

Minnesota 3M PFAS Settlement

Conceptual Drinking Water Supply Plan Annual Review, 2023–2024

November 2024

1. Annual Review Purpose

The Conceptual Drinking Water Supply Plan (Conceptual Plan), released on August 18, 2021, serves as a guide for using the 3M per- and polyfluoroalkyl substances (PFAS) Settlement funds to provide safe, sustainable drinking water to the affected communities in Minnesota’s East Metropolitan Area. The Minnesota 3M PFAS Settlement (Settlement) website (<https://3msettlement.state.mn.us/>) has additional information on the Settlement and the Conceptual Plan.

As a part of the Conceptual Plan, the Co-Trustees—the Minnesota Pollution Control Agency (MPCA) and the Minnesota Department of Natural Resources—recognize the need to annually evaluate progress in implementing projects (Figure 1). In addition, the Co-Trustees recognize that actual costs will likely differ from the estimated project costs in the Conceptual Plan, and therefore the amounts set in each fund allocation will need to be regularly evaluated.

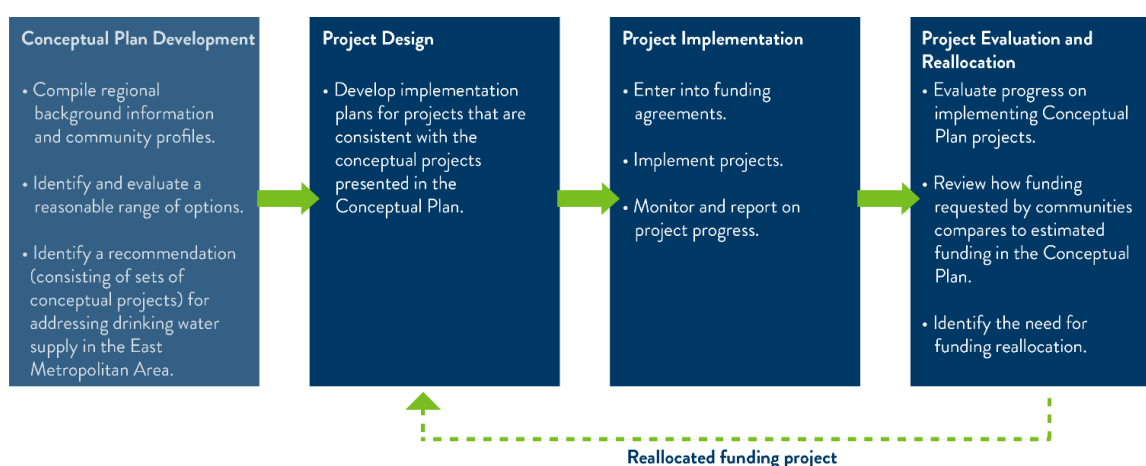


Figure 1. Process Diagram for Evaluating the Conceptual Plan Project Design, Implementation, Evaluation, and Reallocation

The Co-Trustees are conducting an annual review of the Conceptual Plan implementation efforts, to evaluate progress, review how actual costs compare to estimates in the Conceptual Plan and determine whether a funding reallocation is warranted. The [first Conceptual Plan Annual Review \(Annual Review\)](#) covered progress made since the release of the Conceptual Plan (August 18, 2021) through the fiscal year (FY) 2022 end (June 30, 2022), and was released in early 2023. The [second Annual Review](#) covered progress made in FY 2023 (July 1, 2022 through June 30, 2023), and was released in October 2023. This third annual review provides a year-in-review of progress made in FY 2024 (July 1, 2023 through June 30, 2024), and discusses anticipated progress for FY 2025 (July 1, 2024 through June 30, 2025).

To further support the review and awareness of progress on implementation of the Conceptual Plan, the Co-Trustees released a public [3M Settlement spending dashboard](#) in May 2024. The dashboard displays how communities are implementing the Conceptual Plan and achieving safe drinking water goals.

In this report, Section 2 provides an evaluation of progress in implementing the Conceptual Plan, Section 3 provides an overview of new information that has affected or may affect the implementation of the Conceptual Plan, and Section 4 discusses anticipated FY 2025 projects. Finally, Section 5 provides a review of contingency funding, a discussion of whether there was a need for a funding reallocation in FY 2024, and an explanation of funding reallocation anticipated in FY 2025.

2. Progress on the Implementation of the Conceptual Plan

Priority 1 of the Settlement aims to fund a variety of projects to enhance the quality, quantity, and sustainability of drinking water in the East Metropolitan Area. The Conceptual Plan allocates \$700 million in available funding from the 3M Settlement, which is the amount of Settlement funding available after payment of legal fees and deducting the \$20 million set aside for Priority 2.¹ Settlement funding includes three priority funding allocations: capital infrastructure, operation and maintenance (O&M), and drinking water protection (Figure 2).



