

City of Kingston

Business Case for a Municipal Services Corporation

Water and Wastewater

Final Business Case (Public)

August 19, 2025



Municipal Services Corporation Business Case Development

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Municipal Services Corporation Business Case Development

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01

Context and Drivers

What is a Municipal Services Corporation (MSC)?

Statutory Authority

MSCs in Ontario are established under the *Municipal Act, 2001*, which provides the legal framework for their creation and operation. Specifically, Section 203 of the Municipal Act empowers municipalities to form corporations dedicated to delivering municipal services. This authority allows for more efficient and effective service delivery through a separate legal entity that can operate with greater flexibility than the municipality itself. 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.

An MSC is a corporation that provides a system or service that a municipality itself could provide. The shares of an MSC that acts as a public water utility must 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, and the MSC provides services that the municipality itself could offer. 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.

Pursuant to Section 11(1) of the Regulation, MSCs are not permitted to provide services that are mandated by the following acts:

- Ambulance Act.
- Child, Youth and Family Services Act, 2017.
- Community Safety and Policing Act, 2019.
- Fire Protection and Prevention Act, 1997.
- Health Protection and Promotion Act.
- Fixing Long-Term Care Act, 2021 in respect of long-term care homes under Part IX of that Act.
- Provincial Offences Act.
- Public Libraries Act
- Ontario Works Act, 1997.

Municipal Services Corporation Business Case Development

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.

History

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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.

Governance structure

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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.

Services provided

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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.

Funding model

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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.

Case for Change

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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. To address these challenges, **the City is exploring the establishment of Municipal Services Corporations (MSCs) to enhance operational and financial capabilities**, endorsed by the provincial government and Association of Municipalities of Ontario.

Municipal Services Corporation Business Case Development

Why Consider an 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 waste water.
- The Province has increasingly emphasized financial sustainability and asset management, which MSCs provide strategic benefits for.

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 or private partnerships, 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 municipalities may borrow up to 25% of revenues, MSCs could operate under a 50% debt-to-equity ratio, increasing their financing flexibility.

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.

04

Efficient and Entrepreneurial

- MSCs operate with a business-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 business-oriented practices.
- An MSC frees municipal administration to focus on policy and oversight, while operations are managed by subject-matter experts.

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:

 Increased Infrastructure Investment Flexibility	• The MSC structure enables more nimble business-like decisions on capital investment, including the ability to pursue alternative financing approaches and strategic partnerships to address aging infrastructure and future growth needs.
 Focused Governance and Operational Autonomy	• 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.
 Improved Responsiveness to Growth and Development	• 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.
 Strengthened Service Efficiency and Innovation	• 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 or the Utilities Kingston model.
 Access to Broader Revenue Opportunities	• The MSC will have the opportunity to pursue new revenue streams. This includes third-party servicing, shared services with neighbouring municipalities, and providing specialized utility services.
 Transparency and Performance-Driven Culture	• 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.

