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: September 23, 2025

Subject: **Report on August Sales Tax Collections for October 7 Council Meeting**

RECOMMENDATION:

Staff recommends that City Council receive the August update on 2025 Sales Tax revenue.

EXECUTIVE SUMMARY:

- Staff recommends that Council receive an update on Sales Tax collections. No action by Council is required.
- Sales tax is down 0.8%, or $25,012, comparing August 2025 to August 2024.
- One of the Contracting subcategories, Construction of Buildings, has decreased by 14%, or $571,009 year-to-date (YTD), with trends and anecdotal information indicating that high construction costs, high interest rates, and tariffs are slowing construction in the region, particularly on large residential construction projects.
- Year-to-date sales tax is down 0.6%, or $131,744, compared to the same period in 2024 primarily due to a one-time Communications payment in 2024.
- Through eighth months of the year, approximately 67% of the budgeted revenues have been collected with less than a 5% margin of error from the 2025 forecast.

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

DISCUSSION/ANALYSIS:

August 2025 vs. August 2024

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

Sectors	August		Dollar Change	Percent Change
	2024	2025		
Contracting	884,879	764,573	(120,306)	-14%
Retail:				
Auto/Gas Retail	444,727	419,503	(25,224)	-6%
Other Retail	527,168	560,205	33,037	6%
Retail Eating/Drinking	285,916	305,947	20,031	7%
Gen Merch/Misc Retail	152,382	144,472	(7,910)	-5%
Services	499,471	523,936	24,465	5%
Miscellaneous	151,954	191,050	39,096	26%
Wholesale	110,913	121,088	10,175	9%
Communications	36,546	38,170	1,624	4%
Total Sales Tax Receipts	**$ 3,093,956**	**$ 3,068,944**	**$ (25,012)**	**-0.8%**

Comparing August 2025 to August 2024 in Figure 1, sales tax revenue receipts are down $25,012 or 0.8%. The sectors that reported the largest growth compared to August 2024, ranked in order of dollar change, include Miscellaneous, which increased by $39,096 or 26% largely due to Transportation and Warehousing. Other Retail followed suit and increased by $33,037 or 6%.

Sectors with moderate to small increases include Services, up by $24,465 or 5%; Retail Eating/Drinking, up by $20,031 or 7%; Wholesale, up by $10,175 or 9%; and Communications, up by $1,624 or 4%.

The data also shows large declines in Contracting down by $120,306 or 14%, discussed below in more detail. Other sectors with moderate to small declines include Auto/Gas Retail, which decreased by $25,224 or 6%; and Gen Merch/Misc. Retail, down by $7,910 or 5%.

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	5,709,162	5,513,058	(196,104)	-3%
Retail:				
Auto/Gas Retail	3,526,134	3,695,263	169,129	5%
Other Retail	4,109,570	4,368,635	259,065	6%
Retail Eating/Drinking	1,678,974	1,744,847	65,873	4%
Gen Merch/Misc Retail	1,099,216	1,124,296	25,080	2%
Services	3,903,258	4,074,631	171,373	4%
Miscellaneous	1,252,552	1,313,082	60,530	5%
Wholesale	1,022,489	942,487	(80,002)	-8%
Communications	935,126	328,438	(606,688)	-65%
Total Sales Tax Receipts	**$ 23,236,480**	**$ 23,104,737**	**$ (131,744)**	**-0.6%**

Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is down $131,744 or 0.6%. Looking at the business sectors, the most significant growth ranked in order of dollar change, occurred in Other Retail, up by $259,065 or 6%. That was followed by Services, up by $171,373 or 4%; and Auto/Gas Retail added $169,129 or 5%.

Sectors with small to moderate increases include Retail Eating/Drinking, up by $65,873 or 4%; Miscellaneous, increased by $60,530 or 5%; and Gen Merch/Misc Retail, increased by $25,080 or 2%.

Sectors with the largest decline is Communications, which decreased by $606,688 or 65% due to a one-time payment received in 2024. Sectors with moderate declines include Contracting, reduced by $196,104 or 3%; and Wholesale, down by $80,002 or 8%.

