



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
 George Dugdale, Financial Planning Manager
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Date: January 7, 2021

Subject: December 2020 Sales Tax Revenue

Background

The Financial Planning Division prepares a monthly sales tax revenue memo analyzing monthly and year-to-date activity by business sector, forecasting sales tax revenue in the current year, and tracking key economic indicators to provide additional context for the state of the economy. The general retail sales tax is the City's largest single revenue source, accounting for 18 percent of total budgeted revenues in the General Fund and funding, along with property tax and utility taxes, public safety and other general government (i.e., non-utility) services. It is also more sensitive to economic cycles than other tax revenues. Accordingly, it is monitored closely by staff—even more so given the economic disruption and uncertainty caused by COVID-19.

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.

December 2020 vs. December 2019

Business Sector Group	December		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	315,152	335,075	19,923	6.3%	13.5%	14.2%
Contracting	745,430	642,258	(103,172)	-13.8%	31.9%	27.3%
Communications	40,504	36,056	(4,448)	-11.0%	1.7%	1.5%
Retail:						
Auto/Gas Retail	371,084	435,360	64,276	17.3%	15.9%	18.5%
Gen Merch/Misc Retail	230,337	246,964	16,627	7.2%	9.9%	10.5%
Retail Eating/Drinking	157,804	135,875	(21,929)	-13.9%	6.8%	5.8%
Other Retail	264,346	307,126	42,780	16.2%	11.3%	13.0%
Wholesale	101,756	101,496	(260)	-0.3%	4.4%	4.3%
Miscellaneous	108,853	113,742	4,889	4.5%	4.7%	4.8%
Total	2,335,266	2,353,952	18,686	0.8%	100%	100%

Comparing December 2020 to December 2019, sales tax revenue is up \$18,686, or 0.8 percent. The most significant growth occurred in Auto/Gas Retail (up \$64,276 or 17.3 percent), Other Retail (up \$42,780, or 16.2 percent), Services (up \$19,923 or 6.3 percent), and Gen Merch/Misc Retail (up \$16,627, or 7.2

percent). Noteworthy declines occurred in Contracting (down \$103,172, or 13.8 percent) and Retail Eating/Drinking (down \$21,929, or 13.9 percent).

YTD 2020 vs. YTD 2019

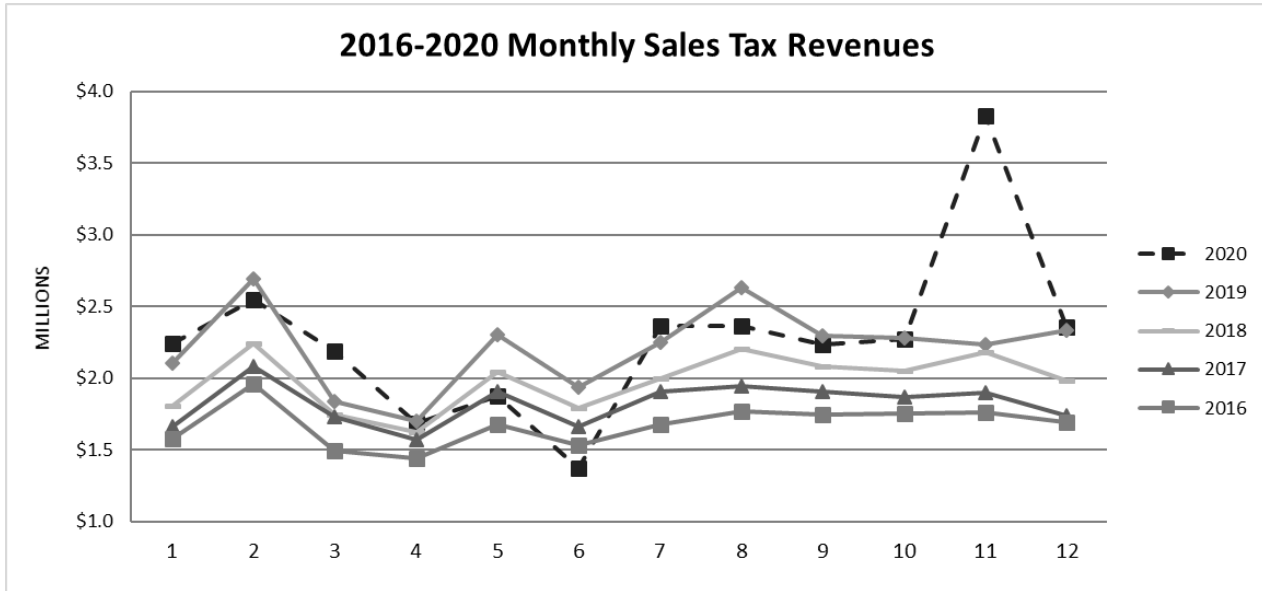
Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2019	2020			2019	2020
Services	3,469,873	3,622,151	152,278	4.4%	13.0%	13.3%
Contracting	6,804,494	6,778,768	(25,727)	-0.4%	25.6%	24.8%
Communications	705,256	460,897	(244,359)	-34.6%	2.7%	1.7%
Retail:						
Auto/Gas Retail	5,061,760	4,675,993	(385,767)	-7.6%	19.0%	17.1%
Gen Merch/Misc Retail	2,704,334	2,905,877	201,542	7.5%	10.2%	10.6%
Retail Eating/Drinking	1,871,460	1,489,574	(381,886)	-20.4%	7.0%	5.5%
Other Retail	3,116,749	3,441,186	324,437	10.4%	11.7%	12.6%
Wholesale	1,156,380	1,167,085	10,705	0.9%	4.3%	4.3%
Miscellaneous	1,712,061	2,788,137	1,076,076	62.9%	6.4%	10.2%
Total	26,602,368	27,329,667	727,299	2.7%	100%	100%