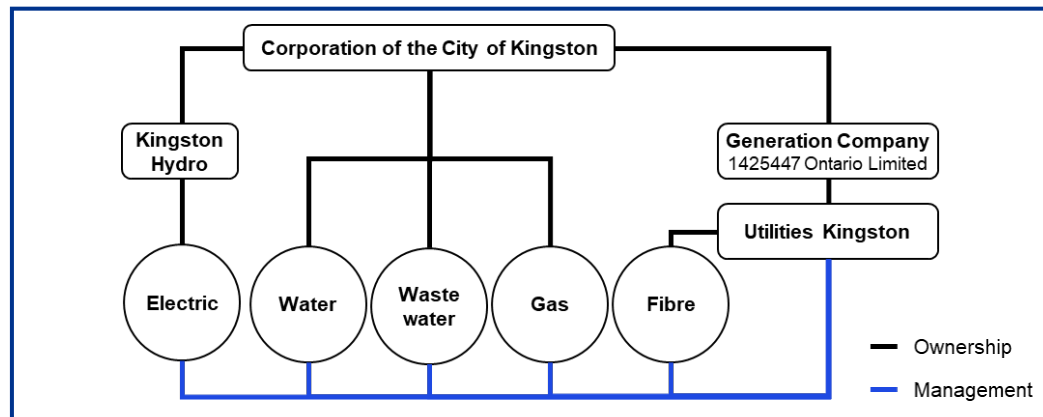
02

Proposed Governance

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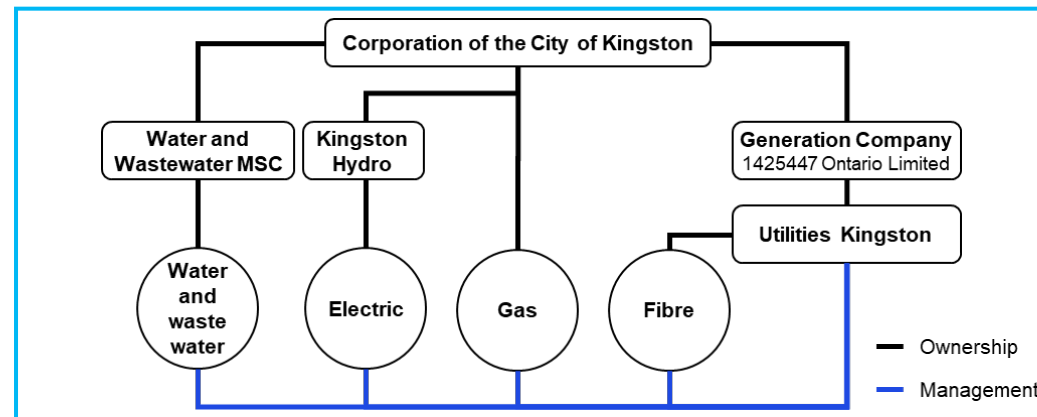
Current State and Future State

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 to operate on a commercial basis, managing water and wastewater with more business-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., procurement policies, 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.

MSC Terms of Reference Key Components

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

Mandate and Purpose

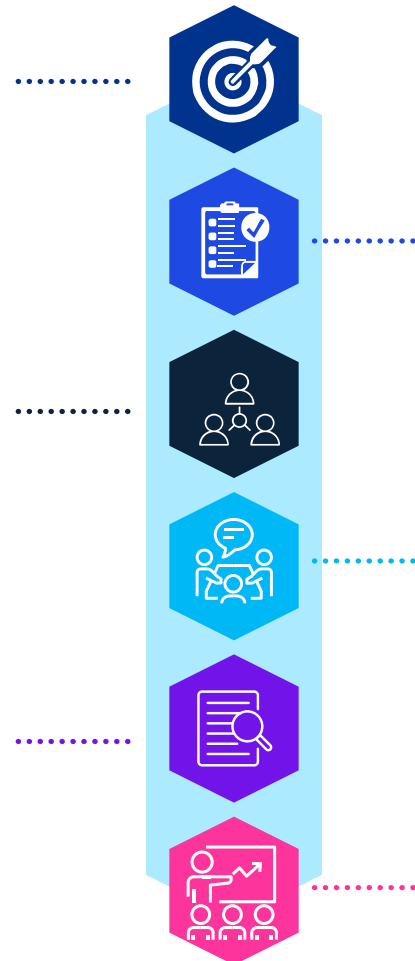
This section of the Terms of Reference should outline the MSC and Board's overarching role in providing strategic oversight, ensuring regulatory compliance, safe operations, and acting in the best interest of the corporation and its shareholder (City of Kingston).

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 City bylaws and 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, 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, including, if required, annual business plans, audited financial statements, and performance evaluations.

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 and Rate Setting

- The City retains limited responsibility under the Safe Drinking Water Act, including statutory obligations such as the duty of care and oversight of drinking water quality.
- 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 with the official rate by-law still being adopted by Council to ensure enforceability.
- 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, borrowing limits)
- Reporting requirements and performance measures
- Board appointment and removal processes
- Strategic alignment with municipal objectives
- Setting targets for return on capital, if any.

