



**City of Kingston
Report to Council
Report Number 26-148**

To: Mayor and Members of Council

From: Lanie Hurdle, Chief Administrative Officer; David Fell,
President & CEO, Utilities Kingston

Resource Staff: Desiree Kennedy, Chief Financial Officer & City Treasurer;
Randy Murphy, Chief Financial Officer & Corporate Secretary,
Utilities Kingston

Date of Meeting: June 16, 2026

Subject: Water & Wastewater Public Municipal Services Corporation

Council Strategic Plan Alignment:

Theme: Corporate business

Goal: See above

Executive Summary:

The purpose of this report is to present Council with a plan and seek endorsement in principle for a public Municipal Services Corporation for Water & Wastewater Services for the City of Kingston. This report also recommends next steps for the development of a draft shareholder declaration which would require future Council approval. This recommendation supports the Financial Overview and Fiscal Challenges [Report Number 26-121](#) and aligns with the report recommendations previously endorsed by City Council.

The City of Kingston, like other municipalities in Ontario, has been trying to address its backlog of infrastructure repairs through its asset management plans. In addition to this infrastructure renewal requirement, the City has been planning for infrastructure expansion to meet the needs of the growing population. The City of Kingston is the sole owner of water and wastewater infrastructure, which is managed by Utilities Kingston, a separate organization, on behalf of the City. Under the public municipal service corporation model, the City would become the sole

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shareholder and Utilities Kingston would continue to provide day-to-day oversight and operate water and wastewater services.

Utilities Kingston is not a public municipal service corporation established under the *Municipal Act, 2001* and therefore its role and responsibilities are limited to oversight and management of day-to-day services for water and wastewater. Utilities Kingston does not have the ability to issue its own debt for water and wastewater services and therefore funding for asset renewal and expansion must be secured through the City of Kingston. Debt related to water and wastewater infrastructure currently represents about 40% of the long-term debt issued by the City of Kingston. Furthermore, the asset management plans for water and wastewater infrastructure approved by Council in 2025 identify the need for an additional yearly investment of about \$100M.

In addition to the water and wastewater infrastructure, the City must finance municipal asset renewal and expansions including roads, transit, transportation, parks, fleet, recreation, culture, affordable housing, airport and employment lands. The Council approved [Asset Management Plan](#) forecasts an average investment of \$128M per year to address municipal asset renewal, not including water and wastewater. This puts a financial burden on the City of \$228M per year to address asset renewal requirements only. This asset management investment also contemplates a reduction in current levels of service. The amount to maintain the current municipal asset level of service would be about \$282.1M per year. In addition to the asset renewal, the City needs to fund future growth needs for recreation, housing, roads, etc.

City staff recognize that the current financial model, including reserve funds, investment returns and debt issuance, cannot meet current and future asset needs, even with significant tax and fee increases on a yearly basis. City staff have been reviewing various options to alleviate the financial burden on the City's finances and borrowing capacity while enabling/advancing major infrastructure replacement and growth. The public municipal service corporation would not address all financial pressures and constraints but would provide more flexibility with borrowing capacity for water and wastewater and more borrowing capacity for the City to support other municipal priorities and assets.

A public municipal services corporation established under the *Municipal Act, 2001*, O. Reg. 599/06, is a tool that allows for the creation of a structure that can issue its own debt separately from the municipality. This regulation under the *Municipal Act, 2001* requires that any corporation that provides a public utility for water or sewage MUST remain in public ownership. It cannot be sold to a private entity or have private equity and/or investments. This model currently exists in other municipalities such as Frontenac County and the Town of Innisfil. The Association of Municipalities of Ontario (AMO) in collaboration with the Municipal Finance Officers' Association of Ontario (MFOA), released a 2024 report identifying municipal service corporations as a possible mechanism to alleviate financial pressures on municipalities (Exhibit B).

The public municipal service corporation model is different from the model under the *Water and Wastewater Public Corporations Act, 2025* (Bill 60, *Fighting Delays, Building Faster Act, 2025*).

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Under the *Water and Wastewater Public Corporations Act, 2025*, the provincial government will have more oversight and control of water and wastewater corporations. The potential for privatization or private investments in the water and wastewater corporations established under the *Water and Wastewater Public Corporations Act, 2025* was recently clarified through changes outlined in Bill 98, whereby shares of a water and wastewater public corporation can only be issued to a municipality, the Province of Ontario, or the Government of Canada, explicitly prohibiting private ownership. Currently, the *Water and Wastewater Public Corporations Act, 2025* applies specifically to the Region of Peel but it is anticipated that in the future this could be extended to include other municipalities within the province.

City staff recognize that the Province could change legislation impacting municipalities at any time, and for any reason, but staff are of the opinion that it is unlikely the Province would make changes to a water and wastewater public municipal service corporation established under the *Municipal Act, 2001*. Staff understand that although the *Municipal Act, 2001* and the *Water and Wastewater Public Corporations Act, 2025* provide for different corporate entities, they ultimately aim to address the issue of financing asset management renewal and expansion. Staff believe that a public municipal service corporation under the *Municipal Act, 2001* is a tool to try to maintain more local control over assets and rates in the long term.

Under the public municipal service corporation model, City Council would remain as the sole shareholder and Utilities Kingston would still provide day-to-day services to oversee and operate water and wastewater services in the same way that they do under the current model. There would be a shareholder declaration from the City of Kingston to the public municipal service corporation to outline governance, financial parameters and reporting requirements. There would also be a service agreement between the public municipal service corporation and Utilities Kingston, similar to the agreement that currently exists between Utilities Kingston and the City of Kingston. Although budgets and debt issuance/repayment would be approved and managed by the public municipal service corporation, it is expected that City Council would retain the authority to approve user rates with recommendations from the public municipal service corporation. Therefore, the public municipal service corporation's budget approvals and debt issuance would be subject to City Council rate approvals. This aligns with the current model where Utilities Kingston recommends user rates to City Council for approval.

It is expected that the implementation of a municipal services corporation would minimize the utility rate increase over the next 10 years and the debt issuance required by the City. Preliminary estimates show that the average residential customer that utilizes 200 m³ per year would pay approximately \$3,727 more for the same utility service over the ten-year period 2027-2036 under Model 1, Option 2 as described later in this report. The cost difference starting in 2036 going forward would be approximately \$749 more per annum under the current model. Alternatively, the City could choose to reduce rates by significantly increasing its debt levels (about \$1.1B) or increasing property taxes by about 4.2% over a 10-year period. Based on an average home value of \$328,099, it is expected that there would be an average annual increase of \$273.99 in property taxes for 10 years. This would be a total an increase of \$2,740 over the 10 years to cover water and wastewater asset investments only.

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As indicated, the main reasons to establish this public municipal service corporation would be to address the financial pressures that the City is facing with a heavy backlog of asset renewal and requirements for new infrastructure to accommodate growth. It is expected that this tool would create more financial capacity for water and wastewater projects to advance at a faster pace and create more financial room for the City to finance other infrastructure needs within the community subject to the availability of tax and fee revenue sources, including capital reserve funds, to meet debt servicing costs. More financial information, including two financing models and options, is provided in the Discussion section of this report. Furthermore, City staff's intent is to retain public local control of water and wastewater services over the long term by establishing a public municipal service corporation under the *Municipal Act, 2001* and possibly avoiding a future corporation under the *Water and Wastewater Public Corporations Act, 2025*.

The *Municipal Act, 2001* requires that municipalities complete a business plan prior to establishing a public municipal service corporation. Utilities Kingston contracted the services of KPMG to prepare a business plan for a water and wastewater public municipal service corporation, attached as Exhibit A to this report, as required under the applicable legislative framework. Staff presented information at the Environment, Infrastructure & Transportation Policies Committee and also attended a town hall meeting over the last couple of months as part of the public engagement process which was initiated in December 2025 as required under Ontario Regulation 599/06 under the *Municipal Act, 2001*.

