



The Township of South Frontenac

RE: Municipal Services Corporation Business
Case [DRAFT]

June 9th, 2026

Prepared by: Rural Impact Canada in partnership with 2B Developments Consultants &
Associates

For: The Township of South Frontenac

Attention to: Chief Administrative Officer, Louise Fragnito

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At this stage, the Business Case should be considered a draft document and remains subject to further review, public consultation, legal and financial analysis, and future Council direction. Feedback received through the consultation process, as well as any additional legal or financial considerations identified through ongoing review may result in revisions.

1.0 - Executive Summary

The purpose of this business case is to provide Council, key stakeholders, and the public with the information needed to better understand the creation of a Municipal Services Corporation (MSC) and for Council to make an informed decision regarding its creation. The Township of South Frontenac (“the Township” or “South Frontenac”) is exploring the creation of an MSC to develop, hold, and manage property, which includes municipal housing assets such as the Verona Housing Project. The proposed MSC would be established as a separate corporate entity responsible for advancing housing and other property development and holding property assets on behalf of the Township. While the MSC would provide overall ownership, governance, and strategic oversight, operational functions such as property management, tenant services, maintenance, and day-to-day housing operations may be delivered directly by the MSC or through contracted service providers. As the Township advances the Verona Project and plans for future growth, it recognizes the need for a governance and delivery model that increases flexibility, reduces pressure on municipal capacity, and aligns with long-term financial objectives.

Located just north of Kingston, South Frontenac is a growing rural municipality with a population of approximately 20,188.¹ The Township is experiencing increasing demand for housing, particularly affordable and purpose-built rental options. While the Verona Housing Project represents an important first step in addressing this need, the Township's ability to advance additional housing initiatives is constrained by limited staff capacity and maintaining Township independence in its financial operations, including borrowing limits under the Annual Repayment Limit (ARL) is an important consideration. As a result, the Township has identified the need for a more flexible, scalable, and dedicated approach to housing delivery that can support ongoing development while maintaining alignment with community objectives.

This Business Case discusses the proposed MSC, the implementation strategy, financial considerations, and recommendations for Council's review and consideration. More specifically, it outlines a proposed governance and operating framework designed to help the Township scale

¹Statistics Canada. (2022). *Census profile, 2021 Census: South Frontenac, Township (TWP), Ontario*. Government of Canada. <https://www12.statcan.gc.ca/census-recensement/2021/dp-pd/prof/details/page.cfm?Lang=E&SearchText=south%20frontenac&DGUIDlist=2021A00053510020&GENDERlist=1,2,3&STATISTIClist=1,4&HEADERlist=0>

its housing efforts more effectively, create a dedicated organization focused on housing delivery, and potentially reduce direct financial and operational pressures on the municipality.

The proposed MSC structure would allow the Township to retain ownership and strategic oversight while enabling the corporation to operate at arm's length through a skills-based Board of Directors and a focused operational model. The MSC is intended to be structured to meet Public Sector Accounting Standards (PSAS) criteria for classification as a Government Business Enterprise (GBE). If achieved, this classification would allow the MSC to operate as a financially and operationally separate entity, including debt and liabilities being not being consolidated into the Township's financial statements but rather being reflected as an equity contribution and therefore not impacting to the Township's Annual Repayment Limit (ARL).

The proposed MSC structure has been designed to align with the Municipal Act, 2001 and Ontario Regulation 599/06 while providing the Township with a flexible governance framework that can evolve alongside its objectives.² The structure also provides the ability to adapt over time, including the potential to introduce additional shareholders or expand the MSC's mandate should Council determine that such changes support the Township's long-term objectives. Overall, the proposed MSC represents a strategic approach to addressing housing needs in South Frontenac. It provides a scalable model that supports long-term growth, strengthens financial and operational flexibility, and enables the Township to play a more effective role in delivering housing while maintaining public accountability.

²Ontario Regulation 599/06: Municipal Services Corporations, under the *Municipal Act, 2001*. Government of Ontario. <https://www.ontario.ca/laws/regulation/060599>

2.0 - Introduction

2.1 - Background

Rural Impact Canada (“RIC”), in partnership with 2B Developments Consultants & Associates (“2B”), has been retained by the Township of South Frontenac (“the Township”) to develop a Business Case exploring the creation of an MSC in accordance with Ontario Regulation 599/06 under the Municipal Act, 2001. This initiative is part of the Township’s broader efforts to enhance its capacity to plan, deliver, and manage housing and infrastructure services in a way that aligns with its strategic priorities.

South Frontenac is seeking to create an MSC to develop, hold, and manage property. The MSCs first initiative would be the Verona Housing Project, which would be transferred to the MSC following its incorporation. As the Township advances its first municipally led rental housing project and plans for future growth, it is important to evaluate governance and ownership models that can provide greater flexibility, reduce pressure on municipal resources, mitigate risk, and support long-term service delivery. The creation of an MSC may provide a governance and operating structure capable of delivering financial, operational, and administrative benefits while increasing the Township’s capacity to support future housing initiatives.

This Business Case outlines a proposed governance framework, implementation strategy, financial analysis, and a series of recommendations to support informed decision-making. It is intended to help Council determine whether the creation of an MSC represents an appropriate and effective approach to advancing the Township’s housing objectives while maintaining public accountability and supporting long-term growth.

2.2 - Current State

The Township of South Frontenac is a lower-tier municipality in Eastern Ontario, within the County of Frontenac. According to the 2021 Census, the Township had a population of approximately 20,188 permanent residents and provides a wide range of municipal services across 948 km² of hamlets, villages, and rural areas.³ The Township’s Official Plan recognizes the importance of providing a full range of housing options to meet the needs of current and future residents. To support projected population growth, the Official Plan encourages a diverse mix of housing types, including affordable housing, rental housing, additional residential units, townhomes, apartment buildings, and age-friendly housing options.⁴ The Plan also supports the development of housing that serves residents across a range of income levels and lifecycle needs.

³Township of South Frontenac. (2023). *Recreation, Parks and Leisure Master Plan*. <https://www.southfrontenac.net/media/qi4pbf05/recreation-parks-and-leisure-master-plan.pdf>, p.5.

⁴Township of South Frontenac. (2025). *Official Plan*. Township of South Frontenac. <https://www.southfrontenac.net/media/5zrlx2ho/south-frontenac-official-plan-county-approval-2025-11-19-1.pdf>, p. 27-28.

As South Frontenac continues to grow, the Township is increasingly being called upon to support housing development. The Township's first municipally led housing initiative, the Verona Housing Project, represents an important step toward addressing local housing needs. However, it has also highlighted several challenges associated with delivering housing directly through the municipal structure. Currently, housing initiatives are delivered directly through the municipality, where they compete with other municipal priorities and rely on limited staff capacity. The Township's ability to advance new municipal housing projects could also impact its borrowing capacity under the ARL, which directly impacts its ability to finance and scale future development while also balancing ongoing capital requirements for other municipal services.⁵ Furthermore, the Township faces several additional challenges associated with delivering housing directly through the municipal structure, including:

- The Township does not have a dedicated entity or staff solely responsible for planning, owning, and operating municipal housing projects;
- Development and project management responsibilities are being added to existing staff responsibilities, creating capacity constraints;
- The municipal budgeting framework requires that any housing-related capital investments and operating costs be carried directly on the municipality's books; and
- Under the status quo (where the Township does not create an MSC), any debt associated with the Verona Housing Project would remain on the Township's balance sheet and contribute toward the Township's borrowing capacity limitations and ARL. An MSC structure would provide the opportunity to pursue a Government Business Enterprise (GBE) classification under PSAS, which could allow the financial activities and debt of the MSC to be treated separately from the Township.

At the same time, South Frontenac has identified a growing need to expand the supply of affordable rental housing to meet current and anticipated community needs while ensuring the Township has the organizational capacity and financial flexibility to support future growth. The Township has also recognized that any governance structure established today should be capable of evolving over time to support additional objectives and future initiatives. Collectively, these factors have prompted the Township to explore the MSC model as a potential approach to support the development, ownership, and management of housing assets in South Frontenac.

