



April 19, 2022

Hon. Tony Picklesimer
Mayor, City of Chelsea
11611 Chelsea Road
Chelsea, Alabama 35043

The Honorable Tony Picklesimer:

Thank you and the City Council again for engaging Criterion to assist with an evaluation and feasibility study related to the possible formation of a municipal school system for the City of Chelsea.

The Feasibility Study was prepared and presented to the City on November 18, 2021. As part of the Study, Criterion analyzed three different student population options: the entire current attendance zone, the City of Chelsea municipal limits only, and the City of Chelsea and Town of Westover limits. The budget analysis and conclusions were based on a Chelsea City student only model and the other models were developed by adding data to that basic model.

The Study contained a thorough analysis of revenues, expenditures, growth and other factors impacting potential fiscal feasibility. The consulting team reached the conclusion that additional funding on a year-to-year basis would be needed to operate independently, to make up for certain fixed costs attendant to operating an independent system, to build the required reserves under state law and to provide enhancements that would undoubtedly be expected by the community. More specifically, the team concluded that "Eleven mills of ad valorem tax will be needed to begin any of the three school system models."

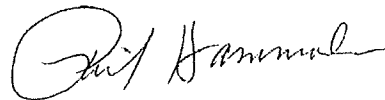
After the Study was presented, we were asked to provide a five-year fiscal analysis of how 12.5 mills of additional ad valorem tax would impact revenue. That analysis is attached hereto. While additional millage is necessary to reach the operating reserve required by the State, after that reserve is built, the additional revenue will be freed up for operational expenses, debt service attendant to new facilities or improvements or other educational enhancements. The estimated value of 12.5 mills, using the value of a mill at the time of our supplementation to the Report (per the Shelby County Revenue Commissioner as of February 23, 2022), is greater than \$2,400,000 per year. As the updated five-year growth projections show, the impact of this supplemental funding is significant, helping to achieve a potential fund balance in excess of \$13,000,000 by the end of Year 5 of operations. The projections were conservative and did not include anticipated future growth in property tax revenues attributable to increased property

values. In a growing city such as Chelsea, we would expect those values to continue to increase and to do so significantly, especially as the city remains focused on commercial growth. As has been our approach throughout this process, the revenue projections in the report are purposefully conservative. We would anticipate the numbers to come in better than what we modeled and, as that happens, available revenue will further increase.

Concisely, our findings support that operation of a Chelsea city school system based on the "city limits only option" is feasible with the 12.5 millage increase being considered. The revenue generated by such millage will permit the accumulation of the necessary reserves in year one, plus some surplus. After year one, the revenues may be leveraged to provide for additional educational enhancements, supplemental programs, and capital initiatives. This additional funding should prove sufficient for the successful operation of a Chelsea School System, should the City choose to proceed in that direction, assuming prudent and responsible fiscal measures are employed to manage costs and adhere to an appropriate budget.

Thank you again for the opportunity to work with you on this project. Should you have any further questions, please do not hesitate to let us know.

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Hammonds". The signature is fluid and cursive, with a large initial "P" and "H".

Phil Hammonds, Ed.D
Criterion Consulting LLC