Considering overall long-term financial pressures on the municipality, City staff are reviewing options to utilize models such as a public municipal service corporation for other services such as the airport, employment lands and affordable housing construction. This review is still in progress, feasibility has not yet been determined and therefore, public engagement on those services is premature.

The process for the implementation of a public municipal service corporation includes at least two future additional City Council decision points including a shareholder declaration and asset transfer. Next steps would be to draft a shareholder declaration which would outline financial parameters as well as a reporting framework, subject to City Council approval.

Recommendation:

That Council endorse a Water & Wastewater Public Municipal Services Corporation model for its water and wastewater services; and

That Council direct staff to work with Utilities Kingston to draft a shareholder declaration which will include information on board composition, governance and corporate structure, financial parameters and reporting requirements.

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Authorizing Signatures:

ORIGINAL SIGNED BY PRESIDENT

& CEO, UTILITIES KINGSTON

**David Fell, President & CEO,
Utilities Kingston**

ORIGINAL SIGNED BY CHIEF

ADMINISTRATIVE OFFICER

**Lanie Hurdle, Chief
Administrative Officer**

Consultation with the following Members of the Corporate Management Team:

Paige Agnew, Commissioner, Growth & Development Services

Jennifer Campbell, Commissioner, Community Services

Neil Carbone, Commissioner, Corporate & Emergency Services

p.p.

Desirée Kennedy, Chief Financial Officer & City Treasurer

Jenna Morley, City Solicitor

Ian Semple, Commissioner, Transportation & Infrastructure Services

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Options/Discussion:**City Infrastructure Long-Term Needs and Financial Implications**

Like other Canadian municipalities, the City of Kingston continues to experience a growing infrastructure funding gap, driven by older assets, climate change effects and rising costs.

The City of Kingston has \$8.3 billion in municipal assets, in addition to assets for water and wastewater services and gas operations. The City's asset portfolio supports essential municipal services such as roads and transportation, facilities, fire services, public transit, stormwater, parks and recreation, fleet, and information technology.

The current annual renewal investment for assets averages \$78.7 million, compared to the \$282.1M required to maintain existing Levels of Service (LOS) – creating an annual funding gap of approximately \$203.4M. For the City, the value of the current backlog emphasizes the need for continued asset renewal investment despite current capital pressures to help reach sustainable funding levels that are aligned with approved LOS.

On December 16, 2025 ([Report Number 26-002](#)), Council endorsed a LOS, that is based on a phased longer-term investment strategy that gradually increases from a minimum of \$99.8M to a maximum of \$157.8M, representing a 10-year annual average of approximately \$128M in capital renewal investment. The total projected financial requirement over the 10-year horizon is \$1.74 billion. This phased annual investment over the next 10 years of approximately \$128M represents a significant increase over current funding levels but still does not meet the \$282.1M required to fully maintain existing service levels.

In October 2025, City Council endorsed [Report Number 25-237](#) which provided information/recommendations related to the water and wastewater asset management plan. This report identified a yearly financial gap of about \$100M required to finance water and wastewater asset management projects. This is in addition to the municipal asset management gap identified above. Utilities Kingston is currently working on a strategy to mitigate this infrastructure funding deficit through investments in more detailed asset management practices and systems while keeping in mind the impacts that increased investments in capital renewal will have on customer rates and affordability. Of primary importance is to continue to meet the requirements of the *Safe Drinking Water Act, 2002* (S.O. 2002, c. 32) and the *Environmental Protection Act, R.S.O. 1990, c. E. 19* and the regulations thereunder. As part of the asset renewal plan, and to move toward the asset life cycle management identified in the Council approved asset management plans, Utilities Kingston has added \$230M to its 2027-2036 wastewater capital renewal budget and \$183M to its 2027-2036 water capital renewal budget.

In addition to the municipal asset renewal financial pressures, the city has been and will continue to experience growth which puts significant pressure on all assets including municipal water and wastewater systems because these services are tightly tied to both capacity and infrastructure limits; and complex expansion or upgrading of systems requires major capital investment while balancing rate affordability for residents.

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Given the asset renewal investments and unprecedented growth, the City and Utilities Kingston's (UK) senior leadership teams have been jointly exploring different models and tools to help unlock increased financial capacity, outside of traditional municipal revenue sources and user rates, to plan for the building and infrastructure requirements the community will need to support asset renewal and growth. Financial data and modelling included in this report does not include any costs related to potential urban boundary expansion. Financial information is based on asset management plans and projects included in development charges within the existing urban boundary endorsed by City Council in 2025.

The current Water/Wastewater Master Plan (WWMP) does not consider the growth currently being experienced in many areas of the city. The City is starting to see servicing constraints emerge in many areas which impact the rate at which new development can be approved to support growth. The updated WWMP, which will be part of the new Official Plan, will require additional financial capacity and flexibility.

The WWMP identifies the estimated timing and cost of infrastructure upgrades that are required city-wide to accommodate the city's long-term growth, including the network of combined sanitary and storm sewers in the central portion of the city. City Council approved a 20-year sewer separation plan in 2019 to address the combined sewers that remain. Continuing with a sustained plan for annual sewer separation projects is critical to create servicing capacity for growth. For sewer separation work alone, the 2019 report to Council estimated UK to budget on average \$2.4M per year and the City of Kingston's Engineering department \$6.0M to \$7.0M annually to support this work (note these are based on 2018 construction values). This does not include any other important water/sewer upgrades that may be required to support growth elsewhere in the city.

Significant financial debt and staff resources will be required to fundamentally address city-wide infrastructure constraints (water/wastewater/stormwater/electric/gas) in a coordinated, strategic manner. This issue will be compounded by areas of expansion required to support overall growth and the establishment of servicing infrastructure required to accommodate legislated municipal requirements for asset management planning. Recent changes to Development Charge legislation by the provincial government provides fee reductions and exemptions for most forms of development, which is further constraining the municipality's ability to fund growth-related infrastructure from fees charged to the applicant/developer.

Financial Implications of a Public Municipal Service Corporation

Like all municipalities in Ontario, the City's current borrowing capacity for all municipal and water and wastewater projects is based on a provincial formula that caps annual debt servicing costs at 25% of annual operating revenues. This results in a provincial ceiling of approximately \$1.4 billion in total debt. Based on the City's Financial Information Return, the City is currently using 30% of its allowable capacity, based on total annual operating revenues, as per provincial legislation.

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The City, through Council endorsement, has established its own debt limit of \$500M, based on affordability, interest rate risk and credit rating considerations. The self-imposed debt limit is adjusted yearly based on a 2% inflation rate, which aligns with the Bank of Canada target rate of inflation. This municipally endorsed limit is part of the City's long-term debt management strategies to minimize future property tax increases and has been a contributing factor in maintaining a competitive credit rating with Standards & Poor's. The City's current total debt balance is \$450M of which about 40% relates to water and wastewater infrastructure. The remaining balance of debt represents debt funding for municipal assets. The City's debt balance is anticipated to increase to \$475M at the end of 2026 as per [Report Number 26-111](#).

Water and wastewater operations are more leveraged than the rest of the City's debt, with an annual debt servicing representing 10% of water wastewater revenues, compared to 7.7% for the City overall.

Under the proposed structure, water and wastewater revenues (representing 15% of the City's total revenues) and outstanding water and wastewater debt (representing about 40% of the City's total debt) would be transferred to the public municipal service corporation. Because a larger share of debt than revenue is being removed from the City's books, the City's remaining debt-to-revenue ratio improves. Alternatively, the City will have unused debt capacity available while maintaining a similar overall debt servicing ratio. It is expected that this would provide the City with more than \$20M in additional debt capacity without increasing property taxes and municipal fees. To put it in perspective, this is the equivalent to the budget for the Culligan Water Park enclosure, the rehabilitation of Highway 2 from Highway 15 to the city boundary, full reconstruction of four blocks of Princess Street in Williamsville, acquisition of 18 bio diesel buses or 12 electric buses or the acquisition of properties like the Lemoine Point Farm. The debt servicing costs of any future debt issued by the City would need to be supported by capital reserve funds, which are funded by property tax and municipal user fee revenue to meet debt payment obligations.

