

City of Kingston

Business Case for a Public Municipal Services Corporation

Water and Wastewater

Report and Business Case Update

February 25, 2026



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KPMG have indicated within this deliverable the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the deliverable.

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Public Municipal Services Corporation Business Case

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Context and Drivers

What is a Public Municipal Services Corporation (MSC)?

Public, Not Private

The *Municipal Act, 2001* and *O. Reg. 599/06* empowers municipalities to form corporations dedicated to providing municipal services. An MSC is a corporation established by Council to provide a service the City itself can provide. This authority creates the potential for more efficient and effective service delivery through a separate legal entity that can operate with greater flexibility than the municipality. MSCs are involved in various essential services, including water provision and wastewater management, enabling municipalities to concentrate on broader governance issues.

The governance structure of MSCs is outlined in the Act, detailing the appointment of directors and the accountability requirements to the municipal council. Additionally, the Ontario Regulation 599/06: Municipal Services Corporations, complements the Municipal Act by offering further regulations and guidelines for the operation of these corporations, ensuring adherence to principles of transparency and public accountability. This statutory framework is vital for municipalities aiming to innovate in service delivery while remaining compliant with provincial regulations.

For water and wastewater, the MSC must be wholly owned by municipalities and cannot issue ownership shares to private parties. In an MSC model, the City remains the sole shareholder. In the water and wastewater Public MSC context, shares in the MSC cannot be issued to non-municipal entities. This is different from the proposed Water and Wastewater Public Corporation Act, 2025 currently contemplated by the province, which does not expressly prohibit private ownership. Water/wastewater services remain a public utility delivered by a municipally owned company—accountable to the public (residents of Kingston), and subject to Freedom of Information (FOI) laws and the Safe Drinking Water Act (SDWA).

Safety Obligations

The Safe Drinking Water Act ensures that Ontarians receive clean, safe drinking water by setting strict standards for water quality, system operation, and ongoing monitoring. It also places a legal “standard of care” on municipal decision-makers, requiring them to act diligently, competently, and with integrity to protect public health. Council and senior officials continue to be personally accountable under Section 19 Standard of Care under Ontario’s *Safe Drinking Water Act, 2002* (SDWA).

Local Control and Scope

Notably, MSCs are not required to be entirely owned by a single municipality; they can facilitate shared service initiatives between multiple municipalities. However, MSCs can only operate within the geographic boundaries of a municipality with the explicit permission of that municipality. A Kingston Water & Wastewater MSC will be 100% municipally owned and controlled. No private person or firm will hold, directly or indirectly, any equity or equity-like interest in the MSC.

Legal Framework and Governance Requirements

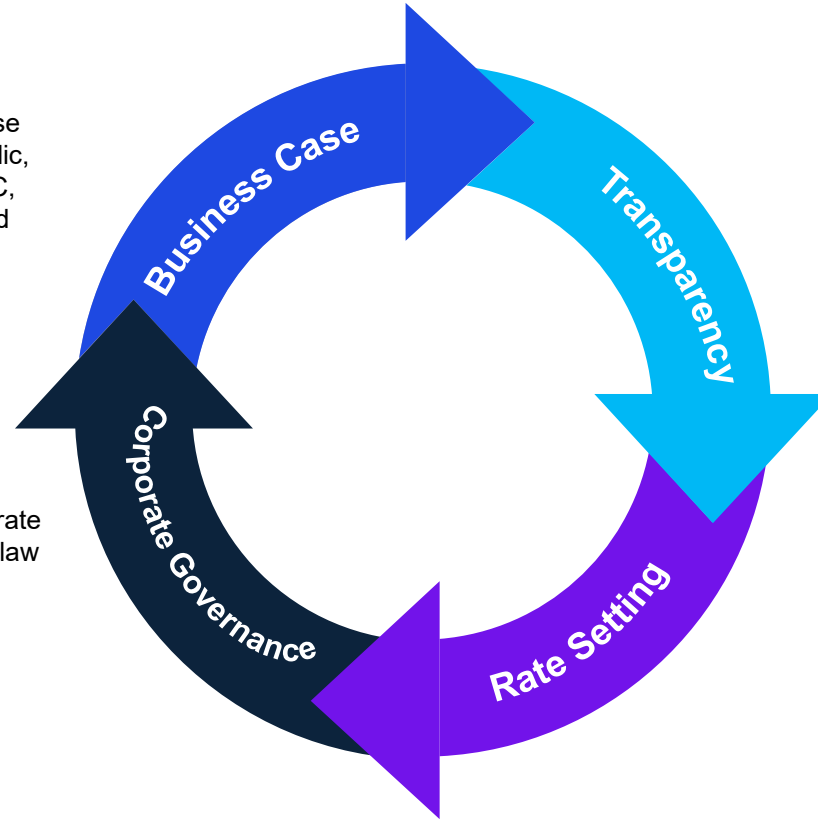
Section 203(1) of the *Municipal Act, 2001*, authorizes Council to create a municipal services corporation to carry out services the municipal corporation could itself otherwise provide. Ontario Regulation 599/06 prescribes certain restrictions and requirements of MSCs. Some key legal requirements for MSCs include:

Business Case

In general, a municipality must adopt a business case study and asset transfer policy, consult with the public, and ultimately adopt a valid by-law creating the MSC, pursuant to Section 6, 7 and 8 of that Regulation and Subsection 5(3) of the *Municipal Act, 2001*.

Corporation Governance

MSCs are expected to adhere to principles of corporate governance. There are also statutory and common law responsibilities that are required of the board of directors, such as fiduciary duty to act in the best interests of the corporation and report through a Shareholder Declaration and By-law No. 1.



Transparency

A wholly-owned MSC is a deemed institution under Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) and subject to Freedom of Information (FOI), privacy, and municipal policy obligations. Annual plans, audited financials, and performance reports aligned to service reliability, safety, affordability, and environmental compliance will be provided to Council.

Public Interest Rate-Setting Framework

The City will set the rate policy framework and affordability principles and framework. The MSC will propose annual rates within that framework for shareholder approval, all subject to Safe Drinking Water Act (SDWA) obligations.

Current Service Delivery Snapshot

The City of Kingston, a single-tier municipality situated in southeastern Ontario, serves a diverse population of over 132,000 residents, including full-time, seasonal, and student inhabitants. Among the essential services provided by the City is the delivery of water and wastewater services, which are managed through Utilities Kingston.

<h2>History</h2>	<p>...</p>	<p>The history of water and wastewater services in Kingston has evolved significantly over the past century. Prior to amalgamation on January 1, 1998, these services were managed by various entities, including former townships and the Public Utilities Commission, resulting in some inefficiencies. Amalgamation unified these services under Utilities Kingston, a City-owned utility that combines water, wastewater, natural gas, electricity, and broadband services, allowing for streamlined operations, cost savings, and improved public accountability.</p>
<h2>Governance structure</h2>	<p>...</p>	<p>In the current governance structure, the City of Kingston retains sole ownership of all water and wastewater infrastructure, while Utilities Kingston is responsible for the management, operation, and maintenance of these assets. This arrangement facilitates economies of scale and enables the sharing of corporate and operational resources, thereby improving service delivery and ensuring that rates remain affordable and competitive.</p>
<h2>Services provided</h2>	<p>...</p>	<p>Utilities Kingston is dedicated to effectively managing integrated utility services to provide residents with high-quality and reliable support. The organization offers a number of essential services, these include a clean drinking water supply, ensuring safe and potable water for approximately 39,000 homes and businesses, and wastewater collection and treatment, which is vital for environmental sustainability and public health.</p>
<h2>Funding model</h2>	<p>...</p>	<p>Utilities Kingston employs a funding model in which each utility service, namely water, wastewater, natural gas, electricity, and broadband networking is self-financed entirely through distinct user fees specific to each utility. This approach not only ensures the financial sustainability of each service but also actively encourages conservation among users. Additionally, measures are implemented to prevent any cross-subsidization between the different utilities, thereby maintaining the integrity of the funding structure. Even though the Utilities Kingston model is self-sustaining, it cannot issue its own debt for capital works. The City has been issuing debt to enable water and wastewater asset renewal and new construction.</p>
<h2>Case for Change</h2>	<p>...</p>	<p>Looking to the future, the City is facing significant growth, with a projected increase in population to 220,900 by 2051, necessitating 29,300 new homes. This growth occurs amid a housing crisis, climate emergency, and economic uncertainty, prompting the City to plan proactively. Utilities Kingston and the City have identified essential infrastructure projects to support this growth, which exceed their current financial and human resource capacities. In addition to the expected growth, City Council endorsed Report 25-237 October 2025 which identifies a financial gap of ~\$100M annually required to finance water and wastewater asset management projects. To address these challenges, the City is exploring the establishment of a Public Municipal Services Corporations (MSCs) to enhance operational and financial capabilities, endorsed by the provincial government and Association of Municipalities of Ontario.</p>

Public Municipal Services Corporation Business Case

Why Consider a Public MSC Now?

There are several emerging factors prompting the City to explore alternative service delivery models, including the MSC, for managing water and wastewater services. These factors include:

01

Provincial Guidance

- Ontario's Municipal Act, 2001, under Section 203, and Ontario Regulation 599/06 empowers municipalities to create MSCs for delivering services such as water and wastewater. The Province has increasingly emphasized financial sustainability and asset management, which MSCs provide strategic benefits for.
- The Province recently introduced Bill 60 (*Fighting Delays, Building Faster Act, 2025*), Schedule 16 *Water and Wastewater Public Corporations Act, 2025* ("WWPCA") and a public MSC for water wastewater is aligned to this structure, although the MSC established under the Municipal Act 2001, Sec. 203 O/Reg. 599.06 expressly prohibits private ownership. More information on Bill 60 is provided on the next page.

02

Alignment with Leading Practices

- Many Ontario municipalities have successfully implemented MSCs to separate operations from politics while maintaining public ownership.
- MSCs support transparent governance, professionalized management, and clear accountability to municipal shareholders (i.e., the City of Kingston)
- MSCs can have boards comprising of experts in the service area, facilitating quicker decision-making and adaptability to community needs.
- MSCs can foster innovation and long-term planning aligned with climate resilience, digital transformation, and enhance customer service.

