



City Council Memorandum

To: Mayor Fasbender & City Councilmembers
From: City Administrator Dan Wietecha
Date: May 5, 2025
Item: PFAS Update

Council Action Requested:

Informational memo, no action requested at this time.

Key Updates

- Closed on the 1292 North Frontage Road property April 18.
- City Council considering 10% water rate increase effective July 1. Ordinance for second reading and adoption on City Council agenda May 5.
- Approval of PFA loan application on City Council agenda May 5. Additionally, we're updating IUP applications to match construction schedule.
- Continue seeking financial assistance: State bonding bill still in consideration. Applied for congressionally directed spending / community project funding for the western WTP. Updating Intended Use Plan applications on all three WTP, including applying for Emerging Contaminants grant for western WTP.
- Central WTP is on schedule to bid in May with construction beginning in July / August. City Council approved building just the "foot print" to accommodate equipment specific to nitrates in the future.

Background Information

Hastings has PFAS contamination in all six of our municipal wells (specifically PFOA in all six wells and PFOS in two wells). We've also found PFOA levels over the EPA's limit in the future Well No. 9 site. The City has completed a Feasibility Study to consider alternatives to mitigate the PFAS. The study recommended construction of three decentralized water treatment plants for PFAS and Nitrate removal. Additionally, our design would enable the interconnect of the Minnesota Veterans Home with the City water system, avoiding the need for it to construct and maintain a WTP for its well.

The general plan is to build one WTP per year for three years. The central WTP is expected to bid in May 2025, start construction in August 2025, and substantial completion in December

2026. The eastern WTP would bid in January 2026, and substantial completion October 2027. Finally, the western WTP would bid January 2027, and substantial completion October 2028. These dates are approximate, but the point is that one WTP per year very leaves little room for compliance with the EPA deadline of April 2029.

The current construction cost estimate is \$68.9M with expectation to trend higher. Without financial assistance, water rates would need to double in three years and triple in five years. The City has been exploring and pursuing multiple opportunities to offset this “budget buster” expense. Even with the assistance secured to date, water rates would still increase some 158% between 2024 and 2028.

Updates

State Capital Budget: The City submitted PFAS Treatment & Raw Water Lines for consideration in the State’s 2024 Capital Budget due to the budget-busting expense, the fact that the treatment is to remove contamination/pollution caused by others, and the suddenness of new regulations preventing financial planning. Sen. Seeberger and Rep. Hudella indicated support and introduced SF 3161 and HF 3115. The legislative session ended May 20, 2024, without passage of a bonding bill.

In October 2024, we met with Sen. Pappas, Chair of the Senate Capital Investment Committee, to provide an update on our project and funding needs. The City Council approved a resolution of support on December 2, 2024 and a new state application has been submitted.

Clean and safe drinking water was identified as the City Council’s number one legislative priority during its workshop on November 16, 2024. With recent approval of a \$3M Emerging Contaminants Grant, we have been able to reduce the amount of this bonding request to \$16.6M for the eastern WTP.

Both Sen. Seeberger and Rep. Dippel have indicated strong support for our project. Rep. Dippel has prepared four bills: one seeking to designate Hastings as eligible for funding through the East Metro’s 2018 3M Settlement and one seeking funding through the Clean Water Fund of the Legacy Fund. The other two seek to fund the remaining \$16.6M costs for the Eastern WTP, one through the capital budget and the other as a general cash appropriation; Sen. Seeberger has signed on to these two.

On February 27, we had a hearing with the House Capital Investment Committee on the capital budget request (HF1192). On March 13, we met Senate Majority Leader Murphy, Senators Seeberger and Pappas (Chair of Senate Capital Investment Committee), and staff to review water rates, grants, East Metro 3M Settlement funds, financial aspects, and construction schedule of our project. We are presently updating our project and financial information with Minnesota Management and Budget (MMB).

It is vitally important to have support from both of our legislators and that they work together.

Congressionally Directed Spending / Community Project Funding: In April 2024, we submitted requests of Senator Klobuchar, Senator Smith, and Representative Craig for \$10.3M (50%) of the eastern WTP. This amount is higher than typically funded.

