



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: January 20, 2026

Subject: **Report on December Sales Tax Collections for February 3 Council Meeting**

RECOMMENDATION:

Staff recommends that the City Council receives the December 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 \$175,971 or 6.4%, comparing December 2025 to December 2024.
- One of the Contracting subcategories, Construction of Buildings, has decreased by 7% or \$430,531 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 \$909,129 or 2.6% compared to the same period in 2024 primarily due to a one-time excise audit payment in October 2025.
- Through 12 months of the year, approximately 103% 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, December sales tax revenue relates to October retail activity in Kirkland.

DISCUSSION/ANALYSIS:

December 2025 vs. December 2024

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

Sectors	December		Dollar Change	Percent Change
	2024	2025		
Contracting	738,708	773,592	34,884	5%
Retail:				
Auto/Gas Retail	420,399	409,781	(10,618)	-3%
Other Retail	508,769	549,473	40,704	8%
Retail Eating/Drinking	184,837	185,812	975	1%
Gen Merch/Misc Retail	127,362	131,709	4,347	3%
Services	457,935	524,703	66,768	15%
Miscellaneous	156,687	185,230	28,543	18%
Wholesale	110,344	115,467	5,123	5%
Communications	42,200	47,445	5,245	12%
Total Sales Tax Receipts	\$ 2,747,241	\$ 2,923,212	\$ 175,971	6.4%

Comparing December 2025 to December 2024 in Figure 1, sales tax revenue receipts are up \$175,971 or 6.4%. The sectors that reported the largest growth compared to December 2024, ranked by dollar change, include Services, up by \$66,768 or 15%; Other Retail, up by \$40,704 or 8%; and Contracting, up by \$34,884 or 5%.

Sectors with moderate increases include Miscellaneous, up \$28,543 or 18%; Communications, up by \$5,245 or 12%; and Wholesale, up by \$5,123 or 5%.

Sectors with small increases include Gen Merch/Misc. Retail, up by \$4,347 or 3%; and Retail Eating/Drinking, up by \$975 or 1%. Data also shows a decline in Auto/Gas Retail, down \$10,618 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	8,732,437	8,764,994	32,557	0%
Retail:				
Auto/Gas Retail	5,256,183	5,474,331	218,148	4%
Other Retail	6,211,876	7,054,838	842,962	14%
Retail Eating/Drinking	2,543,575	2,486,914	(56,661)	-2%
Gen Merch/Misc Retail	1,698,682	1,733,208	34,526	2%
Services	5,801,237	6,121,951	320,714	6%
Miscellaneous	1,890,530	2,018,229	127,699	7%
Wholesale	1,456,787	1,444,033	(12,754)	-1%
Communications	1,089,695	491,633	(598,062)	-55%
Total Sales Tax Receipts	\$ 34,681,002	\$ 35,590,131	\$ 909,129	2.6%

YTD 2025 vs. YTD 2024

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

Comparing 2025 to 2024 in Figure 2, year-to-date (YTD) sales tax revenue is up by \$909,129 or 2.6%. Looking at the business sectors, the most significant growth, ranked in order of dollar change, occurred in Other Retail, up by \$842,962 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 \$315,468 or 5%. Followed by Services, adding \$320,714 or 6%; and Auto/Gas Retail, up by \$218,148 or 4%.

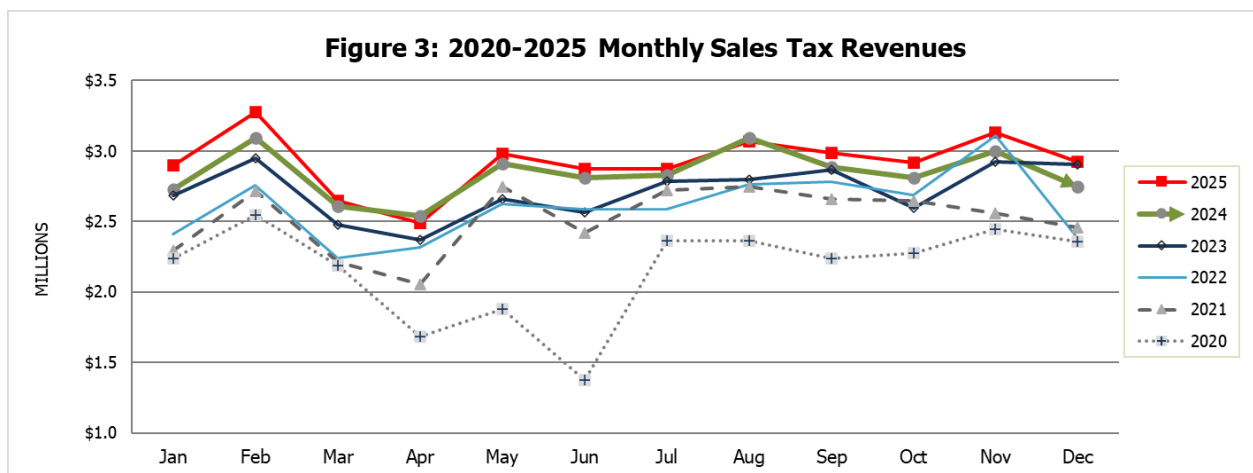
Sectors with small to moderate increases include Miscellaneous, which increased by \$127,699 or 7%; and General Merch/Misc. Retail, which added \$34,526 or 2%. Contracting increased by \$32,557 or essentially flat from 2024.

