tax Receipts</b>	<b>\$ 10,967,925</b>	<b>\$ 11,310,516</b>	<b>\$ 342,592</b>	<b>3.1%</b>

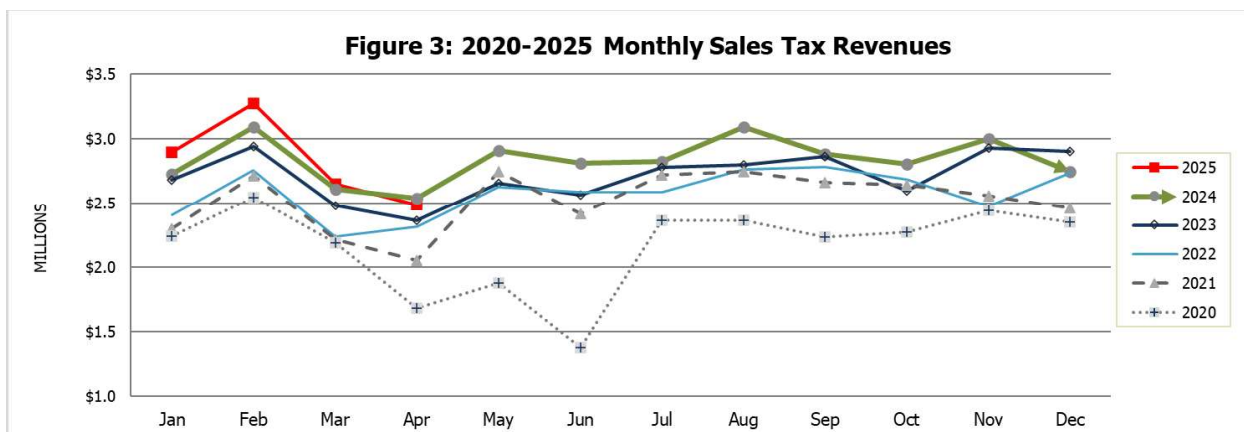
Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is up \$342,592, or 3.1%.

By business sector (ranked in order of dollar change), Auto and Gas Retail led in year-to-date gains, bringing in \$137,687 more than in 2024, which marks an 8% increase. Services followed closely with a \$136,302 increase, representing 7% growth. Other Retail added \$63,799, or 3% more than the prior year, and Contracting rose by an additional \$40,316, growing by 2%.

Sectors with smaller increases include Retail Eating and Drinking, which rose by \$32,102 or 4%; General Merchandise and Miscellaneous Retail, which increased by \$20,978 or 4%; and Communications, which added \$16,205 or 10%.

Business sectors with declines YTD include Wholesale tax, which fell by \$55,529, representing a 10% decrease, and Miscellaneous, which saw a \$49,268 decrease, or an 8% decline.

