



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
Cody Harris, Budget Analyst

Date: June 17, 2025

Subject: **Report on May Sales Tax Collections for July 1, 2025 Council Meeting**

RECOMMENDATION:

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

EXECUTIVE SUMMARY:

- Staff recommends that Council receives the update on Sales Tax collections for the month of May. No action by Council is required.
- Sales tax is down 15.8%, or \$557,372, comparing May 2025 to May 2024, primarily due to a one-time Communications payment in 2024, which inflated the 2024 number, as discussed later in the memo.
- Including this one-time payment, year-to-date sales tax is down 1.5%, or \$214,783, compared 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, May sales tax revenue relates to March retail activity in Kirkland.

DISCUSSION/ANALYSIS:

May 2025 vs. May 2024

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

Sectors	May		Dollar Change	Percent Change
	2024	2025		
Contracting	730,130	707,401	(22,729)	-3%
Retail:				
Auto/Gas Retail	488,553	524,185	35,632	7%
Other Retail	470,050	560,052	90,002	19%
Retail Eating/Drinking	258,445	267,087	8,642	3%
Gen Merch/Misc Retail	121,094	128,954	7,860	6%
Services	486,207	487,029	822	0%
Miscellaneous	163,455	154,040	(9,415)	-6%
Wholesale	150,715	114,774	(35,941)	-24%
Communications	668,184	35,939	(632,245)	-95%
Total Sales Tax Receipts	\$ 3,536,833	\$ 2,979,461	\$ (557,372)	-15.8%

Comparing May 2025 to May 2024 in Figure 1, sales tax revenue receipts are down \$557,372 or 15.8%. This significant reduction in 2025 compared with 2024 is primarily due to a high one-time back payment of \$627,520 from a telecommunications operator that was made in 2024. When that one-time payment is removed from the comparison, the comparison results in a \$70,148, or 2%, increase in receipts for Communications in May 2025 compared with May 2024.

Other Retail posted the most notable growth among business sectors compared to May of the previous year, increasing by \$90,002, or 19%, followed by Auto/Gas Retail increasing \$35,632, or 7%. Retail Eating/Drinking also saw moderate growth with a \$8,642, or 3%, gain followed by Gen Merch/Misc. Retail with an increase of \$7,860, or 6%, gain.

Several Sectors experienced declines. Communications came in lower by \$632,245, or 95%, but removing the one-time payments results in a decrease of \$4,725, or 12%. Other sectors with declines include Wholesale, which came in lower by \$35,941 or 24%, and Miscellaneous, which came in lower by \$9,415 or 6%. Contracting was lower by \$22,729 or 3% down from 2024.

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	3,328,569	3,346,156	17,587	1%
Retail:				
Auto/Gas Retail	2,193,483	2,366,802	173,319	8%
Other Retail	2,566,508	2,720,297	153,789	6%
Retail Eating/Drinking	1,001,028	1,041,771	40,743	4%
Gen Merch/Misc Retail	683,747	712,635	28,888	4%
Services	2,424,493	2,561,618	137,125	6%
Miscellaneous	801,338	742,606	(58,732)	-7%
Wholesale	681,508	590,047	(91,461)	-13%
Communications	824,085	208,044	(616,041)	-75%
Total Sales Tax Receipts	\$ 14,504,758	\$ 14,289,976	\$ (214,783)	-1.5%

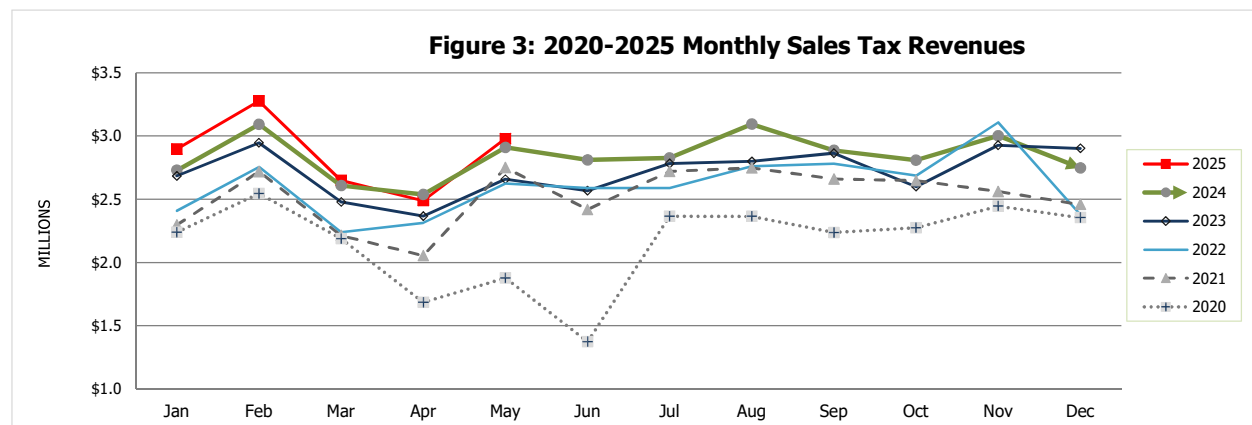
Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is down \$214,783 or 1.5%.