⁵OpenCouncil. (n.d.). *Municipal debt and Annual Repayment Limit (ARL)*. <https://opencouncil.ca/municipal-debt/>

Summary of Current State, Key Challenges, and Identified Needs

Current State	Key Challenges	Identified Needs
Housing delivered through the municipal structure	No dedicated housing entity or staff	Establish a dedicated housing entity
Competing municipal priorities	Staff capacity constraints and competing workloads	Increase capacity and focus for housing delivery
Borrowing constrained by ARL	Limited ability to finance and scale development	Expand financing tools and borrowing flexibility
Growing population and housing demand	Insufficient affordable and rental housing supply	Increase housing supply across target groups
Long-term growth objectives	Current approach not scalable	Create a sustainable long-term delivery vehicle
Verona Housing Project in pre-development	Project management added to existing roles	Develop a scalable and repeatable delivery model

Table 1. Summary of Current State, Key Challenges, Identified Needs and MSC Response

2.3 - Anticipated State

Population forecasts indicate that South Frontenac is expected to experience continued growth over the next 10 to 15 years. By 2034, the Township's permanent population is projected to increase to approximately 22,160 residents, growing further to approximately 23,280 residents by 2039. Seasonal population growth is also anticipated, with forecasts estimating approximately 11,200 seasonal residents by 2034 and 11,400 by 2039. Collectively, the Township's permanent and seasonal population is projected to reach approximately 34,680 residents by 2039.⁶

Projected Permanent and Seasonal Population Growth in South Frontenac (2024–2039)

Year	Permanent Population	Permanent Growth	Seasonal Population	Seasonal Growth	Total Population	Total Growth
2034	22,160	+1,500	11,200	+440	33,360	+1,940
2039	23,280	+2,620	11,400	+650	34,680	+3,270

Table 2. Projected Permanent and Season Population Growth in South Frontenac (2024-2039)

With the population of the Township continuing to grow, it is anticipated that the Township will continue facing an increased demand for purpose-built rental and affordable housing over the next 10-15 years. Growth forecasts in the Official Plan estimate that approximately 50% of residential growth will be directed to existing Settlement Areas (such as Verona, Sydenham,

⁶South Frontenac Official Plan (2025), p. 25.

Harrowsmith, and Inverary), where it can be supported by appropriate services, including communal water and wastewater systems.⁷ Furthermore, the rural area of South Frontenac is expected to experience the largest population growth for both permanent and seasonal residents.⁸

As residential and employment growth continues, the Township will need to support a broader range and mix of housing options beyond traditional single-detached dwellings, including housing that is affordable. The Township's Official Plan supports opportunities for the development of affordable housing that are affordable to low- and moderate-income households.⁹ As a result, the Township is expected to face a number of housing and service delivery pressures, including:

- A continued and growing demand for mixed-use housing development that supports the needs of current and future residents (with an emphasis on seniors housing, and affordable housing);
- An increase in the demand for more purpose-built rental housing provided by the municipality and/or the private sector;
- Pressure on existing administrative resources, as the Township continues to deliver housing in addition to its broader municipal service responsibilities; and
- A need for innovative delivery mechanisms, including the use of communal servicing, partnerships and strategic modular construction techniques to achieve affordability targets and support mixed-tenure development.

2.4 - The Case for Support

South Frontenac is experiencing steady population growth driven by migration from Kingston, Ottawa, and other nearby economic regions. In 2021, approximately 73% of the Township's labour force commuted to Kingston for work, while only 16% both lived and worked within the Township.¹⁰ This reflects South Frontenac's growing role as a residential community for regional workers and reinforces the need to plan for continued housing growth and diversification within the Township. According to the Growth Study Analysis, 2021-2051 completed by Watson & Associates, more than 3,000 new households are projected to be required over the planning horizon. The study further notes that "The Township's strategic location to Kingston will continue to drive housing and population development in South Frontenac, as individuals seek competitively priced, ground-oriented housing within reasonable commuting distance to the City

⁷South Frontenac Official Plan (2025), p. 26.

⁸Recreation, Parks and Leisure Master Plan (2023), p. 10.

⁹South Frontenac Official Plan (2025), p. 27-28.

¹⁰Watson & Associates Economists Ltd. (2024). *Township of South Frontenac Population, Housing and Employment Growth Forecast Update 2021 to 2051*. Township of South Frontenac. <https://southfrontenac.civicweb.net/FileStorage/D296A24206F6463D9C20AAD800BA17A4-Township%20of%20South%20Frontenac%20Population%20Housing%20and.pdf>, p. ii.

of Kingston.”¹¹ The Study goes on to say, the population is aging rapidly, with the number of residents aged 75 and older projected to triple by 2051, increasing from 7% in 2021 to 21% by 2051.¹² This demographic shift will increase demand for affordable, accessible, and diverse housing options that support aging in place. As emphasized in Watson's analysis, the Township will need to continue planning for a broader range of housing forms and housing supports capable of accommodating a growing senior population.

Currently, most housing construction in South Frontenac consists of single-family homes, estate subdivisions, and seasonal properties. However, the Watson study forecasts a gradual increase in the demand for medium- and higher-density housing forms, including townhouses, apartments, stacked townhouses, and secondary units.¹³ While low-density housing is still expected to represent the majority of future development, the shift toward more diverse housing forms is anticipated to be driven by an aging population, continued affordability challenges associated with single- and semi-detached dwellings, and opportunities for communal servicing within primary settlement areas.

To effectively manage future growth, there is strong evidence that South Frontenac will need to explore new approaches to housing delivery within the community. The question is no longer whether additional housing, particularly purpose-built rental and affordable housing, is needed, but rather what governance and delivery model is best suited to support long-term housing development. In this context, an MSC could provide the Township with an approach to developing, owning, and managing housing while still maintaining accountability and alignment with municipal priorities. The MSC structure would help South Frontenac respond to current and future housing needs, support a growing population, and create a more sustainable approach to long-term housing delivery within the community.

¹¹Watson Growth Forecast Update (2024), p. ii.

¹²Watson Growth Forecast Update (2024), p. iii.

¹³Watson Growth Forecast Update (2024), p. iii-iv.

3.0 - The Proposed MSC

3.1 - The Objective of the MSC

It is anticipated that, without a dedicated housing delivery corporation, the Township will continue to face challenges in meeting future demand for affordable and rental housing while balancing long-term financial sustainability and broader municipal service delivery responsibilities (see Appendix A for more MSC details). The establishment of an MSC for housing is therefore expected to:

1. Provide dedicated capacity and expertise to advance municipal housing priorities;
2. Integrate the use of communal servicing solutions that enable compact growth in the Township including settlement areas such as Verona;
3. Support the Township in achieving the housing expectations and population targets set out in its Official Plan.

The MSC will serve as a dedicated, arm's-length entity with the flexibility and scalability to advance housing initiatives, while operating outside the current administrative and financial service delivery needs of the Township.

3.2 - Services Provided and Activities

The Township of South Frontenac is proposing to utilize the MSC to facilitate investment in housing for the community. The MSC will act as the delivery vehicle for housing development, beginning with the Verona Housing Project, with the option to expand its scope to additional projects across South Frontenac. The MSC's responsibilities include:

A. The Verona Housing Project

The Verona Housing Project involves the development of 92 new residential units (48 townhouses and 44 apartments). All units are anticipated to be maintained at or below 100% of Median Market Rent (MMR), with more than 80% of them targeted at 80% MMR or less. The project is designed to provide affordable, adequate, and accessible housing that enables residents to age in place while addressing the Township's immediate housing supply shortages. By delivering net-new, long-term, and protected affordable housing, this initiative will not only help meet the current needs but also establish a strong, replicable model for future MSC-led developments. The MSC would be the owner of the project and tasks would focus on administrative and supervisory duties, in conjunction with the operator.

B. Addressing Gaps in Current Housing Stock

South Frontenac's population is anticipated to continue growing and aging, increasing demand for affordable, accessible, and diverse housing options, including seniors housing and purpose-built rental housing.¹⁴ It will therefore be important for the Township to address gaps in adequate and appropriate housing by supporting a broader range of housing forms that allow residents to age in place within the community.¹⁵ In addition to the growing demand for affordable and accessible housing, the Township is also anticipated to continue experiencing growth in second homes and seasonal properties, largely driven by demand from the Greater Golden Horseshoe and Ottawa regions.¹⁶ Over time, a portion of these seasonal properties are also expected to convert into permanent residences, contributing to long-term population growth within the Township.

According to Watson, over the 2021 to 2051 forecast period, most future housing growth in South Frontenac is anticipated to remain low-density, consisting primarily of single- and semi-detached dwellings. However, a gradual increase in medium- and higher-density housing forms, including townhouses, apartments, stacked townhouses, and secondary units, is also anticipated due to affordability pressures, changing demographic trends, and opportunities for communal servicing within Settlement Areas.¹⁷ More specifically, between 2021-2051, both permanent and seasonal dwellings are projected to increase almost 120 units annually.¹⁸ For these reasons, South Frontenac has been advised to plan for growth, which requires addressing the current and future housing needs.

