

Strategy under consideration to managing costs given the changing market environment surrounding implementation of the FY 2026 Capital Improvement Plan

Objective: To notify Town Council of the market volatility surrounding the implementation of certain projects in the capital improvement plan due to financial uncertainty caused by newly approved tariffs affecting the cost of materials, equipment, and supplies, ensuring fiscal responsibility and minimizing financial risk. Projects addressing the replacement of assets expected to fail and projects whose costs are not expected to be impacted will be exempted.

Key Considerations:

- Assessing the direct and indirect financial impacts of the tariffs on project costs. Cost estimating on the FY 2026 CIP was completed prior to changes in the marketplace. Until projects are bid the impacts on cost estimates are difficult to estimate and therefore may result in unanticipated cost increases.
- Maintaining organizational flexibility to adjust plans as economic conditions evolve.
- Identifying and exempting projects that involve the replacement of critical assets expected to fail and those whose costs are not expected to be impacted by changes in the marketplace. These projects should proceed to bid and if impacted by changes in the marketplace additional funding should be requested at that time prior to bid award.
- Communicating clearly with stakeholders, including citizens, employees, and regulatory bodies, about the rationale for the pause and potential future actions.

Strategic Actions:

1. Financial Impact Assessment

- Identify the projects that will likely be impacted by the tariffs.
- Conduct a thorough analysis of the expected impact of tariffs on material costs, supply chain expenses, and overall project budgets.
- Update cost estimates for projects identified to be impacted by tariffs.

2. Identification of Critical Replacement Projects

- Develop criteria to determine which assets are at risk of imminent failure and require immediate replacement.
- Establish a review process to ensure only essential projects proceed, minimizing unnecessary expenditures.
- Work with operational teams to assess infrastructure reliability and prioritize urgent needs.

3. Stakeholder Engagement and Communication

- Develop a comprehensive communication plan to inform key stakeholders about the decision to pause the capital improvement plan while exempting critical replacement projects.
- Provide transparent and data-driven justifications to maintain confidence among stakeholders.
- Engage with suppliers and contractors to renegotiate terms or delay commitments without incurring significant penalties.

4. Risk Management and Contingency Planning

- Establish a framework for continuous monitoring of economic and trade policy developments.
 - Develop contingency plans for different tariff scenarios, including cost-cutting measures or project rescoping.
 - Identify and prioritize critical projects that may proceed under adjusted financial conditions while deferring non-essential initiatives.
5. **Regulatory and Policy Advocacy**
- Engage with industry groups and policymakers to advocate for tariff relief or exemptions where applicable.
 - Monitor legislative developments that could impact capital expenditures and adjust the strategy accordingly.
6. **Decision Timeline and Review Process**
- Set a review timeline (e.g., quarterly or bi-annually) to reassess economic conditions and determine the feasibility of resuming the capital improvement plan.
 - Establish a decision-making committee to provide oversight and ensure timely adjustments to the strategy as needed.
 - Develop criteria for lifting the pause, including financial stability indicators and tariff policy developments.

Conclusion: By implementing this strategic review, the town can protect its financial position while maintaining the ability to adapt to changing economic conditions. The exemption for replacing failing assets ensures operational continuity while a structured reassessment approach guarantees that investments align with long-term financial stability and strategic objectives.

Next Steps.

1. Continue with first read of the proposed FY2026 CIP
2. Determine if a proposed project should be paused based on the above criteria.
3. Provide Town Council with a summary of the results of the review and recommended projects to be paused.
4. At the Town Council meeting on April 17, 2025 proceed as follows:
 - a. Second read of project and proceed to rationale and public hearing on the item, or
 - b. Second read with a modification to the estimated amount of the project if such an adjusted amount can be obtained with a reasonable degree of certainty, or
 - c. Withdrawal of the item. This would most likely result in a supplemental appropriation request for the project at some future date.

It should be noted that given the volatile nature of the marketplace the estimates used for the projects in the FY 2026 CIP, though current, may be impacted by recent cost increases thus requiring a supplemental appropriation prior to bid award.