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 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

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Reporting and Accountability

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

Purpose: Formal meeting between the MSC and its shareholder to review annual performance.

Timing: Held within 6 months of fiscal year-end.

Key elements include:

- how the MSC's strategic plan advances applicable goals of the City's Strategic Plan;
- annual budget;
- five-year financial forecast; and,
- 10-year capital plan;
- performance metrics

Audited Financial Statements

Frequency: Annually, reviewed by the MSC's Audit Committee and approved by the Board prior to presentation to Council.

Key contents:

- Balance sheet, income statement, cash flow statement.
- Notes on financial risks, liabilities, capital assets.
- Auditor's opinion.

Purpose: Enables the shareholder to verify financial integrity and compliance with Public Sector Accounting Standards (PSAS) or IFRS (as applicable).

Annual Business Plan and Budgets

Timing: Typically submitted for Council review/approval before the fiscal year begins.

Includes:

- Strategic priorities for the year.
- Operating and capital expenditure plans.
- Forecasted water/wastewater demand and service levels.
- Proposed user rates (if rate setting authority is delegated).
- Performance targets and key performance indicators (KPIs).

Direction Reporting

The Shareholder Declaration outlines any reporting requirements related to:

- Rate approvals or financial thresholds requiring Council sign-off.
- Strategic plan alignment updates.
- Reserved decisions requiring Council input (e.g., borrowing, asset sales).

MSC must report proactively and seek shareholder approval where required.

Transparency Measures

Public release of:

- Annual reports.
- Audited financials.
- Key decisions and performance summaries (e.g., board highlights).
- Any material change in operations, liabilities, or financial outlook

Fully participating in comprehensive updates to the City's Official Plan, Zoning By-law, Development Charge Background Study, Master Planning (e.g., infrastructure).

Regular communication and information sharing between the CEO and CAO is expected.

03

Financial Considerations

Municipal Services Corporation Business Case Development

Financial Analysis

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 the growth in operational costs. This trajectory aligns with the expectation that the MSC would achieve financial self-sustainability over time.

It is important to note under the current forecast, operational revenues alone are insufficient to fund required capital expenditures. The transfer of existing water, wastewater, and Development Charge (DC) reserves, alongside the MSC's operational revenue presents a viable solution. By utilizing these reserves to cover capital expenditures, 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 this 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.

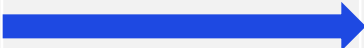
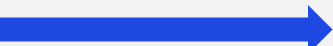
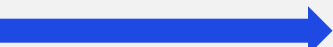
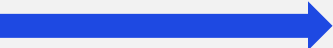
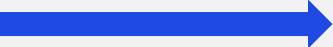
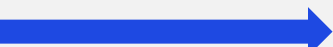
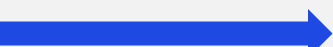
Revenues	Average Annual Revenues (15-Year)	10-Year Total Revenues 2025 to 2034	15-Year Total Revenue 2025 to 2039
Budgeted Revenues			
Water Revenues	\$48.8 million	\$445 million	\$732 million
Wastewater revenues	\$56.8 million	\$520 million	\$852 million
Total Estimated Revenues	\$106.6 million	\$964 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	\$68 thousand	\$0.65 million	\$1 million
Total Anticipated Expenses	\$49.2 million	\$459 million	\$738 million
Surplus (Deficit) before expected debt servicing costs			
Surplus (Deficit)	\$56.4 million	\$506 million	\$846 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	\$563 million
Development Charges			
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

04

Implementation Plan

Municipal Services Corporation Business Case Development 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 Holdco MSC and Operating 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				

Each phase within the implementation plan requires considerable work. To successfully establish the MSC, the City will need to ensure that their strategy for implementation is well-thought out and timely. In stakeholder consultations, KPMG received feedback from comparator municipalities emphasizing the importance of a carefully crafted implementation strategy. We will review each of the phases throughout this chapter of the report.



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