The MSC could review and pursue development opportunities within the Township in line with these priorities. Focus could include facilitating the pre-development and construction of affordable housing, administering and managing those projects in an owner role, and through Council direction work with to create action plans for further housing development.

C. Future Expansion of MSC Services

Beyond the Verona Project, the MSC will provide a platform for scaling additional housing initiatives without overwhelming the Township's staff capacity. The use of the MSC could enable the development of future projects such as the construction of additional affordable housing units.

¹⁴Watson Growth Forecast Update (2024), p. 2-4.

¹⁵Watson Growth Forecast Update (2024), p. 4-4; 4-5.

¹⁶Watson Growth Forecast Update (2024), p. 4-7.

¹⁷Watson Growth Forecast Update (2024), p. 4-10.

¹⁸Watson Growth Forecast Update (2024), p. 4-12.

4.0 - Corporate Structure

4.1 - Overview of Models Considered

Three models were identified through consultation with the Township of South Frontenac and assessed against the Township's objectives of increasing their housing supply, reducing administrative strain on municipal staff, and exploring more flexible financing and delivery models (see Appendix B for more details). This also considered the review of relevant municipal, legislative, and financial considerations:

1. Maintaining the Status Quo (housing delivered directly through the Township);
2. Creating a Housing Corporation under the Housing Services Act; and
3. Creating a Municipal Services Corporation (MSC) under O. Reg. 599/06 of the Municipal Act, 2001.

Each option was evaluated based on:

- Governance and accountability;
- Financial flexibility and borrowing capacity;
- Administrative implications;
- Scalability and long-term sustainability; and
- Legislative and regulatory requirements.

The following sections summarize each ownership structure and assess how each model aligns with the Township's long-term goals.

Option 1: Maintain Status Quo

Under the Status Quo model, the Township would continue to deliver housing directly through its existing organizational structure. Housing projects would remain fully integrated within municipal administration, with all planning, financing, operations, liabilities, and risks managed directly by the Township. While this model provides direct oversight and accountability, it also places continued pressure on municipal staff and limits financial flexibility related to borrowing and project delivery.

Option 2: Create a Housing Corporation

Under this model, the Township would establish a separate Housing Corporation under the Ontario Business Corporations Act (OBCA) and the Housing Services Act, 2011. The corporation would operate as a separate legal entity with its own Board and governance framework while remaining closely tied to the municipality through ownership and oversight. This model creates a more dedicated structure for housing delivery; however, it may duplicate functions already intended to be delivered through external housing providers or partnerships, such as the existing Kingston and Frontenac Housing Corporation. Plus, achieving the intended accounting status (government business enterprise) is more difficult to do as a Housing Corporation.

Option 3: MSC

An MSC is a separate legal entity established under Section 203 of the Municipal Act, 2001 and Ontario Regulation 599/06. The MSC model allows municipalities to deliver systems, services, or things through an arm's-length corporation while maintaining public ownership and accountability. This structure provides increased operational flexibility, the potential for greater financial independence, and the ability to scale beyond housing into broader infrastructure or community development initiatives over time. Under this structure, the MSC can work towards its goal of separating debt from the Township's annual repayment limit (ARL).

Comparative Analysis

The Status Quo model provides the highest level of direct municipal oversight but offers limited flexibility and continues to strain municipal administration and borrowing capacity. The Housing Corporation model introduces a more focused governance structure for housing delivery; however, it may duplicate existing services and provide limited financial flexibility with debt likely to remain consolidated within the Township's financial reporting structure.

The MSC model provides the greatest flexibility related to governance, financing, operational scalability, and long-term organizational growth. While the MSC structure introduces additional governance and administrative requirements, it aligns most closely with the Township's stated objectives and offers the greatest opportunity to deliver scalable, long-term housing and community development. Therefore, the MSC model provides the strongest alignment with the Township's objectives of:

- Increasing housing supply;
- Reducing administrative burden on municipal staff;
- Exploring more flexible financing structures;
- Supporting long-term scalability; and
- Creating a governance structure capable of holding assets and adapting to the needs of the Township.

Through an arm's-length but municipally accountable structure, the MSC model creates the opportunity to balance public oversight with operational flexibility while positioning the Township to pursue innovative partnerships, financing opportunities, and long-term organizational sustainability.

4.2 - Governance Model Options

The Township has multiple options for how to structure the corporation. There are a number of variables that should be considered before arriving at a final decision. These include the intended objective(s) of the MSC, whether the Township chooses to expand its mandate in the future and establish multiple other corporations, whether additional shareholders are intended to be brought in over time, and other considerations that could influence the long-term structure of the corporation. The Township will ultimately need to evaluate the benefits and limitations of each

option to determine which structure is best suited to support the intended goals and long-term direction of the MSC. At a high level, the Township has an opportunity to establish:

Proposed Option 1: A two-tiered structure that includes both a holding corporation (“Holdco”) and an operating corporation.

Proposed Option 2: A single-tiered structure that consists of an operating corporation.

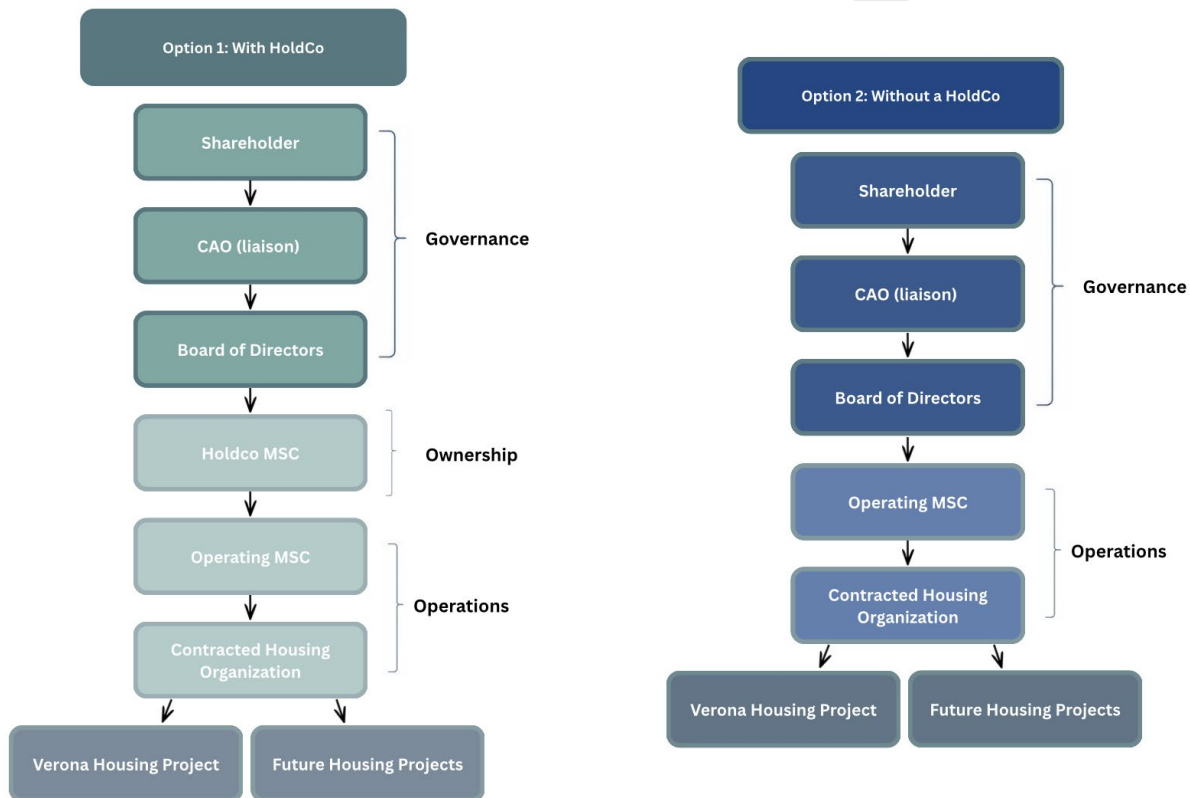


Figure 1. Proposed MSC Organization Chart (Option 1 and 2).

