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: November 20, 2025

Subject: **Report on October Sales Tax Collections for December 9 Council Meeting**

RECOMMENDATION:

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

EXECUTIVE SUMMARY:

- Staff recommends that Council receives an update on Sales Tax collections. No action by Council is required.
- Sales tax receipts are up $633,022 or 22.5%, comparing October 2025 to October 2024, due to a one-time excise audit of a retailer in Kirkland.
- One of the Contracting subcategories, Construction of Buildings, has decreased by 10% or $493,365 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 up $600,798 or 2.1% compared to the same period in 2024 primarily due to the one-time excise audit payment in 2025.
- Through ten months of the year, approximately 86% 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, October sales tax revenue relates to August retail activity in Kirkland.

DISCUSSION/ANALYSIS:

October 2025 vs. October 2024

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

Sectors	October		Dollar Change	Percent Change
	2024	2025		
Contracting	694,931	725,752	30,821	4%
Retail:				
Auto/Gas Retail	503,153	495,715	(7,438)	-1%
Other Retail	503,459	1,063,451	559,992	111%
Retail Eating/Drinking	203,539	213,488	9,949	5%
Gen Merch/Misc Retail	126,019	129,389	3,370	3%
Services	483,744	483,805	61	0%
Miscellaneous	153,069	174,441	21,372	14%
Wholesale	104,446	117,402	12,956	12%
Communications	36,741	38,680	1,939	5%
Total Sales Tax Receipts	**$ 2,809,101**	**$ 3,442,123**	**$ 633,022**	**22.5%**

Comparing October 2025 to October 2024 in Figure 1, sales tax revenue receipts are up $633,022 or 22.5%. The sectors that reported the largest growth compared to October 2024, ranked by dollar change, include Other Retail, up by $559,799 or 111%. This increase is due to a one-time excise audit of a retailer in Kirkland. That is followed by Contracting, which increased by $30,821 or 4%, and Miscellaneous, which increased by $21,372 or 14%.

Sectors with moderate increases include Wholesale, up by $12,956 or 12%, and Retail Eating/Drinking, up by $9,949 or 5%. Sectors with small increases include Communications, up by $1,939 or 5%, Gen Merch/Misc. Retail, up by $3,370 or 3% and Services, up by $61 or essentially flat from October 2024.

Data also shows declines in Auto/Gas Retail, which dropped by $7,438 or 1%.

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	7,124,825	7,087,288	(37,537)	-1%
Retail:				
Auto/Gas Retail	4,423,673	4,640,728	217,055	5%
Other Retail	5,190,562	5,992,740	802,178	15%
Retail Eating/Drinking	2,097,506	2,016,953	(80,553)	-4%
Gen Merch/Misc Retail	1,434,319	1,464,076	29,757	2%
Services	4,858,176	5,069,858	211,682	4%
Miscellaneous	1,557,758	1,655,231	97,473	6%
Wholesale	1,238,748	1,201,770	(36,978)	-3%
Communications	1,006,368	404,089	(602,279)	-60%
Total Sales Tax Receipts	**$ 28,931,936**	**$ 29,532,733**	**$ 600,798**	**2.1%**

Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is up by $600,798 or 2.1%. Looking at the business sectors, the most significant growth, ranked in order of dollar change, occurred in Other Retail, up by $802,178 or 15%. Followed by Auto/Gas Retail, adding $217,055 or 5%; and Services, up by $211,682 or 4%.

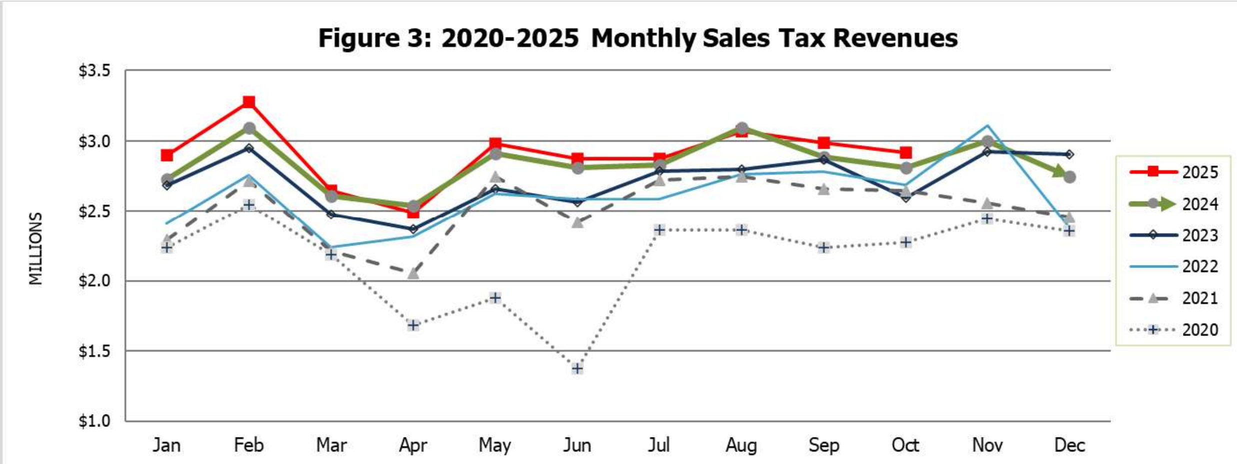
Sectors with small to moderate increases include Miscellaneous, increased by $97,473 or 6%; and General Merch/Misc. Retail, added $29,757 or 2%.