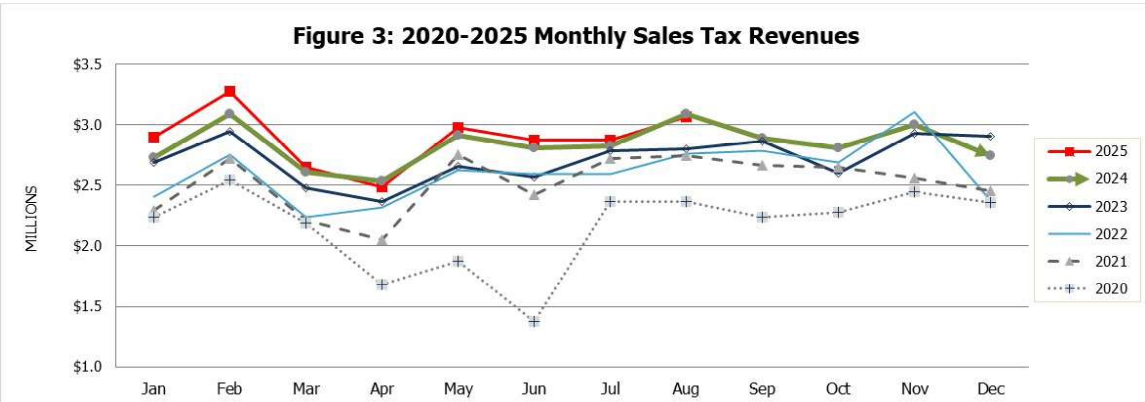
Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2025 over the same period in 2024 by 26% or $358,089. The second is Heavy and Civil Engineering Construction, which grew by 9% or $16,816. The third is Construction of Buildings, which has decreased by 14% or $571,009. The decline in revenue in Construction of Buildings is driven by New Single-Family Housing, down 24.3% or $462,819, followed by Commercial and Institutional Buildings, which is down 19.5% or $280,599 when compared to last year.

According to the Seattle Times, Seattle is now on track to experience one of its slowest years for apartment permitting since at least 2018. Across King County, year over year, permitting rates dropped by half in 2023 and remained that way in 2024. Developers have indicated they are pausing apartment projects until construction costs come down, citing that construction loan rates have roughly doubled since 2021. Since 2020, Seattle construction costs have gone up 46%, according to Mortenson's construction cost index. Along with rising costs and high interest rates, tariffs have brought another challenge to the mix. The prices for lumber and copper pipes have increased and are predicted to become even more expensive if high tariffs are enacted.[1]

[1] https://www.seattletimes.com/business/real-estate/renting-in-seattle-area-to-get-harder-as-supply-of-new-apartments-drop/

This reporting on Seattle trends is consistent with anecdotes from our own Development Services staff that large projects are being delayed or postponed as costs remain high, although smaller residential projects continue at pace similar to the past few years. These market trends portend that sales tax on Contracting revenue may continue to slow in the coming months and years. Staff will continue to monitor this trend closely to better predict sales tax revenue into 2026 and the next biennial budget.

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: 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; and a one-time back payment of $627,520 from a telecommunications operator in May 2024.

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.

<u>Figure 4: Forecast Range Table</u>

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 have conservatively forecasted 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 is changing tariff policy which continues to impact prices and 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 5 below.

Figure 5: 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	2,873,760	2,966,338	(92,578)	-3.1%
8.9%	August	3,068,943	3,066,655	2,288	0.1%
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**	**23,104,738**	**34,527,533**	**561,246**	**1.6%**

Through eighth months of the year, approximately 67% of the budgeted revenues have been collected with less than a 5% margin of error from the 2025 forecast. Year-to-date (YTD) revenues are 1.6% ahead of forecast with August sales tax in line with monthly expectations. Figure 6 below shows actual sales tax revenue compared to the forecast.

