



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: July 21, 2025

Subject: **Report on June Sales Tax Collections for August 6, Council Meeting**

RECOMMENDATION:

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

EXECUTIVE SUMMARY:

- Staff recommends that Council receives the update on Sales Tax collections for the month of June. No action by Council is required.
- Sales tax is up 2.2%, or \$61,173, comparing June 2025 to June 2024.
- Year-to-date sales tax is down 0.9%, or \$153,612, compared to the same period in 2024, primarily due to a one-time Communications payment that inflates the 2024 number.

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, June sales tax revenue relates to April retail activity in Kirkland.

DISCUSSION/ANALYSIS:

June 2025 vs. June 2024

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

Sectors	June		Dollar Change	Percent Change
	2024	2025		
Contracting	797,231	708,504	(88,727)	-11%
Retail:				
Auto/Gas Retail	438,022	467,746	29,724	7%
Other Retail	494,614	527,217	32,603	7%
Retail Eating/Drinking	180,181	189,104	8,923	5%
Gen Merch/Misc Retail	132,084	126,249	(5,835)	-4%
Services	461,244	530,178	68,934	15%
Miscellaneous	150,642	164,448	13,806	9%
Wholesale	120,736	117,180	(3,556)	-3%
Communications	36,132	41,433	5,301	15%
Total Sales Tax Receipts	\$ 2,810,886	\$ 2,872,059	\$ 61,173	2.2%

Comparing June 2025 to June 2024 in Figure 1, sales tax revenue receipts are up \$61,173 or 2.2%. The sectors that reported the largest growth compared to June 2024 (ranked in order of dollar change) include Services up by \$68,934 or 15%; followed by Other Retail increasing by \$32,603 or 7%; Auto/Gas Retail increasing by \$29,724 or 7%; and Miscellaneous, which added \$13,806 or 9%. Sectors with moderate to small increases include Retail Eating/Drinking, which grew by \$8,923 or 5%, and Communications, which increased by \$5,301 or 15%.

The data also shows large declines in Contracting that reduced by \$88,727 or 11%. Other sectors with small declines include Gen Merch/Misc. Retail falling by \$5,835 or 4% and Wholesale decreasing by \$3,556 or 3%.

YTD 2025 vs. YTD 2024

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

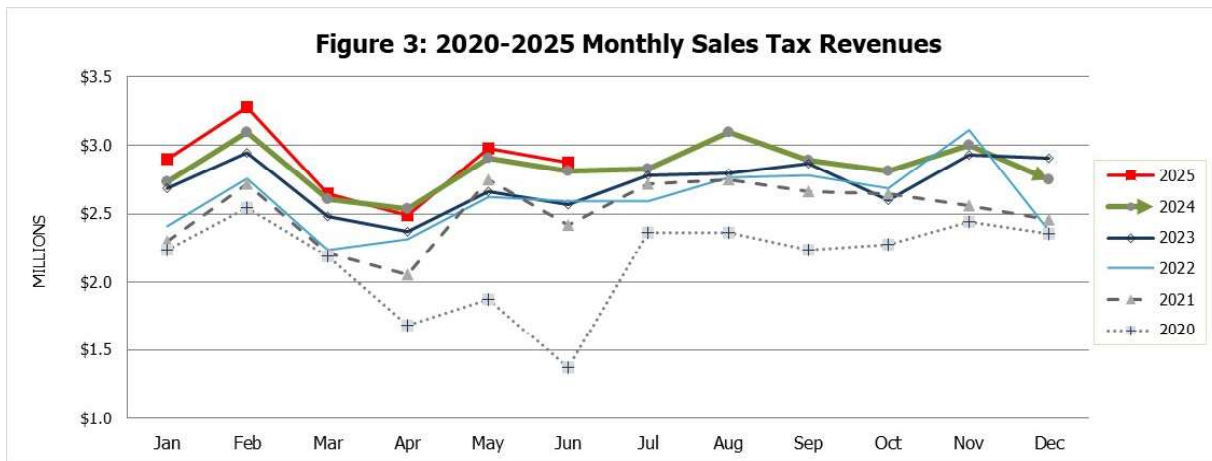
Sectors	YTD		Dollar Change	Percent Change
	2024	2025		
Contracting	4,125,771	4,054,659	(71,112)	-2%
Retail:				
Auto/Gas Retail	2,631,505	2,834,548	203,043	8%
Other Retail	3,061,147	3,247,514	186,367	6%
Retail Eating/Drinking	1,181,209	1,232,330	51,121	4%
Gen Merch/Misc Retail	815,835	838,884	23,049	3%
Services	2,885,734	3,090,341	204,607	7%
Miscellaneous	951,980	907,054	(44,926)	-5%
Wholesale	802,248	707,227	(95,021)	-12%
Communications	860,217	249,477	(610,740)	-71%
Total Sales Tax Receipts	\$ 17,315,644	\$ 17,162,034	\$ (153,612)	-0.9%

Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is down \$153,612 or 0.9%. Looking at the business sectors, the most significant growth (ranked in order of dollar change) occurred in Services, which increased by \$204,607 or 7%. Auto/Gas Retail is a close second and increased by \$203,043 or 8%, whereas Other Retail added \$186,367 or 6%. Sectors with small to moderate increases include Retail Eating/Drinking up by \$51,121 or 4% and Gen Merch/Misc Retail increased by \$23,049 or 3%.