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

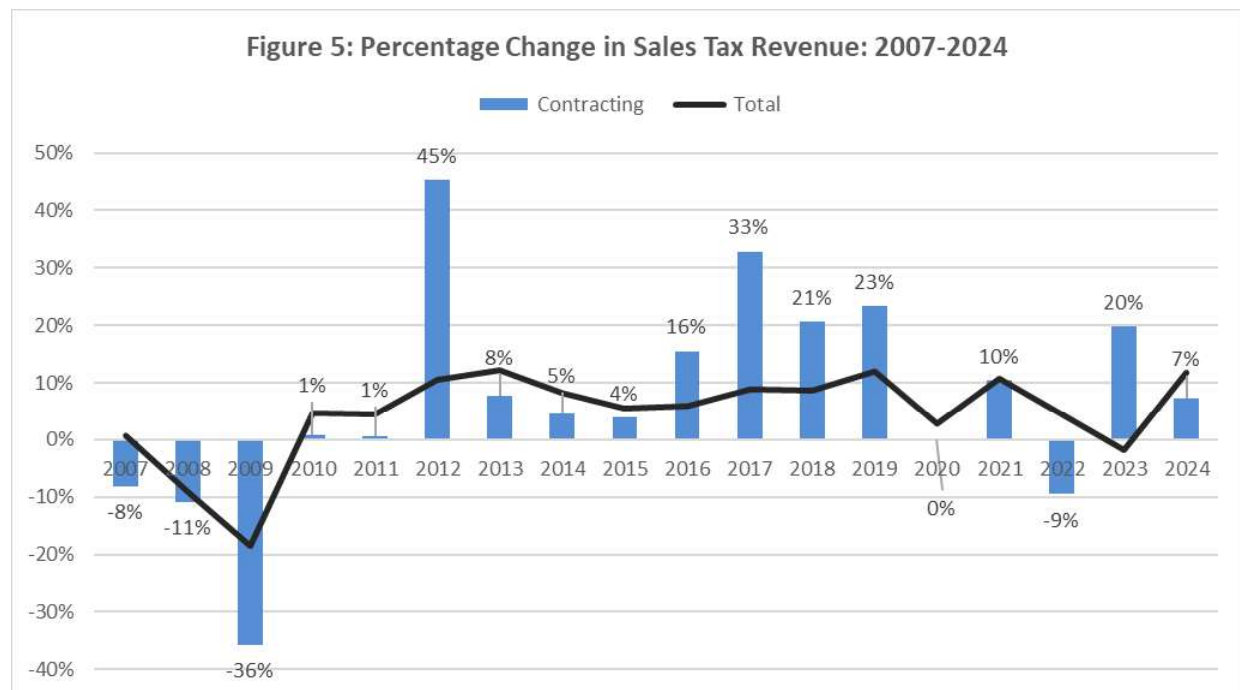
In line with the forecasting methods used in 2023 and 2024, the baseline 2025 sales tax forecast is developed using first quarter revenues as a function of first quarter collections over the past 15 years to determine a lower bound, average, and upper bound to predict revenue collections. As shown in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

The potential risk factor to sales tax revenue through the end of year are tariffs that may increase prices and impact supply chain. Data shows that during the 2008 recession and the COVID-19 pandemic, Kirkland’s sales tax revenues were sensitive to economic changes. Figure 5 below shows the percentage change of total and Contracting sales tax revenues from 2007 to 2024.



The decline in revenue from Construction during 2008 and no change in 2020 highlights the sensitivity to contractions in the economy. In 2022, the contracting sales tax revenue declined by 9%, driven in part by the strike of concrete drivers across Puget Sound impacting many local construction projects.

Puget Sound Economic Forecaster reports that tariffs are expected to drive up home prices by increasing construction costs for both home buyers and homeowners remodeling. The National Association of Home Builders reports that \$204 billion in goods were used for new housing in 2024. The United States imported 74 percent of gypsum from Mexico for drywall and 72 percent of sawmill and wood products from Canada—key materials for home construction. According to the National Association of Home Builders, the overall impact of tariffs on building materials appears likely to be detrimental to the housing market, though different geographical areas may feel the effects differently.

Contracting sales tax revenues accounted for 25% of revenues in 2024 and continue to be a large portion of the 2025 revenues. Staff will be closely monitoring the impact of tariffs on contracting revenues—and all sales taxes—through the year.

### Regional Forecasts

The King County Office of Economic and Financial Analysis (OEFA) forecasts Local and Optional Sales Tax to grow by 2.1% in a baseline scenario and to decline by 3.2% in a pessimistic scenario, with lower growth rates for gross domestic product and total personal consumption expenditures, and a minor U.S. recession in 2026. The March 2025 forecast by Washington Economic and Revenue Forecast Council (ERFC) projects lower housing permits, construction employment, and personal income than expected in November 2024, resulting in lower revenues. Per the forecast, sales taxes revenues have been impacted by lower actuals especially in construction activity.

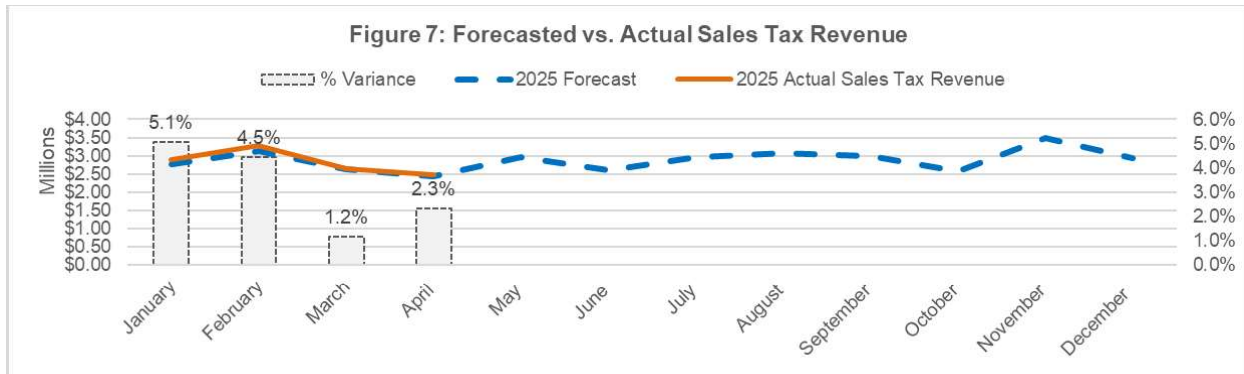
### Actual vs. Forecasted Sales Tax Revenue