All three advanced our request to their respective Appropriations Committees; however, it was not approved through the Senate Appropriations Committee. As it worked through “mark up” by the House Appropriations Committee, it was proposed at a little over \$1M. In the end, in mid-March, Congress adopted a continuing resolution that funded no Community Project Funding.

In April 2025, we submitted a new application for \$10.8M (50%) the western WTP.

PPL/IUP: In 2023, the City submitted the project for the State’s Drinking Water Revolving Fund Project Priority List (PPL). On May 1, 2024, we re-submitted to correct errors and to recognize new EPA regulations of MCLs for PFAS, which will result in our ranking at or near the top of the list. Additionally, we submitted the first two phases of the project for the Intended Use Plan (IUP) in June 2024. We are preparing to submit the western WTP in June 2025.

The Public Facilities Authority has listed the eastern WTP is ranked #2 and central WTP appears ranked tied at #13 on the PPL and both projects are in the “fundable – emerging contaminants” category. Both projects are scheduled to receive \$3M Emerging Contaminants Grant (\$6M total). Although this is through a state agency, the funds have originated as federal assistance. The PFA does not believe this will pose a problem, but it does raise some uncertainty.

During our April 7 workshop, the City Council discussed utilizing the Drinking Water Revolving Fund to the balance (estimated at \$5M to \$8M) of the central WTP. Using the low-interest DWRF will save about \$1M in interest over the next 20 years. Approval of PFA loan application on City Council agenda May 5. Additionally, we are updating IUP applications for all three WTPs to match construction schedule; this also includes an application for the Emerging Contaminants Grant toward the western WTP.

Water Rates: With budget planning for 2025 (including workshops on June 3, June 17, and September 3, 2024), we discussed potential water rate increases, phasing, and timing. During the preliminary budget planning, we anticipated a 37.3% increase in water rates for 2025.

During our October 21, 2024, meeting, following Co-Trustee approval of 3M Settlement Funds for Well #5, the City Council supported a two-step water rate increase in 2025, with a 10% increase effective January 1, 2025, and a second increase to be determined effective July 1, 2025. On an average residence using 15,000 gallons per quarter, the January increase would be about \$4 per quarter. City Council approved the January increase on December 16, 2024.

Additional increases are expected to coincide with construction of each of the three WTPs. Even with the assistance secured to date, water rates would still increase some 158% between 2024 and 2028.

The City Council had workshop April 7 to discuss financing the City's portion of the central WTP. City Council favored an additional 10% water rate increase effective July 1. This covers our current projected gap as well as provides some cushion for uncertainty. The ordinance for this water rate increase is on the May 5 agenda for second reading and adoption. We are communicating this increase to our residents and businesses through mailings, newsletters, and social media.

3M Settlement: The 2018 Settlement Agreement provides grant money for drinking water projects "in the East Metropolitan Area." It is not limited to any specifically named cities or townships and does not require a direct connection to one of the 3M disposal sites. Similarly, Minnesota's Conceptual Drinking Water Supply Plan does not require a direct connection to one of the disposal sites. However, the State's Co-Trustees (MPCA and DNR) have stated that a direct connection should be required and has previously excluded Hastings from funding under the Settlement Agreement.

Although we disagree with the Co-Trustees' interpretation, we value our relationship with them and have endeavored to not have this disagreement come between our mutual efforts. The MPCA has been helpful in conducting Phase I and II environmental site assessments, requesting 3M to conduct additional investigation of its disposal site and hydraulic modeling in the Hastings area, and has awarded a planning and design grant for Hastings to begin design engineering for the treatment plants.

Additionally, the 2007 Consent Order does require a direct connection to one of the East Metro disposal sites. This is extra important since the Co-Trustees have acknowledged that the Settlement Funds will run out in state fiscal year 2027 (calendar year 2026) as they cover currently proposed East Metro projects, so they will be transitioning to the Consent Order in the next couple years.

In early March, an email from the Co-Trustees indicated that 3M questions whether East Metro projects have been "reasonable and necessary" under the Settlement Agreement, objects to transitioning to the Consent Order, and has initiated mediation for dispute resolution. Additional information is anticipated in May.