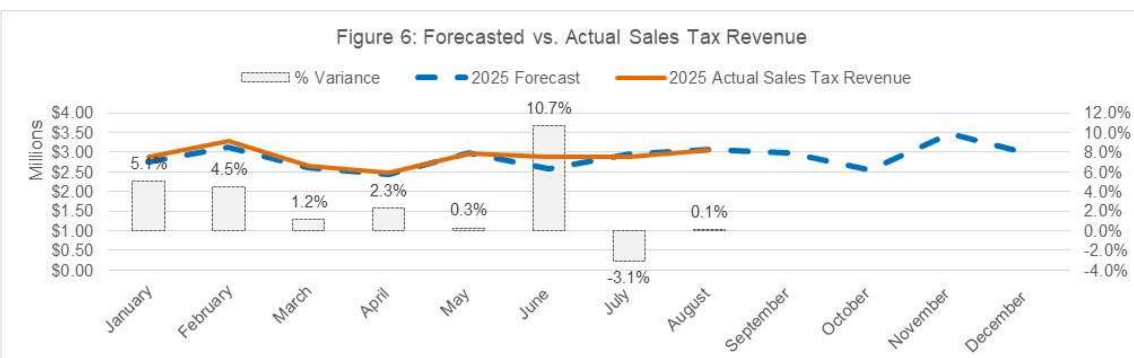


Figure 6: Forecasted vs. Actual Sales Tax Revenue

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 7 below can function as leading indicators for where sales taxes may go in future reports.

Figure 7: National and Regional Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2024	2025
Inflation (CPI-W)							
National	August	% Change	2.5	2.8	0.3	2.9	2.5
Seattle	August	% Change	2.7	3.2	0.5	3.5	2.5
Consumer Confidence							
Consumer Confidence Index	August	Index	98.7	97.4	(1.3)	104.3	96.4
*Unemployment Rate**							
National	August	%	4.2	4.3	0.1	4.0	4.2
Washington State	June	%	4.3	4.2	(0.1)	4.5	4.5
King County	June	%	4.1	4.3	0.2	4.1	4.1
Kirkland	June	%	3.9	4.1	0.2	3.9	4.0
Housing							
New House Permits (WA)	June	Thousands	30.3	40.1	9.8	36.4	33.9
Case-Shiller Seattle Area Home Prices	June	Index	402.4	401.0	(1.4)	386.6	396.8
Car Sales							
New Vehicle Registrations	July	Thousands	22.4	23.0	0.6	22.8	23.9

National inflation, as measured by CPI-W, increased from 2.5% in July to 2.8% in August. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 2.7% in June to 3.2% in August. The Federal Reserve lowered the federal funds rate by a quarter percentage point at its September 2025 meeting. The decision brings the federal funds rate in a range between 4.00%-4.25% and marks the first time interest rates were cut in 2025.[2]

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead, decreased from 98.7 in July (revised) to 97.4. Consumer confidence has dipped in August but remains at levels similar to that of the previous three months, with tariffs and high inflation rates remaining top of mind for consumers.

The national **Unemployment Rate** increased from 4.2% in July to 4.3% in August. At the state level, Washington's unemployment rate decreased from 4.3% in May to 4.2% in June. Locally, the unemployment rate for King County increased from 4.1% in May to 4.3% in June. The city of Kirkland's unemployment rate increased from 3.9% in May to 4.1% in June.

New Housing Permits in Washington State increased from 30,300 in May to 40,100 in June. Housing permits remain significantly below the recent peak of 61,100 units permitted in the fourth quarter of 2021. Housing units authorized by building permits in June were 0.2% below their May level and 4.4% lower compared to June 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices decreased slightly from 402.4 in May to 401.0 in June. **New Vehicle Registrations** in Washington State increased from 22,400 in June to 23,000 in July. The number of registrations increased 2.7% in July from the previous month and were up 6.6% over the year in July.

NEXT STEPS:

None.

ATTACHMENTS:

None.

[2] https://www.cnbc.com/2025/09/17/fed-rate-decision-september-2025.html