Figure 2. Conceptual Plan Priorities

Including these three priority funding allocations, the Settlement defines the following five funding allocations out of the available \$700 million:

- **Capital funding (45%,² or \$317 million)** allocated to plan, design, construct, and install the drinking water supply infrastructure for public water systems and private wells. The Conceptual Plan provides the affected communities with a tailored project list to meet the long-term goals of the Settlement based on their specific needs and cost estimates.
- **O&M funding (16%, or \$115 million)** allocated to operate and maintain public water systems for an estimated 20 years and private well treatment systems for an estimated 30 years, as outlined in the Conceptual Plan.
- **Drinking water protection funding (10%, or \$70 million)** allocated to improve drinking water quality at the source, to target contamination cleanup in order to benefit drinking water quality for wells impacted by PFAS. This will start with source assessment and feasibility evaluation of PFAS impacts on soil, groundwater, surface water, and sediments along the Project 1007 corridor that are transported to the drinking water. More information about Project 1007 can be found here: <https://3msettlement.state.mn.us/project-1007>.
- **Contingency funding (26%, or \$183 million)** allocated to potentially fund work in several different areas of uncertainty, including providing treatment for drinking water wells that are not included in the capital and O&M budgets of the Conceptual Plan because they did not meet the treatment threshold at the time.

¹ The second priority of the Settlement is to restore and enhance aquatic resources, wildlife, habitat, fishing, and outdoor recreational opportunities in the East Metropolitan Area and in downstream areas of the Mississippi and St. Croix Rivers.

² Percentages do not sum to 100% because of rounding.

- **State administration (2%, or \$15 million)** allocated to administer and implement the Conceptual Plan, including review and development of grant agreements; tracking progress of project implementation; annual review and reallocation; reporting; and preparing for and holding public meetings.

The Settlement funds have been placed into interest-bearing accounts distributed by allocation. Within FY 2024 (July 1, 2023 to June 30, 2024), the accounts had earned a total of approximately \$35.8M million in interest. The interest earned in FY 2024 remains in the interest-bearing accounts (Box 1). Details on the projects funded through interest earned in previous fiscal years can be found in the [Fiscal Year 2022 Annual Review](#) and the [Fiscal Year 2023 Annual Review](#).

Box 1. Allocation of Interest Earned on Settlement Dollars

Settlement funds are in interest-bearing accounts, and, as of June 30, 2024, had earned approximately \$35.8 million in interest in FY 2024. The interest earned in FY 2024 remains in the interest-bearing accounts split by allocation (note that the numbers below have been rounded):

- \$16.10 million is in the capital fund allocation.
- \$ 5.72 million is in the O&M fund allocation.
- \$ 3.58 million is in the drinking water protection fund allocation.
- \$ 9.30 million is in the contingency fund allocation.
- \$ 1.00 million is in the state administration fund allocation.

2.1 Fiscal year 2024 spending summary

In FY 2024 (July 1, 2023 to June 30, 2024), the state spent approximately \$67.6 million in Settlement funding across the five funding allocations. The cumulative spending of Settlement funding between the release of the Conceptual Plan in August 2021 and June 2024 is shown in Figure 3.

Spending during FY 2024 includes:

- **Capital funding (\$56,493,664)** spent on:
 - Planning and design for water treatment plants in the cities of Cottage Grove, Lake Elmo and Woodbury
 - Pre-procurement grant for Woodbury's water treatment plant and a construction grant for the low zone treatment plant in Cottage Grove
 - Design and construction grants for watermain in Cottage Grove and Lake Elmo
 - Planning for interconnects with Newport
 - St. Paul Park distribution improvements, connecting well #2
 - Connecting properties with private wells in various neighborhoods to municipal water in the cities of Cottage Grove, Lake Elmo, Lakeland and Newport; funding well sealing through Washington County well sealing grant
 - Installing whole-home water filter systems, also called point of entry treatment systems (POETs), for private wells with PFAS concentrations above the treatment threshold, in Afton, Cottage Grove, Lake Elmo, Stillwater, Maplewood, Newport and Woodbury

- Capital expenses for temporary treatment of additional wells in Cottage Grove and Woodbury to meet their water demand until the permanent water treatment plants are in place
- **O&M funding (\$3,221,579)** spent on operation and maintenance at temporary treatment systems in Oakdale, St. Paul Park, Cottage Grove, and Woodbury. Approximately \$1M was spent to maintain granular activated carbon filters in POETs across the East Metropolitan Area.
- **Drinking water protection funding (\$3,476,589)** spent on Project 1007, including contractor support for the feasibility study. These funds also fund laboratory costs for municipal system PFAS sampling and residential well sampling.
- **Contingency (\$3,003,503)** spent on Request for Funding projects to extend water mains and connect homes to the municipal drinking water supply system in Lake Elmo. Request for Funding projects were similar to expedited projects in that they were consistent with the Conceptual Plan, time-sensitive, and reviewed/approved with input from the work groups. However, these projects were funded with contingency funds because interest earned prior to the completion of the Conceptual Plan was not sufficient to cover these projects and maintain the capital allocation as expected.
- **State Administration (\$1,377,890)** spent on administering and implementing the Conceptual Plan, including state and contractor review and development of grant agreements, tracking project implementation progress, annual review and reallocation determination, reporting, and preparing for and holding work group and public meetings. The state is planning for the eventual depletion of Settlement funds by preparing a path for transition to the 2007 Consent Order between the State of Minnesota and 3M Company.