The sector with the largest decline is Communications, which decreased by \$610,749 or 71% due to a one-time payment in 2024. Sectors with moderate declines include Contracting, which decreased by \$71,112 or 2%. The Miscellaneous category reduced by \$44,926 or 5% and Wholesale fell by \$95,021 or 12%.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors that increased by 26% or \$262,100. Second is Heavy and Civil Engineering Construction that grew by 9% or \$13,888. The third is Construction of Buildings that reduced by 12% or \$347,099. The decline in revenue in Construction of Buildings is driven by Commercial and Institutional Buildings which is down 27% or \$301,385, followed by New Single-Family Housing down 16% or \$209,560 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.

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 are changing tariff policy which may increase prices and impact supply chains.

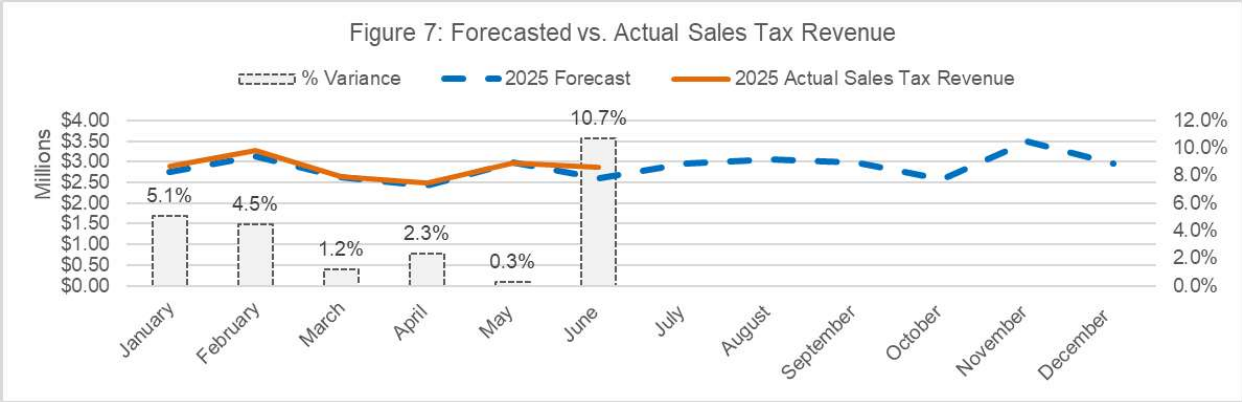
Actual vs. Forecasted Sales Tax Revenue

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 6 below.

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	2,872,058	2,595,077	276,981	10.7%
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	17,162,035	34,527,533	651,536	1.9%

Through the first half of the year, approximately 50% of the budgeted revenues have been collected with less than a 5% margin of error from the 2025 forecast. YTD revenues are 1.9% ahead of forecast. June sales tax exceeded monthly expectations due to Services. Figure 7 on the next page 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
Inflation (CPI-W)							
National	June	% Change	2.2	2.6	0.4	2.9	2.5
Seattle	June	% Change	1.6	2.7	1.1	3.5	2.3
Consumer Confidence							
Consumer Confidence Index	June	Index	98.0	93.0	(5.0)	104.3	95.5
Unemployment Rate*							
National	June	%	4.2	4.1	(0.1)	4.0	4.1
Washington State	April	%	4.5	4.2	(0.3)	4.5	4.6
King County	April	%	4.2	4.0	(0.2)	4.1	4.1
Kirkland	April	%	4.1	3.9	(0.2)	3.9	4.0
Housing							
New House Permits (WA)	April	Thousands	29.8	35.1	5.3	36.4	33.2
Case-Shiller Seattle Area Home Prices	April	Index	398.4	402.3	4.0	386.6	394.3
Car Sales							
New Vehicle Registrations	May	Thousands	26.3	23.9	(2.4)	22.8	24.4

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

National inflation, as measured by CPI-W, increased from 2.2% in May to 2.6% in June. 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 June 2025 meeting. The decision is aligned with the Fed’s goal of achieving inflation rate of 2 percent over the longer run.¹

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months fell 5.0 points from 98.0 in May to 93.0 in June, erasing half of

¹<https://www.federalreserve.gov/newsevents/pressreleases/monetary20250618a.htm>

May's sharp gains. According to Stephanie Guichard, Senior Economist, Global Indicators at the Conference Board, tariffs remained on top of consumers' minds and were frequently associated with concerns about their negative impacts on the economy and prices. Inflation and high prices were another important concern cited by consumers in June.

The national **Unemployment Rate** decreased from 4.2% in May to 4.1% in June. At the state level, Washington's unemployment rate decreased from 4.5% in March to 4.2% in April. Locally, the unemployment rate for King County decreased from 4.2% in March to 4.0% in April. The City of Kirkland's unemployment rate decreased from 4.1% in March to 3.9% in April.

New Housing Permits in Washington State increased from 29,800 in March to 35,100 in April. Housing units authorized by building permits in April were 4.7% below their March level and 3.2% below compared to April 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices increased from 398.4 in March to 402.3 in April.

New Vehicle Registrations in Washington State decreased from 26,300 in April to 23,900 in May. The number of registrations decreased 9.2% in May from the previous month and were up 7.3% over the year in May 2024.

NEXT STEPS:

None.

ATTACHMENTS:

None.