The sector with the largest decline is Communications, which decreased by $602,279 or 60% due to a one-time payment received in 2024. Sectors with moderate declines include Retail Eating/Drinking, down by $80,553 or 4%; Contracting, reduced by $37,537 or 1%; and Wholesale, dropped by $36,978 or 3%.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2025 over the same period in 2024 by 25% or $451,660. The second is Heavy and Civil Engineering Construction, which grew by 2% or $4,167. The third is Construction of Buildings, which has decreased by 10% or $493,365. The decline in revenue in Construction of Buildings is driven by New Single-Family Housing, down 23.2% or $544,572, followed by Commercial and Institutional Buildings, which is down 9.7% or $171,492 when compared to last year.

These market trends portend that sales tax on Contracting revenue may continue to slow in the coming months and years and will be monitored closely to best prepare for the next biennial budget.

Figure 3 below shows Kirkland's monthly sales tax revenue from 2025 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.

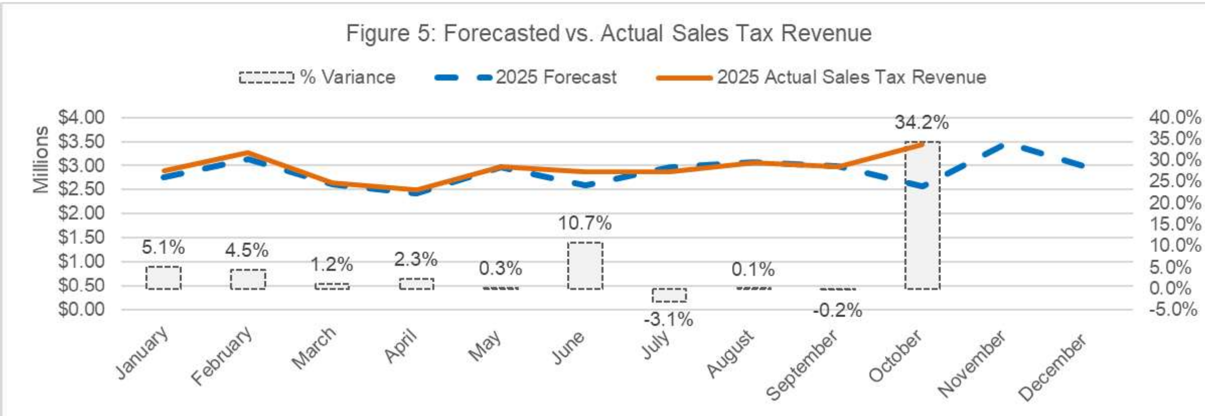
Actual vs. Forecasted 2025 Sales Tax Revenue

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 4 below.

Figure 4: 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	2,985,873	2,992,134	(6,261)	-0.2%
7.4%	October	3,442,122	2,564,930	877,193	34.2%
10.1%	November		3,480,305		
8.5%	December		2,946,672		
100%	**YTD Total**	**29,532,733**	**34,527,533**	**1,432,177**	**4.1%**

Through ten months of the year, approximately 86% 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 4.1% above forecast with October sales tax 34.2% ahead of monthly expectations. Excluding the one-time audit payment, the October sales tax revenue would be 13.6% ahead of forecasted revenues. Figure 5 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 6 below can function as leading indicators for where sales taxes may go in future reports.

Figure 6: National and Regional Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2024	2025
Inflation (CPI-W)							
National	September	% Change	2.8	2.9	0.1	2.9	2.6
Seattle	August	% Change	2.7	3.2	0.5	3.5	2.5
Consumer Confidence							
Consumer Confidence Index	October	Index	95.6	94.6	(1.0)	104.3	96.2
*Unemployment Rate**							
National	August	%	4.2	4.3	0.1	4.0	4.2
Washington State	July	%	4.2	4.5	0.3	4.5	4.5
King County	July	%	4.3	4.3	0.0	4.1	4.1
Kirkland	July	%	4.1	4.1	0.0	3.9	4.0
Housing							
New House Permits (WA)	August	Thousands	30.5	34.9	4.4	36.4	33.6
Case-Shiller Seattle Area Home Prices	August	Index	397.5	394.8	(2.7)	386.6	396.6
Car Sales							
New Vehicle Registrations	September	Thousands	21.7	22.5	0.8	22.8	23.5

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

National inflation, as measured by CPI-W, increased from 2.8% in August to 2.9% in September. 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 a second time this year by a quarter percentage point at its October 2025 meeting. This brings the Federal Funds Rate to a range between 3.75% - 4.00%. The Fed Chair has noted that future rate cuts are not guaranteed amid the delays in jobs and inflation data due to the federal government shutdown.

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead, decreased 1.0 point from an upwardly revised 95.6 in September to 94.6 in October. Consumer confidence in October dropped slightly from September levels, with inflation and tariffs as the top concerns for consumers.

The national **Unemployment Rate** increased from 4.2% in July to 4.3% in August. Washington's unemployment rate increased from 4.2% in June to 4.5% in July. King County (4.3%) and Kirkland (4.1%) June to July unemployment rate remained unchanged.

New Housing Permits in Washington State increased from 30,500 in July to 34,900 in August. 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 August were 3.7% below their July level and 11.1% lower compared to August 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices decreased slightly from 397.5 in July to 394.8 in August.

New Vehicle Registrations in Washington State increased from 21,700 in August to 22,500 in September. YTD through September, the number of registrations has decreased 5.1%.

NEXT STEPS:

None.

ATTACHMENTS:

None.