Conceptual Plan project status information is available at <https://3msettlement.state.mn.us/investing-east-metro-drinking-water>.

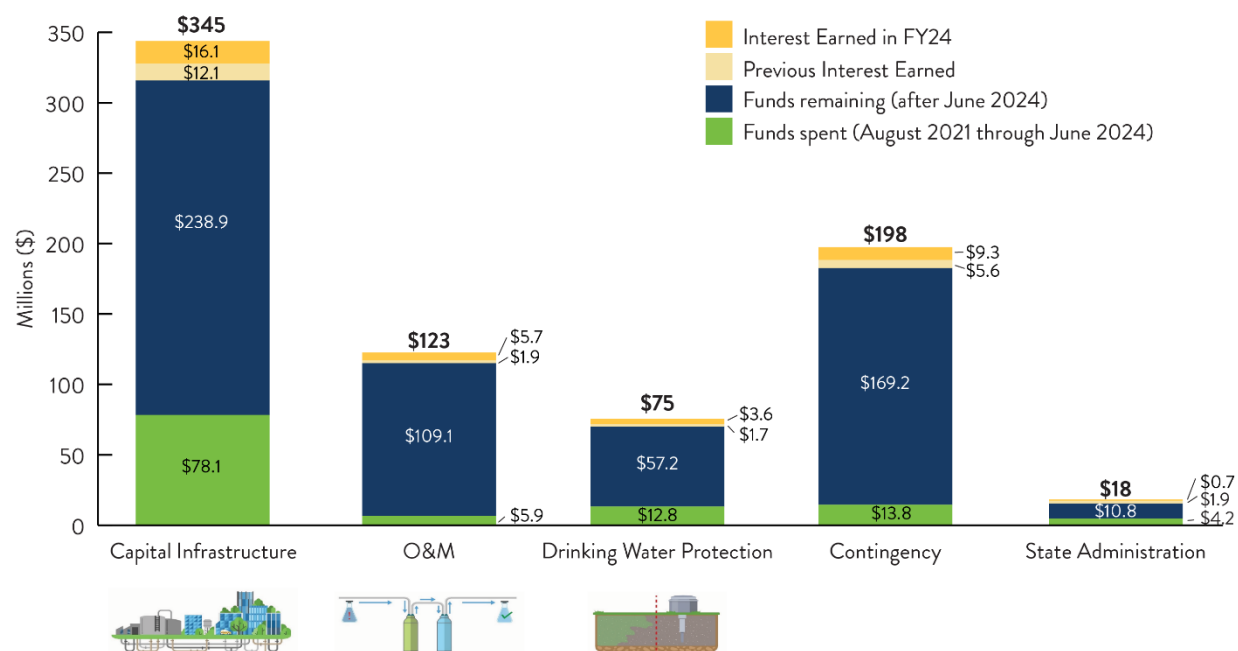


Figure 3. Funding Spent Across Project Types, August 2021–June 2024³

2.2 Implementation of Grant Agreements

The Conceptual Plan identifies projects the Co-Trustees intend to fund; however, communities are not automatically allocated the portion of capital or O&M outlined in the Conceptual Plan. Project implementation is driven by the communities through a grant process with the state. The state reviews information provided by communities and develops grant agreements to enable project implementation.

Many communities will have multiple grants over several years for different phases of a given project (e.g., planning and design, construction, and O&M phases). Once a grant agreement is in place, each community follows their own processes for implementation, coordinating with the state as necessary. For private wells, the MPCA will continue to manage the installation and maintenance of POETs using contractors.

Since the Conceptual Plan release, Co-Trustees have prioritized funding the projects outlined in the Conceptual Plan and have completed individual project funding reviews within the expected six- to eight-week timeframe. For grants that contain elements that are not specifically evaluated in the Conceptual Plan, the Co-Trustees must ensure that projects are consistent with the Conceptual Plan and that adequate funding is available to cover project costs. The level of reimbursement (i.e., cost share) of construction costs is based on cost-effectiveness and eligibility of projects under the Settlement and as identified in the Conceptual Plan. Additional review time may be required as more information is gathered; however, the Co-Trustees are regularly refining the implementation process to increase efficiency.

³ Figure 3 includes only funding from the \$700 million included in the Conceptual Plan. It does not include spending from interest earned or spending on temporary treatment.

The state had a total of 40 grant agreements active in FY 2024 (July 1, 2023 to June 30, 2024), using Settlement funding. Of the 40 grant agreements, 27 are ongoing, 11 are newly executed (within FY24), and two have been closed (Table 1).