03

Asset Renewal and Funding Flexibility

- Water and wastewater infrastructure represents a substantial portion of municipal assets. MSCs can access alternative financing mechanisms, such as lease arrangements to advance infrastructure projects.
- An MSC improves financial planning and capital prioritization while maintaining public service goals.
- MSCs can leverage their borrowing capacity by securing loans on asset values rather than revenue percentages. For example, while the municipality's borrowing is limited by annual principal and interest payments that do not exceed 25% of revenues, MSCs could operate under a 50% debt-to-equity ratio, increasing their financing flexibility.

04

Efficient and Entrepreneurial

- MSCs operate with a strategic results-oriented approach, focusing on efficiency and cost-effectiveness in service delivery.
- An MSC structure allows for streamlined decision-making, focused and safe operations, and improved responsiveness. It also enables cost control, revenue stability, and performance tracking through outcome-focused and value-driven practices.
- An MSC will allow for enhanced oversight and governance by appointing a board of directors dedicated to focus solely on the strategy and governance of the water and wastewater utilities while allowing for the operations to continue to be managed by the subject-matter experts at Utilities Kingston.

Implications of Bill 60

On October 23, 2025, the Ontario government introduced Bill 60 (*Fighting Delays, Building Faster Act, 2025*), not yet in force. Schedule 16 of Bill 60 contains the *Water and Wastewater Public Corporations Act, 2025* (“WWPCA”) which proposes reforms to the delivery of water and wastewater services **for Region of Peel and lower-tier municipalities in Ontario**. WWPCA signals a shift in provincial regulations toward a corporate-structured water and wastewater service delivery model. Below we highlight why proceeding now with an MSC aligns with provincial direction while ensuring long-term public ownership. An MSC under the Municipal Act enables Kingston to implement strong local guardrails, protecting Kingston’s interests and giving the City a stable, predictable governance model rather than leaving future decisions to provincial discretion.

Bill 60, Schedule 16 WWPCA 2025

Kingston Water Wastewater MSC – Ontario’s Municipal Act 2001, Section 203, O/Reg. 599/06

Movement toward corporatized delivery model:

Bill 60 creates a new provincial framework that gives the Province power to designate water and wastewater public corporations, requiring prescribed municipalities to deliver services exclusively through those corporations. This demonstrates a clear provincial direction toward stand-alone, corporatized utility structures; however, it also shifts decision-making upward (to the Province) which would control rate-setting frameworks, asset stewardship, and governance.

Emphasis on growth-aligned infrastructure planning:

The Province’s goal is to accelerate servicing capacity to support housing development and growth.

Ownership / share structure currently unclear: WWPCA does not expressly prohibit private (non-municipal) ownership, and it is unclear if share-issuance details will be addressed in future regulations.







Aligns with the Province’s move toward corporatized water governance: An MSC under the Municipal Act provides the same core features the Province is steering toward which include a dedicated corporation, structured governance, and financial flexibility. The MSC framework gives municipalities the choice to establish a service corporation for water wastewater; whereas Bill 60’s WWPCA framework permits the Province to impose a corporate model. An MSC will allow Kingston to retain control of rate-setting frameworks, asset stewardship, and governance, while still meeting provincial objectives.

Aligns with Provincial goal to accelerate growth: A water and wastewater MSC directly supports Bill 60’s priority to accelerate servicing capacity for housing and growth enabling dedicated utility governance, enhanced operational efficiency, and access to flexible financing tools that municipalities cannot access on their own. An MSC strengthens Kingston’s ability to deliver infrastructure at the pace required for development.

MSC framework prohibits private ownership: O. Reg 599.06 expressly requires water wastewater MSCs to be wholly owned by a municipality or jointly owned by a municipality and one or more public sector entities. The shareholders are entitled to all voting shares allocated to the corporation’s members. Kingston’s choice of an MSC avoids uncertainties tied to private sector involvement in the WWPCA and maintains local public ownership.

Strategic Advantages of the MSC Model

As the City navigates the increasing service demands and funding pressures, now is a critical time to explore the strategic advantages for delivering water and wastewater services through a MSC. Some strategic advantages of the MSC structure include:

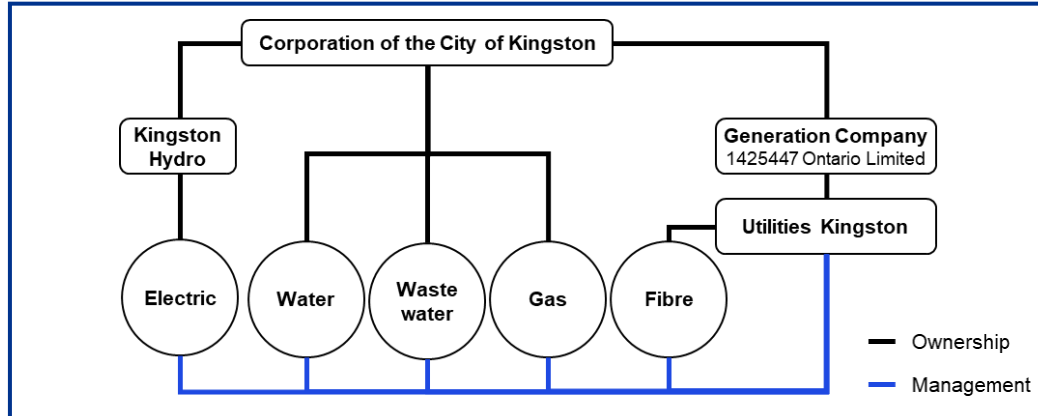
 <p>Increased Infrastructure Investment Flexibility</p>	<ul style="list-style-type: none"> The MSC structure enables more practical, disciplined and efficiency-focused decisions on capital investment, including the ability to pursue alternative financing approaches and strategic partnerships to address aging infrastructure and future growth needs.
 <p>Focused Governance and Operational Autonomy</p>	<ul style="list-style-type: none"> A dedicated board and leadership team allows the MSC to prioritize water and wastewater mandates without competing interests, thereby improving service delivery, accountability, and long-term planning.
 <p>Improved Responsiveness to Growth and Development</p>	<ul style="list-style-type: none"> The MSC can more proactively respond to development timelines and local servicing needs, helping to align water and wastewater expansion with housing and economic growth objectives.
 <p>Strengthened Service Efficiency and Innovation</p>	<ul style="list-style-type: none"> With a clear mandate and operational independence, the MSC can implement advanced technologies, optimize asset management practices, and introduce cost-effective service models more rapidly than traditional municipal structures.
 <p>Access to Broader Revenue Opportunities</p>	<ul style="list-style-type: none"> The MSC will have the opportunity to pursue new revenue streams. This includes shared services with neighbouring municipalities, and providing specialized utility services.
 <p>Transparency and Performance-Driven Culture</p>	<ul style="list-style-type: none"> As an independent entity, the MSC can implement utility-specific performance metrics, rate-setting models, and benchmarking practices that reinforce public trust and ensure long-term sustainability.

Proposed Governance

Public Municipal Services Corporation Business Case

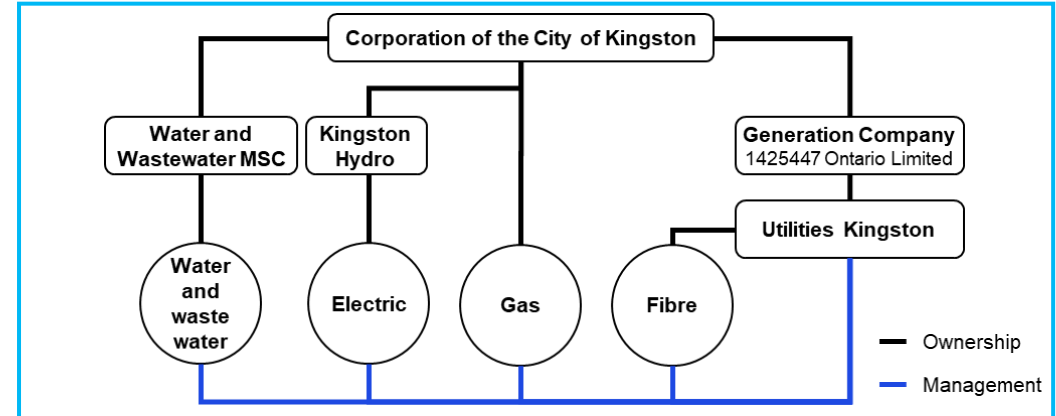
Current State and Future State

Through the course of this review, two governance options were considered for the delivery of water and wastewater services in Kingston: Status Quo (Utilities Kingston) and a MSC.



Status Quo

Maintains the current structure with Utilities Kingston delivering water and wastewater services and the City Council providing strategic direction and budget approval.



Municipal Services Corporation

- Primary purpose is to operate on a self-sustaining, financially disciplined basis, managing water and wastewater with more efficient, results-oriented approach
- Structured as a corporation and separate legal entity
- Greater flexibility in revenue generation, partnerships, operations
- Subject to some municipal accountability rules (e.g., MFIPPA, etc.). They must also follow corporate governance rules (i.e. shareholder agreements, board governance, etc.)

In the proposed MSC, the City would directly hold the equity ownership interest in MSC (as hereinafter defined). The MSC would operate Water and Wastewater services and report to Mayor and Council. . The use of an MSC is intended to:

- Define a corporate structure for water and wastewater services;
- Allows for a corporate structure to make operational decisions quicker through reduced bureaucratic delays.
- Optimize the governance practices and management of the MSC.
- Create financial independence from the governing entity.

This slide provides an overview of the key differences between the current City of Kingston ownership model and the proposed Municipal Services Corporation (MSC) model. The establishment of an MSC presents an opportunity for the City to improve service levels, increase operational efficiency, and foster sustainable practices. This table highlights the distinctions in governance, financial flexibility, legal structure, and long-term service delivery to help illustrate how an MSC could change the way water and wastewater services are managed in Kingston.