4.3 - What is a HoldCo

A HoldCo is a corporation that exists primarily to hold ownership interests in one or more corporations rather than directly delivering services or carrying out day-to-day operations.¹⁹ Its primary role is to own and oversee one or more operating companies ("OpCo"), which are responsible for delivering services, managing assets, and undertaking the day-to-day activities of the organization.²⁰ As a separate legal entity, a Holdco can own assets, shares, and investments

¹⁹Aird & Berlis LLP. (2024). The use of holding companies for Ontario's municipally owned electricity utilities. Aird & Berlis LLP. <https://www.airdberlis.com/insights/blogs/energyinsider/post/ei-item/the-use-of-holding-companies-for-ontario-s-municipally-owned-electricity-utilities>

²⁰Aird & Berlis LLP. (2024).

independently of the operating companies beneath it.²¹ This separation creates a distinction between ownership and operations, allowing assets held by the Holdco to remain separate from the day-to-day activities of the operating company. As a result, a HoldCo structure may provide an additional layer of separation between ownership and operations, which can help reduce the extent to which operational risks and liabilities associated with service delivery affect assets held by the HoldCo.²² Some of the potential benefits of a HoldCo include:

1. **Control:** Where a Holdco owns an operating corporation, it can appoint the Board of Directors and provide strategic direction for the organization. While the Board is responsible for overseeing the day-to-day operations of the operating corporation, the Holdco can retain oversight of major decisions through its ownership role and governance framework.²³
2. **Asset Protection:** Because the HoldCo and OpCo are separate legal entities, assets held by the HoldCo may remain separate from certain operational risks associated with service delivery, providing an additional layer of corporate separation between ownership and operations.²⁴

4.4 - Proposed Option 1: HoldCo & OpCo Structure

Under this structure, the Township would establish two MSCs: a HoldCo and an OpCo. The OpCo (SFPC), would be responsible for undertaking the development, ownership, and management of housing assets, while the HoldCo would own the shares of the operating corporation. This structure should be considered if the Township wishes to create additional separation between ownership and operations. This option can also be considered in the future to provide flexibility to support future growth, expansion of the MSC's mandate, or changes to the corporation's structure over time. Potential advantages of a HoldCo structure include:

- Additional corporate separation between ownership and operational activities, which may provide greater flexibility for future organizational changes.
- Governance flexibility, as the HoldCo and OpCo may have overlapping Boards or separate Boards with different areas of focus and expertise.
- Future scalability, allowing the Township to accommodate additional projects, subsidiaries, or service areas should the MSC's mandate expand over time.

4.5 - Proposed Option 2: OpCo Only Structure

Under this structure, the MSC undertakes its activities as detailed previously and is overseen by a Board of Directors. An OpCo is the corporation responsible for delivering services and carrying

²¹Hadri Law. (n.d.). Holding company vs. operating company in Canada. Hadri Law. <https://hadrilaw.com/holding-company-vs-operating-company-in-canada>

²²Hadri Law. (n.d.).

²³Aird & Berlis LLP. (2024).

²⁴Pacific Legal. (2026). Holding company vs. operating company: Which structure protects your business best? Pacific Legal. <https://pacificlegal.ca/holding-company-vs-operating-company-which-structure-protects-your-business-best/>

out the day-to-day activities of the organization. In the context of an MSC, the operating corporation would be responsible for advancing housing projects, managing and owning assets, entering into contracts, and overseeing the delivery of its responsibilities.²⁵ Unlike a HoldCo, which primarily functions as an ownership and oversight entity, the OpCo only option provides the ability to fully carry out the mandate of the MSC including ownership and oversight.

4.6 - Considerations for South Frontenac and Recommendation

Since South Frontenac is currently anticipated to be the sole shareholder of the MSC, many of the added benefits associated with a HoldCo structure may not be necessary during the early stages of implementation. The benefits of a HoldCo would become more relevant if the Township were to expand the MSC over time through additional objectives or the addition of shareholders. Additionally, a HoldCo can be created in the future, if needed or desired.

At the same time, Holdco structures also introduce additional governance, administration, and ongoing costs. Separate corporate entities typically require their own governance structures, shareholder meetings, corporate filings, financial reporting, and ongoing administration.²⁶ If the Township is only operating one MSC with one primary mandate, the additional layer of governance created through a Holdco structure would add complexity without providing significant added benefit at this stage.

For these reasons, we recommend that the Township proceed with Option 2 OpCo only, as it represents a more simplified single-tiered MSC structure that will meet all requirements.

4.7 - Board Composition

All Board members would be appointed by the Township Council and selected based on the skills and expertise required to support the MSC's mandate. Council would determine the qualifications and criteria needed to ensure the Board is equipped with the appropriate expertise and experience. Section 11 of O. Reg. 599/06 explicitly permits municipalities to appoint the directors, officers, and incorporators of an MSC, confirming Council's authority to determine who oversees the MSCs. The Regulation states that:²⁷

- *“A municipality may use the powers... to nominate or authorize a person to act as a director or officer of a corporation in relation to any corporation whether incorporated under this or any other Act.”*
- It further clarifies that a municipality may nominate or authorize a person to act as an incorporator only if the corporation is one that the municipality is permitted to establish

²⁵Hadri Law. (n.d.).

²⁶Aird & Berlis LLP. (2024).

²⁷Ontario Regulation 599/06: Municipal Services Corporations, under the *Municipal Act, 2001*. Government of Ontario. <https://www.ontario.ca/laws/regulation/060599>

under the Regulation.

- The Regulation also enables a municipality to nominate or authorize a person to act as a member of a corporation if that corporation is established by a public-sector entity and operates within the municipality.

These provisions make clear that Council retains full authority to appoint the Board of Directors of the MSC, ensuring that governance aligns with municipal priorities while allowing the corporation to operate at arm's length. This structure supports a skills-based board model while maintaining strong accountability between the MSCs and the Township.

All Directors would be appointed by Township Council and selected based on a defined skills matrix to ensure the Board has the professional expertise needed to support the MSC's mandate. Council would also determine the qualifications and competencies required for Board members to ensure strong, informed governance. To support transparency and accountability, Section 19 of O. Reg. 599/06 states that "the directors and officers of a corporation shall be deemed to be members for the purposes of the Municipal Conflict of Interest Act."²⁸ As a result, Directors and officers of the MSC would be subject to the conflict-of-interest requirements established under the Act.

4.8 - Proposed Board Structure

The proposed Board structure is intended to balance municipal accountability with independent, skills-based oversight, and satisfy independence requirements for the GBE criteria. It is recommended that the MSC be governed by a Board consisting of five Directors, which may include both municipal representatives and independent members appointed by Council. As the MSC is intended to operate as an arm's-length corporation, consideration should be given to maintaining a balance between municipal representatives and independent, skills-based Directors. This approach helps preserve operational independence while ensuring the corporation remains accountable to the Township through its role as shareholder. Board selection should be based on the skills and expertise required to support the MSC's mandate, with consideration given to areas such as housing, finance, governance, legal, development, construction, and community leadership. The final Board composition, appointment process, and governance requirements would be established through the MSC's governance framework and shareholder direction.

²⁸O. Reg. 599/06, s. 19.