By business sector (ranked in order of dollar change), Auto/Gas Retail led in YTD gains, bringing in \$173,319 more than 2024, which marks an 8% increase. Other Retail followed closely with a \$153,789 increase, representing 6% growth, and Services added \$137,125, or 6%.

Sectors with smaller increases include Retail Eating/Drinking, which rose by \$40,743 or 4%, and Gen Merch/Misc. Retail, which grew by \$28,888 or 4%.

Business sectors with declines YTD include Communications, which fell by \$616,041, or 75%, due to a one-time payment in 2024 as described above. Removing this payment from the comparison, Communications has increased \$11,479 or 6% year-to-date. Additionally, Wholesale declined by \$91,461 or 13%, and Miscellaneous declined by \$58,732 or 7%.

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, a one-time audit payment of \$360,049 in December 2022, an audit results reversal of \$1.53 million in October 2023, and a 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

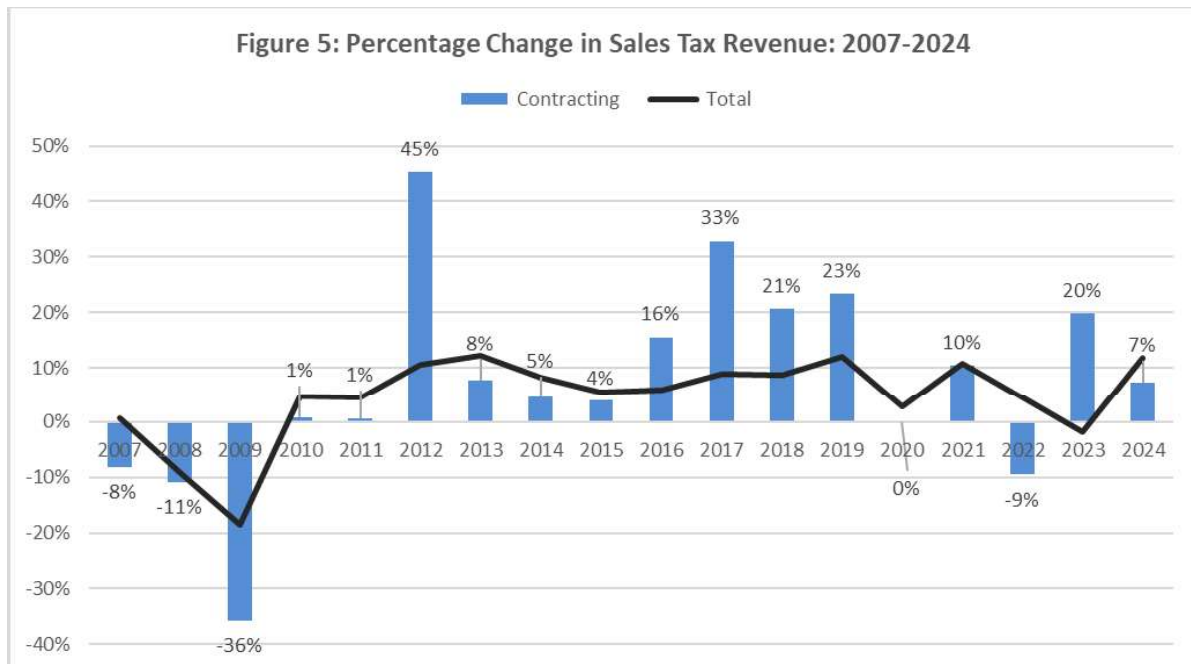
In line with the forecasting methods used in 2023 and 2024, the baseline 2025 sales tax forecast was developed using first quarter revenues as a function of first quarter collections over the past 15 years to determine a lower bound, average, and upper bound to predict revenue collections. As shown in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

The potential risk factor to sales tax revenue through the end of year are tariffs that may increase prices and impact the 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 U.S. 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 Association, 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) forecast Local and Optional Sales Tax to grow by 2.1% in a baseline scenario and decline by 3.2% in a pessimistic scenario with lower growth rates for gross domestic product and total personal consumption expenditures, and a minor US recession in 2026. Washington Economic and Revenue Forecast Council (ERFC) March 2025 forecast projects lower housing permits, construction employment and personal income than expected in November 2024—resulting in lower sales tax revenues. Per the forecast, sales taxes revenues have been impacted by lower actuals especially in construction activity.

