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
Mike Lieu, Senior Financial Analyst

Date: March 18, 2026

Subject: **Report on February Sales Tax Collections for April 7 Council Meeting**

RECOMMENDATION:

Staff recommends that the City Council receives the February update on 2026 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 $253,327 or 7.7%, comparing February 2026 to February 2025.
- Year-to-date sales tax revenue is up $235,786 or 3.8% compared to the same period in 2025.

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, accounting for just over 25% of total 2026 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, February sales tax revenue relates to December retail activity in Kirkland.

DISCUSSION/ANALYSIS:

Figure 1: February 2026 vs. February 2025 Sales Tax by Sector

Sectors	February		Dollar Change	Percent Change
	2025	2026		
Contracting	677,902	781,422	103,520	15%
Retail:				
Auto/Gas Retail	560,919	479,782	(81,137)	-14%
Other Retail	665,694	698,474	32,780	5%
Retail Eating/Drinking	267,863	268,681	818	0%
Gen Merch/Misc Retail	214,904	210,152	(4,752)	-2%
Services	537,544	702,121	164,577	31%
Miscellaneous	163,782	203,468	39,686	24%
Wholesale	138,723	136,990	(1,733)	-1%
Communications	49,630	49,198	(432)	-1%
Total Sales Tax Receipts	**$ 3,276,961**	**$ 3,530,288**	**$ 253,327**	**7.7%**

Comparing February 2026 to February 2025 in Figure 1, sales tax revenue receipts are up $253,327 or 7.7%. The sectors that reported the largest growth compared to February 2025, ranked by dollar change, include Services, up by $164,577 or 31%. Specifically, the sub-categories driving the large increase this month were Professional Scientific Services, which were up $24,520 or 19%; Admin Support, up $52,438 or 42%; and Health Care Services, up $40,402 or 133%. Contracting also saw growth of $103,520 or 15%.

Miscellaneous Sector saw a moderate increase, up by $39,686 or 24%. Other Retail had a small increase, up by $32,780 or 5%.

The sector with a large decline includes Auto/ Gas Retail, down by $81,137 or 14%. The decline is specifically due to revenues from the Motor Vehicle category. Data also shows small declines in Gasoline Stations, down $1,323 or 3.2%.

YTD 2026 vs. YTD 2025

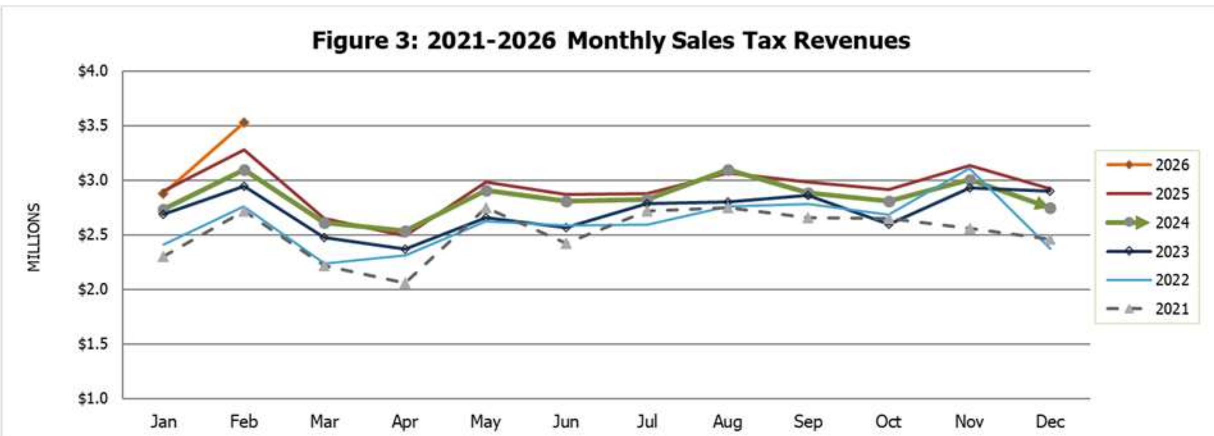
Figure 2: YTD 2026 vs. YTD 2025 Sales Tax by Sector