The water and wastewater utilities would have different borrowing capabilities within a public municipal service corporation than borrowing through the City. It is anticipated that within a public municipal service corporation, additional financing options would be available to invest in critical infrastructure replacements moving towards better asset management practices in terms of reinvesting in aging infrastructure. Unlike municipal borrowing, under the public municipal service corporation model, the water and wastewater corporation would be able to borrow on negotiated commercial lending terms, similar to Kingston Hydro, a wholly owned subsidiary corporation of the City of Kingston, with the potential to issue debt of up to 50% of the value of its assets and borrow against future revenue projections based on new/additional infrastructure projects. The exact amount would be contingent upon a MSC board approved financing agreement and the terms of the shareholder declaration.

Financing Options and Modelling

City staff reviewed two (2) financing models to support investments required under current water and wastewater and municipal plans. The two models below illustrate the impact on rates and

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debt levels with the current and the MSC governance structures. Additional financing through debt or rates will be required to increase investment and accelerate the pace of water and wastewater infrastructure replacements and repairs to mitigate major infrastructure failures in the future. The City only has two (2) sources of financing to pay the debt required for asset management: user rates and property taxes. Development charges can only be applied to projects that support growth and can't be utilized for repairs or replacement of "like for like" infrastructure. The models and their assumptions are detailed below with options, and debt graphs are also included for each option.

Current City of Kingston Debt Model

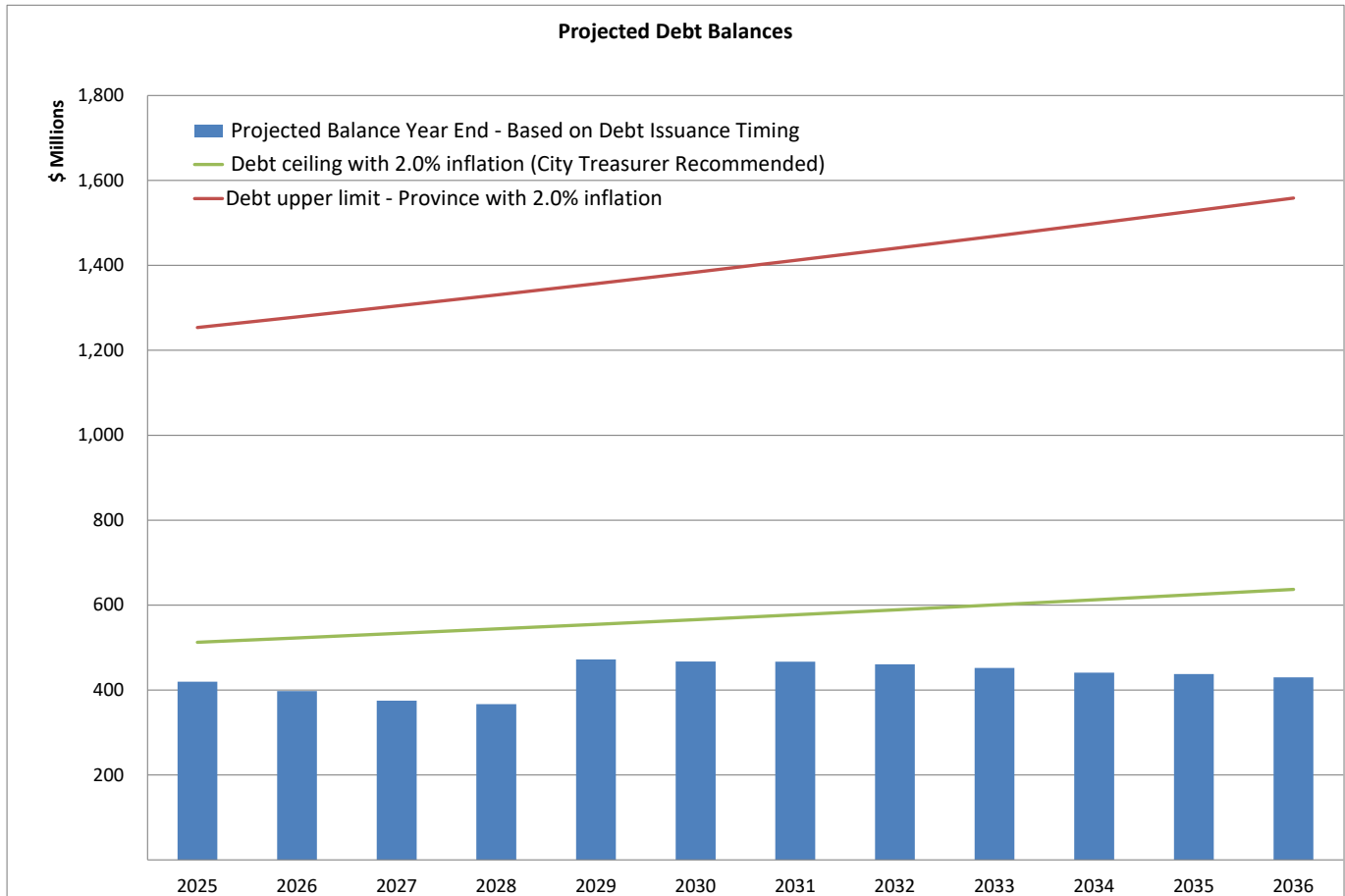
The current debt model reflects water/wastewater and City debt combined with the \$500M existing self-imposed debt limit as presented to Council. It is important to note that although this is the current debt modelling, it does not reflect the Council endorsed municipal asset management investments, with a gap of \$28M per year, as well as any major recreation facility redevelopment, estimated at \$150M. It is therefore anticipated that this model would need to be amended within the next year. The current model incorporates the following assumptions:

- 2.5% annual property tax increase for municipal services (not including municipal agencies).
- 4% average annual increase for water and wastewater rates.
- \$115M approved and/or planned debt over the next 10 years for water and wastewater infrastructure leaving a \$100M annual gap in water and wastewater asset management investment.
- \$100M of annual asset management investment in municipal assets (not including recreational facilities redevelopment), leaving an annual gap of \$28M to align with the Council-endorsed asset management investment of \$128M per year.
- Debt levels include asset management costs and development charges projects within the existing urban boundary as approved by Council in 2025.
- Borrowing term with a maximum 30-year term and a current borrowing rate of 4.8% with Infrastructure Ontario.
- Includes a self-imposed debt limit starting at \$512M with a 2% annual inflation.

The chart below illustrates the current debt model for the City of Kingston, including water and wastewater debt projections based on current capital investment and financing plans and self-imposed debt limit.

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Model 1 – Current model (UK and City combined) with 2 options:

- Increasing City of Kingston debt while minimizing the average ten-year utility rate increase to 6%; or
- Maintaining current City debt modelling while increasing the average ten-year utility rate increase to 9%

These 2 options would enable a higher investment level and reduce municipal and water and wastewater asset management investment gap. These options project debt levels to reach between \$825M, under option 2, to \$1.1B, under option 1, based on the utility rate increase strategy proposed.

Over the 10-year period, an average 6% water and wastewater rate increase could be achieved through increased municipal debt issuances to support additional infrastructure asset management requirement. Alternatively, Council could choose to reduce the municipal water and wastewater debt and instead increase the water and wastewater rates by an average of 9% or cover the difference between the 6% and 9% rate increase remaining through a property tax increase. This would equate to an increase of 4.2% annually, for a 10-year period, in property taxes to fund the remaining water and wastewater costs. Further reduction in user rates would

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result in a higher property tax subsidy. The estimated 4.2% would be in addition to the projected municipal property tax increase of 2.5% for municipal services (not including municipal agencies).

Model 1 - Option 1: Debt projections based on current City forecast with increased water and wastewater, municipal investments and debt reaching about \$1.1B by 2036. Water and wastewater rates averaging 6% over projection period.