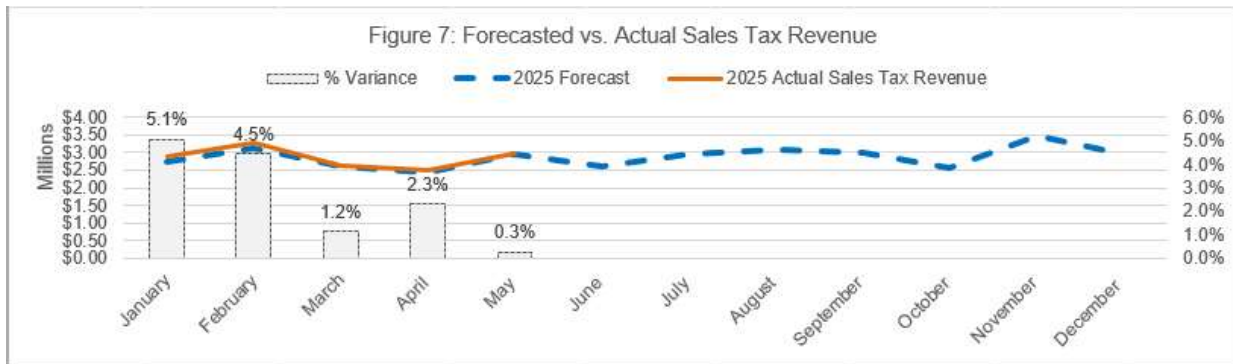
Actual vs. Forecasted Sales Tax Revenue

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 on the following page.

Figure 6: 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		2,595,077		
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		
100%	YTD Total	14,289,976	34,527,533	374,554	1.1%

Through the first five months of the year, 41% 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. May sales tax just exceeded monthly expectations, and 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 on the following page 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
<i>Inflation (CPI-W)</i>							
National	May	% Change	2.1	2.2	0.1	2.9	2.4
Seattle	April	% Change	2.6	1.6	(1.0)	3.5	2.1
<i>Consumer Confidence</i>							
Consumer Confidence Index	May	Index	85.7	98.0	12.3	104.3	96.0
<i>Unemployment Rate*</i>							
National	May	%	4.2	4.2	0.0	4.0	4.1
Washington State	March	%	5.0	4.5	(0.5)	4.5	4.7
King County	March	%	4.1	4.2	0.1	4.1	4.1
Kirkland	March	%	4.0	4.1	0.1	3.9	4.0
<i>Housing</i>							
New House Permits (WA)	March	Thousands	27.7	29.8	2.1	36.4	32.6
Case-Shiller Seattle Area Home Prices	March	Index	391.5	398.4	6.9	386.6	391.7
<i>Car Sales</i>							
New Vehicle Registrations	April	Thousands	24.9	26.3	1.4	22.8	24.5

National inflation, as measured by CPI-W, increased from 2.1% in April to 2.2% in May. 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 Fed's have held rates steady.¹

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead increased for the first time in five months from 85.7 in April to 98.0 in May, or a 12.3% single-month increase. According to Stephanie Guichard, Senior Economist, Global Indicators at the Conference Board, consumer confidence had recently fallen to levels not seen since the onset of the COVID pandemic and is broad-based across all age groups and most income groups and is shared across all political affiliations.

The national **Unemployment Rate** remained unchanged from April to May at 4.2%. At the state level, Washington's unemployment rate decreased from 5.0% in February to 4.5% in March. Locally, the unemployment rate for King County increased from 4.1% in February to 4.2% in March. The City of Kirkland's unemployment rate increased from 4.0% in February to 4.1% in March.

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 391.5 in February to 398.4 in March.

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.

¹ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250507a.htm#:~:text=The%20Committee%20is%20attentive%20to,4%2D1%2F2%20percent>.

ATTACHMENTS:

None.