Comparing 2020 to 2019, **year-to-date (YTD) sales tax revenue is up \$727,299, or 2.7 percent.** However, 2019 includes two large back tax payments totaling \$458,733 from the Communications and Miscellaneous business sectors, while 2020 includes \$1,384,689 in back payments from the Miscellaneous sector as discussed in the November memo.

Looking at business sectors, the most significant growth occurred in Miscellaneous (up \$1,076,076, or 62.9 percent), Other Retail (up \$324,437, or 10.4 percent) and General Merchandise/Miscellaneous Retail (up \$201,542, or 7.5 percent), and Services (up \$152,278, 4.4 percent). The growth in Other Retail has been led by the Electronics sub-sector.

Noteworthy declines occurred in Auto/Gas Retail (down \$385,767, or 7.6 percent), Retail Eating/Drinking (down \$381,886, or 20.4 percent), and Communications (down \$244,359, or 34.6 percent). The significant decline in Communications relates to back tax payments of \$210,211, which were received in July 2019. Retail Eating/Drinking is down due to the Governor's stay-at-home order, which was in effect from March 25th to May 31st, and renewed on November 17th and remains in place indefinitely until COVID cases improve across Puget Sound. Beyond these orders, social distancing requirements remain in place since March 2020 that limit the number of customers that can be served.

The chart below shows Kirkland’s monthly sales tax revenue through December 2020 compared to the prior four years.



2020 Sales Tax Budget to Actuals Comparison

Given the large back payment from the Miscellaneous sector received in November 2020, sales tax receipts do not directly reflect the relative strength of 2020 taxable retail activity in Kirkland. Below are the year-to-date (YTD) budget to actuals for sales tax revenue with and without the \$1,384,689 back payment. Note that the 2020 budget of \$23,130,166 reflects the City’s modified two-year sales tax lag policy (2020 budget = 2018 estimate).

Forecast Scenario	2020 YTD Actual	2020 Budget	% Received
2020 Thru December including \$1.38 mil Miscellaneous Back Payment	\$27,329,667	\$23,130,166	118.2%
2020 Thru December without \$1.38 mil Miscellaneous Back Payment	\$25,944,978	\$23,130,166	112.2%

*2019 YTD actual sales tax revenue (i.e., January-December) = \$26,602,368 or 107.2 percent of the 2019 budget.

Overall, this shows that even without the back payment, 2020 YTD sales tax revenue is ahead of the adopted budget on a budget-to-actual basis with revenue at 112.2 percent of budget.

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

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2019	2020
Consumer Confidence							
Consumer Confidence Index	December	Index	92.9	88.6	(4.3)	128.1	101.1
Unemployment Rate							
National	November	%	6.9	6.7	(0.2)	3.7	8.2
Washington State	October	%	7.8	5.5	(2.3)	4.5	8.7
King County	October	%	6.9	4.7	(2.2)	3.0	7.7
Kirkland	October	%	5.5	4.0	(1.5)	2.9	6.4
Housing							
New House Permits (WA)	October	Thousands	50.9	42.2	(8.7)	48.7	44.4
Case-Shiller Seattle Area Home Prices	October	Index	280.3	283.4	3.1	252.2	271.0
Inflation (CPI-W)							
National	November	% Change	1.3	1.3	0.0	1.7	1.2
Seattle	October	% Change	2.4	2.1	(0.3)	2.1	1.9
Car Sales							
New Vehicle Registrations	November	Thousands	23.3	24.0	0.7	23.7	19.4

The **Consumer Confidence Index** decreased from 92.9 in November to 88.6 in December. The 2020 average is 27.0 points below the 2019 average.

The national **Unemployment Rate** dropped from 6.9 percent in October to 6.7 percent in November while the Washington State unemployment rate decreased from 7.8 percent in September to 5.5 percent in October, after hitting a high of 16.1 percent in April. King County's unemployment rate dropped from 6.9 percent in September to 4.7 percent in October, and Kirkland's unemployment rate fell from 5.5 percent in September to 4.0 percent in October.

New Housing Permits in Washington State have decreased from 50,900 in September, to 42,200 in October and the 2020 average sits 4,300 below the 2019 average. The **Case-Shiller Home Price Index** saw an increase of 3.1 points in October, and the 2020 average is 18.8 points above the 2019 average, reflecting a strong housing market despite the pandemic.

Inflation, as measured by the CPI-W, in the U.S. stayed constant relative to October at 1.3 percent in November, after going negative in May. For the Seattle-Tacoma-Bellevue region, the CPI-W decreased from 2.4 percent in September to 2.1 percent in October.

New Vehicle Registrations increased by 700 from October to November, but the 2020 average is 4,300 below the 2019 average.