While the projected \$1.1B would remain below the provincial limit, over-leveraging the municipality to this extent would introduce significant financial and operational risks. In addition to an unequal distribution of funding across asset categories (prioritizing water and wastewater over other municipal assets), a highly leveraged position would reduce the financial flexibility and capacity to address unforeseen future pressures, including emergency infrastructure requirements, economic downturns, or legislative changes.

A weakened financial position could result in a reduction to the City's credit rating, thereby creating reputational risks. The perception of a highly leveraged financial position could reduce business and investor confidence, potentially affecting economic development opportunities, or vendor interest in doing business with the City.

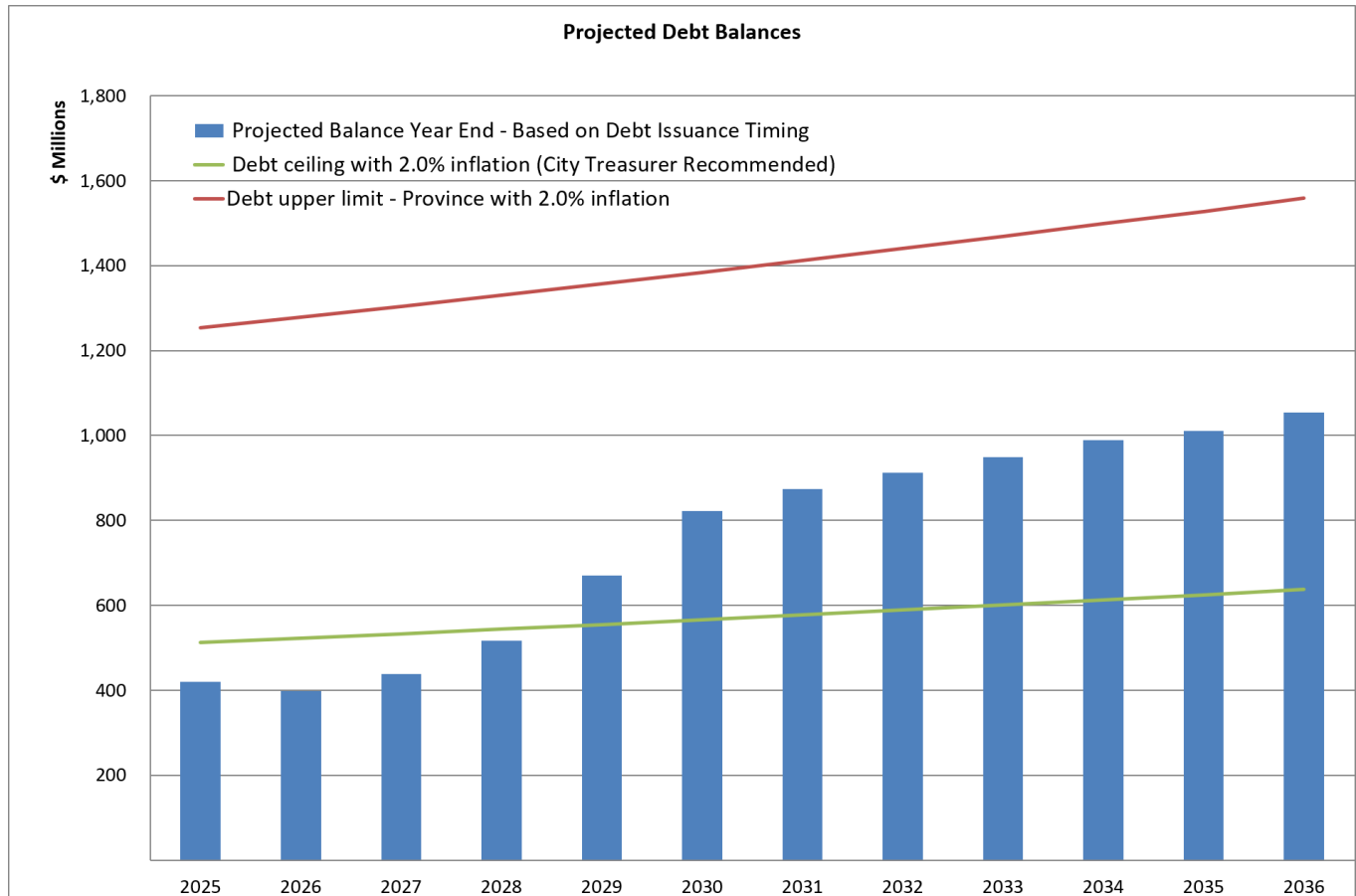
This model builds on the current debt model above and incorporates the following assumptions:

- In addition to debt of \$115M projected in the current debt models, the issuance of an additional \$318M of debt over 10 years to partially address the water and wastewater asset management gap.
- Annual municipal property taxes increase of 2.5% for municipal services only (not including municipal agencies) and a 6% annual user rate increase over 10 years.
- Additional debt issuance of \$28M annually for 10 years in municipal asset management investment to meet Council's endorsed asset management investment of \$128M per year.
- Additional debt issuance of \$150M to include major investments required in Memorial Centre, Portsmouth Olympic Harbour and Centre 70 redevelopments.
- Debt levels include asset management costs and development charges projects within the existing urban boundary as approved by Council in 2025.
- Borrowing term with a maximum 30-year term and a current borrowing rate of 4.8% with Infrastructure Ontario.
- Includes a self-imposed debt limit starting at \$512M with a 2% annual inflation.

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Model 1 - Graph 1:



Model 1 - Option 2: Debt projections based on current City forecast with additional municipal investments and short-term water and wastewater financing over the 10-year period. Maximum debt levels would reach approximately \$825M in 2032. Water and wastewater rates averaging 9% over projection period to finance infrastructure investment through primarily a pay as you go model with additional short-term financing of approximately \$50M required over the forecast period. Alternatively, property taxes could be increased by 4.2% over a 10-year period to reduce water and wastewater rates to 6%.

This model builds on the current debt model above and incorporates the following assumptions:

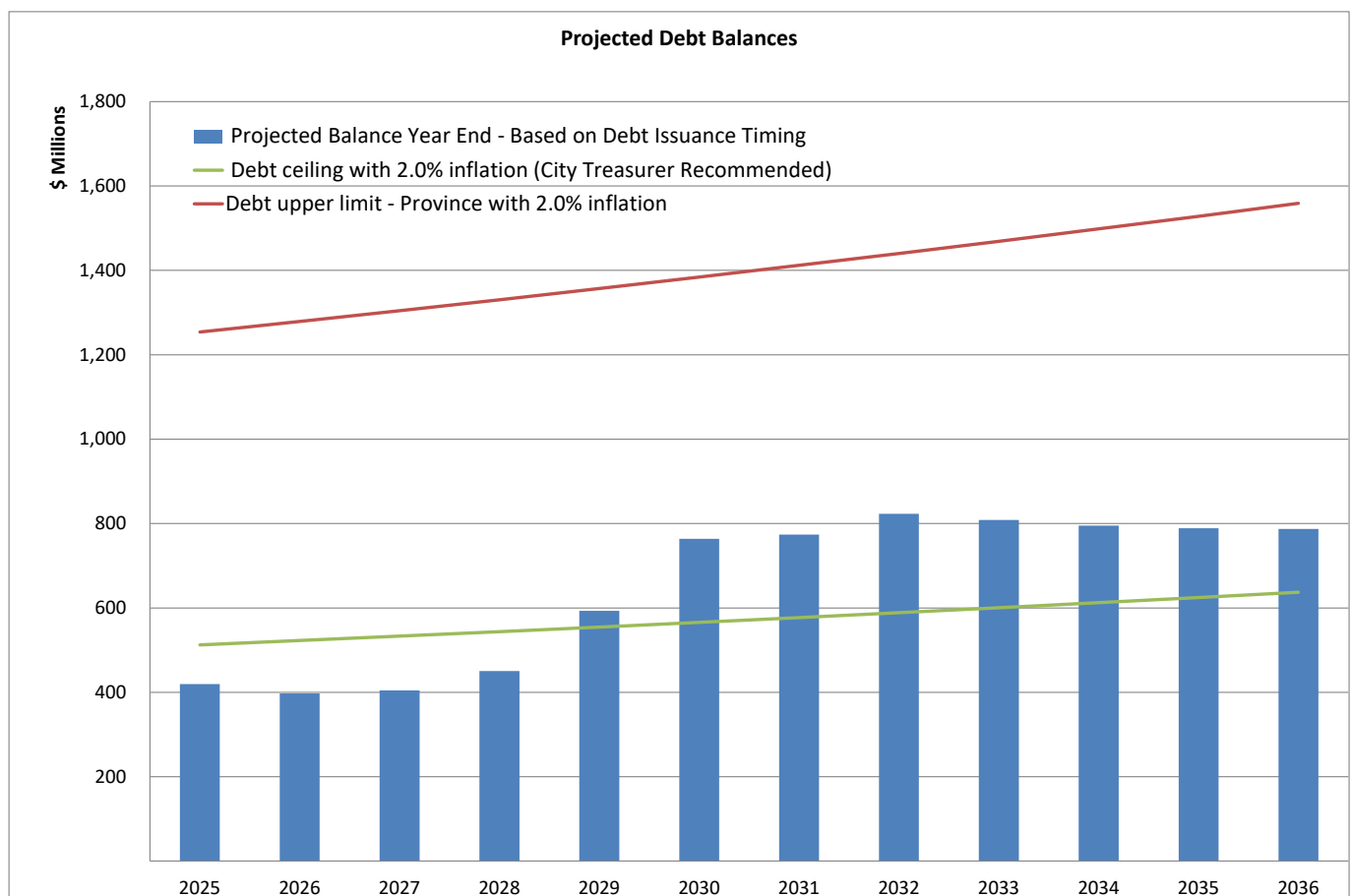
- Additional water and wastewater asset management would be financed through short term debt issuance of about \$50M and increased annual rate revenue.
- Annual municipal property taxes increase of 2.5% for municipal services only (not including municipal agencies) and a 9% annual user rate increase over 10 years.
- Additional debt issuance of \$28M annually for 10 years in municipal asset management investment to meet Council’s endorsed asset management investment of \$128M per year.

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- Additional debt issuance of \$150M to include major investments required in Memorial Centre, Portsmouth Olympic Harbour and Centre 70 redevelopments.
- Debt levels include asset management costs and development charges projects within the existing urban boundary as approved by Council in 2025.
- Borrowing term with a maximum 30-year term and a current borrowing rate of 4.8% with Infrastructure Ontario.
- Short-term borrowing is estimated with a 5-year term with an estimated rate of 5%.
- Includes a self-imposed debt limit starting at \$512M with a 2% annual inflation.

Model 1 - Graph 2:



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Model 1 - Option 2 identifies the possibility for a reduced increase in utility user rates from 9% to 6% by increasing property taxes by 4.2%, in addition to the 2.5% targeted tax increase for municipal services. Table 1 below provides a breakdown of the property tax impact of reducing the utility rates from 9% to 6%. The assumptions are based on an average home value of \$328,099. The table shows an expected average annual \$273.99 increase in property taxes for 10 years and an increase totalling \$2,740 to cover water and wastewater asset investments only.

Table 1 – Property tax impact of reducing the utility rates from 9% to 6%

Year	Average Residential Tax Bill Impact - 2.5%	Average Residential Tax Bill Impact - 4.2%	Total Average Residential Tax Bill - 6.7%	Cumulative Tax Bill - 6.7%
2027	\$108	\$182	\$290	\$4,621
2028	\$111	\$190	\$310	\$4,931
2029	\$114	\$198	\$330	\$5,261
2030	\$117	\$206	\$352	\$5,614
2031	\$120	\$214	\$376	\$5,990
2032	\$123	\$223	\$401	\$6,391
2033	\$126	\$233	\$428	\$6,819
2034	\$129	\$243	\$457	\$7,276
2035	\$132	\$253	\$488	\$7,764
2036	\$135	\$263	\$520	\$8,284
Total	\$1,213	\$2,204	\$3,953	

Model 2 – Public water and wastewater municipal service corporation model:

This contemplates transferring the water and wastewater assets and liabilities into a separate municipal services corporation wholly owned by the Corporation of the City of Kingston. This would entail 2 separate and distinct borrowing models, one for the water and wastewater public municipal service corporation (“MSC”) and one for the City of Kingston, which would exclude all

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water and wastewater debt. This option incorporates the following assumptions for each of the entities:

Model 2 – Graph 2A: City of Kingston debt projections - municipal services only - with increased recreation investments and reduction in both the provincial limit and municipal self-imposed limit to reflect the transfer of debt and revenues associated with water and wastewater infrastructure to the new water and wastewater municipal service corporation.

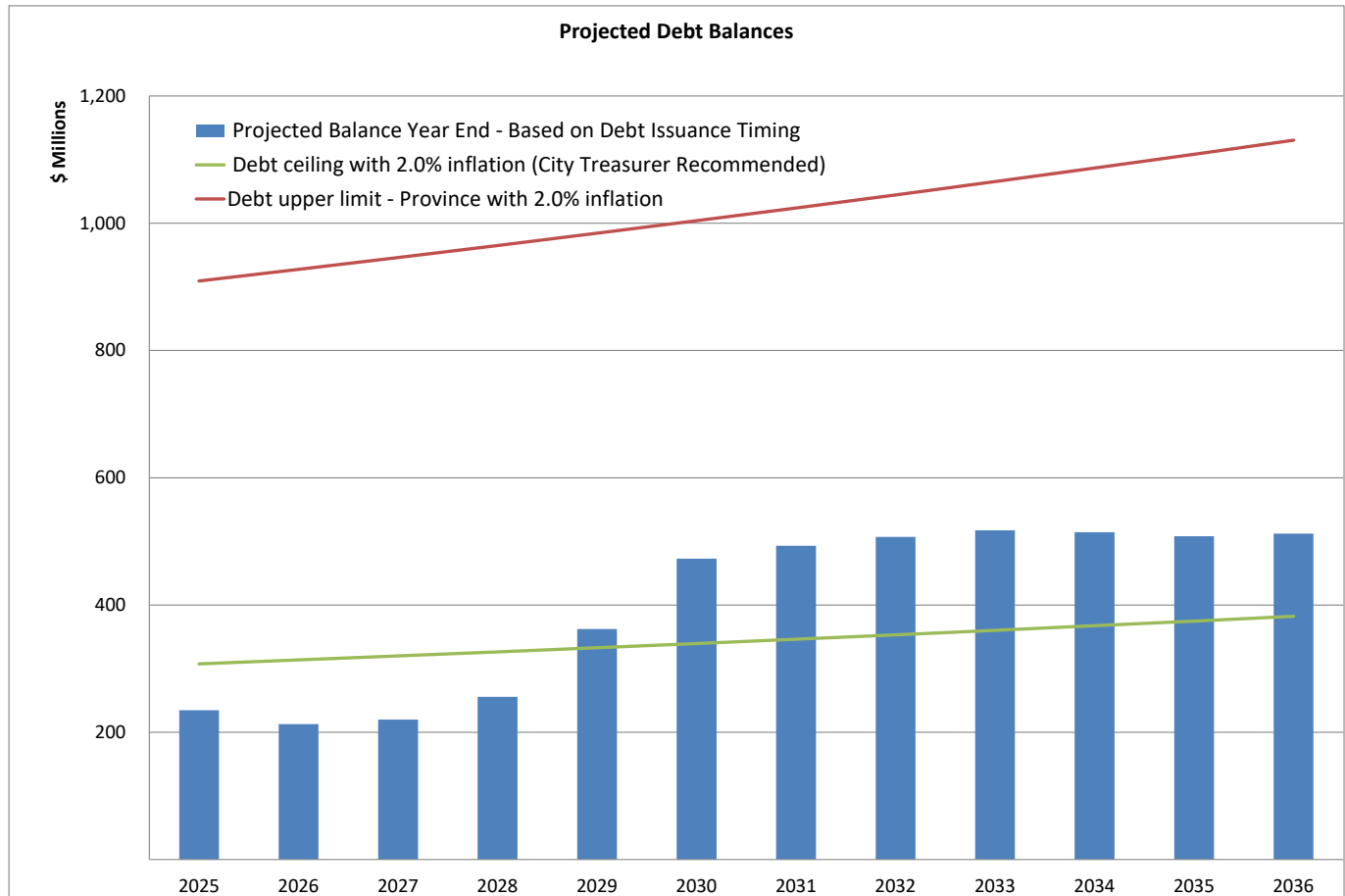
City of Kingston Assumptions:

- Assumes 2.5% property tax increase for municipal services only (not including municipal agencies).
- City debt would be adjusted to remove existing water and wastewater debt (about 40%) and would also remove existing water and wastewater revenues from the provincial debt repayment limit calculations and modelling. This would reduce the self-imposed debt limit and provincial debt limit by about 40%. The new self-imposed limit would be \$307M with a 2% annual inflation.
- Additional \$28M in asset management to bridge the Council approved asset management levels of service.
- Additional \$150M for the redevelopment of the Memorial Centre, Portsmouth Olympic Harbour and Centre 70.
- Additional \$20M capacity to increase investment in asset management or use it to cover additional costs related to the Memorial Centre, Portsmouth Olympic Harbour and Centre 70 redevelopments, as noted above.
- Total debt levels include asset management costs and development charges projects within the existing urban boundary as approved by Council in 2025.
- Borrowing term with a maximum 30-year term and a current borrowing rate of 4.8% with Infrastructure Ontario.
- Future debt levels would exceed the revised self-imposed debt limit due to the \$150M for recreation investments.

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Model 2 – Graph 2A:



Model 2 – Graph 2B: Public water and wastewater municipal service corporation debt projections, which assumes existing and projected water and wastewater debt is transferred to the MSC including the issuance of additional debt to reduce a portion of the annual asset management gap of \$100M with user rates’ average annual increase 6%.

MSC Assumptions:

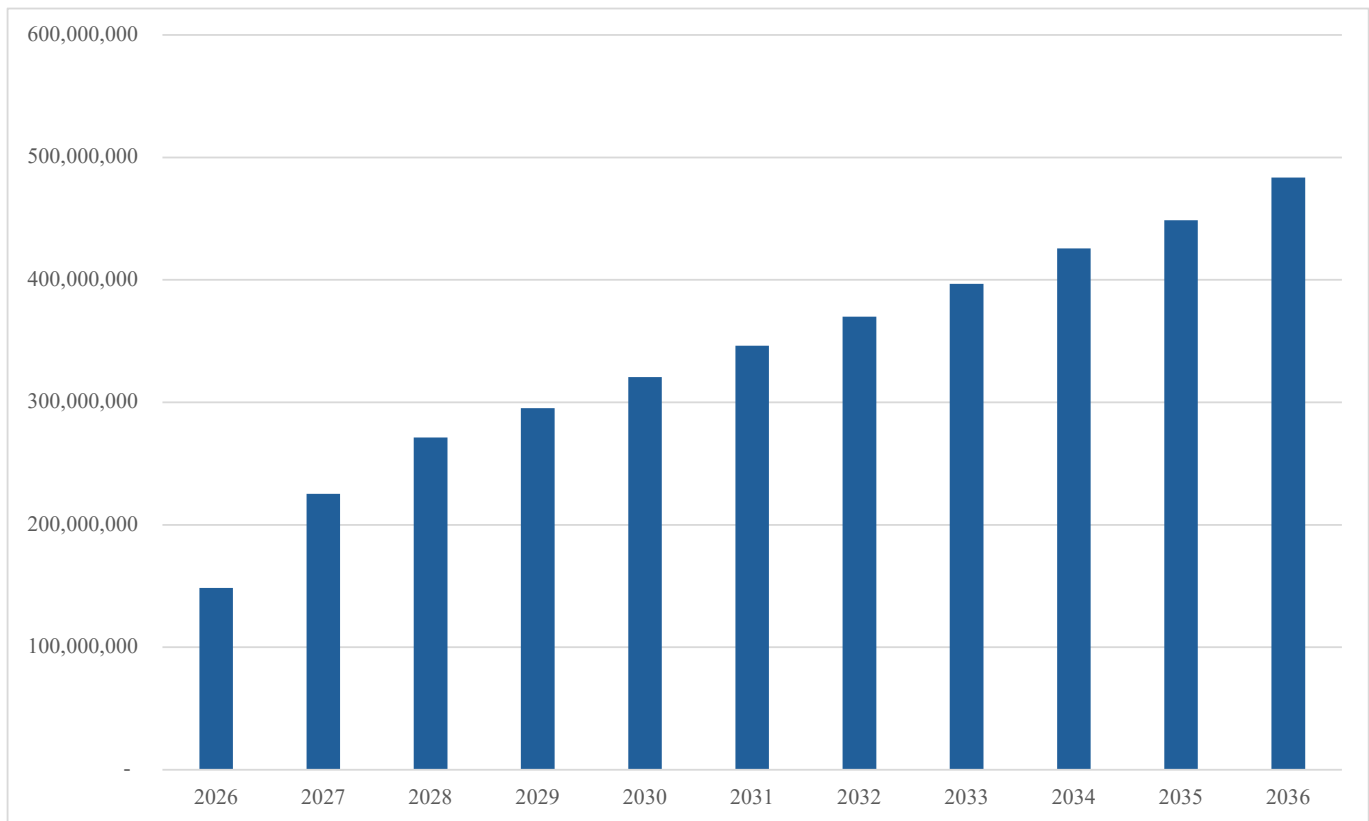
- The existing debt already issued by the City for water and wastewater infrastructure, which is approximately \$150M, would be transferred to the public water and wastewater MSC. In addition, debt of \$115M would be issued as projected in the current model and an additional \$318M of debt to reduce asset management gap. This means that there would be a total additional borrowing of \$433M over 10 years and debt level of about \$480M as of 2036.
- Total debt levels include asset management costs and development charges projects within the existing urban boundary as approved by Council in 2025.
- Borrowing rate during this term is anticipated at 5.25% through private lending institutions.

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- MSC could apply longer term borrowing to potentially up to 40 years and have some flexibility with refinancing which is not possible through Infrastructure Ontario borrowing. Compared to the current model, an MSC borrowing model over a longer period of time would provide an additional amount of cash available at the end of ten years to use either for additional asset management replacement work to further reduce the asset management gap. The amount of additional funds available could approach \$10 million at the end of ten years.
- MSC would pay for debt with average annual user rates increases of 6%, over a ten-year period, based on greater use of debt financing, longer term borrowing options and flexibility on refinancing which is not available through Infrastructure Ontario.
- MSC would function as a government business enterprise, similar to Kingston Hydro Corporation, and the City would not be required to guarantee the debt based on the expected 5.25% borrowing rate.
- Borrowing model would be based on asset value rather than provincial formula that caps annual debt servicing costs at 25% of annual operating revenues under the Municipal Act, 2001.

Model 2 – Graph 2B:



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Water and Wastewater Rates

The current planned water and wastewater level of investments includes a \$100M annual asset management gap and an annual user rate increase of 4%. This is included in the current City of Kingston debt model shown above. The major asset management gap increases water and wastewater infrastructure liability which City and Utilities Kingston staff are recommending be mitigated to avoid major infrastructure collapse as recently experienced in some Canadian municipalities.

The increased investment proposed in this report would achieve close to 100% of water asset management investment and 75% of wastewater asset management investment by 2036. This increased investment in water and wastewater asset management would require rate increases for water and wastewater averaging 6% per year for the period 2027-2036 under a public municipal service corporation model. As explained above, if the City chooses to raise its self-imposed debt limit and incur the debt itself, at about \$1.1B, a similar 6% average increase would be needed to repay loans or a 9% average annual rate increase to do the same work if no additional borrowings were undertaken and the City continues with its pay-as-you-go financing strategy.