Illustrative MSC Board Structure and Considerations

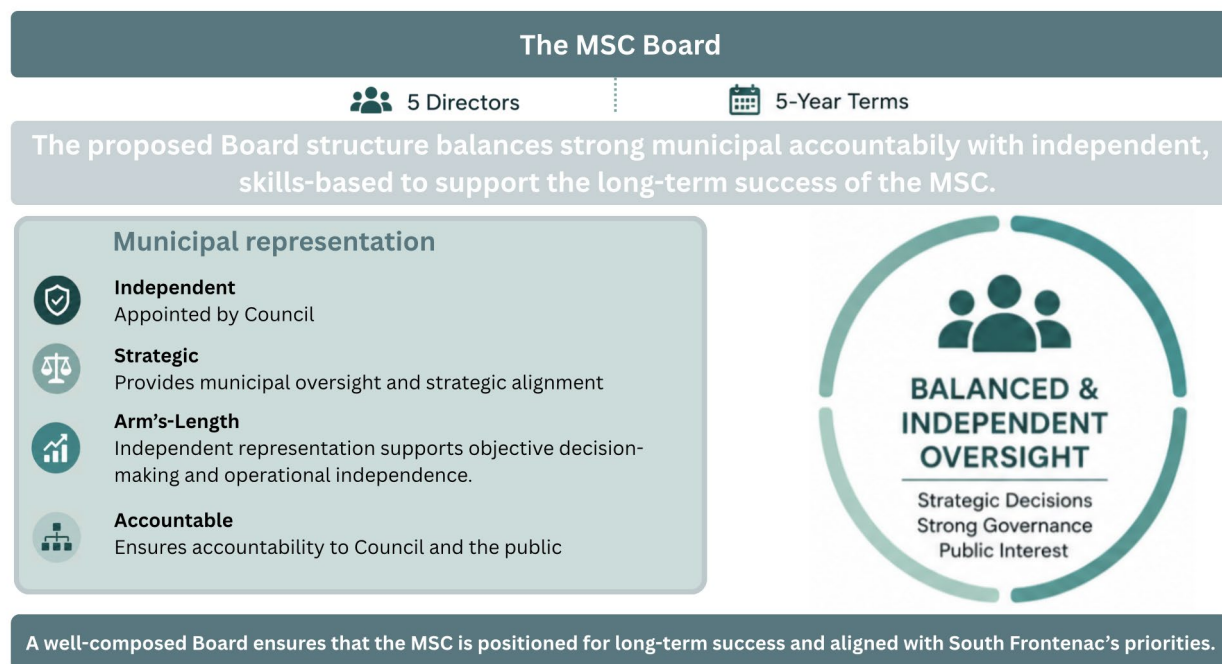


Figure 2. Illustrative MSC Board Structure and Governance Considerations

4.9 - Key Governance Considerations

- Consider maintaining a balance between municipal representatives and independent members to support arm's-length governance while maintaining accountability to the Township. To achieve GBE status, municipal representatives should not constitute a majority of Board seats.
- Consider appointing Directors with expertise in areas such as housing, finance, governance, legal, development, construction, and community leadership. Board composition should also reflect the potential for future expansion of the MSC's mandate.
- Consider implementing staggered Board terms to ensure experienced Directors remain on the Board while allowing for the gradual introduction of new perspectives and expertise.
- Directors should act in the best interests of the MSC and comply with applicable conflict-of-interest, confidentiality, and governance requirements.
- Consider having the CAO participate in Board meetings in a non-voting advisory capacity to support coordination and communication between the Township and the MSC.
- Final Board composition, appointment processes, qualifications, term structure, and reporting requirements should be established through the MSC's governance framework,

shareholder direction (or shareholder agreement), by-laws, and other governance documents approved by the Township.

4.10 - Governance Roles

The proposed governance structure is intended to create a clear separation between shareholder oversight, strategic governance, and day-to-day operations. While the Township, as shareholder, would retain authority over the MSC's overall mandate and Board appointments, operational decision-making would be delegated to the Board of Directors. This structure is designed to support accountability, operational independence, and efficient decision-making while maintaining alignment with the Township's strategic priorities and public interest objectives.

As part of the MSC's governance framework, Council would be responsible for establishing shareholder direction that outlines the roles, responsibilities, authorities, and reporting expectations of the various governance and management functions within the corporation. The descriptions below are intended to provide an illustrative overview of those roles.

Shareholder (Township of South Frontenac)

As the shareholder of the MSC, the Township would retain strategic authority over the corporation. Council would be responsible for establishing the MSC's mandate, appointing the Board of Directors, and providing overall strategic direction through shareholder oversight mechanisms. While Council would maintain accountability oversight, it would not be responsible for the corporation's day-to-day operations.

Chief Administrative Officer (CAO)

The Chief Administrative Officer would act as the primary liaison between the Township and the MSC. This role would support communication, coordination, and alignment between Council, municipal administration, and the Board of Directors, while helping ensure that the MSC continues to operate in a manner consistent with municipal objectives and reporting expectations.

Board of Directors

The Board of Directors would provide strategic governance and oversight for the MSC. The Board would be responsible for approving major policies, budgets, business plans, and development decisions, while also overseeing organizational performance and risk management. Operating at arm's length from Council, the Board would help ensure the MSC remains responsive, financially sustainable, and aligned with its mandate.

Chair of the Board of Directors

The Chair would be selected from among the Directors and would be responsible for providing leadership to the Board. The Chair would oversee Board meetings, facilitate discussion and decision-making, help establish meeting agendas, and ensure that the Board effectively fulfills its governance and oversight responsibilities. The Chair would also serve as a key point of contact

between the Board, the shareholder, and management, helping to promote effective communication and accountability.

Treasurer

The Treasurer would be responsible for supporting the Board's oversight of the MSC's financial affairs. This role may include reviewing financial statements, budgets, reserve strategies, and financial policies, while helping ensure appropriate financial controls and reporting practices are in place. Depending on the structure adopted by the MSC, the Treasurer role may be fulfilled by a Director, officer of the corporation, or external financial professional.

Additional Board Roles

As the MSC evolves, the Board may choose to establish additional officer positions, committees, or governance roles to support its mandate. These could include positions such as Vice-Chair, Secretary, or committee chairs responsible for areas such as governance, finance, audit, housing development, or risk management. The need for additional roles would be determined by the Board and formalized through the corporation's by-laws and governance framework.

Management and Operations

Management would be responsible for the day-to-day operations of the MSC, including project implementation, administration, partnership coordination, and operational compliance. Initially, it is recommended that the MSC use contracted operational support to manage housing development, tenant services, and ongoing property operations. This should be reassessed on a regular basis as the MSC grows and takes on additional projects, and increases its revenues.

Housing and Service Delivery Partners

The MSC may also work with external housing and service delivery partners to support property management, tenant services, and operational delivery functions where appropriate. This approach would allow the MSC to leverage existing expertise and operational capacity while maintaining oversight through the Board and management structure.

4.11 - The Role of the Shareholder

Who can be a shareholder in the MSC?

Only a municipality by itself or together with other public sector entities can establish an MSC. Unless restrictions are set out in regulation or elsewhere, an MSC may define in its constating documents who may become a shareholder. When incorporating, municipalities should carefully consider how to maintain control over the corporation through its articles and shareholder agreements. Section 2 of the Municipal Act makes clear that municipalities are created to function as responsible and accountable governments, with powers granted for the purpose of providing

good government within their jurisdiction.²⁹ To ensure an MSC maintains strong governance and ownership, it must remain ultimately accountable to both the municipality and the public it serves.

Who cannot be a shareholder in the MSC?

Private individuals, businesses, or developers cannot hold shares directly in an MSC. However, they can still partner through contracts, service agreements, or joint ventures with the MSC. Additionally, the articles of MSCs incorporated for the purpose of holding shares in one or more other corporations must include provisions restricting share ownership to the municipality solely or alongside other municipalities.

4.12 - Shareholder Options

Option 1: The Township of South Frontenac as the Sole shareholder

- This option allows Council, as the sole shareholder, to appoint the Board of Directors and set the mandate of the MSC, meaning the Township retains significant control and influence over the corporation, especially in its early stages.
- However, once the MSC is established, decision-making authority shifts to the Board of Directors, which is designed to operate at arm's length. While Council, as shareholder, can still influence the MSC through shareholder directions, by-laws, or replacing directors, day-to-day decisions are made by the Board to maintain independence and professional governance.

Option 2: Multiple Municipalities as Shareholders

- This option allows for a pooling of resources, a delegation of responsibilities,
- This model is particularly valuable when municipalities face a challenge that extends beyond their individual borders.
- By pooling their resources, municipalities can share costs, expertise, and risks while unlocking economies of scale that make larger or more complex projects financially viable.

Option 3: Public Sector Entities as Shareholders

- It is defined in O.Reg 599/06, "Public sector entity" is a municipality, the Crown in right of Ontario, the Crown in right of Canada, or a combination of them.
- While the regulation indicates that the shareholders of an MSC must consist of one or more municipalities, the Crown in right of Ontario and/or Canada at the time of its establishment, there are fewer provisions concerning the issuance and ownership of shares afterward.

²⁹Municipal Act, 2001, S.O. 2001, c. 25, s. 2. Government of Ontario.
<https://www.ontario.ca/laws/statute/01m25>

Our Recommendation

Based on our discussions with the Township, Option 1 (the Township of South Frontenac as the sole shareholder) represents the most appropriate and strategic governance structure for the proposed MSC.

Under this model, Council, as the sole shareholder, retains the authority to appoint the Board of Directors and set the MSC's overall mandate, ensuring that the corporation's objectives remain aligned with the Township's housing goals and community priorities. This provides South Frontenac with a high degree of control and accountability, particularly during the early stages of the MSC's establishment and initial projects, such as the Verona Housing Project.

Once the MSC is fully operational, decision-making authority transitions to the Board of Directors, which is designed to function at arm's length from Council. This separation is intentional and beneficial: it allows the Board to make timely, professional, and financially sound decisions while maintaining transparency and municipal oversight. Council, as the shareholder, can still exercise influence through formal mechanisms such as shareholder directions, annual reporting requirements, and the ability to amend by-laws or replace directors when necessary.

This governance structure strikes the right balance between municipal oversight and operational autonomy. It allows the Township to guide strategic direction and policy alignment while empowering the Board to operate with the agility and efficiency needed to deliver housing outcomes while retaining a structure that provides flexibility.