Theme	Analysis
Alignment with the City's strategic outlook	Although Utilities Kingston operates under full municipal oversight, the current structure constrains financial autonomy, which can limit flexibility, innovation, and the ability to respond quickly to evolving service and growth needs. In contrast, a MSC would provide greater alignment with the City's long-term strategic and financial sustainability objectives by establishing separate financial control, independent financing, and enabling more proactive and forward-looking capital planning. This enhanced flexibility would support timely infrastructure investment and reinforce broader municipal infrastructure, housing, and economic development priorities.
Governance benefits	Utilities Kingston's direct oversight by the City supports public accountability; however, the current Utilities Kingston Board is responsible for overseeing multiple utility services—including water, wastewater, gas, and fibre—which can limit the depth of sector-specific focus applied to water and wastewater decision-making. In addition, governance decisions may be influenced by broader municipal and political considerations. A MSC would enable the Shareholder to appoint a smaller, skills-based, and independent Board of Directors with targeted financial, legal, and water and wastewater industry expertise. This focused governance model is intended to strengthen strategic oversight, improve the quality and timeliness of decision-making, and support long-term utility planning, while remaining subject to clear shareholder oversight mechanisms to ensure transparency and alignment with municipal priorities.
Financial benefits and challenges	The funding model of Utilities Kingston is primarily dependent on user fees, which offers limited flexibility. Furthermore, Utilities Kingston faces borrowing constraints due to the municipal debt capacity. In contrast, a MSC provides the opportunity for independent borrowing and revenue generation, alleviating some of the financial pressures on the City. Nonetheless, it is essential to manage the initial setup costs prudently.
Legal considerations	Establishing a MSC necessitates specific legal structuring to confirm municipal ownership and accountability while ensuring adherence to provincial regulations and corporate governance standards.
Preferred Option	Although the current asset ownership model is stable, its reliance on municipal borrowing and traditional governance structures limits the City's ability to expand financing options and support long-term growth. An MSC is designed to enhance financial flexibility, operational agility, and alignment with Kingston's long-term infrastructure objectives, making it the City's preferred model moving forward.

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City Council Responsibilities

The table below illustrates the differences between the current responsibilities of the City Council and those following the implementation of the MSC model. It is important to note that under the existing Utilities Kingston governance model, the City Council has already relinquished its responsibilities pertaining to direct oversight of safe operations.

With the introduction of the MSC model, the City Council would maintain ownership of the assets as a shareholder of the corporation, provide guidance on strategic policy direction, and appoint the Board of Directors. It would no longer retain direct responsibility for approving budgets but would retain authority for endorsing service rates.

City Council Responsibility	Current State	Future State
Ownership of water and wastewater assets	✓	✓
Approving service rates	✓	✓
Approving operating budget	✓	
Approving capital budget	✓	
Strategic policy direction	✓	✓
Appointment of Board of Directors (as per Shareholder Declaration)	✓	✓
Allocation and Collection of Development Charges	✓	✓
Establishing Council's authority over financing approvals process, exercised directly today and, under an MSC, through the City Council approved Shareholder Declaration.	✓	✓

MSC Terms of Reference Key Components

The infographic below highlights the key elements of the proposed MSC's terms of reference.

Mandate and Purpose

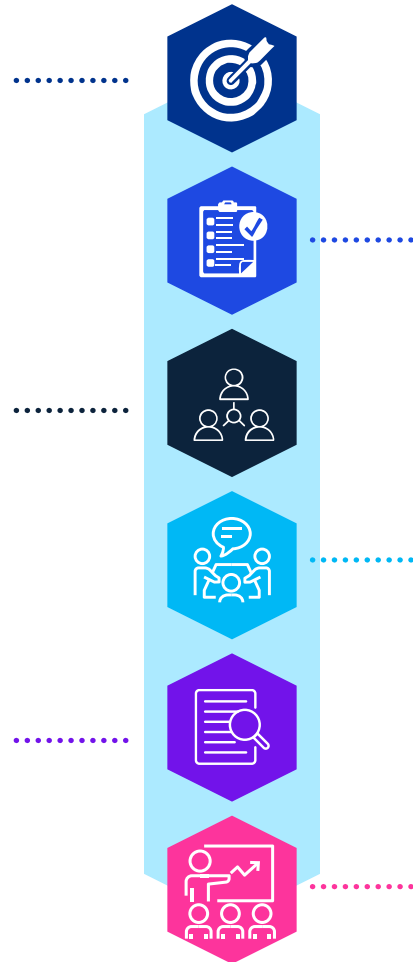
This section of the Terms of Reference should outline the MSC and Board's overarching role in providing strategic oversight, ensuring regulatory compliance, safe operations, and acting in the best interest of the corporation and its shareholder (City of Kingston).

Composition and Appointments

This section would specify the number of Directors, eligibility criteria, appointment process, term lengths, and expectations for skills, diversity, and independence.

Code of Conduct and Conflict of Interest

This section should outline the ethical standards, confidentiality, and processes for declaring and managing real or perceived conflicts of interest in accordance with Provincial legislation.



Roles and Responsibilities

This section would define the duties of the Board collectively and of individual directors, including approving budgets and strategic plans, overseeing risk management, setting rates for approval, and appointing and evaluating the CEO or Manager.

Meetings and Quorum

This section would detail the frequency of meetings, quorum requirements, notice procedures, and use of committees or closed sessions, ensuring transparency and efficiency.

Reporting and Accountability

This section clarifies the Board's reporting obligations to the City as the Shareholder, including, but not limited to, annual reports required under the Safe Drinking Water Act, and audited financial statements.

Legal Considerations and Governing Documents

The infographic below outlines the key legal instruments and governance documents required to establish and operate a MSC, including the legal authority under the *Municipal Act, 2001*, and mechanisms for municipal oversight, and the framework for service delivery and rate setting.

01

Legal Authority

- The establishment of an MSC would not change the City's responsibilities under the Safe Drinking Water Act. The City would retain the same statutory obligations, including the duty of care and oversight of drinking water quality, as it has under the current Utilities Kingston model.
- The MSC will operate at arm's-length but under full municipal ownership, maintaining public accountability and transparency through annual reporting, Council oversight, and shareholder direction.

02

Rate Setting

- The City may delegate operational rate-setting processes to the MSC within an approved framework that safeguards affordability and public interest while also retaining Council approval of rates
- The MSC structure supports rate stability through multi-year forecasting, infrastructure lifecycle planning, and reserve contributions.

03

Shareholder Agreement/ Declaration

This agreement would establish the governance framework and sets out the expectations of the sole shareholder (City). Some key elements may include:

- Roles and powers of the shareholder and Board
- Reserved shareholder matters (e.g., asset sales, contracts that prevents equity-like rights, etc.)
- Reporting requirements and performance measures
- Board appointment and removal processes
- Strategic alignment with municipal objectives

04

Asset Transfer Agreement

As outlined in Ontario Regulation 599/06, prior to creating an MSC, the City must adopt policies related to the transfer of assets to the publicly-owned MSC. Key elements may include:

- Description and valuation of assets and liabilities transferred
- Terms for employee transfers
- Financial adjustments or debt assumptions (if required)
- Transitional provisions
- Insurance provisions

05

Master Services Agreement

This agreement outlines the relationship between the MSC, Utilities Kingston, and the City, ensuring continued public accountability and service delivery. Key elements may include:

- Description and standards for services provided
- Performance metrics and reporting obligations
- Pricing framework and rate-setting roles
- Public consultation and transparency expectations
- Term and renewal provisions

06

Administrative Services Agreement

This agreement defines the terms under which the City and Utilities Kingston provides ongoing administrative and support services to the MSC. Key elements may include:

- Scope of services that will be provided (e.g., IT, Finance, HR)
- Service standards outlining service levels and responsibilities
- Transparent pricing and cost-allocation methods
- Term and termination
- Governance and dispute resolution processes

The Shareholder Agreement or Declaration, along with By-law No. 1 of the newly created MSC, should also set the parameters regarding the Board and Management’s reporting and accountability to the Shareholder. Some leading practices for corporation reporting and accountability includes:

Annual General Meeting	Audited Financial Statements	Annual Business Plan and Budgets	Direction Reporting	Transparency Measures
<p>Purpose: Formal meeting between the MSC and its shareholder to review annual performance.</p> <p>Timing: Held within 6 months of fiscal year-end.</p> <p>Key elements include:</p> <ul style="list-style-type: none"> • how the MSC’s strategic plan advances applicable goals of the City’s Strategic Plan; • annual budget (for information); • five-year financial forecast; and, • 10-year capital plan; • performance metrics 	<p>Frequency: Annually, reviewed by the MSC’s Audit Committee and approved by the Board prior to presentation to Council.</p> <p>Key contents:</p> <ul style="list-style-type: none"> • Balance sheet, income statement, cash flow statement. • Notes on financial risks, liabilities, capital assets. • Auditor’s opinion. <p>Purpose: Enables the shareholder to verify financial integrity and compliance with Public Sector Accounting Standards (PSAS) or IFRS (as applicable).</p>	<p>Timing: Submitted to Council as information only.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Strategic priorities for the year. • Operating and capital expenditure plans. • Forecasted water/wastewater demand and service levels. • Performance targets and key performance indicators (KPIs). 	<p>The Shareholder Declaration outlines any reporting requirements related to:</p> <ul style="list-style-type: none"> • Financial thresholds requiring Council sign-off. • Strategic plan alignment updates. • Reserved decisions requiring Council input (e.g. asset sales). <p>MSC must report proactively and seek shareholder approval where required.</p>	<p>Public release of:</p> <ul style="list-style-type: none"> • Annual reports. • Audited financials. • Key decisions and performance summaries (e.g., board highlights). • Any material change in operations, liabilities, or financial outlook <p>Fully participating in comprehensive updates to the City’s Official Plan, Zoning By-law, Development Charge Background Study, Master Planning (e.g., infrastructure).</p> <p>Regular communication and information sharing between the CEO and CAO is expected.</p>

Financial Considerations

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Financial Analysis of the MSC

The financial analysis provided illustrates an overview of projected revenues and expenses for the potential MSC managing water and wastewater services. The analysis reflects a consistent and gradual increase in water and wastewater revenues, which exceed growth in operational costs. This trajectory aligns with the expectation that the MSC would maintain its financial self-sustainability.

Under the current forecast, operational revenues alone are insufficient to fund capital expenditures. Utilizing the transfer of existing water, wastewater, and Development Charge (DC) reserves alongside the MSC's operational revenue will sufficiently fund the planned capital investment required over the next 10 years. Additionally, the establishment of the MSC will provide the flexibility to undertake additional financing to adequately support future asset management needs. The MSC would not only fulfill its financial obligations but also retain its eligibility as a Government Business Enterprise.

Furthermore, it is worth highlighting that the financial model does not incorporate potential revenue increases that could stem from expanding service offerings to nearby municipalities. Such opportunities represent additional avenues for increasing revenue growth and further solidifying the MSC's financial stability.

Ultimately, the financial projections provide a clear pathway toward meeting both operational and capital requirements, ensuring the long-term sustainability of the MSC while maintaining compliance with necessary regulatory frameworks.