Preliminary estimates show that the average residential customer that utilizes 200 m³ per year would pay approximately \$3,727 more for the same utility service over the ten-year period 2027-2036 under the current model. The cost difference starting in 2036 going forward would be approximately \$749 per year.

Staff note that there would be no change to the day-to-day service delivery of water and wastewater by Utilities Kingston if a public municipal service corporation was established. Utilities Kingston would have a management contract with the public municipal service corporation to do the exact same work instead of its current contract with the City of Kingston. Customers would not see any impact to their service based on the different models.

Table 2 below shows the anticipated long-term rate increases for water and wastewater under the current City of Kingston model and the proposed public municipal service corporation.

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Table 2 – Water and Wastewater Rates

	Projected Rate Increases	Projected Bill	Projected Rate Increases	Projected Bill	Difference
Year	MSC	MSC	Non MSC	Non MSC	(\$)
2027	7%	\$1,521	10%	\$1,563	\$42
2028	7%	\$1,628	10%	\$1,720	\$91
2029	7%	\$1,743	10%	\$1,892	\$148
2030	7%	\$1,867	10%	\$2,081	\$214
2031	7%	\$1,999	10%	\$2,289	\$290
2032	6%	\$2,119	10%	\$2,518	\$399
2033	6%	\$2,246	10%	\$2,769	\$523
2034	6%	\$2,381	8%	\$2,980	\$599
2035	4%	\$2,478	6%	\$3,149	\$671
2036	4%	\$2,579	6%	\$3,329	\$749
Total	61%	\$20,561	89%	\$24,288	\$3,727

Public Municipal Services Corporation

Public municipal services corporations have recently been identified by the provincial government and the Association of Municipalities of Ontario (AMO) as a possible mechanism to alleviate financial pressures on municipalities. This report includes a copy of the Water and Wastewater municipal service corporation backgrounder produced by AMO and Municipal Finance Officers' Association of Ontario in 2024, attached as Exhibit B. As per the AMO report, Ontario's municipalities are planning for between \$250 and \$290 billion in capital investments to support future growth and to address aging assets. Existing municipal revenue sources are not adequate to meet this challenge.

In the evolving landscape of water and wastewater services, the establishment of a public municipal service corporation presents an opportunity for the City/Utilities Kingston to broaden financial capabilities. Public municipal service corporations have been established by a few municipalities, typically to address major infrastructure challenges. For example, the County of Frontenac has established a public municipal service corporation to address their communal servicing needs, and the Municipality of Muskoka established a public municipal service corporation to support its airport operations and future growth.

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Under the *Municipal Act, 2001*, municipalities can establish public municipal service corporations to deliver a number of municipal services and facilities to residents. A municipal service corporation established under the *Municipal Act, 2001* is very different than a corporation established under the *Water and Wastewater Public Corporations Act, 2025*. The O.Reg. 599/06 framework expressly requires a water wastewater public municipal service corporation under the *Municipal Act, 2001* to be wholly owned by a municipality or jointly owned by a municipality and one or more public sector entities. This framework expressly prohibits private ownership. The shareholders are entitled to all voting shares allocated to the corporation's members.

The table below highlights some key differences between a public municipal service corporation established under the *Municipal Act, 2001* and a corporation under the *Water and Wastewater Public Corporations Act, 2025*.

Table 3 – Legislative Comparison

<p>Bill 60, Schedule 16 Water and Wastewater Public Corporations Act (WWPCA), 2025</p>	<p>Kingston Water Wastewater MSC – Ontario’s Municipal Act 2001, Section 203, O/Reg. 599/06</p>
<p>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.</p> <p>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.</p>	<p>Aligns with the Province’s move toward corporatized water governance: A Municipal Service Corporation (MSC) under the <i>Municipal Act, 2001</i> provides the same core features the Province is steering toward which include a dedicated corporation, structured governance, and financial flexibility.</p> <p>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.</p>
<p>Emphasis on growth-aligned infrastructure planning: The Province’s goal is to accelerate servicing capacity to support housing development and growth.</p>	<p>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</p>

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<p>Bill 60, Schedule 16 Water and Wastewater Public Corporations Act (WWPCA), 2025</p>	<p>Kingston Water Wastewater MSC – Ontario’s Municipal Act 2001, Section 203, O/Reg. 599/06</p>
	<p>cannot access on their own. An MSC strengthens Kingston’s ability to deliver infrastructure at the pace required for development.</p>
<p>Ownership / share structure currently unclear: The potential for privatization or private investments in the water and wastewater corporations established under Bill 60 was recently clarified through proposed changes outlined in Bill 98, whereby shares of a water and wastewater public corporation can only be issued to a municipality, the Province of Ontario, or the Government of Canada, explicitly prohibiting private ownership.</p>	<p>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.</p>

Organizational Structure & Governance – Public Municipal Service Corporation

The proposed public municipal service corporation would be a Not-For-Profit municipally owned corporation which means that it reinvests all revenues into the water and wastewater operations and infrastructure. The Board would be composed of various non-elected members of the community as well as representation from City Council. The public municipal service corporation would make asset related decisions, approve its budgets, have the ability to issue debt and hold a service contract with Utilities Kingston. The City of Kingston would remain the sole shareholder, approve rates and set strategic directions. The public municipal service corporation’s budgets would be contingent on City Council rate approval. This model would be like the existing framework for Kingston Hydro, except that the Ontario Energy Board approves electricity rates, not Council.

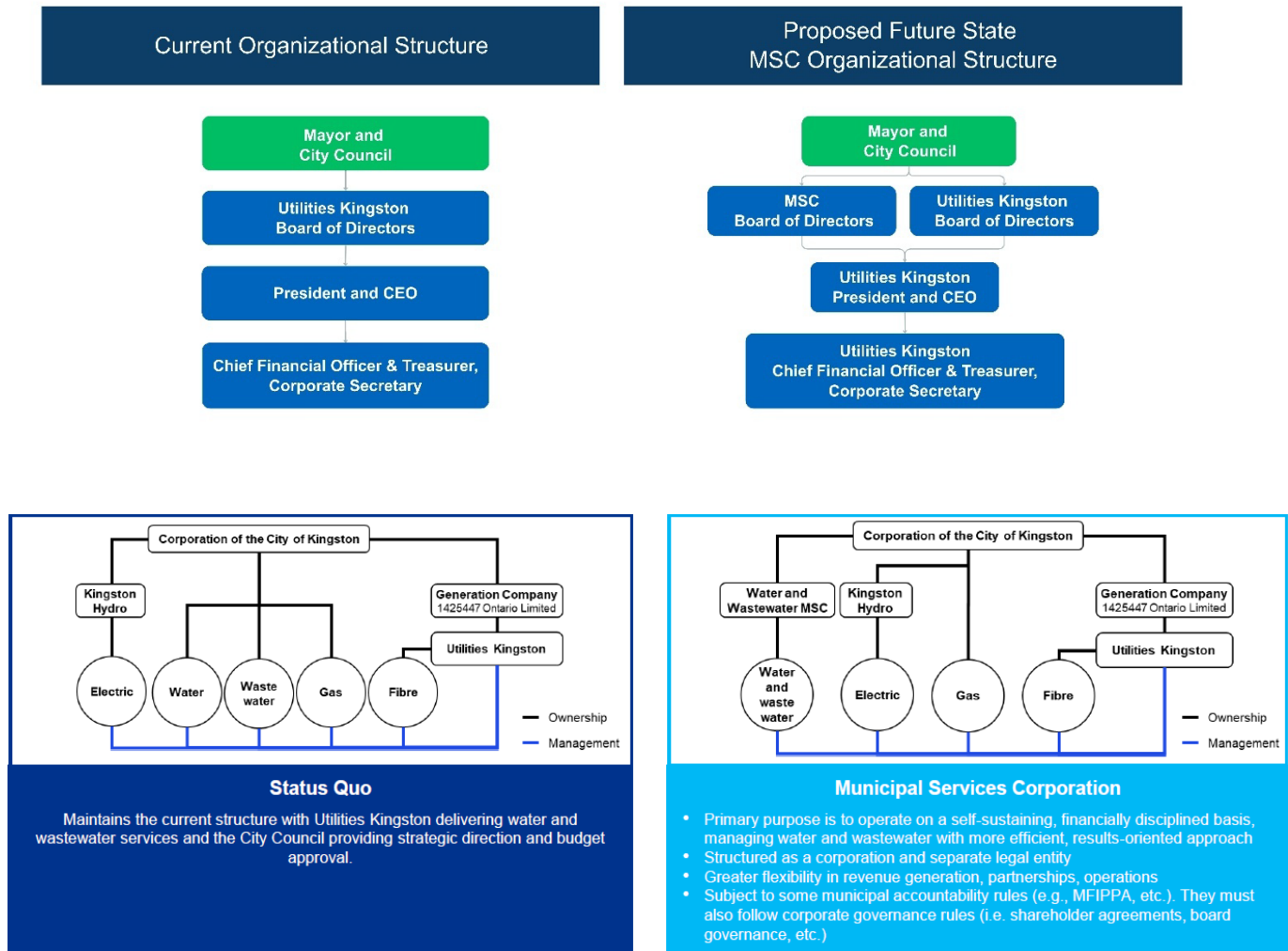
The illustration below outlines the management and leadership structures of the current Utilities Kingston model and the proposed future state public municipal service corporation model. Mayor and Council would continue to be the sole shareholder under the current and future proposed structure. It is anticipated that the new public municipal service corporation would not require a full-time President and CEO. Therefore, the appointment of the Utilities Kingston’s CEO would ensure coordination between Utilities Kingston and the water and wastewater public municipal service corporation. Again, this is similar to the Kingston Hydro model which has appointed the Utilities Kingston CEO and benefits from corporate service synergies to support both utility organizations.