Governance Roles and Responsibilities

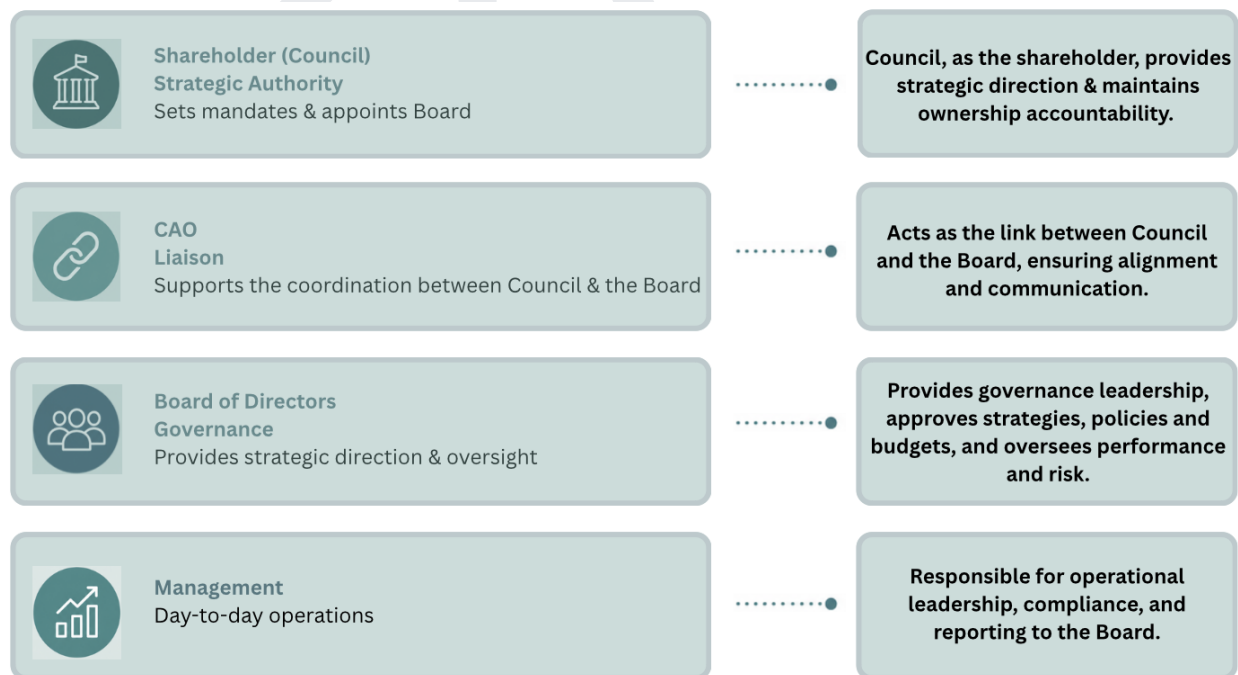


Figure 3. Illustrative Roles and Responsibilities

Management and Personnel Structure

The proposed MSC is intended to begin as a lean and scalable organization that can evolve over time as projects and operational responsibilities expand. During the initial phases of operations, the MSC may rely on a combination of contracted services and external partnerships, to support project delivery, administration, and operational functions. As the MSC grows, additional internal operational capacity may be introduced based on project scale, service requirements, and long-term strategic objectives. This phased approach allows the Township to minimize administrative overhead during the early stages of the MSC while maintaining flexibility for future expansion and additional service delivery functions. Where appropriate, the MSC may also work with external organizations or service providers to support property management, tenant services, maintenance, and specialized operational activities.

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5.0 - Implementation Strategy

The following provides an overview of the items required by O. Reg. 599/06 to incorporate an MSC and the recommended action to support the incorporation process and transition to active work.

1. Business Case

This document is one of the key mandates of the incorporation process. While O. Reg. 599/06 does not prescribe the contents of the business case, it is recommended that it contains an overview of the activities that MSC is intended to take on, base financial projections, and an overview of the considerations made during the development process.

2. Public Consultation

Before an MSC can be incorporated, it is mandated in O. Reg. 599/06 that the Township conduct a public consultation. Public engagement should focus on explaining the purpose of the MSC, its alignment with municipal objectives, and the anticipated benefits for residents, businesses, and community partners. Furthermore, the public consultation should focus on the following message to ensure residents and stakeholders understand the purpose, benefits, and outcomes of the proposed MSC:

- **Support for affordable and adequate housing:** The MSC is being established to help deliver more adequate and affordable housing options, with a particular focus on supporting seniors.
- **Verona Housing Project as a first initiative:** The MSC's first project will be the Verona Housing Project. Through the use of communal water and wastewater servicing, the project will increase housing capacity from approximately 10 units under traditional servicing approaches to 92 units. This scale improves project viability and expands housing opportunities for a broader range of residents.
- **Creation of net-new housing supply:** By unlocking development through decentralized servicing, the MSC will help the Township respond to local population growth and directly contribute to the supply of much-needed housing.
- **Operational efficiency for the Township:** Establishing an MSC will allow Township staff to remain focused on core municipal responsibilities, rather than adding the complex and resource-intensive work of housing development to their workload.
- **Improved financial flexibility and borrowing capacity:** The MSC structure provides segregation to ensure the Township retains its current borrowing capacity and debt limits

(ARL) for borrowing and project financing while supporting long-term infrastructure and housing investments.

We recommend that the Public Consultation Plan be broken into the following four stages:

Stage 1: Planning and Framework Development

This stage involves preparing the overall consultation framework, developing the implementation timeline and key milestones, creating a FAQ document/educational materials, and solidifying the messaging to be shared. Key messages should be developed to ensure communication remains clear, consistent, accessible, and transparent throughout the consultation process.

Stage 2: Public Information and Engagement Launch

The Township can post information regarding the proposed MSC through its public communication methods such as its website, social media, banner ad, including FAQs (and a downloadable FAQ document), background information regarding the proposed MSC structure, and other resources available.

Stage 3: Feedback Collection and Analysis

During this stage, feedback will be received through various methods which could include: online survey, website submissions and emails. Feedback received throughout the consultation period would be collected and analyzed. Feedback themes, recurring questions, opportunities, concerns, and areas requiring clarification would then be summarized and used to help inform any refinements to the proposed MSC framework and supporting materials, where appropriate. The findings would then be used to update the Business Case.

Stage 4: Council Review and Finalization

Following completion of the Community Consultation Report, the updated Business Case and consultation findings would be presented to Council for review and discussion. Any recommended revisions arising from the consultation process would be incorporated into the Business Case and supporting materials where appropriate. This stage would support Council in determining next steps regarding the proposed MSC structure and whether to proceed with incorporation under O. Reg. 599/06.

3. Asset Transfer Policy

O. Reg. 599/06 requires municipalities to prepare an Asset Transfer Policy prior to incorporating an MSC. The purpose of the policy is to establish a framework for evaluating, approving, and documenting the transfer of municipal assets to the corporation, should such transfers be required. As identified throughout this Business Case, the proposed MSC is intended to develop, own, and manage housing assets on behalf of the Township. As such, it is anticipated that assets

owned by the Township, including existing developments, land, or other assets (such as the Verona Housing Project) will be transferred to the MSC.

While the Verona Housing Project will form the MSC's initial asset base, the Asset Transfer Policy should be viewed as a broader framework to guide future decision-making. The policy would provide Council with a clear and transparent process for evaluating future asset transfer opportunities as the MSC evolves and its mandate expands.

4. MSC Governance and Incorporation Strategy

While O. Reg. 599/06 does not specifically require municipalities to establish a governance framework prior to incorporating an MSC, it is recommended that Council finalize the corporation's governance structure before proceeding with incorporation. This Business Case has already identified several governance considerations for Council's review, including shareholder structure, Board composition, appointment processes, reporting relationships, accountability mechanisms, and the potential use of a Holdco or operating corporation structure.

During this stage, Council would review and confirm the preferred governance model for the MSC, determine the desired Board composition and governance framework, and establish any shareholder directions necessary to guide the corporation's operations. Legal and accounting advisors should also be consulted to confirm the most appropriate corporate structure, governance arrangements, and financial reporting framework based on the Township's long-term objectives. The outcome of this stage would be a finalized governance and incorporation strategy that can be used to support the formal establishment of the MSC.

5. Council Approval and Incorporation

Following completion of the Business Case, Community Consultation Report, and Asset Transfer Policy, Council may pass a resolution authorizing the CAO (or another delegated individual) to proceed with the establishment of the MSC. Following Council's direction, the Business Case, Community Consultation Report, Asset Transfer Policy, and a copy of the Council resolution would be provided to the Ministry of Municipal Affairs and Housing (MMAH) in accordance with the requirements of O. Reg. 599/06. Once all legislative and corporate requirements have been satisfied, the Township may proceed with incorporating the MSC and implementing the governance framework approved by Council.