Revenues	Average Annual Revenues (15-Year)	10-Year Total Revenues 2025 to 2034	15-Year Total Revenue 2025 to 2039
Budgeted Revenues			
Water Revenues	\$48.8 million	\$445 million	\$732 million
Wastewater revenues	\$56.8 million	\$520 million	\$852 million
Total Estimated Revenues	\$106.6 million	\$964 million	\$1.58 billion
Budgeted Operational Expenses			
Water Op Expenses	\$21.2 million	\$197 million	\$319 million
Wastewater Op Expenses	\$27.9 million	\$261 million	\$418 million
MSC Remuneration Costs	\$116 thousand	\$1.1 million	\$1.7 million
Total Anticipated Expenses	\$49.2 million	\$459 million	\$739 million
Surplus (Deficit) before expected debt servicing costs			
Surplus (Deficit)	\$56.4 million	\$505 million	\$845 million
Surplus (Deficit) after expected debt servicing costs			
Anticipated Debt Servicing	\$17.9 million	\$167 million	\$269 million
Facilities Repair Fund Contributions	\$0.95 million	\$9.5 million	\$14.3 million
Surplus (Deficit)	\$37.5 million	\$329 million	\$562 million
Development Charges / Growth Related Revenue			
Water	\$6.8 million	\$70.3 million	\$102 million
Sewer	\$14.2 million	\$146.9 million	\$213 million
Capital Expenditures and Reserves			
Water Capital Expenditures	\$28.4 million	\$302 million	\$427 million
Wastewater Capital Expenditures	\$24 million	\$253 million	\$361 million

Public Municipal Services Corporation Business Case

Alternative Financing Options

A water and wastewater MSC is a corporation wholly-owned by a municipality, ensuring it remains under public control while allowing for operational flexibility, including the ability to access diverse funding sources.

Current State

- Under Ontario Regulation 403/02, municipalities must keep their debt levels within the Annual Repayment Limit (ARL), capping annual debt payments (principle +interest) to 25% of the municipality's own source revenue.
- The proposed financing of future water wastewater development projects would be largely through either the issuance of debt by the City or the internal borrowing against the City's reserves. There are concerns, however, that the debt requirements for these developments will either limit the City's debt capacity and ability to finance other initiatives or will be deferred due to the City's reluctance to take on additional debt.

Debt-to-Equity Borrowing

- An MSC operates under a different financial framework: they can borrow against their assets and future revenues using debt-to-equity (debt-to-asset) ratio approach. These debts do not count against the shareholding municipality's ARL.
- In practice, many Ontario MSCs target a much high debt ratio than what a municipality could carry on its books, giving these corporations greater financing capacity for infrastructure.

Alternative Financing Options

- **Revenue Bonds and Capital Planning Power:** An MSC can raise funds upfront for major capital projects by issuing debt tied to future user fees (e.g. water rates). This provides the flexibility for investment in infrastructure today, with the ability to pay it off over 20-30 years, aligning with asset lifecycles. Revenue bonds are secured exclusively by future revenues generated from MSC services. Since they are not backed by the City, they reinforce the MSC's financial autonomy. This structure aligns repayment with service performance and helps establish credit discipline. However, the MSC must demonstrate stable and predictable revenue streams to attract investors and may face higher borrowing costs due to the increased risk profile.
- **Project-Based Loans:** The MSC can negotiate loans with banks or infrastructure lenders based on project-specific cash flows and business plans (i.e. design-build-finance models). This approach allows for tailored financing that preserves operational independence and keeps debts off the City's financial statements. It is flexible and scalable, but may include restrictive covenants, higher interest rates for newer entities, and strict lender oversight depending on perceived creditworthiness and risk.

Public-Ownership Protections: To safeguard full public ownership while still enabling access to external financing, the City can embed strong protections within the Shareholder Declaration and related governance documents. These protections ensure that any lender, or project partner participates only through conventional debt or service-based arrangements—never through rights that resemble ownership or control. By prohibiting governance influence, veto powers, profit-sharing mechanisms, or contractual provisions that mirror shareholder privileges, the City ensures that all financing remains strictly non-equity in nature. Clear limits on lender covenants, combined with reserved-matter controls held exclusively by the City, preserve municipal accountability and guarantee that water and wastewater services remain fully and transparently publicly owned.

Implementation Plan

Public Municipal Services Corporation Business Case Implementation Roadmap

Following the acceptance of the business case, the City should look to complete the following activities to establish a water and wastewater MSC.

Phase	Activities	Estimated Timeline			
		0 - 6 months	6 – 12 months	12 – 18 months	18 – 24 months
1	Completion of Public Consultation	→			
2	Procure Necessary Third-party Advisors	→			
3	Incorporation of the MSC		→		
3	Recruit and appoint Board members		→		
3	Adoption of an Asset Transfer Policy		→		
3	Development of Appropriate Governance and Operating Policies			→	
3	Establish a Master Services Agreement			→	
3	Establish an Administrative Services Agreement			→	



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BACKGROUND

Water & Wastewater Municipal Services Corporations

June 2024

Part I: Purpose & Overview of Water & Wastewater

This section covers:

- Context & Purpose
- Overview of Water & Wastewater in Ontario

Context

Over the next 10 years Ontario's municipalities are planning for between \$250 billion to \$290 billion in capital investments to support unprecedented growth while dealing with aging assets¹.

Municipal revenue sources are neither adequate nor appropriate to meet this challenge alone. All orders of government have a role to play in making the investments necessary to ensure safe, sustainable public infrastructure that meet growing needs.

Municipalities are doing their part, exploring models and tools to do things differently, including partnerships with each other. Municipal services corporations have emerged as one of these tools that has garnered significant interest.

To help municipalities and others to better understand what municipal services corporations are and are not, what they can and cannot do, and some of the benefits and risks involved AMO & MFOA have prepared the following backgrounder.

Purpose

A water & wastewater municipal service corporation is a tool that can offer municipalities dedicated decision making capacity that supports long-term sustainability and may help unlock operating and financial scaling opportunities among groups of municipalities that can improve cost effectiveness over time.

However, given the time and resources required to setup a water & wastewater municipal service corporation, serious consideration should be given to the overall advantages and trade-offs for each local context. They should be viewed as a tool over the long-term, where significant collaboration with municipalities is necessary for their overall success.

This backgrounder is intended to share common facts on water & wastewater municipal services corporations with municipalities so that those interested have a balanced view to begin performing their own local analysis for decision-making.

The responsible and sustainable operation of Ontario's water and wastewater systems is a critical public service, central to residents' and communities' health, safety and prosperity. The creation of a water and wastewater municipal services corporation should always balance the opportunities it may provide to manage assets and services with transparent and accountable public stewardship of these vital systems.

¹[AMO's Social & Prosperity Review](#) Ontario's municipalities are planning for \$250B - \$290B in capital expenditures over the next decade (~\$100 B of that investment connected to growth)

²[Ontario Housing Affordability Task Force 2022](#) & [Task Force for Housing & Climate 2024](#)

Water & Wastewater in Ontario

Water and sanitation are United Nation recognized human rights and integral to public health, safety and economic wellbeing. Ontario municipalities have a strong record of delivering services and managing these key assets including the pumping stations, water treatment facilities, lift stations, and tens of thousands of kilometers of pipes that all help to bring water we drink, clean with and safely take away wastewater for community residents and businesses.

They account for a significant portion of municipal infrastructure, in 2021, water & wastewater accounted for approximately 37% of Ontario's municipal infrastructure value (48% with stormwater)¹.

Water systems are and should remain a publicly owned infrastructure. Since the Walkerton e. Coli water outbreak in 2000 several improvements in water & wastewater delivery standards have been enacted to enhance services for Ontarians.

On the one hand it has improved standards and accountability through numerous legislative and regulatory frameworks² including under the *Safe Drinking Water Act, 2002* a statutory standard of care for councillors who have decision-making authority over municipal drinking water systems or who oversee the operating authority of the system.

On the other it has also placed pressure on costs to ensure water systems remain safe, world-class and affordable. Municipalities continue to pride themselves on meeting the challenge as responsible stewards for this key public good.

There are an **estimated 1,106** water systems in Ontario.

On average, **68.5%** of potable water assets & **67.3%** of wastewater assets were in a state of good repair¹

Estimated value of Ontario municipal potable water & wastewater infrastructure is **\$175.8B**¹

Water **usage is observable and quantifiable** - an individual customer's use can be measured with a meter and billed accordingly.

¹ Financial Accountability Office: Municipal Infrastructure (2021)

² Safe Drinking Water Act; Sustainable Water and Sewage Systems Act, Water Opportunities and Conservation Act, and Drinking Water Quality Management Standard

Water & Wastewater Funding & Financing

Full cost recovery in water & wastewater pricing has no single agreed upon definition, but it is generally agreed that it should, at minimum, include the operating and capital costs of the systems as a financial best practice to ensure long-term sustainability of assets and services.

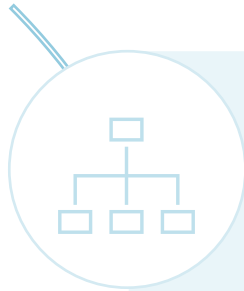
Planning for the full lifecycle of assets is a best practice in infrastructure management. It means considering the full costs of acquiring, operating, maintaining and disposing of water & wastewater infrastructure. It requires budgeting to avoid costly surprises in the future.

Primary Funding Sources				Financing
User Fees	Development Charges	Grants	Reserves	Debt
<p>Major source of ongoing revenue for delivery and are set with a few key things in mind:</p> <ol style="list-style-type: none"> 1. Cost of day-to-day operations (e.g., salaries, routine asset maintenance, treatment chemicals) 2. Cost of lifecycle and asset management activities (e.g., dedicated reserve funds to fund lifecycle maintenance, replace assets in the future) 3. Cost to service debt (e.g., principal & interest) 	<p>Amounts charged and collected from developers for growth.</p> <p>Municipalities have flexibility to use development charges.</p> <p>Typically used to pay for necessary expansion of infrastructure to accommodate new development (e.g., new piping, enhancing system capacity)</p> <p>Alone may not cover the full costs of capital expansion but may help repay debt or reduce the need for user fee increases to repay debt that was secured upfront to build new infrastructure.</p>	<p>Municipalities also can access grants, some of which are dedicated to water & wastewater (e.g., Ontario Housing Enabling Water Systems Fund)</p> <p>Others are broader and can be used for a diverse set of infrastructure needs (e.g., Canada Community-Building Fund)</p> <p>Grants can be a less reliable source of funding for significant water & wastewater capital projects as they may be targeted to fewer municipalities, availability is subject to changes in government direction and broad envelopes compete with other infrastructure needs (e.g., roads)</p>	<p>Dedicated reserves can be built up over-time as a tool to help fund replacement of a major asset in the future or long-term costs, for example a capital levy as a portion of property tax levy.</p> <p>Reserves can also help manage the risk of unanticipated costs or revenue shocks.</p> <p>Reserves are funded by user fees over long periods to ensure rate stability.</p> <p>Development charges collected for water & wastewater must be kept in a separate reserve fund and can only be used on that infrastructure.</p>	<p>Debt to cover capital costs (e.g., costs for replacing a large water treatment plant)</p> <p>Could be a bond or a loan. The amount of debt may be off-set by built up reserves that can help with some capital costs.</p> <p>The amount of debt is also limited by a municipality's annual repayment limit (ARL) - this fiscal indicator, in addition to others, can play an important role in how municipalities are assessed when accessing debt.</p>

Delivery of Water & Wastewater in Ontario

Water & wastewater in Ontario is delivered by multiple means in response to different local contexts, including existing regional setup, geography, historical decisions.