- **Thirty-two of the grant agreements** are associated with capital projects. Two were closed during the annual review period, 11 were newly executed, and 19 are ongoing (executed prior to July 1, 2024).
 - The **19** ongoing capital projects include land purchases⁴ and planning activities for new permanent water treatment projects in Cottage Grove and Woodbury, temporary treatment of additional wells in Cottage Grove and Woodbury, the Low Zone Raw Water Main construction in Cottage Grove, grant administration for Cottage Grove, Lake Elmo and Woodbury, Newport interconnect planning, Lake Elmo well planning, Washington County well sealing and the connection of homes to municipal drinking water supply systems in Cottage Grove, Lake Elmo and Newport.
 - The **11** newly executed agreements are for Cottage Grove's Grange trunk water main construction and low zone water treatment plant construction, Lake Elmo Planning, two grants for interconnect planning with Newport, Lake Elmo's Stillwater trunk water main, Lake Elmo South Area Production Wells and Treatment plant planning, Washington County well sealing cost share, Woodbury construction pre-procurement, Newport home connection, and Lake Elmo grant administration.
 - The **two** closed grant agreements include Woodbury's Salem Church municipal connection and Cottage Grove's ion exchange pilot study.
- **Four grant agreements** are associated with O&M: an ongoing grant for the St. Paul Park's permanent water treatment facility, and a newly executed grant for Oakdale's permanent treatment for Wells 5 and 9 and temporary treatment for well 7. Grants for the operations and maintenance of temporary treatment systems in Woodbury and Cottage Grove are also within this category.
- **Four agreements** are associated with contingency funding. They were projects initiated early on, before the Conceptual Plan was complete, similar to "expedited projects." These four grants extend water mains and connect homes in Lake Elmo neighborhoods to the municipal drinking water supply system.

Table 1. Number of Settlement Grant Agreements, July 2023 through June 2024

Funding Allocation Category	Ongoing Grant Agreements (Open)	New Grant Agreements Executed (Open)	Number of Grant Agreements (Closed)
Capital	19	11	2
O&M	4	0	0
Contingency	4	0	0
Total	27	11	2

2.3 Comparison of Estimated Costs to Awarded Funding

The following is a comparison of the amounts awarded from the Settlement and the amounts estimated in the Conceptual Plan for projects. The amounts awarded are the grant amounts for the projects that

⁴ Land purchases by the City of Cottage Grove and City of Woodbury for their water treatment facilities are associated with grant agreements that were executed prior to the release of the Conceptual Plan (August 18, 2021).

the communities estimated following the completion of the Conceptual Plan. Planning project costs are generally composed of labor costs for tasks such as coordination and design, and are compared with the professional service estimates in the Conceptual Plan. Construction projects include materials, equipment, and labor costs associated with construction and are compared with the capital cost estimates in the Conceptual Plan. Grant amounts for construction projects are often based on actual construction contractor bids, whereas professional services grant amounts are usually based on estimates completed by the communities' design contractors.

Since the completion of the Conceptual Plan in August 2021 through June 2024, project costs have generally exceeded the costs estimated in the Conceptual Plan, shown in Figure 4. Over this period, cost increases have been driven by inflation, as well as other factors such as: additional wells requiring treatment, leading to more or larger treatment facilities; changes in treatment equipment; changes in water demand growth projections; overcoming additional distribution system challenges; and incorporating approaches to adaptability for long-term treatment. Some of these changes (e.g., treating additional wells or adding pretreatment where warranted) were anticipated in the Conceptual Plan, while other changes (e.g., evolving system operations and the magnitude of inflation) were not. Unexpected projects, such as temporary treatment and communications costs, also increase costs for both construction and professional services.

