
2013 BUDGET BRIEFING NOTE

Changes to Industrial Waste Surcharge Program

Issue/Background:

- Municipal Code Chapter 681 Sewers allows for industrial waste surcharge agreements for the following treatable parameters in sewage: biochemical oxygen demand (BOD), phenolics (4AAP), total phosphorus (TP) and total suspended solids (TSS). Total Kjeldahl Nitrogen (TKN) is not currently a parameter.
- Municipal Code Chapter 441 Fees and Charges, establishes the existing fee of \$0.57/kg for the four current surcharge parameters (BOD, 4AAP, TP and TSS). The formula for the calculation of the surcharge amount is prescribed in the agreement itself. Formula and Fee has remained unchanged since 1996.
- In November 2008, Audit Committee recommended that: "The General Manager, Toronto Water, develop a fee policy for all surcharge agreements that reflects the cost of sampling and testing and that all companies subject to surcharge agreements be billed on a cost recovery basis".
- In April 2011, City Council requested the City Manager to undertake a User Fee Review of all City services "Premise: where a service provides a direct benefit to specific users, the full cost of providing the service should be recovered" and
- In 2011, the Toronto Industry Network requested the City to consider adding Total Kjeldahl Nitrogen (TKN) as a surcharge parameter.
- The City retained Stantec Consulting Ltd. to evaluate: (i) user fees charged under the industrial waste surcharge program; and (ii) the feasibility of adding TKN as a surcharge parameter.
- In June 2012, Stantec submitted its final report to the City. Toronto Water accepted Stantec's recommendations for changes to the IWSA program which included consulting with stakeholders and phasing-in the changes over several years.

Key Points:

- Toronto Water is recommending that:
 - (i) TKN be added as a treatable parameter;
 - (ii) The following rates (\$/kg) be applied: BOD/4AAP (0.62), TSS (0.60), TP (1.69) and TKN (1.18);
 - (iii) There be an initial fee of \$800 for the establishment of new IWSAs;
 - (iv) Type 1 ODF Formula – Unit Cost per Kilogram, commonly used by Ontario municipalities, be used for the calculation of surcharge fees; and
 - (v) Adjustment factors be applied to the Type 1 formula to allow for the gradual transition to full cost recovery over a six-year period.
- In general, the recommended rates are in line with the other Ontario municipalities using the Type 1 formula: York Region, City of Hamilton, City of Ottawa and Durham Region.

- The impact on individual companies varies significantly due to the introduction of the Type 1 Formula. Under the existing formula, the surcharge fee is based only on the parameter that exceeds the by-law limits the most. Under the Type 1 Formula, the surcharge fees are based on all parameters that exceed the by-law limits. Therefore, companies with only one treatable parameter will see the lowest increases while companies with two or more treatable parameters will see higher increases.
- In June 2012, Two stakeholder consultations sessions were held and six written submissions were received.
 - All submissions are in support of the addition of TKN as a surcharge parameter.
 - One submission stated that the proposed treatment costs for the contaminants are acceptable, comparable in costs and still better than some municipalities.
 - TIN expressed several concerns with the proposed changes including: the proposed pricing models yield cost increases that are unacceptably high; capital improvement charges should not form part of the recommended rate; and that BOD and TSS should not be charged for as the wastewater treatment plants are efficient in processing these items.
- In October 2012, the Public Works and Infrastructure Committee amended staff recommendations so that effective January 1, 2013, the formula used for the calculation of industrial waste surcharge fees would only apply to the parameter that exceeds the Municipal Code Chapter 681 Sewers limit the most and that it not be phased-in over a six year period.

Financial Impact:

- In 2011, the City had industrial waste surcharge agreements with 154 companies and recovered approximately \$8.5 million in costs.
- Implementation of the staff recommended changes to the City's industrial waste surcharge program, as set out in the Recommendations section of this report, would result in an estimated annual increase in revenue of \$3.6 million (from \$8.5 million to \$12.1 million) into Toronto Water's Operating Budget phased in over a six-year period and achieving full cost recovery by 2018.
- If, however, staff's recommendations, as amended by the Public Works and Infrastructure Committee, are implemented to modify the Type 1 Formula so that the calculation of surcharge fees be applied only to the highest exceedance parameter, with no phase-in, this would result in an estimated annual increase in revenue of \$0.7 million (from \$8.5 million to \$9.2 million) in 2013 and achieving approximately 76% of full cost recovery estimated at \$12.1 million. There would be no further increases to surcharge fees until Council purposefully changes them.

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