The following are broad descriptions but by no means exhaustive.



Regional & Lower Tiers

Most regional municipalities are responsible for planning infrastructure including water and wastewater, although they may share some responsibility with lower-tier municipalities on delivery or contract out operations to third parties (e.g., Ontario Clean Water Agency- OCWA). Many have economies of scale to help support delivery across lower-tier municipalities including ability to cross-subsidize and have control over major decision making, including setting water rates, debt, and dedicated reserves that are integrated into fiscal planning and council decisions.



Single Tier, Counties & Lower Tiers

In many instances water is delivered directly by a single municipality - their operational arrangements also may vary with some contracting operations out (e.g., OCWA). Counties have various arrangements; in many instances the lower-tier municipalities may manage water and wastewater directly. Whether single, county or lower-tier the municipality has its own infrastructure assets, have dedicated departments and carry key decision making through councils.



Joint Board of Management

Created in the late 90's to govern specific water systems that connected groups of municipalities who have an undivided interest (e.g., Lambton Area, Huron or Elgin water supply systems) – the system was already scaled when transferred versus individual municipalities running their own systems. The boards have representation from municipal members and have various powers including approving operating and capital budgets, as well as setting the rate charged to the benefiting municipalities. Municipalities hold a proportion of the water systems debt.

Municipalities also look for ways to work together to manage and deliver water and wastewater. Some examples include:

- The cities of London and St. Thomas have a jointly operated facility to draw water from Lake Huron and Lake Erie to serve their communities.
- The County of Haldimand and County of Norfolk agreement to share water delivery to allow for a scaled base of users to support capital improvements.
- York Region has agreements with Durham Region with respect to wastewater servicing and with both Peel Region and Toronto with respect to water.

Most municipalities deliver water & wastewater directly, **but some municipalities have a water & wastewater municipal service corporation.**

Part II: Water & Wastewater Municipal Services Corporations

This section covers:

- What is a Municipal Services Corporation
- Benefits & Strategic Risks on Governance, Funding & Finance, Planning & Delivery
- Where a Municipal Service Corporation May be a Best Fit
- Illustrations of Water & Wastewater Municipal Services Corporations

Different Forms of Governance

Degree of autonomy from a municipality

Municipality	Joint Service Board	Municipal Services Corporation	Public Utility	Private Utility
<p>Municipalities that deliver services directly, including owning and managing assets associated with the service (e.g., water pipes, treatment plants) have full control.</p> <p>Municipal councils make all key decisions including asset management, capital funding plans, operational funding and user fee rates where applicable.</p> <p>All assets and liabilities are held by the municipality and consolidated on their financial statements.</p>	<p>Local bodies that may be established by an individual municipality, or by two or more municipalities.</p> <p>The municipality or municipalities can decide many key things around governance (e.g., composition, eligibility of persons to be board members, degree of delegated authority given to the board).</p> <p>Depending on the scope of their setup the decisions may not necessarily have to go back to municipal councils.</p> <p>All assets and liabilities are jointly held by the participating municipalities. This includes how debt is distributed respectively impacting participating municipalities financial information returns.</p> <p>Generally, still within the control of member municipalities.</p>	<p>Some examples are in broadband and a few water and wastewater.</p> <p>Established as a municipally owned corporation for municipal services.</p> <p>Planning and board decisions separate from municipalities with non-elected board members. Financial statements may also be separate*.</p> <p>A water or wastewater municipal services corporation <u>cannot</u> issue any private shares (municipalities sole shareholders)</p> <p>Can be for one municipality or cover broad geographic boundaries across municipal borders.</p> <p>Unlike other utilities (e.g., hydro and gas) water & wastewater does not have an economic regulator.</p>	<p>Most common example are Local Distribution Corporations (e.g., Utilities Kingston, Alectra).</p> <p>Established as a municipally owned corporation (i.e., public).</p> <p>Financial statements, planning and board decisions are separate from municipalities with non-elected board members.</p> <p>Can issue private shares to raise capital but <u>has to be</u> publicly owned.</p> <p>Can be for one municipality or cover broad geographic boundaries across municipal borders.</p> <p>Ontario utilities like hydro or gas are regulated by a provincial board - Ontario Energy Board</p>	<p>Most common example are fully private natural gas utilities (e.g., Enbridge).</p> <p>Established as a privately owned corporation.</p> <p>Financial statements, planning and board decisions separate from municipalities with non-elected board members.</p> <p>Can issue private shares to raise capital.</p> <p>Usually covers broad geographic boundaries across municipal borders.</p> <p>Ontario utilities like hydro or gas are regulated by a provincial board - Ontario Energy Board</p>

* See Appendix B for more detail

What is a Municipal Services Corporation?

Municipalities can establish corporations for delivering municipal services and facilities to residents including - allowing municipalities to work with partners in the public, private or non-profit sectors, potential to provide municipal services and develop facilities more efficiently, potential to increase capital, pool expenses, expertise and staff resources and better economies of scale.

Legal Framework

Under the Municipal Act municipalities have the legal authority to create municipal services corporation¹

The scope of services can be broad, but some services are prohibited (e.g., Ontario Works). Prior to establishing a municipal services corporation municipalities must:

1. Develop a business case study
2. Adopt and maintain policies with respect to the transfer of assets
3. Consult with the public

Establishment & Shareholders

Can only be established by Ontario municipalities or by an Ontario municipality and one or more other public sector entities (e.g., provincial government)²

Not required to be wholly-owned by a single municipality so can be used to structure the governance of a shared service initiative between municipalities. In the case of water & wastewater it must be fully owned by municipalities³ (i.e., cannot issue private shares)

Municipalities have the flexibility to create it as a for-profit or non-profit

Board

Current water & wastewater municipal services corporations tend to have municipally elected members as board members given their intended purpose to deliver key municipal services

However, municipal services corporation boards can have unelected officials to build board capacity and decision making (e.g., selected based on specific skill sets like industry experience) and some do have skills-based positions

Shareholders (i.e., municipalities) can appoint board members

Finances

Can access debt that is not applicable to member municipality Annual Repayment Limits⁴

Can apply for grants and contract services, can collect revenue through user fees

Has similar investment authority as municipalities and can issue revenue bonds⁵

Can receive assistance from municipalities if wholly-owned by municipalities⁶

¹ *Municipal Act, 2001 – Section 203; Ontario Regulation 599/06 Municipal Services Corporations*

² *Ontario Regulation 599/06 Under the Municipal Act, 2001 – Section 3*

³ *Ontario Regulation 599/06 Under the Municipal Act, 2001 – Section 18*

⁴ *See Appendix B on Annual Repayment Limit*

⁵ *A municipal services corporation can only invest under section 418 of the Municipal Act which authorizes municipalities to invest in prescribed securities (described in Part 1 of O. Reg. 438/97). Under O. Reg. 599/06 subsection 18(2) a municipal services corporation may only invest in securities prescribed under section 418 of the Municipal Act. It cannot invest under section 418.1 of the Act that authorizes municipalities to invest in accordance with the prudent investor standard.*

⁶ *Ontario Regulation 599/06 Under the Municipal Act, 2001 – Section 15*

Governance

Opportunities	Strategic Risks and Considerations
<p><u>Long-Term Structure</u> Can offer delivery of water & wastewater to several municipalities in a region under a clear, dedicated long-term governance structure.</p> <p><u>Skills-Based</u> Can be setup to have un-elected officials (e.g., skill-based) serve providing business or sector expertise and perspectives to decision making while also alleviating some of the politically challenging decisions (e.g., increases to water rates).</p> <p><u>Speed</u> Can potentially make decisions faster as they are not competing with other municipal priorities or processes.</p> <p><u>Public</u> Must be wholly owned by municipalities (shareholder) and can be scoped to ensure shareholders still influence major board decisions through by-laws and agreements aligned with the municipal objectives around affordability and risk tolerances (e.g., major capital purchases, significant increases in water rates, issuance of long-term debt).</p>	<p><u>Misalignment</u> Board members have a fiduciary responsibility to the well-being of the utility while councils have a broader mandate to serve their communities. There may be instances where misalignment might arise although municipalities as sole shareholders can appoint or change board members.</p> <p><u>Transparency</u> Corporate board decisions do not have similar visibility as councils (e.g., recorded council proceedings and resolutions versus corporate proceedings). This may be particularly key to setting water rates and may require scoping when establishing an MSC around terms of information sharing and reporting outward.</p> <p><u>Accountability & Trust</u> Because elected municipal members are still liable under the <i>Safe Drinking Water Act</i> it takes time to build trust and willingness to tap into giving a skills-based board autonomy – however in the long-run it can help focus challenging political discussions such as rate setting with long-term sustainability perspectives.</p> <p><u>Practicality</u> While creation of a water & wastewater municipal service corporation does not require a system regulator, depending on the volume of municipalities that are involved in a municipal service corporation it may not be practical to have a large volume of shareholders to help regulate board activity, but this can be dealt with through choosing practical sizes of joint municipal service corporation and board structure.</p>