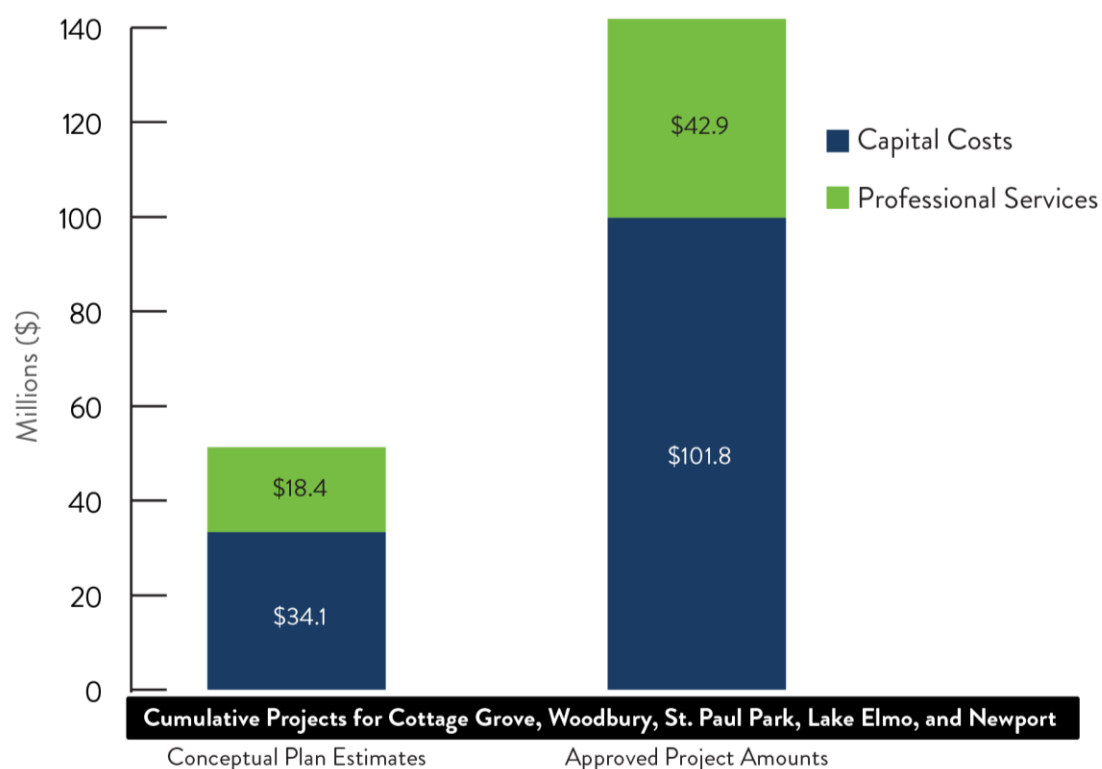


Figure 4. Cost Comparison of Conceptual Plan Estimates and Grant Awards for Cottage Grove, Woodbury, St. Paul Park, Lake Elmo, and Newport (Combined) Municipal System Projects, August 2021–June 2024

During this fiscal year 2024 review period (July 2023 to June 2024), the overall sum of grant funding awarded for municipal capital projects exceeds the estimated sum of their equivalent Conceptual Plan estimates, where available.⁵ Figure 5 shows this comparison, which includes the four communities that submitted grant forms and subsequently had new grants awarded during the review period: Cottage Grove, Woodbury, Lake Elmo, and Newport. Projects may take place over multiple years, and grant amounts awarded may include full project costs even though the projects may not be completed within the annual review period.

Unlike in the last review period, all projects across the four communities experienced higher project costs than the Conceptual Plan estimates. In general, the higher costs during fiscal year 2024 can be attributed to: Settlement-eligible design elements not included in the Conceptual Plan, construction cost increases driven by inflation and labor shortages, the inclusion of Settlement-eligible projects not included in the Conceptual Plan, and variations in the construction setting, which was different from what was assumed in the Conceptual Plan.

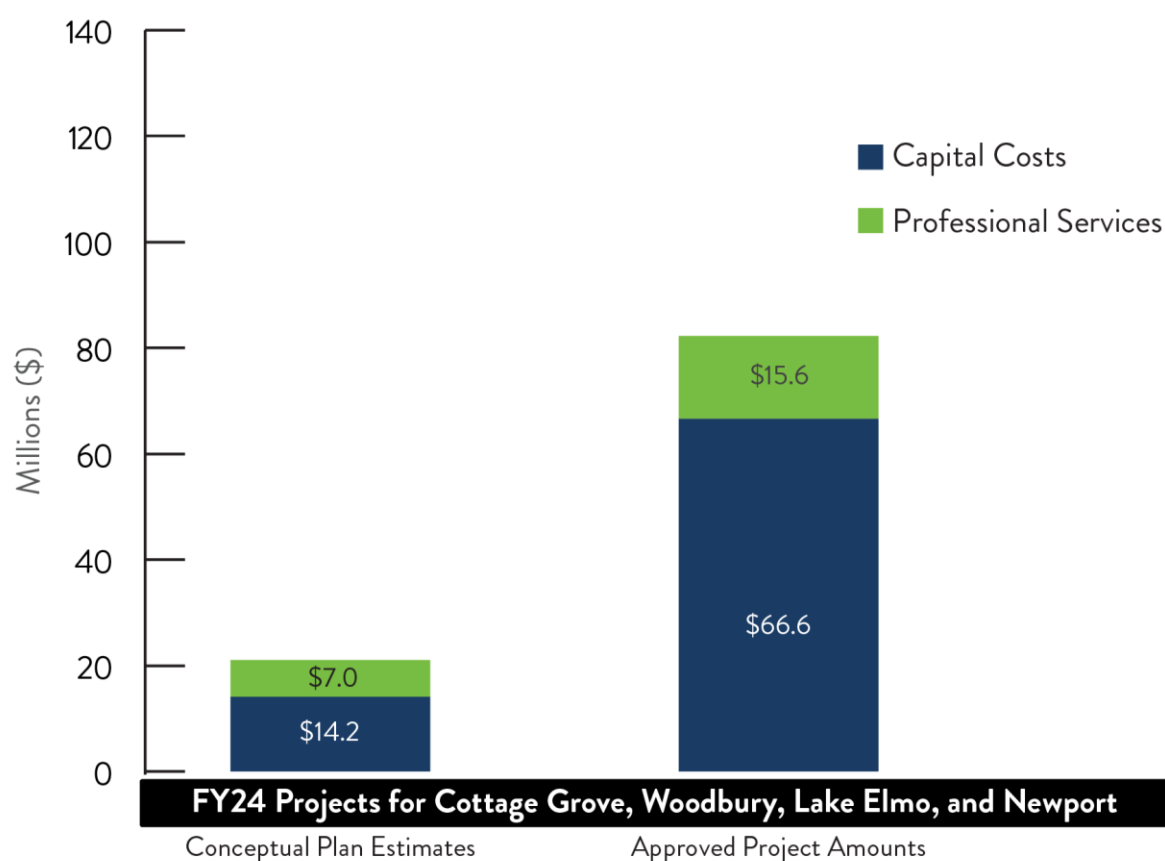


Figure 5. Cost Comparison of Conceptual Plan Estimates and Approved Project Amounts (or Grant Awards) for Cottage Grove, Woodbury, Lake Elmo, and Newport (Combined) Municipal System Projects, July 2023–June 2024

⁵ A comparison to estimates in the Conceptual Plan is not always exact, because some communities separate portions of projects into several different grant agreements, combine the costs of individual project elements, and/or propose projects that are different than the Conceptual Plan projects such that the costs cannot be directly compared. In instances where the project was not in the Conceptual Plan, the Conceptual Plan estimate used is \$0. The Conceptual Plan estimates are being compared to the total grant agreement amounts, not necessarily the amount reimbursed during this review period.