The sector with the largest decline is Communications, which decreased by \$598,062 or 55% due to a one-time payment received in 2024. Sectors with moderate declines include Retail Eating/Drinking, down by \$56,661 or 2%; and Wholesale decreased by \$12,754 or 1%.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2025 over the same period in 2024 by \$463,941 or 20%. The second is Heavy and Civil Engineering Construction, decreased by \$845 or essentially flat from 2024. The third is Construction of Buildings, which has decreased by \$430,531 or 7%. The decline in revenue in Construction of Buildings is driven by New Single-Family Housing, down 21.2% or \$598,315, followed by Commercial and Institutional Buildings, which is down 2.5% or \$53,930 when compared to last year.

Contracting sales tax revenue has continued to be slow in recent months 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

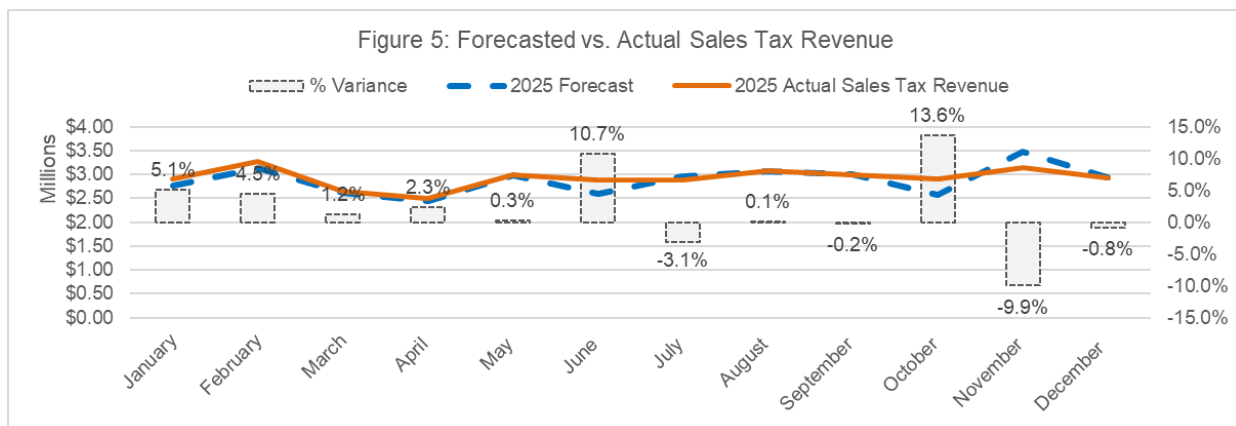
To incorporate seasonality into the forecast, staff have analyzed the revenue received each month between 2020 and 2024 and allocated the total budgeted amount based on the average revenue received over that period. For example, February revenue (which represents December sales) typically contributes 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	2,914,627	2,564,930	349,698	13.6%
10.1%	November	3,134,185	3,480,305	(346,120)	-9.9%
8.5%	December	2,923,213	2,946,672	(23,460)	-0.8%
100%	YTD Total	35,062,635	34,527,533	535,102	1.5%

*One-time excise audit payment of \$527,495 excluded.

Through 2025, approximately 103% of the budgeted revenues have been collected with less than a 5% margin of error from the 2025 forecast. Excluding the one-time payment, year-to-date (YTD) revenues are 1.5% above forecast with December sales tax 0.8% 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 recently 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	December	% Change	2.7	2.6	(0.1)	2.9	2.6
Seattle	December	% Change	3.2	3.1	(0.1)	3.5	2.6
<i>Consumer Confidence</i>							
Consumer Confidence Index	December	Index	92.9	89.1	(3.8)	104.3	95.4
<i>Unemployment Rate*</i>							
National	December	%	4.5	4.4	(0.1)	4.0	4.2
Washington State	September	%	4.6	4.5	(0.1)	4.5	4.5
King County	September	%	4.5	4.8	0.3	4.1	4.2
Kirkland	September	%	4.5	4.8	0.3	3.9	4.1
<i>Housing</i>							
New House Permits (WA)	October	Thousands	35.4	39.3	3.9	36.4	34.3
Case-Shiller Seattle Area Home Prices	October	Index	391.2	388.2	(3.0)	386.6	395.3
<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, decreased from 2.7% in November to 2.6% in December. For the Seattle-Tacoma-Bellevue region, the CPI-W decreased from 3.2% in August to 3.1% in December. The Federal Reserve lowered the federal funds rate for 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 by 3.8 points from 92.9 in November to 89.1 in December. Consumer Confidence for November was revised upward after the end of the government shutdown, but it fell in December with inflation and tariffs as the top concerns for consumers.

The national **Unemployment Rate** decreased from 4.5% in November to 4.4% in December. Washington’s unemployment rate decreased from 4.6% in August to 4.5% in September. For both King County and Kirkland the unemployment rate increased from 4.5% in August to 4.8% in September.

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

New Housing Permits in Washington State increased from 35,400 in September to 39,300 in October. 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 October were 0.2% below their September level and 1.1% lower compared to October 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices decreased slightly from 391.2 in September to 388.24 in October.

New Vehicle Registrations in Washington State decreased from 21,600 in October to 19,900 in November. Washington car and truck sales have been trending down since reaching a peak of 26,300 in April. Total new vehicle registrations for November were 14.7% lower compared to November 2024.

NEXT STEPS:

None.

ATTACHMENTS:

None.