Funding & Finance

Opportunities	Strategic Risks (to Mitigate or Consider)
<p><u>Relieve Annual Repayment Limits</u> Municipal services corporations can be set up to borrow with no impact on local borrowing capacity (i.e., Annual Revenue Limits*) which can unlock debt as a key instrument to help with major capital expenses for both municipalities and municipal services corporations. Provided the municipal services corporation is properly established and maintained to achieve this objective*</p> <p><u>Does not preclude funding and financing sources</u> Depending on setup, a municipal services corporation can still receive assistance from municipalities offering some flexibility of financial tools to help pay for capital expenses and growth - this could include:</p> <ul style="list-style-type: none"> • Revenues from user fees & government grants • Development charges (although charges cannot be directly collected by a municipal services corporation, but municipalities can collect and transfer as 'equity') • Debt (ideally on favourable terms) <p><u>Equity</u> Equity can be built from transfers made from municipalities (e.g., development charges), proceeds from sale of assets, as well as reserves built up over time through a portion of rates. Equity can also be paid back to municipalities through dividends.</p> <p><u>Economy of scale benefits</u> Grouping municipalities in a municipal services corporation may help to cross subsidize costs offering overall financial sustainability for the group, especially for smaller municipalities that alone may not have the ability to maintain costs. The municipal services corporation may also be in a better position to access more debt channels versus an individual small municipality (e.g., Infrastructure Ontario, banks, Canada or Building Ontario Fund, capital markets depending on the size)</p>	<p><u>Annual Repayment Limit trade-off</u> Municipalities will need to do careful analysis on whether the removal of revenue and debt impacts how much room they have to access debt for other infrastructure needs - see the next slide for an illustration.</p> <p><u>Debt could be more expensive</u> For a municipality - removal of water & wastewater assets, revenues, debt, and reserves may also have a broader impact on how its financial risk is viewed by rating agencies and lending institutions. In addition, a municipality may need to guarantee the debt of the municipal services corporation.</p> <p>For a municipal services corporation - municipalities have excellent credit due to their fiscal framework (annual repayment limit, cannot run deficits, history of risk aversion, healthy reserves). The municipal service corporation may not be able to access debt on similar favorable terms that a municipality has – especially ones with excellent ratings such as regional municipalities - and a financial institution may look to the municipality or municipalities to guarantee a loan. Provincial or federal infrastructure bank programs could offer opportunities to mitigate this in the short to medium-term.</p> <p><u>Transition</u> Setting up a municipal services corporation can create potential complex intergenerational issues that need to be addressed (e.g., if a municipal services corporation stop receiving development charge funds, shifting to full cost recovery pricing). Transferring water & wastewater debt as well as reserve funds for existing water & wastewater assets to the municipal services corporation can be complex to coordinate – especially if this will occur on a periodic basis.</p>

*See appendix B on impact to annual repayment Limit and setting up a municipal service corporation

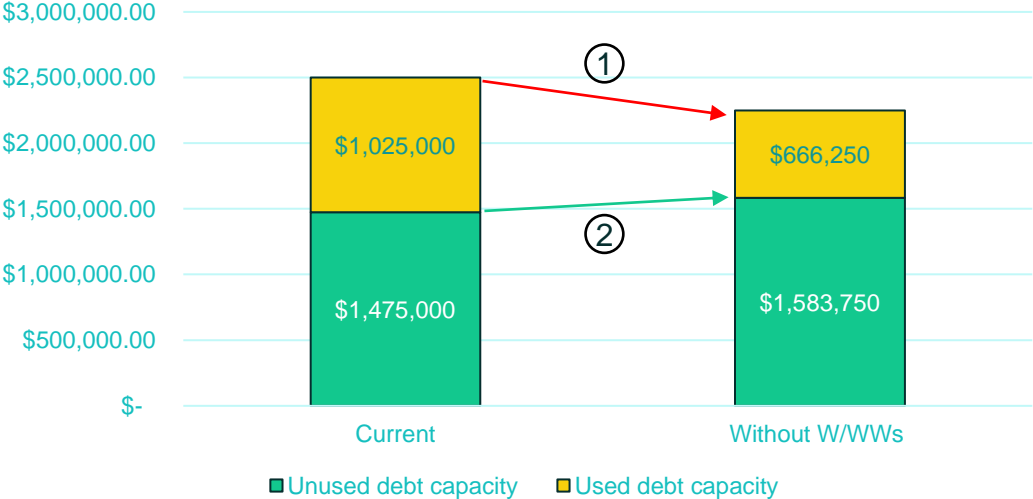
Funding & Finance: Annual Repayment Limit Illustration

The removal of own source revenues and debt associated with water and wastewater could have different impacts based on the current circumstances of a municipality. Some notable changes are worth identifying:

- 1. The overall debt servicing capacity which is based on 25% of own source revenues of a municipality will be reduced due to the removal of revenue
- 2. The unused debt servicing capacity could increase if the level of water and wastewater debt the municipality had was high and removed
- 3. The unused debt servicing capacity could decrease if the level of water and wastewater debt the municipality had was low and removed

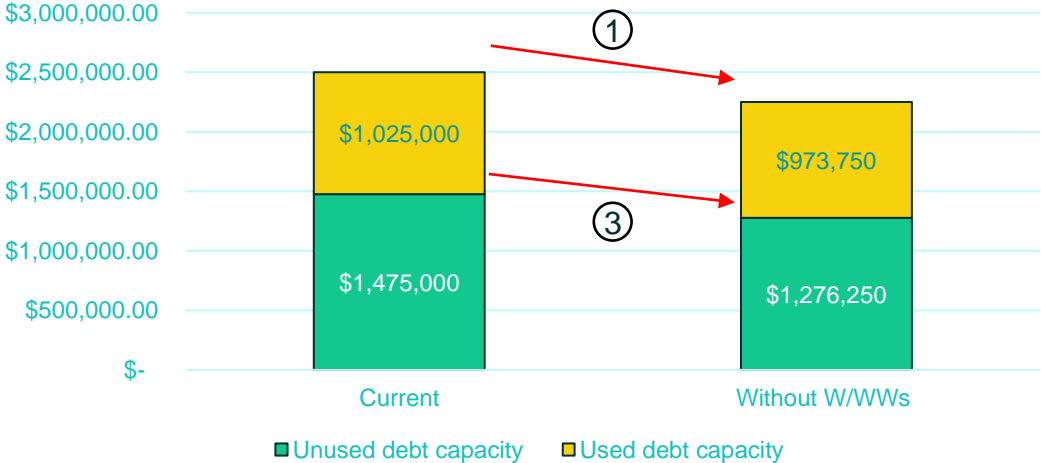
The following illustration provides a simple example of two* potential outcomes:

Scenario 1 – Unused Debt Servicing Capacity Increases



Scenario 1 Assumptions (higher-level of debt associated with water & wastewater)
 Water & Wastewater Principal Payments = \$350,000
 Water & Wastewater Interest Payments = \$8,750

Scenario 2 – Unused Debt Servicing Capacity Decreases



Scenario 2 Assumptions (lower-level of debt associated with water & wastewater)
 Water & Wastewater Principal Payments = \$50,000
 Water & Wastewater Interest Payments = \$1,250

***Common Assumptions Across Scenarios:**
 Own Source Revenue = \$10,000,000
 Total Annual Repayment Limit = \$2,500,000 (25% of \$10,000,000)
 Water and Wastewater User Fee Revenues = \$1,000,000
 Total Debt Principal Payments = \$1,000,000
 Total Interest Payments = \$25,000

Planning & Delivery

Opportunities	Strategic Risks (to Mitigate or Consider)
<p><u>Scaled Capital & Operational Planning or Delivery</u></p> <p>In some instances, there could be benefits realized from economies of scale such as:</p> <ul style="list-style-type: none"> • Could help infrastructure planning across municipal boundaries – possibly to connect water systems where it makes sense that can benefit from system rationalization. • Could help to pool delivery expertise. • Could help with administrative efficiencies with one layer of specific administrative functions (e.g., IT, HR, corporate finance support, etc.) as opposed to many within a group of a municipalities. 	<p><u>Long-term & Disruption</u></p> <p>Due to the complexity, especially when involving multiple municipalities, as well time to develop a business case, asset transfer policies and consult it can take time to set up a municipal services corporation (1-2 years*) and more time to eventually reach a mature state (~3 to 4 years). This makes it a less responsive approach to short-term goals such as quickly building housing within five years but responsive to longer-term planning that has less immediate pressures and a runway to shift governance aligned within infrastructure growth plan timelines.</p> <p><u>Complexity</u></p> <p>Removing delivery, planning & decision making from a municipality can create more complexity and coordination issues. Successful growth requires planning, infrastructure and finance to be well integrated, and removing management of key infrastructure may not build houses quickly or worse result in <u>higher</u> cost:</p> <ul style="list-style-type: none"> • Planning issues of coordinating with 3rd party utilities (e.g., tearing up roads twice to do pipe and road work) • Ensuring growth infrastructure is well timed with new housing (e.g., hook-ups are not ready for new builds) <p><u>Transferring Corporate Administration and Resources</u></p> <p>Shifting resources that are needed to operate a water and wastewater corporation will need to be clearly laid out such as IT, HR, corporate finance, legal and day-to-day operational staff all must be considered and can present challenges. It requires a clear plan, transition periods, and may take time to reach full autonomy supported in well-articulated agreements. In addition, setting up and planning the transfer itself takes one-time resources (e.g., consultants for business cases, legal).</p>

**time to incorporate following the necessary steps along with educating and getting political decisions from council*

Where a Municipal Services Corporation May be a Best Fit

The benefits and strategic risks of a municipal services corporation may also apply differently based on the size and organization of municipalities along with how water & wastewater is currently managed.

This can play a significant factor in determining what marginal benefits this model can offer current municipalities or groups of municipalities. Generally speaking, there would be limited benefits for regional and large single tier municipalities including:

- They currently manage infrastructure across municipal boundaries offering a broader view to support planning
- Growth and asset management planning with other infrastructure is integrated
- They already benefit from economies of scale (e.g., cross-subsidization, pooled expertise, etc.)
- They can access debt on very favourable terms (e.g., often AAA rated) versus a municipal services corporation (e.g., comparator electrical utilities do not have the same credit rating level)
- The transition could be very disruptive to quickly building infrastructure to support rapid and intense housing growth

There may be more benefits gained from groups of smaller to medium size municipalities exploring the model for the benefits outlined in this background. These will vary considerably from place-to-place but could include helping to in the long-run achieve economies of scale, deal with rapid cost escalations, make politically challenging decisions, and help with debt management to name a few. In addition, some of the benefits are being realized in some smaller areas through municipal cooperation and the use of contracted expertise, such as the Ontario Clean Water Agency.