6.0 - Financial Analysis

Financial Assumptions and Operating Model

The proposed MSC is intended to operate as a financially sustainable corporation that develops, owns, and manages housing assets on behalf of the Township. Revenue is anticipated to be generated through rental income. For the Verona Housing Project, the financial model assumes that rental revenues and the respective Operational Budget (i.e. maintenance, reserve, property management allocation) will be sufficient to support all operating expenses, capital replacement requirements, debt servicing obligations, and reserve contributions over the long term.

6.1 - Operating Budget

At this stage, all MSC revenues are projected to be sourced from the Verona Housing Project rents. The project is designed to operate on a cost recovery basis, where little to no profit is made. Integrated into the costs of the development is an administrative fee, which is intended to cover specific MSC administration costs and board remuneration.

High level details on the budget are below. As final financing has not yet been received, the numbers are estimates.

Revenues	Amount	Description
Rent	\$1,397,000	
Total Revenues	\$1,397,000	
Expenses		
Property Tax	\$73,000	
Insurance	\$47,000	
Utilities	\$66,000	Water, wastewater and electricity.
Administration	\$56,000	Administration associated with ownership and board remuneration.
Property Management & Maintenance	\$210,000	Fee charged by property management company and for ongoing maintenance.
Reserve	\$115,000	Set aside funding for future use - asset management/capital
Debt Payments	\$830,000	
Total Expenses	\$1,397,000	
Surplus / Deficit	\$0	

6.2 - Surpluses

The primary objective of the MSC is not to generate profit for distribution to shareholders, but rather to create and preserve housing assets that support the Township's housing objectives. As a result, it is anticipated that any operating surpluses would be reinvested into the corporation to:

- Build operating and capital reserves;
- Support future housing projects;
- Fund major repairs and lifecycle replacement requirements;
- Improve affordability and tenant services; and
- Strengthen the long-term financial sustainability of the corporation.

It is not anticipated that the MSC would release surplus funds to the Township.

6.3 - Deficits

Should the MSC experience an operating deficit, the corporation would first be expected to utilize available reserves, adjust operating expenditures, increase revenues where appropriate, or pursue additional funding opportunities. The proposed operating model is intended to support financial self-sufficiency and is being structured with the expectation that the MSC will operate without ongoing financial support from the Township. The MSC would be responsible for managing its own operating revenues, expenses, and financial obligations.

6.4 - Financial Reporting Considerations

MSCs have unique auditing and financial reporting requirements due to their publicly owned nature. One of the key considerations during the annual audit process is the organization's accounting classification, which can impact financial reporting and balance sheet treatment. This classification is reviewed annually by the organization's auditors based on the MSC's structure, operations, and sources of revenue. It is the intent of the proposed MSC to achieve GBE status.

During the initial audit and financial statement preparation process, auditors assess whether the MSC is considered, for accounting purposes, either:

- An Other Government Organization (OGO); or
- A Government Business Enterprise (GBE).

The classification determines how the MSC's financial results are reported and consolidated within the municipality's financial statements. As a result, it is important that the MSC's governance structure, revenue model, and operational activities be reviewed regularly to ensure compliance with applicable public-sector accounting standards and reporting requirements.

Typically, an MSC will have a yearly filing date that corresponds with the majority shareholder's municipal annual filing date. This is because the majority shareholder will need to “pick up” the equity of the MSC for each municipal filing.

An MSC Classified as an Other Government Organization (OGO)

For an MSC to be classified as an OGO, the key requirement is that it has a majority shareholder who controls the corporation and does not meet GBE requirements. This majority shareholder can be the sole owner or one of several shareholders holding more than 50% of the voting shares. In this scenario (using the Township as the majority shareholder), the MSC's financial statements are fully consolidated into the Township's municipal financials. This means that all MSC assets and liabilities appear "on the books" of the municipality. So any debt taken on by the MSC would count towards the Township's ARL.³⁰

An MSC Classified as a Government Business Enterprise (GBE)

Given the potential implications for municipal financial reporting and borrowing capacity, the Township should consider structuring the MSC in a manner that supports the achievement of GBE status. The proposed governance framework, shareholder direction, by-laws, and operating model can be designed to align with the applicable Public Sector Accounting Standards (PSAS) criteria. While the final determination would be confirmed by the corporation's auditors, the Township can take deliberate steps during the establishment of the MSC to support classification as a GBE. For an MSC to be classified as a GBE, in addition to having a majority shareholder who controls the corporation, the MSC must meet four main requirements under PSAS Section 3070:³¹

1. It is a separate entity with the power to contract in its own name and that can sue and be sued;
2. It has been delegated the financial and operational authority to carry on a business (*in other words, the corporation has the authority to manage its own operations and finances and make day-to-day business decisions independent of Council*);
3. It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
4. It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

As with an OGO, the majority shareholder remains the controlling authority. However, unlike an OGO, the majority shareholder does not consolidate the MSC's assets and liabilities into the municipal financial statements. Instead, the MSC is recorded as an equity investment, with annual changes in value reflected through the shares held by the shareholder. For the proposed South Frontenac MSC, criteria 1 and 2 can be established through the corporation's governance

³⁰<https://www.ontario.ca/document/tools-municipal-budgeting-and-long-term-financial-planning/understanding-municipal-debt?utm>

³¹BDO Canada LLP. (2019). *Introduction to Public Sector Accounting Standards (PSAS)*. BDO Canada. https://www.bdo.ca/getmedia/5ce49333-b107-4cef-9a25-6e1b73f7df8d/Intro-to-PSAS_1.pdf

structure, shareholder direction, and legal framework. The transfer of the Verona Housing Project is intended to provide the MSC with a viable operating asset capable of generating revenues from sources outside the Township, supporting the corporation's ability to satisfy criteria 3 and 4. Final classification as a GBE would ultimately depend on the MSC's actual operations, financial performance, and compliance with the applicable PSAS requirements.

6.5 – Income Tax Comments

Federal Exemption

Under section 149(1)(d.5) of the Income Tax Act (R.S.C., 1985, c. 1, 5th Supp.), an MSC is exempt from paying federal corporate income tax if it satisfies both of the following criteria:³²

1. **Income Test:** At least 90% of the corporation's income is derived from activities carried on within the boundaries of its municipal owner, or within the limits of another municipality with which it has entered into a formal agreement.
2. **Ownership Test:** At least 90% of the corporation's shares are owned by one or more municipalities.

Provincial Exemption

Under subsection 57(1)(a) of the Corporations Tax Act (Ontario), an MSC is also exempt from provincial corporate income tax. This subsection incorporates by reference the federal exemption set out in paragraph 149(1)(d.5) of the Income Tax Act.³³

Maintaining this tax-exempt status is essential for ensuring the financial efficiency of the MSC and avoiding unintended tax liabilities. These tax exemptions are generally independent of whether the MSC is classified as a GBE or OGO, as the exemptions relate to the statutory tax treatment of qualifying municipal corporations rather than their accounting classification.

Dividend income generated and paid out to shareholders from the MSC would be considered municipal income. It thus would be excluded from any income tax by Sec 149(1)(c), similar to other surplus municipal income.³⁴

³²*Income Tax Act*, R.S.C., 1985, c. 1 (5th Supp.), s. 149(1)(d.5). Government of Canada. Justice Laws Website. <https://laws-lois.justice.gc.ca/eng/acts/i-3.3/section-149.html>

³³*Corporations Tax Act*, R.S.O. 1990, c. C.40, s. 57(1)(a). Government of Ontario. <https://www.ontario.ca/laws/statute/90c40>

³⁴*Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), s. 149(1)(c). Government of Canada. Justice Laws Website. <https://laws-lois.justice.gc.ca/eng/acts/i-3.3/>

7.0 - Next Steps

Public Consultation as provided under O. Reg. 599/06 will be the next step in the process. The feedback received will be incorporated into an updated business case to be finalized and presented to Council.

Given the preliminary findings outlined throughout this draft Business Case, 2B Developments would propose that the Township of South Frontenac proceed with the establishment of an MSC to support the development, ownership, and management of housing assets within the Township. The proposed MSC would provide a governance and delivery framework that can help support housing development and create a scalable structure capable of evolving alongside the Township's long-term housing goals.

Should Council choose to proceed, several key steps would remain before the MSC can be incorporated and become operational. These include refining the governance framework, establishing the necessary corporate and governance documents, and preparing the required Asset Transfer Policy, and notifying the Ministry of Municipal Affairs and Housing (MMAH). The following implementation roadmap outlines the recommended next steps.