Figure 6 below shows the breakdown per community of the cost comparison of Conceptual Plan Estimates and Approved Project Amounts (or Grant Awards) during the review period. Cottage Grove received a grant to complete construction on one of the two water treatment facilities they will be constructing. Unlike the planning and design grants related to that project, construction capital costs have increased from the Conceptual Plan estimates because of changes in their design strategy and because of Settlement-eligible treatment components, such as pretreatment. An additional factor that led to increased costs was the design of water mains to connect wells 11 and 12. Although the Conceptual Plan did not include the design for these water mains, these water mains were deemed Settlement-eligible, because of changing state and federal health values and standards. Another project initiated during this review period is the Grange trunk water main. Constructability and maintenance concerns with the original alignment from the Conceptual Plan were brought up during the design. The chosen alignment avoided these issues but was longer and required more material. Therefore, costs were higher than expected for this project. Design for the Intermediate Zone Water Treatment Plant was also continued during this review period, but the costs were comparable to the Conceptual Plan project estimate.

Woodbury has also experienced significantly higher costs than the Conceptual Plan estimates, primarily because the city needs to treat more water than was estimated in the Conceptual Plan. Additional watermains were needed, due to changes in health values at the state and federal level. Increased design costs resulted from the need for a larger treatment facility, as a result of the need to treat additional wells, and an increase to their 2040 water demand. In addition, increased costs were also attributed to the inflation of labor and materials of around 30% and to added necessary design components.

Newport, along with Cottage Grove and Woodbury, continue preliminary planning efforts for their respective interconnects. At this early stage of these projects, a comparison with the Conceptual Plan estimates is not conclusive for approved amounts during the review period.

Lake Elmo began several projects during the review period, spanning administrative, planning, design, and construction costs. They initiated planning grants to assess Lake Elmo's water supply treatment needs. They began planning efforts for treatment, to comply with the EPA Maximum Containment Levels (MCLs) in the interim until a permanent solution is determined. These planning efforts do not have comparable costs in the Conceptual Plan, as they represent only a portion of professional services costs. As a result of some of the planning efforts, Lake Elmo identified the need for an additional water main to meet delivery demands required by the additional neighborhoods connected as part of the Conceptual Plan. Lake Elmo received a grant to complete this water main project, which accounts for the majority of funding Lake Elmo received during this review period. Supplemental water transmission mains were identified as a need for Lake Elmo within the Conceptual Plan. However, specifics were not defined and cost estimates were not included.

In addition, the Conceptual Plan generally did not account for things like costs associated with communication services or planning and designing temporary treatment for communities. Such activities have depleted the already limited resources in the planning estimates and will create higher capital and O&M costs in the future as well. However, the Conceptual Plan is designed to adapt to and

cover these higher costs so long as they are Settlement-eligible.