Ultimately the success of a municipal services corporation is based on how collaborative it will be with its member municipalities, both to generate buy-in needed to smoothly establish a new municipal services corporation as well as in the long run ensuring there is successful coordination to integrate planning and operations so that the right infrastructure is built at the right time in the right place for Ontario's growing communities.

For this reason, **AMO & MFOA firmly believe that this should be sector-led** to achieve the best outcomes.

Part III: Illustrations

Illustrations: Municipality

Innisfil

Effective June 17, 2015, Innisfil Town Council approved the business case for the establishment of a water and wastewater utility “InnServices”.

As a Municipal Services Corporation (MSC) InnServices was setup to help enable strategic infrastructure investments and expansion, specifically into Innisfil Heights.

InnServices is owned by the Town and has a five-member Board that includes the Mayor and CAO, with the Town’s CAO serving as Chair. Operations were structured in a shared-services model with the Town providing certain corporate functions – set out in an agreement.

The corporation has 45 employees, providing services to 12,000 customers in Innisfil and services to a neighbouring municipality.

InnServices has infrastructure under management and operates a user-pay model, with rates set by council.

While the corporation can take on debt, current levels are low, and development charges are still a significant revenue source that finance expansion of the infrastructure and servicing – but it has flexibility.

Oro-Medonte

Effective July 18, 2018, Oro-Medonte Council endorsed proceeding with an MSC and in January 2020 the Hold Co. and Utility (Operating) Co. were incorporated.

The MSC is expected to be a model that can respond to greater demand for future state environmental services (e.g., increased infrastructure demands and associated debt servicing requirements; getting into a broader scope of services and operations; a greater emphasis on rate setting so as to ensure fairness, sustainability and the avoidance of subsidization of environmental services by residents that do not receive them).

The MSC is wholly owned by the municipality and consists of a Hold Co. and an Operating Co. Oro-Medonte Council appointed three (3) skilled based independent directors to Hold Co. and Operating Co; a former member of Council as the municipal member to the MSC Hold Co.; the Township CAO as Chief Executive Officer of Hold Co. and Operating Co.; and the Township Director of Environmental Services as Chief Operating Officer of the Operating Co.

The MSC oversees all municipal water systems currently operated by the Township, existing municipal communal tile bed systems operated by the Township, maintenance of urban stormwater management ponds, maintenance of the Township's street lighting network, and future infrastructure related to water and wastewater, urban stormwater and street lighting.

The MSC does not have its own staff. Technical and administrative support including operating staff are provided by Township staff on full cost recovery basis. Executive support to the MSC is provided by Township senior leadership through job description modifications.

Illustrations: Joint-Municipalities

Frontenac

Effective September 2021, Frontenac County municipalities formally approved the business case for the Frontenac Municipal Services Corporation (FMSC).

FMSC is wholly owned by the four member Townships in the County (Class A voting shareholders) and the County as a 20% Class B, none voting shareholder. The Corporation's mandate is to facilitate the efficient construction and operation of de-centralized communal water and wastewater systems within Frontenac County - a largely rural community in Eastern Ontario.

The board has one members from each founding municipality: The Township of Central Frontenac, The Township of Frontenac Islands, The Township of North Frontenac, and the Township of South Frontenac.

Funding for the FMSC – \$700,000 for the first five years of operation – is divided based upon weighted assessment of the member municipalities, with the County assuming the first 20% of the budget. Operations are anticipated to start in 2025, and work is underway on a full-cost-recovery model.

The current Board of Directors is supported by a technical committee that is providing advise on standards and implementation. The development of an operating corporation is anticipated to take place in 2025.

Union Water Supply System

The Union Water Supply System Inc. (UWSS Inc.) was created on February 24, 2023, as a Municipal Services Corporation.

Union Water Supply System Inc. transitioned from a Joint Board of Management. UWSS Inc. has four (4) shareholders which include the Municipality of Leamington, the Town of Kingsville, the Town of Essex, and the Municipality of Lakeshore.

The system supplies water to a population of around 66,800 within these 4 municipalities. UWSS Inc. is governed by a Board with 12 Board Directors. The board is a mix of municipally appointed members, but limits elected members to 50% of the Board to balance board seats with skilled based positions (e.g., law, engineering, business backgrounds).

UWSS Inc. is independently administered and financially separated from its municipal shareholders. UWSS Inc. retains the municipalities through a Water Services Agreement for customer billing and revenue recovery and remittance.

UWSS Inc. capital program for 2023-2032 is in the range of \$150M and includes major capital projects such as a new reservoir and water treatment plant. To fund these projects, UWSS Inc. needed to obtain debt financing directly an independently of the municipalities.

UWSS Inc.'s Government Business Entity (GBE) designation enables the corporation to access the credit market directly without any recourse to the municipalities.

Appendices

Appendix A: Municipal Services Corporation Governance

Municipal powers include the ability to:

- Create a corporation for any service and/or facility that the municipality itself could provide – but there are limits on which types of service.
- Create a holding corporation
- Appoint or nominate individuals to any corporation
- Buy shares in the corporation that it establishes or that is established by another municipality that is operating within their jurisdiction
- Operate a corporation in another municipality with permission (permission may not be required in two-tier system)
- Structure a corporation with significant autonomy
- Continue to determine how best to provide services

Corporations are not permitted to:

- Establish subsidiaries or other corporations
- Perform any activity other than for the purpose it was created
- Be delegated the power by a municipality to incorporate other Municipal Services Corporations

A Water and Sewage MSC must be Publicly Owned

Regulation O. Reg. 599/06: MUNICIPAL SERVICES CORPORATIONS

Section 18

(5) If any purpose or business of a corporation includes the provision of a public utility for water or sewage,

- (a) the corporation shall not issue shares or give voting rights attached to the shares to a private person if it is a share corporation or, if it is a non-share corporation, it shall allocate voting rights to a member of the corporation only if the member is not a private person; and
- (b) the corporation shall not transfer to a private person any asset that is part or all of a municipal drinking water system or of a sewage works unless the board of directors of the corporation has declared, by resolution, that the asset is no longer needed for the purposes of the system. O. Reg. 599/06, s. 18 (5).

(7) In this section,

- “municipal drinking water system” has the same meaning as in the *Safe Drinking Water Act, 2002*; (“réseau municipal d’eau potable”)
- “sewage works” has the same meaning as in the *Ontario Water Resources Act*. (“station d’épuration des eaux d’égout”) O. Reg. 599/06, s. 18 (7)

Appendix B: Municipal Services Corporations & Annual Repayment Limit

- Subsection 1. (2) of *O. Reg 403/02* provides that the Ministry of Municipal Affairs and Housing will determine the Annual Repayment Limit (ARL) “based on the financial information supplied to the Ministry by each municipality under the Act and under the *Municipal Affairs Act*.”
 - The Financial Information Return (FIR) is structured to gather data reflected in municipal financial statements.
- Under Generally Accepted Accounting Principles for Public Sector entities Government Business Enterprises (GBE) are not consolidated for financial reporting.

If the municipal service corporation is structured to be a GBE, then it’s financials will not be consolidated with municipal financial reporting and will not be reported in the FIR.
If the GBE debt is not consolidated with municipal debt in the FIR, it will not factor into ARL calculations as described in *O. Reg 403/02*

- According to Public Sector Accounting Standards it must have the following characteristics:
 1. Existence as a separate legal entity that can contract in its own right;
 2. Delegation from the establishing municipality of the financial and operational authority to carry out the treatment and distribution of water and wastewater services;
 3. Authority to “sell” (distribute) its “goods and services” (potable water and wastewater) principally to individuals and organizations independently from the establishing municipality; and
 4. Meets, in the normal course of its operation, all of its costs and liabilities from revenues obtained from sources outside of the establishing municipality.
- Not all municipal service corporations are structured as a GBE. Local municipalities should complete their own analysis on the feasibility of structuring a municipal service corporation as a GBE.

Appendix C: Other Alternatives to Addressing Issues

Governance	<p>There may be alternative means to help build decision making expertise or capacity such as:</p> <ul style="list-style-type: none">• Sub-committees with experts to advise council on specific services or issues• Municipal service boards• Leveraging or building up existing public works capacity
Funding & Financing	<p>There may be alternatives for municipalities to access more debt to meet capital needs</p> <ul style="list-style-type: none">• Working with the province to increase the Annual Repayment Limit• Establishing a separate Annual Repayment Limit for water & wastewater
Planning & Delivery	<p>There may be alternatives for municipalities to work together to improve delivery or planning</p> <ul style="list-style-type: none">• Enter into agreements with each other to help share resources including service agreements for one municipality to offer water delivery to another

What you shared: Public MSC engagement summary

Why we engaged

In the evolving landscape of water and wastewater services, the creation of a public MSC is an opportunity for the City and Utilities Kingston to support a faster pace for asset replacement and new infrastructure to meet growing needs while reducing financial impact on other municipal services such as roads and recreation services. Under Ontario's Municipal Act, 2001 and Regulation 599/06, municipalities are authorized to establish public MSCs for delivering municipal services.

Public consultation with respect to the proposed public MSC model is required under Ontario Regulation 599/06.

The feedback summarized below reflects the range of comments received during consultation.

How we engaged

The engagement period began on Dec. 4, 2025. Community members were invited to read the KPMG Business Case, which outlined context and drivers for the proposal, details on the proposed governance structure, financial considerations and an overview of an implementation plan. A short survey provided an opportunity for residents to provide feedback on the business case, and there was a Q&A tool for participants to ask questions.

The engagement was promoted on Get Involved Kingston and on the City of Kingston and Utilities' Kingston's websites. A news release was distributed to media and news subscribers and the survey was included in social media posts on the City's LinkedIn, Facebook, X and Instagram channels.

Residents were also given the opportunity to submit feedback offline and via email/CRM. An additional update that included detailed information about the proposed organizational structure, agreements, and financial models was published on Jan. 12. The survey was extended until Jan. 19, 2026.

In response to the feedback, the Public MSC Business Case was updated on March 2, 2026 provide additional analysis, clarification, and supporting information. The Q&A feedback opportunity remained open.

Who we heard from

- 385 participants completed the survey*
- 30 questions asked using the Q&A tool
- 1,941 participants visited the project page to learn more
- 30 participants engaged with the City for the first time on Get Involved Kingston
- 825 downloads of the MSC Business Case
- 63,996 social media impressions
- 1,819 social media engagements
- 67 social media comments received**
- 13 CRM/emails sharing feedback on the proposal for an MSC

Locations of participants

- 25% Southwest Kingston (K7M)
- 39% Central-East Kingston (K7K)
- 7% Northwest Kingston (K7P)
- 24% Central-South Kingston (K7L)
- 4% Rural Kingston and Frontenac County (K0H)
- Less than 1% Other/outside of Kingston (L9G, A1C)

*Survey results are not statistically representative of the entire community, as engaged participants account for less than 0.29% of the total population of Kingston.