Sectors	YTD		Dollar Change	Percent Change
	2025	2026		
Contracting	1,355,495	1,539,982	184,487	14%
Retail:				
Auto/Gas Retail	1,020,701	895,658	(125,043)	-12%
Other Retail	1,204,733	1,280,103	75,370	6%
Retail Eating/Drinking	446,946	455,178	8,232	2%
Gen Merch/Misc Retail	353,933	353,601	(332)	0%
Services	1,167,284	1,185,328	18,044	2%
Miscellaneous	281,835	360,518	78,683	28%
Wholesale	249,012	247,283	(1,729)	-1%
Communications	93,523	91,597	(1,926)	-2%
Total Sales Tax Receipts	**$ 6,173,462**	**$ 6,409,248**	**$ 235,786**	**3.8%**

As this is the second monthly sales tax report of 2026, the year-to-date trends are similar as those presented in the monthly analysis section. Note that the continued increase from the Miscellaneous sector—and to a less obvious degree the Services sector—over the past three months likely reflects the expansion of services subject to retail sales tax effective October 1, 2025 (first received in December) following the passage of SB 5814. Staff is monitoring this change and will provide more analysis as data becomes available.

Within Contracting there are three subcategories. The first is Specialty Trade Contractors, which has increased YTD 2026 over the same period in 2025 by $29,900 or 7%. The second is Heavy and Civil Engineering Construction, up by $29,791 or 71%. The third is Construction of Buildings, which has increased by $124,796 or 14%. Overall Contracting sales tax revenue has continued to be slow in the last year and will be monitored closely to best prepare for the 2027-2028 budget.

Figure 3 below shows Kirkland's monthly sales tax revenue from 2026 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 that 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.

2026 Forecast
Staff intend to develop the 2026 sales tax forecast using revenues received in the first quarter. As 2026 revenues and updated regional forecasts are not available at this time, the 2026 forecast will be first presented at the Council Retreat in May.

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 4 below can function as leading indicators for where sales taxes may go in future reports. All indicators displayed below reflect the most recently published final data. The federal government shutdown in Q3 2025 has led to missing, incomplete, and at times questionable data in some recent Bureau of Labor Statistics

(BLS) reports, so staff notes that some indicators should be viewed cautiously for now.

Figure 4: National and Regional Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2024	2025
Inflation (CPI-W)							
National	February	% Change	2.2	2.2	0.0	2.9	2.6
Seattle	February	% Change	3.1	3.8	0.7	3.5	2.6
Consumer Confidence							
Consumer Confidence Index	January	Index	94.2	89.0	(5.2)	104.3	95.8
Unemployment Rate							
National	January	%	4.4	4.3	(0.1)	4.0	4.2
Washington State	November	%	4.5	4.9	0.4	4.5	4.5
King County	November	%	4.8	4.9	0.1	4.1	4.3
Kirkland	November	%	4.8	5.0	0.2	3.9	4.2
Housing							
New House Permits (WA)	November	Thousands	39.3	45.2	5.9	36.4	35.2
Case-Shiller Seattle Area Home Prices	December	Index	386.3	385.0	(1.3)	386.6	393.7
Car Sales							
New Vehicle Registrations	December	Thousands	19.9	20.0	0.1	22.8	22.8

National inflation, as measured by CPI-W, remained unchanged from January to February. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 3.1% in December to 3.8% in February. The Federal Reserve maintained the federal funds rate at a range of 3.5% to 3.75%, decided at their March meeting. The decision reflects a cautious approach to inflation with room for potential adjustments later in the year.

The **Consumer Confidence Index**, which reflects prevailing business conditions and likely developments for the months ahead, decreased by 5.2 points from 94.2 in December to 89.0 in January. Consumer confidence collapsed in January, falling to its lowest measured level since May 2014 (82.2) and comparable to its COVID-19 pandemic depths, with inflation and tariffs as top concerns.

The national **Unemployment Rate** decreased from 4.4% in December to 4.3% in January. Washington's unemployment rate increased from 4.5% in September to 4.9% in November. For King County, the unemployment rate increased from 4.8% to 4.9% in November, its highest level since July 2021. Accordingly, the unemployment rate in Kirkland increased from 4.8% in September to 5.0% in November.

New Housing Permits in Washington State increased from 39,300 in October to 45,200 in November. 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 November were 15% above their October level and 5% higher compared to November 2024. The most recent **Case-Shiller Home Price Index** for Seattle area home prices decreased by 1.3 points from 386.3 in November to 385.0 in December.

New Vehicle Registrations in Washington State increased from 19,900 in November to 20,000 in December. Washington car and truck sales have been trending down since reaching a peak of 26,300 in April 2025. Total new vehicle registrations for December were 18.4% lower compared to December 2024.

NEXT STEPS:

None.

ATTACHMENTS:

None.