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 6 below.

Figure 6: Table of Sales Tax Revenues Compared to Forecast by Month

Allocation	Months	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		2,971,510		
7.5%	June		2,595,077		
8.6%	July		2,966,338		
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		
<b>100%</b>	<b>YTD Total</b>	<b>11,310,515</b>	<b>34,527,533</b>	<b>366,603</b>	<b>1.1%</b>

Through the first four months of the year, 33% of budgeted revenues have been collected with less than a 10% margin of error from the 2025 forecast. YTD revenues are 1.1% ahead of forecast. April sales tax exceeded monthly expectations as February retail activity historically dips, likely due to a combination of the number of days in the month as well as the weather's impact on consumer behavior and other activities. Figure 7 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 8 below can function as leading indicators for where sales taxes may go in future reports.

Figure 8: National and Regional Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2024	2025
<b>Inflation (CPI-W)</b>							
National	April	% Change	2.2	2.1	(0.1)	2.9	2.5
Seattle	April	% Change	2.6	1.6	(1.0)	3.5	2.1
<b>Consumer Confidence</b>							
Consumer Confidence Index	May	Index	92.9	86.0	(6.9)	104.3	95.6
<b>Unemployment Rate*</b>							
National	April	%	4.2	4.2	0.0	4.0	4.1
Washington State	February	%	4.7	5.0	0.3	4.5	4.9
King County	February	%	3.9	4.1	0.2	4.1	4.0
Kirkland	February	%	3.8	4.0	0.2	3.9	3.9
<b>Housing</b>							
New House Permits (WA)	March	Thousands	27.7	29.8	2.1	36.4	32.6
Case-Shiller Seattle Area Home Prices	February	Index	385.2	391.5	6.2	386.6	388.3
<b>Car Sales</b>							
New Vehicle Registrations	April	Thousands	24.9	26.3	1.4	22.8	24.5

**National inflation**, as measured by CPI-W, decreased from 2.2% in March to 2.1% in April. For the Seattle-Tacoma-Bellevue region, the CPI-W decreased from 2.6% in February to 1.6% in

April. The Federal Reserve held the federal funds rate steady at 4.25%-4.5% at its May 2025 meeting, marking the third consecutive meeting where the Feds have held rates steady.<sup>1</sup>

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead decreased for the fifth consecutive month from 92.9 in March to 86.0 in April, or a 7.4% single-month decrease. According to Stephanie Guichard, Senior Economist, Global Indicators at the Conference Board, consumer confidence has fallen to levels not seen since the onset of the COVID pandemic and is broad-based across all age groups, most income groups, and shared across all political affiliations.

The national **Unemployment Rate** remained unchanged from March to April at 4.2%. At the state level, Washington's unemployment rate increased from 4.7% in January to 5.0% in February. Locally, the unemployment rate for King County increased from 3.9% in January to 4.1% in February. The City of Kirkland's unemployment rate increased from 3.8% in January to 4.0% in February.

**New Housing Permits** in Washington State increased from 27,700 in February to 29,800 in March. Housing units authorized by building permits in March were 1.6% above their February level but 0.2% below compared to March 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices increased from 385.2 in January to 391.5 in February.

**New Vehicle Registrations** in Washington State increased from 24,900 in March to 26,300 in April. The number of registrations in April increased 6% from the previous month and were up 15.2% over the year in April 2024.

#### NEXT STEPS:

None.

#### ATTACHMENTS:

None.

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<sup>1</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250507a.htm#>