** Comments received on social media are not included in the public engagement summary. Statistics are provided to indicate community interest and social media reach.

What we heard

Most engagement participants told us they were somewhat familiar (68%) or not familiar (17%) with a public MSC model. After reading the business case, respondents shared that they are not supportive of the proposed public MSC. When asked about the strategic advantages of a public MSC, survey respondents consistently disagreed with all the strategic advantages offered in the business case. In open-ended feedback received in the survey and through emails and CRM submissions, respondents cited concerns about privatization, affordability, and transparency.

Figure A: Familiarity with a public MSC model

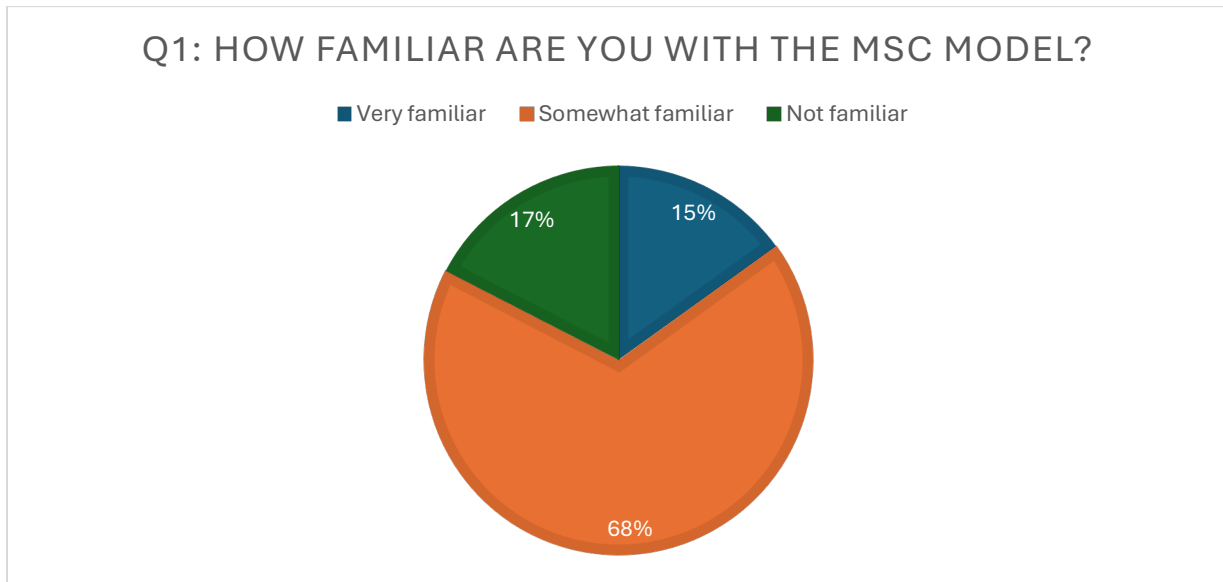


Figure B: Support of public MSC

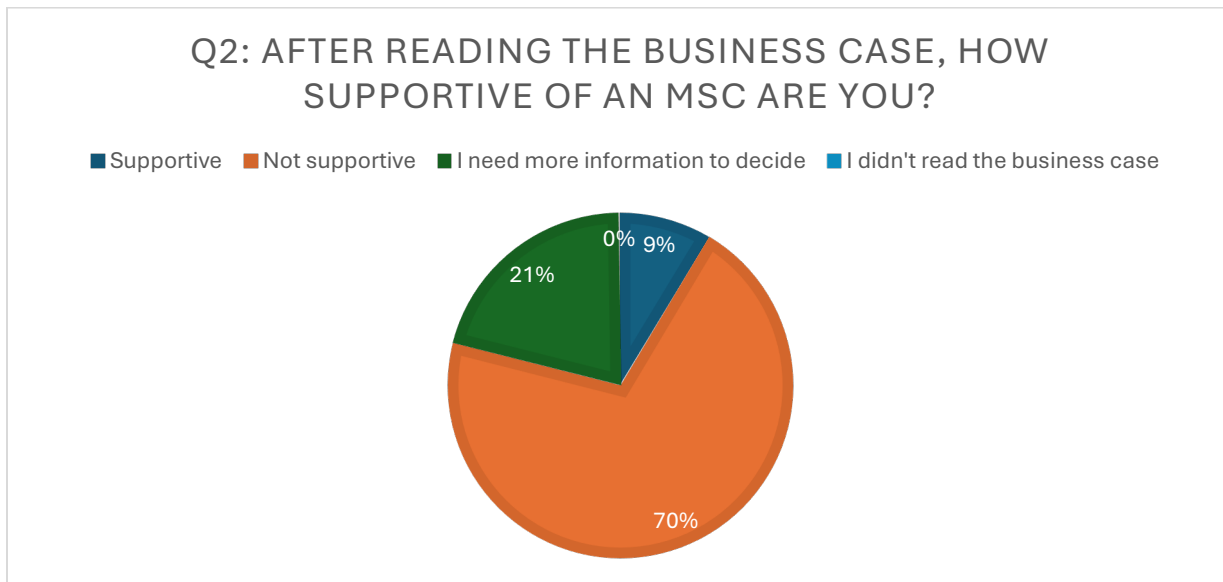
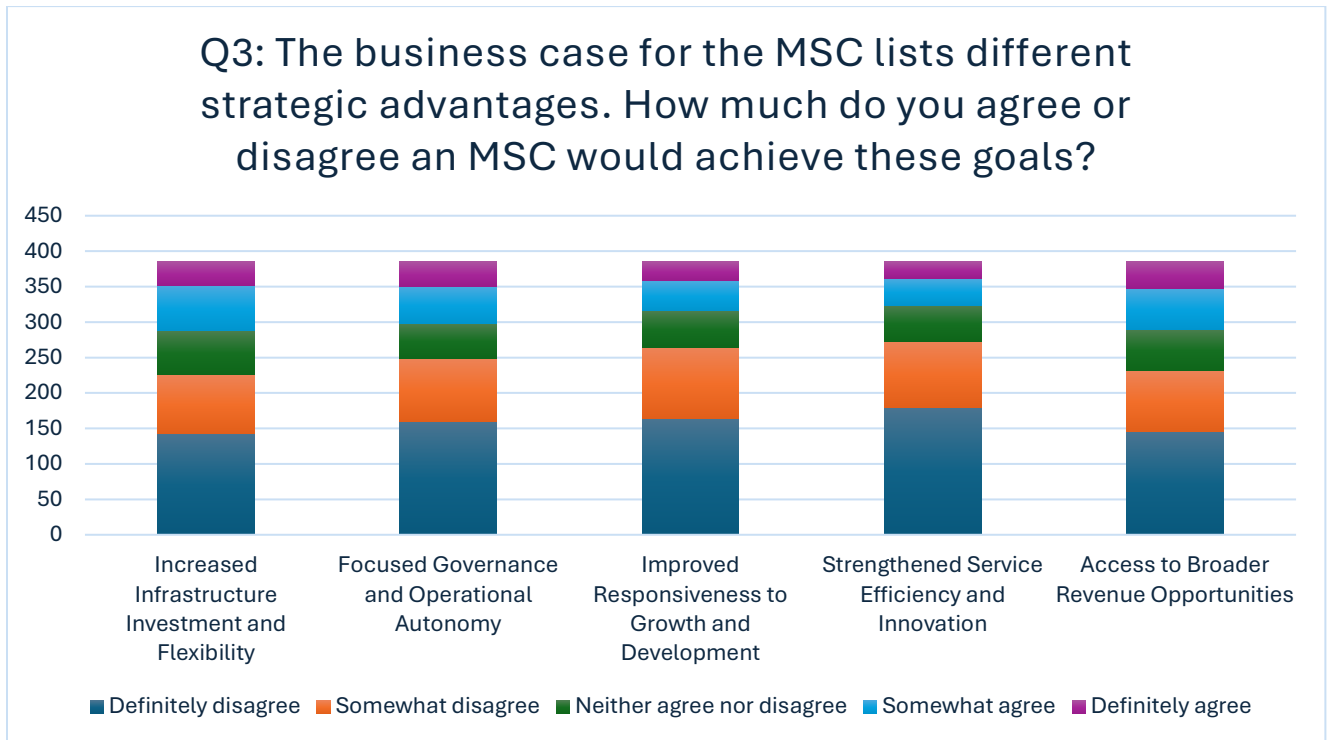


Figure C: Agreement with Strategic Advantages



Summary of Feedback Themes (312 comments)

- Preference for current model and opposition to Privatization of Water Wastewater Services:** A dominant theme is participant concern that a public MSC opens the door to privatization or profit-driven motives for essential services. Residents emphasize that water is a public good and must remain publicly owned and publicly managed. Many believe that if improvements are required they could be made within the existing water wastewater structure.
- Accountability and Transparency:** Many respondents worry that a public MSC reduces oversight by Council and residents. Concerns include nontransparent decision making, weaker public reporting and lack of accountability in cases of service failure or rate increases.
- Skepticism of Business Case, Financial Uncertainty and Population Projections:** Comments highlight a perceived lack of clear financial justification, missing comparisons to current model, minimal risk assessment and concerns about hidden liabilities and long-term cost implications. Some respondents questioned the population projections underpinning the rationale for change. Other respondents ask for case studies, performance data from other municipalities, and analyses of alternative approaches.

- **Concern about Impact on Rates and Affordability:** Some respondents are concerned that a public MSC will lead to higher user fees, new charges, or cost-shifting that could disproportionately impact low-income residents.
- **Concern about risks to Service Quality and Public Health:** Participants worry that a business-oriented approach could negatively affect water quality. Some cite international examples (notably the U.K.) and past crises (such as Walkerton) as warning that privatization can lead to reduced maintenance, environmental harm and compromised safety.
- **Insufficient Public Engagement:** Some commenters criticize the public engagement process, stating they felt rushed and did not have the information needed to engage meaningfully.
- **Support and Positive Feedback:** A few respondents are open to and/or supportive of a public MSC model, recognizing that population growth may require a new approach. Many supportive comments are conditional, emphasizing the need for clear governance, strong accountability and transparency, and insurance that the model remain fully publicly owned.