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The implementation of a water and wastewater public service corporation would involve minimal organizational disruption at Utilities Kingston. The primary changes would include the termination of the existing service agreement between Utilities Kingston and the City, which would be replaced by a new agreement between the water and wastewater municipal service corporation and Utilities Kingston.

Figure A - Comparison of current and proposed organizational structures



Shareholder Declaration, Master Services Agreement & Administrative Agreement

Agreements would be in place between the City, Utilities Kingston and the water and wastewater public municipal service corporation. The Shareholder Declaration would set parameters within which the public municipal service corporation is permitted to operate independently. The Shareholder Declaration operates to bind the public municipal service corporation to certain performance obligations, decision-making processes, financial

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parameters, reporting requirements, development approval processes involving applicable infrastructure, and operational standards.

A Master Services Agreement between Utilities Kingston and the public municipal service corporation would mirror the current contract for service, i.e., the scope and standards of services to be provided, clear performance metrics, regulatory compliance, reporting obligations, term and renewals, dispute resolution, and the calculation of the cost of service, including operational and capital considerations. It is important to note that under the existing Utilities Kingston governance model, City Council has already transferred its responsibilities pertaining to direct oversight of safe operations to Utilities Kingston.

This means that water and wastewater operations would still be subject to all provincial regulations to ensure health and safety of all residents. City Council also retains all responsibilities under the *Safe Drinking Water Act* and will continue to receive annual reports.

The table below illustrates the differences between the current responsibilities of the City Council and those following the implementation of the public municipal service corporation model. With the introduction of this model, City Council would maintain ownership of the assets as a shareholder of the corporation, provide guidance on strategic policy direction, approve rates and appoint the Board of Directors. However, it would no longer retain direct responsibility for approving budgets. Budget approvals by the public municipal service corporation would be contingent upon City Council rate approval.

Table 4 – Current State and Future State Responsibilities

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	✓	✓
Approving the use of alternative financing tools (e.g., debt instruments, bonds, etc.)	✓	

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Public Engagement

Public consultation with respect to the proposed public municipal service corporation model is required under Ontario Regulation 599/06. Engagement on the public MSC took place at the Inform and Consult levels of the IAP2 Spectrum of Participation.

The public engagement period began on the Get Involved Kingston website on December 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. An additional update that included detailed information about the proposed organizational structure, agreements, and financial models was published on January 12, 2026, and the survey was extended until January 19, 2026. During the initial engagement period, 385 participants completed the survey, representing 0.29% of the total population of Kingston.

Most engagement participants told staff they were somewhat familiar (68%) or not familiar (17%) with a public municipal service corporation model. After reading the business case, respondents shared that they are not supportive of the proposed public municipal service corporation. Residents were provided an opportunity to ask questions and offer feedback on the updated business case. At the time of writing this report, no additional feedback was submitted to Get Involved Kingston.

City staff provided a presentation on the proposed public MSC for water and wastewater at a community town hall on April 8, which attracted people from various parts of the city and at the Environment, Infrastructure, Transportation and Policies (EITP) Committee on April 14. Staff also held meetings with a community member with expertise in water and wastewater governance. Staff have also answered several questions and e-mails from members of the public.

Below are key themes and concerns about the water and wastewater public municipal service corporation expressed by members of the public as well as responses to these concerns:

- Concern that the proposed public municipal service corporation will privatize water and wastewater service: *Municipal Act, 2001*, O. Reg. 599/06, requires that any corporation that provides a public utility for water or sewage MUST remain in public ownership. It cannot be sold to a private entity or have private equity and/or investments.

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- Concern about the increase in water and wastewater rates: It is expected that the long-term user rates established through a municipal services corporation would be lower than with the current model. Preliminary estimates show that the average residential customer that utilizes 200 m³ per year would pay approximately \$3,727 more for the same utility service over the ten-year period 2027-2036 under the current model. The cost difference starting in 2036 going forward would be approximately \$749 per year.
- Concern about safe drinking water under a public municipal service corporation: Water and wastewater operations would still be subject to all provincial regulations to ensure health and safety of all residents. City Council also retains all responsibilities under the *Safe Drinking Water Act* and will continue to receive annual reports. Under the existing Utilities Kingston governance model, City Council has transferred its responsibilities pertaining to direct oversight of safe operations to Utilities Kingston.
- Concern about lack of transparency of the proposed municipal service corporation: The public municipal service corporation Board of Directors will be populated with community members and City Council representation. City Council will attend an annual shareholder meeting and receive all required reports from the MSC Board. Furthermore, the annual user rates will still be approved by City Council.
- Concern about overall costs and debt of water and wastewater services under the public municipal service corporation: This report includes both debt projections for the City of Kingston and the water and wastewater public municipal service corporation. It is also expected that the shareholder declaration will establish financial parameters for the public municipal service corporation which will include maximum debt limits.
- Concern about the lack of financial background or a financial business case: There has been significant financial information detailed with assumptions and modelling added to this report. This includes debt projections, financing options and annual user rate increases.
- Concern about the inclusion of water and wastewater infrastructure required for urban boundary expansion: Financial information and data included in the options and modelling within this report do not include costs to support urban boundary expansion. Financial information and data only cover asset management costs and growth projects within the existing urban boundary and approved as part of the development charges study in 2025.

A summary of this engagement is attached as Exhibit C.

Climate Risk Considerations

Not applicable

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Existing Policy/By-Law

Ontario Regulation 599/06 under the *Municipal Act, 2001*

Notice Provisions

Not applicable

Financial Considerations

Financial considerations are detailed in each section of the report and included in the KPMG business plans attached as Exhibit A to this report.

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Jenna Morley, City Solicitor

Randy Murphy, Chief Financial Officer & Corporate Secretary, Utilities Kingston

Exhibits Attached:

Exhibit A - KPMG: Business Case for a Municipal Services Corporation – Water and Wastewater

Exhibit B - Backgrounder – Water & Wastewater Municipal Services Corporations produced by AMO and MFOA

Exhibit C - Public Engagement Summary