To date, the environmental studies have resulted in several lines of evidence of a connection of Well #5 to the 3M Cottage Grove site, specifically: updated Minnesota Geological Survey mapping of a fault in the bedrock, presence of HQ115/TFSI in Well #5, and additional water composition and PFOA chemical analyses.

In October 2024, the Co-Trustees agreed that there is a connection between Well #5 and the 3M Cottage Grove site and that the costs associated with Well #5 (to be treated with the central WTP) would be eligible for funding under the 2018 Settlement Agreement. We estimate the costs associated with Well #5 to be about \$15M, but that amount has not yet been finalized by the Co-Trustees. In November 2024, we submitted our first application for Settlement funds to cover the cost of land purchase and business relocation necessary for the central WTP. The City Council approved the grant agreement at its January 21 meeting. As the plans are now reaching 90% completion and going to bid later this month, we will soon submit application for Settlement funds to cover construction costs allocated to Well #5.

In the meantime, the environmental investigations will continue as planned by the MPCA to determine connection and eligibility for the City's other wells.

Central Water Treatment Plant: During our October 21, 2024, meeting, the City Council agreed to flip the sequence of the construction schedule: proceed with the central WTP in 2025 and delay the eastern WTP until 2026.

Proceeding with the WTP that has significant outside funding has two major advantages. 1) It would mean a smaller water rate increase for our residents and businesses. 2) It gives us additional time to seek state bonding, grants, and/or direct connection to 3M Cottage Grove before proceeding with the other WTPs.

At our November 18, 2024, meeting, the City Council approved a purchase agreement for 1292 North Frontage Road as the site for the central WTP. This location is in a non-residential area, is located next door to the existing nitrates treatment facility and ground storage reservoir, and has lower incremental costs than other sites. Additionally, timing and ability to proceed without delay were important considerations.

In January, a Phase I environmental review was conducted and found record of a 2005 petroleum spill at the site. In February, a Phase II environmental assessment was approved to determine the extent of potential contamination. The Phase II did not identify impacts that require further actions or additional investigation. A construction contingency plan will be included in the bidding documents for the project in case previously unidentified contamination is encountered during construction.

Closing on the property occurred April 18. The businesses at this site (Carbone's Pizza and Stacy's Stars) have been given a required 90-day notice that they will need to vacate the property by June 30. On April 7, City Council approved a lease-back agreement for management of the property during the interim. SRF Consulting has been assisting with business relocation analysis for the two businesses. Under state law, some costs associated with the relocation of these businesses will be borne by the project. Both have indicated strong interest in continued operations in Hastings.

As design reaches 60%, we continue to meet with MPCA staff to ascertain elements of the project attributable to Well #5 and eligible for funding through the East Metro 3M Settlement. As the plans are now reaching 90% completion and going to bid later this month, we will soon submit application for Settlement funds to cover construction costs allocated to Well #5.

At present, we anticipate final design could be completed and ready to bid in May 2025, with construction commencing in July/August.

On March 25, we held a public presentation about the central WTP and raw water lines for neighboring residents and businesses to learn about project scope and schedule. This also proved a good opportunity for them to give feedback on the upcoming project. A copy of this presentation, as well as other updates, are being posted on the City website to maintain public transparency.

During our April 7 workshop, City Council discussed several financial aspects for the central WTP. The project cost is increasing, now estimated at \$30.8M instead of the \$26.7M for the central WTP. Some of the increase is attributable to purchasing land for the site and running raw water lines to the site. We do have a contingency factor included in the cost estimate, which will hopefully help to true up the estimate with actual bids prices this summer. We do not have updated estimates for the eastern or western WTPs.

During the April 7 workshop, City Council favored pulling the nitrates treatment from central WTP. If we build the “footprint” to provide space in the building to later add the treatment system, we can cut \$3.1M from the project cost. The nitrate levels in these wells (3, 5, and 7) are at levels that require monitoring, and we currently do partial treatment on wells 3 and 5, but are not in imminent need for nitrates treatment now. On the other hand, note that the eastern WTP will need to keep the nitrates treatment as those wells are much closer and occasionally exceeding the threshold.

Financial Impact:

Not applicable

Committee Discussion:

Not applicable

Attachments:

Not applicable