

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 27, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 15: REASONS FOR CONTINUED CITY FUNDING FOR KING STREET TROLLEY SERVICE

This memorandum is in response to Mayor Euille's request for information on the reason for continued City funding for the King Street Trolley service in FY 2010.

The Proposed FY 2010 Operating Budget includes \$700,000 in City funding for King Street Trolley service. This represents a \$300,000, or 30%, decrease from the Approved FY 2009 Operating Budget. The reduced funding requirements are driven by a reduction in service levels for the Trolley. Daily service was changed as of January 2009 to begin at 11:30 a.m. as opposed to 10:00 a.m., and the number of trolleys in operation has decreased from 4 to 3, which will result in headways (average time between trolleys) increasing from 15 minutes to 20 minutes. These service reductions were actually implemented in January 2009, as part of the FY 2009 budget reduction options approved by City Council and are proposed to be continued through all of FY 2010.

The purpose of the King Street Trolley is two-fold. First and foremost, it is intended as an economic development tool for Alexandria. By providing fast, frequent, and free service, the City can promote tourism and increase tax and business revenues for what is essentially the "front door" for most visitors to Alexandria along the King Street corridor which serves as the main retail spine of the City. People can more easily move up and down the King Street corridor and experience a greater portion of Old Town than they might otherwise. The second intended use of this service is as an added transit option for tourists and residents alike. Having the Trolley as an additional transit option helps to decrease the overall number of vehicles in the King Street area, freeing up both roadways and parking.

The primary method the City can use to measure the performance of the King Street Trolley is through analyzing sales data and tax revenues in the King Street area. As an example, through the 2nd quarter of FY 2009, King Street restaurants and retail have performed relatively well compared to City as a whole. While Alexandria's overall sales tax collections decreased by 3.2% for the first six months of FY 2009 compared to the first six months of FY 2008, sales tax collections from a sample of King Street businesses increased by approximately 0.1% for the August – December period of FY 2009 compared to the August – December period of FY 2008. (No geographic specific sales tax data is available from the State for July 2007, so July is excluded from the analysis as no direct comparison is possible.) It should also be noted that restaurants are performing much more strongly than retail.

Ultimately, it is impossible to determine how much of King Street's relative success is due solely to the Trolley. Other contributing factors may include the new water taxi from National Harbor which began operations in April 2008, at about the same time as the trolley, or the luxury, 241-room Monaco Hotel that also opened last year in the King Street area. Hoteliers, restaurateurs, and many retail shop owners have subjectively stated the Trolley has increased their business receipts.

Another tool for measuring Trolley performance is ridership data. Trolley ridership in FY 2009 is projected to be around 600,000. Peak tourist season ridership totaled as much as 15,000 per week, and in the winter months is now totaling about 5,000 per week. Although a solid baseline ridership total has not been established yet to measure against, it is considered a good sign that ridership has experienced gradual gains during its brief tenure, until January when ridership dropped substantially due to the weather and seasonal decline in retail sales. The City continues to collect and analyze this data on a regular basis to ensure that the funding for this service represents an efficient and effective investment.

It is important to note that while the funding source for the King Street Trolley is General Fund revenue. It represents something that one could posit is similar to a "soft" dedication of the tax revenue. However, funding for the Trolley is part of an understanding with the City's hospitality industry in return for the higher Hotel Tax rate approved in FY 2009. City Council made the decision to increase the Hotel Tax rate in FY 2009 and via discussions in their meetings, linked that decision to the decision to fund the Trolley. So, the increased Hotel Tax revenues of \$1.2 million have been more than sufficient to fully fund the King Street Trolley, although they are not a true dedicated funding source.

The City has reenergized its focus on economic development over the past couple of years through initiatives like the Mayor's Economic Sustainability Work Group. Investments to bolster the local economy are very prudent, especially given the current economic situation. While staff does not claim the Trolley is the one and only answer to the City's future economic success, but making these types of efforts can ultimately help Alexandria grow a stronger, more vibrant tax base that will help support the many public services that the community needs long into the future.