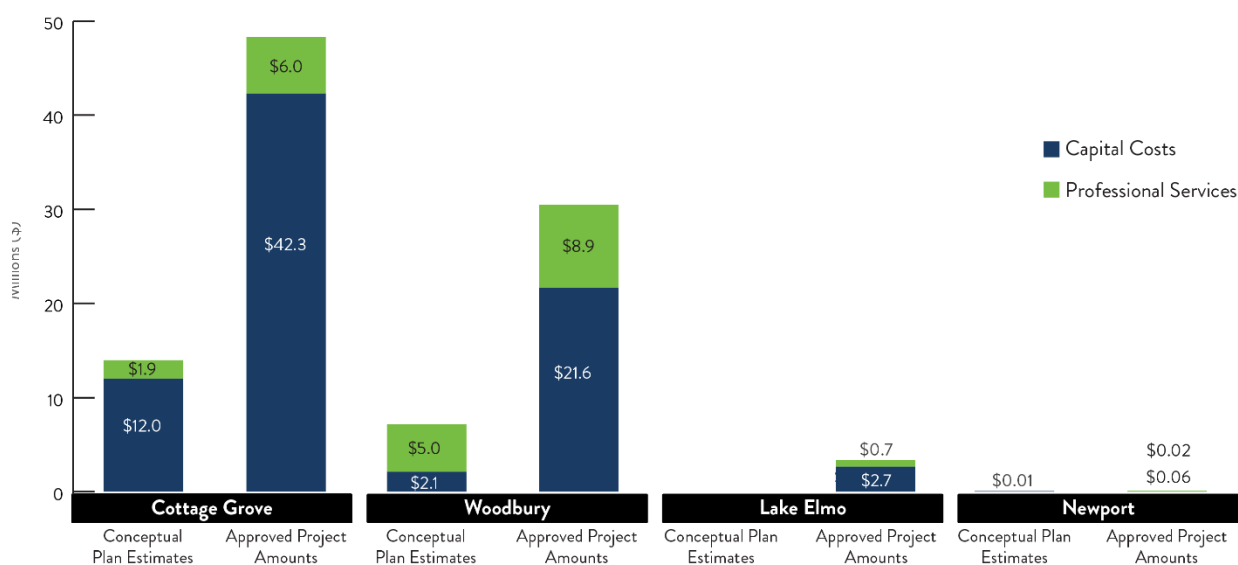


Figure 6. Cost Comparison of Conceptual Plan Estimates and Approved Project Amount (or Grant Amount) Awarded for Cottage Grove, Woodbury, Lake Elmo, and Newport Municipal System Projects, July 2023–June 2024

Funding for O&M costs for long-term municipal drinking water treatment is under way, and a comparison to Conceptual Plan estimates is still very preliminary. St. Paul Park had the first treatment system in place as part of the Settlement. They have been operating their water treatment plant since before the Conceptual Plan was finalized, and preliminary estimates show that O&M costs are less than half of those estimated in the Conceptual Plan. Other permanent treatment systems are in progress but are not yet constructed. More data will be available once additional long-term systems come online and/or when existing systems are completed and incur media change-outs in the next few years.

Previous Annual Reviews have addressed cost comparisons for other projects under the Conceptual Plan such as POETs and neighborhood connections, which can be found in the [2022 Annual Review](#) and [2023 Annual Review](#).

3. Impacts to Implementation from New Information

The Conceptual Plan was built with a degree of resiliency to proactively account for future potential changes. For example, the Conceptual Plan includes a 25% contingency built into capital costs, rather than a traditional 10%, and an additional \$16 million in capital funds was set aside to cover potential future inflation of costs. In addition, the Conceptual Plan includes a designated contingency fund allocation in addition to the capital allocation for future changes, and is more robust than traditional approaches.

While the Conceptual Plan outlines estimated costs for projects, unknown conditions continue to introduce additional costs as communities implement drinking water infrastructure projects. This

section focuses on new information and unexpected conditions during the annual review period that have had the greatest impact on implementation.

3.1 Changing PFAS Health Values for Drinking Water

The EPA released its final (MCLs for six PFAS chemicals in April 2024, with perfluorooctanoic acid (PFOA) and perfluorooctane sulfonate (PFOS) MCL set at 4.0 parts per trillion (ppt). Additionally, the Minnesota Department of Health (MDH) released updated Health Based Values (HBVs) for PFOA and PFOS in January 2024. The new HBVs and MCLs are more stringent than previous HBVs and health risk limits. More information is available on the [MDH website](#) and in [Priority 1 Work Group meeting materials](#) from early 2024.

The MPCA and MDH are working to understand how these lower values will impact wells in the East Metropolitan Area. Based on the regulatory changes, the need is clear for additional sampling of some public and private wells to determine the impacts to the East Metropolitan Area. MDH has increased sampling at public wells, and MPCA continues to sample private wells based on plume location.

3.2 Inflation and Other Cost Increases

Actual costs for materials and labor continue to be higher than what was estimated in the Conceptual Plan because of higher-than-anticipated inflation, material cost increases, labor shortages, and supply chain issues. For example, between January 2020 and July 2023 material and equipment costs increased by 41% for water treatment, 30–40% for ductile iron, and over 100% for plastics and rubber. Cost indices for plastic and rubber show a decrease over the last year by approximately 8%, which suggests that significant future cost increases due to inflation are not expected, but costs remain much higher than originally anticipated, because of the high inflation in past years.⁶

3.3 Accounting for Temporary Drinking Water Treatment Systems

Under the terms of the Settlement, 3M provided up to \$40 million for a period of up to five years (February 20, 2018–February 20, 2023) to fund temporary drinking water treatment solutions. The \$40 million was in addition to the Settlement grant amount. Since this provision expired on February 20, 2023, Settlement funds from the capital allocation are now used to fund the remaining and additional construction of temporary treatment construction. In FY 2024, \$11 million was spent to continue construction projects at temporary treatment facilities. Operations and maintenance costs from temporary treatment systems are paid for out of the O&M allocation. In FY 2024, \$2.4 million of O&M funds were spent to maintain the temporary treatment systems.

3.4 Adapting to the changes

Because of the aforementioned cost increases and need to treat more wells, owing to the state and federal health value revisions, the Settlement is being spent at an expedited rate and as a result the end of the Settlement funds is expected much sooner than previously anticipated. Even though the Conceptual Plan was built with a degree of resiliency with conservative assumptions, contingency, and reallocation options, it is not enough to account for all of these cost increases. Capital infrastructure costs projected over the next several years surpass Settlement dollars available. Next fiscal year, Co-

⁶ The Chemical Engineering Plant Cost Index: <https://www.chemengonline.com/pci-home>; Producer Price Index by Industry: Iron Foundries: Ductile Iron Pressure Pipe and Fittings: <https://fred.stlouisfed.org/series/PCU3315113315111>; Producer Price Index by Commodity: Rubber and Plastic Products: Plastics Water Pipe: <https://fred.stlouisfed.org/series/WPU072106033>.

