



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

MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Kevin Pelstring, Financial Planning Manager
Cody Harris, Budget Analyst

Date: December 15, 2025

Subject: **Report on November Sales Tax Collections for January 6 Council Meeting**

RECOMMENDATION:

Staff recommends that the City Council receives the November 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 \$132,361 or 4.4%, comparing November 2025 to November 2024.
- One of the Contracting subcategories, Construction of Buildings, has decreased by 10% or \$479,773 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 \$733,157 or 2.3% compared to the same period in 2024 primarily due to a one-time excise audit payment in October 2025.
- Through 11 months of the year, approximately 95% 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, November sales tax revenue relates to September retail activity in Kirkland.

DISCUSSION/ANALYSIS:

November 2025 vs. November 2024

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

Sectors	November		Dollar Change	Percent Change
	2024	2025		
Contracting	884,953	919,660	34,707	4%
Retail:				
Auto/Gas Retail	412,087	423,779	11,692	3%
Other Retail	519,919	519,363	(556)	0%
Retail Eating/Drinking	261,200	284,117	22,917	9%
Gen Merch/Misc Retail	134,750	134,950	200	0%
Services	462,556	507,200	44,644	10%
Miscellaneous	176,112	177,180	1,068	1%
Wholesale	109,121	127,838	18,717	17%
Communications	41,127	40,099	(1,028)	-2%
Total Sales Tax Receipts	\$ 3,001,825	\$ 3,134,186	\$ 132,361	4.4%

Comparing November 2025 to November 2024 in Figure 1, sales tax revenue receipts are up \$132,361 or 4.4%. The sectors that reported the largest growth compared to November 2024, ranked by dollar change, include Services, up by \$44,644 or 10%, Contracting, up by \$34,707 or 4%, Retail Eating/Drinking, up by \$22,917 or 9% and Wholesale, up by \$18,717 or 17%.

Sectors with moderate increases include Auto/Gas Retail, up \$11,692 or 3%. Sectors with small increases include Miscellaneous, up \$1,068 or 1% and Gen Merch/Misc. Retail, up by \$200 or essentially flat from November 2024.

Data also shows declines in Communications, which fell by \$1,028 or 2%, and Other Retail, which dropped by \$556 or essentially flat from November 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	8,009,861	8,007,013	(2,848)	0%
Retail:				
Auto/Gas Retail	4,835,769	5,064,534	228,765	5%
Other Retail	5,706,629	6,508,529	801,900	14%
Retail Eating/Drinking	2,358,705	2,301,071	(57,634)	-2%
Gen Merch/Misc Retail	1,570,642	1,600,632	29,990	2%
Services	5,323,075	5,578,331	255,256	5%
Miscellaneous	1,733,797	1,833,117	99,320	6%
Wholesale	1,347,788	1,329,503	(18,285)	-1%
Communications	1,047,495	444,188	(603,307)	-58%
Total Sales Tax Receipts	\$ 31,933,761	\$ 32,666,918	\$ 733,157	2.3%

Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is up by \$733,157 or 2.3%. Looking at the business sectors, the most significant growth, ranked in order of dollar change, occurred in Other Retail, up by \$801,900 or 14%. This was due to a one-time excise audit payment of \$527,495 received in October. Removing this payment, Other Retail would be up by \$274,405 or 5%. Followed by Services, adding \$255,256 or 5%; and Auto/Gas Retail, up by \$228,765 or 5%.

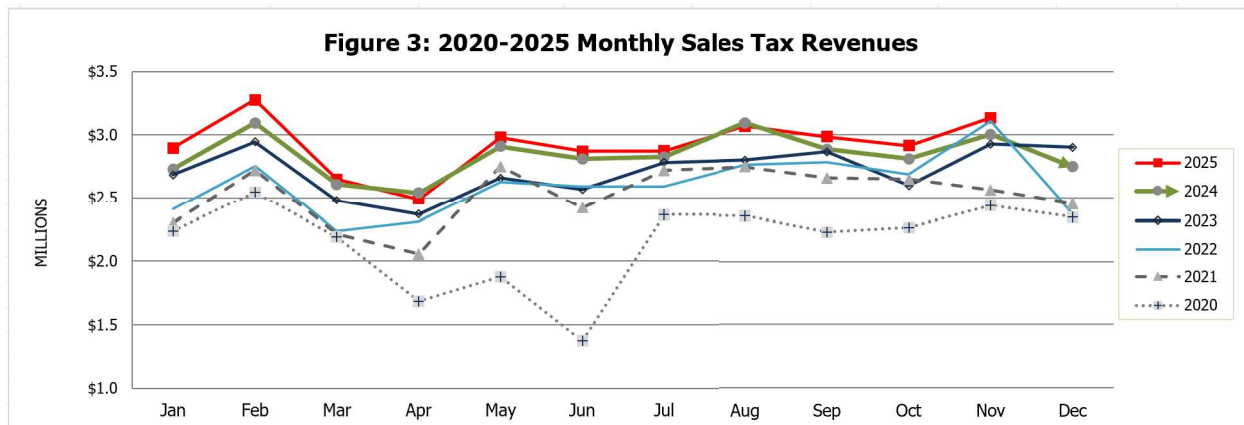
Sectors with small to moderate increases include Miscellaneous, which increased by \$99,320 or 6%; and General Merch/Misc. Retail, which added \$29,990 or 2%.