- Council receives Business Case | June 16th, 2026
- Public Consultation Period | July - August, 2026
- Refine governance structure | September, 2026 - January 2027
- Create bylaws / Asset Transfer Policy | February - March, 2027
- MSC is operational | Date March, 2027

The creation of an MSC represents an opportunity for the Township to create a dedicated and scalable organization focused on advancing housing priorities while maintaining strong municipal oversight and accountability through an arm's-length entity. As housing needs continue to evolve, the MSC model provides a flexible framework that can support the development, ownership, and management of housing assets, while also creating additional organizational capacity that can help reduce pressure on municipal resources and support the Township's long-term financial and service delivery goals.

Subject to Council direction and the completion of the required regulatory and governance steps, the proposed MSC would position South Frontenac to help address local housing needs and support the Township's long-term vision for growth, affordability, and community development.

Appendices

Appendix A: MSC FAQs

What is a Municipal Services Corporation?

Municipal Services Corporation (MSC) is a separate legal entity that a municipality, either on its own or together with another public-sector entity, may establish under Section 203 of the Municipal Act, 2001 and Ontario Regulation 599/06. The corporation's purpose must be to provide a:

1. system,
2. service, or
3. thing

that the municipality itself could deliver, or to fulfill a purpose specifically authorized under the Regulation.

What does a “public sector entity” mean when it comes to MSCs?

A “public sector entity” is defined in O. Reg. 599/06 as:

- (a) a municipality,
- (b) the Crown in right of Ontario,
- (c) the Crown in right of Canada, or
- (d) any combination of them.

This means that a municipality may be the sole shareholder of an MSC, or it may establish an MSC jointly with other upper-tier or lower-tier municipalities. In certain cases, a municipality may also partner with the Provincial or Federal government to create an MSC, although this approach is less common.

Who gives the Township the authority to create an MSC?

The Province of Ontario gives municipalities the authority to create an MSC through the Municipal Act, 2001 and Ontario Regulation 599/06. These legislations outline what an MSC is, what it can do, and the steps a municipality must take before establishing one.

What is the purpose of creating an MSC?

An MSC allows a municipality to deliver services such as housing, water, wastewater, or economic development through a separate corporation that operates independently from day-to-day municipal administration. Although an MSC is owned by a municipality or jointly with another public-sector entity, it is governed by a skills-based Board of Directors appointed by Council. The MSC model provides:

- Flexibility in decision-making and operations;
- A dedicated organization focused on housing delivery; and
- Innovation in achieving local housing development goals.

What are the requirements for creating an MSC?

Before a municipality can establish an MSC, it must meet three mandatory requirements under O. Reg. 599/06:

- Prepare a business case,
- Conduct a public consultation, and
- Develop an asset transfer policy.

Once these steps are complete, the municipality must pass a by-law that formally authorizes:

- The incorporation of the MSC under the Municipal Act, 2001 and O. Reg. 599/06, and
- The transfer of any municipal assets approved by Council to the new corporation.

Where can an MSC operate?

An MSC can only operate where it has municipal approval, ensuring that its activities remain aligned with local authority and community priorities:

- Upper-tier municipalities can establish an MSC that operates within their lower-tier municipalities without requiring each lower-tier's separate agreement, as long as the MSC provides services that the upper-tier municipality is authorized to deliver; and
- Lower-tier municipalities can similarly operate an MSC within their own boundaries without upper-tier approval, if the services provided fall within the lower-tier's own municipal powers.

This means that an MSC can:

- Serve a single municipality;
- Operate across multiple municipalities (with mutual agreement); or
- Function at a regional scale where upper-tier and lower-tier municipalities coordinate on shared infrastructure, utilities, or housing delivery, for example.

This flexibility allows municipalities to work together through a shared MSC to manage regional services, while each municipality keeps control over its own local decisions.

Who governs the MSC?

The MSC must be incorporated under provincial corporate legislation, such as the Ontario Business Corporations Act.³⁵ Under this legislation, every corporation is required to have a Board of Directors, which is responsible for overseeing its operations. The Act states that a corporation must have at least one director if it is a non-offering (private) corporation, and at least three directors if it is an offering (public) corporation. As MSCs are typically structured as non-offering corporations, there is flexibility in Board composition.

How are Board members accountable?

Board members are appointed by Council and are held accountable through clear governance policies, reporting requirements, and performance expectations. The Board is required to provide regular reporting to the Township, as shareholder, through established governance and reporting

³⁵ Building Code Act, 1992, S.O. 1992, c. 23. <https://www.ontario.ca/laws/statute/90b16>

mechanisms. In addition, its activities are subject to oversight, financial reporting, and independent audits to ensure transparency and alignment with the public interest.

Can members of Council sit on the Board?

Yes, members of Council may sit on the Board of Directors. This is a common approach used by municipalities across Ontario. For example, municipalities such as Oro-Medonte³⁶ and Lambton Shores³⁷ have included Council representatives on their MSC Boards.

Does an MSC reduce Council's oversight or control?

No. While the MSC will operate at arm's length from day-to-day municipal administration, it will be publicly owned and accountable to the Township. Council retains oversight by appointing a skills-based Board of Directors with the experience and expertise required to govern the corporation effectively. The Board reports to the Township, as shareholder, through regular reporting requirements and shareholder oversight mechanisms, ensuring transparency, accountability, and alignment with municipal objectives.

³⁶ Township of Oro-Medonte. (n.d.). *Municipal services corporation: Frequently asked questions (FAQs)*.

³⁷ Municipality of Lambton Shores. (n.d.). *Municipal services corporation business case study (draft)*.

Appendix B: South Frontenac Corporation Options Analysis

Entity	Status Quo	Housing Corporation	MSC
Description	<ul style="list-style-type: none"> Township continues to deliver housing directly through its existing organizational structure. Housing projects are planned, financed, and operated as part of general municipal operations. Responsibility and accountability remain solely with municipality. 	<ul style="list-style-type: none"> Operates as a separate legal entity with its own staff but remains closely tied to the municipality. Assets and liabilities typically stay on the municipal balance sheet. Allows for arm's-length management of housing. 	<ul style="list-style-type: none"> Allows the Township to deliver systems, services, or things they are authorized to provide. Separate corporate public entity that operates at arm's length. The MSC's debt should be excluded from the municipality's ARL
Legislative & Regulatory Framework	<ul style="list-style-type: none"> O. Reg. 403/02 O. Reg. 588/17 Section 270 of the Municipal Act, 2001 	<ul style="list-style-type: none"> O. Reg. 367/11 O. Reg 643/00 	<ul style="list-style-type: none"> Section 203 of the Municipal Act, 2001 O. Reg. 599/06
Ownership Model	<ul style="list-style-type: none"> The municipality owns and operates all housing assets directly. All liabilities, risks, and responsibilities remain with the municipality. 	<ul style="list-style-type: none"> Wholly owned by a single municipality as the sole shareholder or jointly owned with other municipalities or public partners. Can be structured as either a non-profit or a for-profit entity. 	<ul style="list-style-type: none"> Wholly owned by a single municipality acting as the sole shareholder; or Jointly owned by multiple municipalities or other public-sector entities such as the Crown in right of Ontario or the Crown in right of Canada.
Funding options	<ul style="list-style-type: none"> Everything remains on the municipal books. 	<ul style="list-style-type: none"> Potential for debt to remain off the municipal books. 	<ul style="list-style-type: none"> Greater potential for debt to remain off the municipal books.
Governance Structure	<ul style="list-style-type: none"> No separate governance framework under this model. Oversight remains entirely with Council and municipal administration. 	<ul style="list-style-type: none"> Governed by an independent, skills-based Board of Directors appointed by the shareholder(s). Board oversees the strategic direction. Staff manage day-to-day operations and service delivery. 	<ul style="list-style-type: none"> Governed by an independent, skills-based Board of Directors appointed by the shareholder(s). Board oversees the strategic direction. Staff manage day-to-day operations and service delivery.
Legal Requirements	<ul style="list-style-type: none"> No separate legal entity is established. 	<ul style="list-style-type: none"> Create a business case. Create a public consultation plan. Create an asset transfer plan. Create by-law(s). 	<ul style="list-style-type: none"> Create a business case. Create a public consultation plan. Create an asset transfer plan. Create by-law(s).
Alignment with SF's Goals	<ul style="list-style-type: none"> Does not align with the Township's goals of: reducing municipal strain on staff, removing day-to-day decision-making, or increasing debt capacity. 	<ul style="list-style-type: none"> Aligns with SF's housing goals, but attaining GBE status is difficult. Allows for separation of decision-making, but is redundant to the Kingston & Frontenac Housing Corporation's purpose. 	<ul style="list-style-type: none"> Strongly aligns with South Frontenac's objectives to expand affordable housing delivery.