Trustees will need to draw from the contingency fund allocation to cover capital costs. (See Section 5.1 for additional information about the use of contingency funding.)

During this past fiscal year, Co-Trustees proposed pausing the connection of additional neighborhoods and instead using capital infrastructure dollars on drinking water treatment. This pause is specifically for neighborhoods where the majority of residences already have POETs on their homes and have access to safe drinking water.

4. Projects Anticipated in Fiscal Year 2025

Communities are continuing to move forward implementing projects outlined in the Conceptual Plan. The Co-Trustees anticipate several projects in FY 2025, with some already under way, including:

- **Capital fund allocation** :anticipated projects:
 - Construction on permanent water treatment plants and associated water main extensions and installations in Cottage Grove and Woodbury
 - Planning and design grants for water treatment plants in Cimarron Park, Lake Elmo, Newport and Eagle's Watch
 - Lake Elmo Well 2 water treatment plant construction
 - Water distribution system modelling and analysis in Oakdale and St. Mary's Point
 - Hastings Well 5 construction of water treatment system
 - Installation of POETs in Afton, Cottage Grove, Denmark Township, Lake Elmo, Lakeland, Maplewood, Newport, St. Paul Park, West Lakeland Township, and Woodbury, and other Settlement-eligible communities as needed
 - Completion of Newport's interconnect with Cottage Grove
 - Final site work at temporary treatment facilities in Cottage Grove and design and construction of temporary treatment facilities in Woodbury
 - Sealing of private wells in Afton, Lake Elmo, Lakeland, Lakeland Shores, Lake St. Croix Beach, Newport, Oakdale, St. Paul Park, and the townships of Denmark and West Lakeland
- **O&M fund allocation**:
 - Permanent treatment facilities in St. Paul Park and Oakdale
 - Temporary treatment systems in Woodbury, Oakdale and Cottage Grove
 - Maintenance of individual POETs
- **Drinking water protection fund allocation** will continue to be expended on Project 1007, including contractor support for the feasibility study, and drinking water monitoring for public and private systems.
- **Contingency fund allocation** is anticipated to be spent on the completion of the last remaining Request for Funding project (a category of projects similar to expedited projects from before the Conceptual Plan was complete) in Lake Elmo.
- **State administration fund allocation** will continue for the administration of the Conceptual Plan, including state and contractor review and development of grant agreements, tracking project implementation progress, annual review, reporting, holding work group and public meetings, and developing the transition path to the Consent Order.

5. Contingency Fund Allocation and Fund Reallocation

As implementation of the Conceptual Plan continues, the Co-Trustees will evaluate progress on projects, compare actual costs to estimates, and monitor when contingency funds will be used and when funds may warrant reallocation.

When Settlement funds are depleted in the future, the 2007 Consent Order requires 3M to fund treatment costs for drinking water wells with a health advisory (issued when the PFAS HI \geq 1). A summary of the Consent Order is available at

<https://3msettlement.state.mn.us/sites/3msettlement/files/3M%20settlement-FINAL.pdf>.

5.1 Contingency Fund Allocation

Contingency fund allocation dollars can be used for eligible projects at any time and do not require fund reallocation. As described in Section 2, \$3 million (or 1.6%) of the \$183 million dedicated to the contingency fund allocation have been used within this annual review period for the continuation and completion of Settlement-eligible neighborhood connection projects. Over \$14M (or 7.8%) of the contingency fund allocation has been used in total since August 2021.

Contingency funds will be needed in fiscal year 2025 to cover capital infrastructure projects because of the funds in the capital infrastructure account being fully committed.

5.2 Fund Reallocation

As part of the annual review of the Conceptual Plan, the Co-Trustees consider new information that has evolved over the previous year, provide a review of actual costs of projects, and discuss other adjustments that are necessary to ensure the effectiveness of the plan.

The Conceptual Plan provides a framework with flexibility to reallocate funds, as necessary, which includes obtaining work group feedback (see section 10.4 in the Conceptual Plan). After reviewing how actual costs compare to estimates and considering new information over the past year, the Co-Trustees determined that a funding reallocation was not necessary during FY 2024. The project grants awarded in FY 2024 did not exceed the total capital fund allocation (see Section 2.1) nor require use of contingency fund allocation, with exceptions noted in Section 2.

Based on community survey input, it is anticipated that awarded grant amounts will exceed the remainder of the capital and contingency funds in FY25. Co-Trustees are planning now for the reallocation of funds in anticipation of capital costs exceeding both the capital and contingency allocations.

The Co-Trustees plan to cover costs in excess of the capital and contingency allocations from 2025 and beyond with dollars from the O&M, drinking water protection and State Administration allocations. Based on current projections, it is estimated that \$3.8M will be needed from those three accounts to cover capital infrastructure costs in FY25. Funds drawn from the accounts will be proportional to the distribution percentages from the original allocations (see Section 2). The reallocation will consist of approximately \$2.2M from O&M, \$1.3M from Drinking Water Protection fund and \$286,000 from the State Administration account. The Co-Trustees will continue to work on the transition to the 2007 Consent Order while working closely with workgroup members.