The sector with the largest decline is Communications, which decreased by \$603,307 or 58% due to a one-time payment received in 2024. Sectors with moderate declines include Retail Eating/Drinking, down by \$57,634 or 2%; Wholesale, dropped by \$18,285 or 1%; and Contracting, reduced by \$2,848 or essentially flat from 2024.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2025 over the same period in 2024 by 23% or \$473,384. The second is Heavy and Civil Engineering Construction, which grew by 1% or \$3,540. The third is Construction of Buildings, which has decreased by 8% or \$479,773. The decline in revenue in Construction of Buildings is driven by New Single-Family Housing, down 23.6% or \$624,146, followed by Commercial and Institutional Buildings, which is down 3.9% or \$78,178 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.

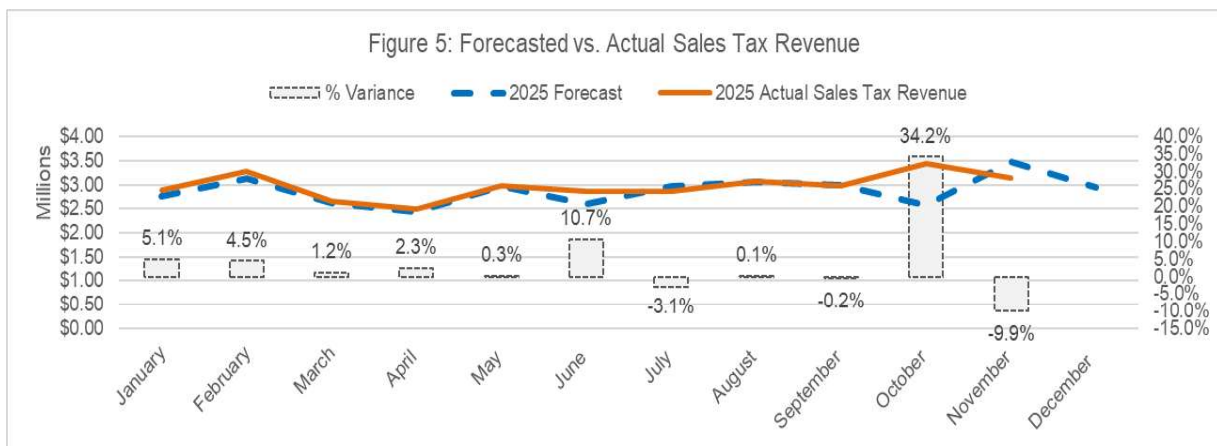
Actual vs. Forecasted 2025 Sales Tax Revenue

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	3,134,185	3,480,305	(346,120)	-9.9%
8.5%	December		2,946,672		
100%	YTD Total	32,666,918	34,527,533	1,086,057	3.1%

Through 11 months of the year, approximately 95% 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 3.1% above forecast with November sales tax 9.9% behind monthly expectations. 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. Due to the federal government shutdown in October through November 2025, many data published by the Bureau of Labor Statistics (BLS) have not been updated fully for the past several months. All indicators displayed below reflect the most recent published final data.

Figure 6: 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	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
<i>Consumer Confidence</i>							
Consumer Confidence Index	November	Index	95.5	88.7	(6.8)	104.3	95.6
<i>Unemployment Rate*</i>							
National	September	%	4.3	4.4	0.1	4.0	4.2
Washington State	September	%	4.6	4.5	(0.1)	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
<i>Housing</i>							
New House Permits (WA)	August	Thousands	30.5	34.9	4.4	36.4	33.6
Case-Shiller Seattle Area Home Prices	September	Index	394.8	391.2	(3.6)	386.6	396.0
<i>Car Sales</i>							
New Vehicle Registrations	November	Thousands	21.6	19.9	(1.7)	22.8	23.0

* 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 third time this year by a quarter percentage point at its December 2025 meeting. This brings the Federal Funds Rate to a range between 3.5% - 3.75%.¹

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead, decreased 6.8 points from 95.5 in October to 88.7 in November. Consumer confidence in November continued to drop from peak July levels, with inflation and tariffs as the top concerns for consumers.

The national **Unemployment Rate** increased from 4.3% in August to 4.4% in November. Washington’s unemployment rate decreased from 4.6% in August to 4.5% in September. 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 394.8 in August to 391.2 in September.

¹ <https://www.federalreserve.gov/monetarypolicy/files/monetary20251210a1.pdf>

New Vehicle Registrations in Washington State decreased from 21,600 in October to 19,900 in November. YTD through November, the number of registrations has increased 1.4%.

NEXT STEPS:

None.

ATTACHMENTS:

None.