



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: February 9, 2026

Report No: ES-002-26

Subject: Milton Hydro 2026 Budget and Borrowing Authorization

Recommendation: THAT for the year 2026, Milton Council waives the requirement that Milton Hydro Distribution Inc. (MHDI) maintain a current ratio above 1.1:1.

THAT Milton Hydro Holdings Inc. (MHHI) be requested to prepare a long-term financial outlook (minimum 10 years) including forecasted spending needs, funding sources and relevant financial metrics, as well as any relevant benchmarking or industry standards, in order to inform a future assessment of the existing borrowing thresholds for MHDI.

EXECUTIVE SUMMARY

- The 2026 Budget for MHHI and its subsidiaries was approved by the Board on December 2, 2025, and identified the potential for the current ratio for MHDI to exceed the Council approved threshold with respect to MHDI's borrowing limit.
- There were a number of changes in the financial outlook for MHDI and MHHI through the 2026 Budget process (relative to the forecasts presented through the 2025 Budget process), largely related to higher capital investment levels being identified in the time period to 2029, and the additional borrowing that will be required to fund those investments.
- Given these changes, a review of the existing borrowing authorizations provided by Town Council as the Shareholder to MHHI and its subsidiaries is appropriate. In order to inform that process, the preparation of a long-term outlook of spending needs, funding sources, financial metrics and industry benchmarking and best practices is required.
- If the recommendations herein are approved by Council, staff will consider the potential implications on the Shareholder Direction review that was previously



EXECUTIVE SUMMARY

approved through report ES-014-25, and the timing of that review may be affected as outlined further in the report below.

REPORT

Background

In September 2025, Town Council approved the recommendations of report ES-044-25, which had the effect of updating the borrowing limits for MHHI as well as each of the subsidiaries. The update ensured alignment between the policy language and the potential for MHHI to incur the borrowing directly (and subsequently lend to each of the subsidiaries). The borrowing thresholds, as measured through various financial ratios, for MHHI that were previously established were maintained through the revised policy, however the \$80 million limit was removed to reflect the expected growth in the organization and community. Borrowing for the purposes of the other subsidiaries remains subject to Town Council approval following the presentation of a related business case.

At the time of approving the updated borrowing policy in 2025, an assessment of the financial thresholds for MHHI was undertaken. The information available at that time demonstrated that MHHI remained within those thresholds at the end of 2024, and the forecasts available to 2029 suggested the potential of further strengthening of MHHI's financial position over the course of time. It should be noted that as part of MHHI and MHHI's budget process, only the first year of the budget is approved by the Board, while the remaining forecast years are presented for information.

Following the approval of the revised borrowing limits, MHHI and MHHI proceeded through the 2026 Budget process. As outlined in further detail below, there were notable changes relative to the forecasting that was previously undertaken for MHHI and its subsidiaries. As a result, although the 2026 Budget was approved by the Board on December 2, 2025, Town Council authority being recommended as a result of the current ratio for MHHI potentially falling below the required threshold in 2026.

As such, this report has been prepared for Town Council consideration.

It should be noted that the policy approved in September 2025 provided delegated authority for the Town's CAO (or alternatively the CFO / Treasurer) to issue a waiver to MHHI and MHHI in the event that any of the three financial conditions are expected to be exceeded. Given the degree of change in the financial outlook for MHHI and MHHI, the potential for a



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waiver being required beyond 2026, and the potential need to revisit the borrowing policy overall, Council approval is being sought at this time rather than utilization of that delegated authority.

Discussion

The three financial thresholds that MHDl is required to adhere to in the management of its borrowing are:

- The debt-to-capital ratio remains at or below 0.6
- The current ratio remains above 1.1:1
- The debt service coverage ratio remains above 1.15:1

The specific ratio that MHDl identified the potential to exceed in 2026 through its 2026 Budget process is the current ratio, which measures the short term financial assets that are available relative to the short term liabilities. The following tables present each of the three financial ratios, with the comparable forecast years from the 2025 versus 2026 Budget processes for MHDl.

MHDl - Debt to Capital*	2026	2027	2028	2029
2025 Budget and Forecast	53.0%	50.8%	48.2%	47.1%
2026 Budget and Forecast	55.8%	59.0%	56.8%	61.0%
Difference	2.8%	8.2%	8.6%	13.9%

* Current Town Policy requires a Debt to Capital ratio at or below 60%

MHDl - Current Ratio*	2026	2027	2028	2029
2025 Budget and Forecast	1.1:1	1.2:1	1.3:1	1.5:1
2026 Budget and Forecast	0.8:1	0.6:1	0.5:1	0.4:1
Difference	-0.3:1	-0.6:1	-0.8:1	-1.1:1

* Current Town Policy requires a Current Ratio above 1.1:1

MHDl - Debt Service Coverage Ratio*	2026	2027	2028	2029
2025 Budget and Forecast	4.6:1	5.6:1	5.9:1	5.1:1
2026 Budget and Forecast	2.2:1	2.4:1	2.8:1	2.5:1
Difference	-2.4:1	-3.2:1	-3.1:1	-2.6:1

* Current Town Policy requires a debt service coverage ratio above 1.15:1

In addition to the Current Ratio falling below the threshold in 2026, these forecasts also present the potential for a continued decline in the Current Ratio to 2029, as well as the



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potential for the Debt to Capital threshold to be exceeded by 2029. The Debt Service Coverage Ratio, although declining, remains within policy limits during the forecast period.

There are several factors contributing to the revised outlook, some of which are expanded on further below. They include an increase to the future capital spending needs of the organization, as well as the adoption of new financing strategies.

Through the 2026 Budget process, MHDI's forecasted capital spending was updated, which resulted in an increase in spending of 117% during the period 2026 to 2029 (a \$52.9 million increase).

MHDI - Total Net Capital Expenditures (\$Million)*	2026	2027	2028	2029	Total
2025 Budget and Forecast	\$12.4	\$11.0	\$13.3	\$8.8	\$45.3
2026 Budget and Forecast	\$18.3	\$18.5	\$30.9	\$30.5	\$98.2
Difference	\$5.9	\$7.6	\$17.7	\$21.7	\$52.9

* Net of Capital Contributions

There was a related increase in borrowing requirements in order to support the capital program as shown below.

MHDI - Bank Indebtedness and Loan from MHHI (\$Million)	2026	2027	2028	2029
2025 Budget and Forecast	\$63.6	\$61.7	\$60.0	\$60.0
2026 Budget and Forecast	\$72.8	\$84.6	\$82.2	\$103.2
Difference	\$9.2	\$22.9	\$22.2	\$43.2

The total annual net financing charges also increased, although not to the same degree as the overall capital spend and debt principal.

MHDI - Total Financing Charges (\$Millions)	2026	2027	2028	2029
2025 Budget and Forecast	\$2.4	\$2.2	\$2.6	\$2.9
2026 Budget and Forecast	\$2.9	\$2.9	\$3.3	\$3.4
Difference	\$0.5	\$0.8	\$0.8	\$0.4

Included in these figures is the implementation of a financing strategy wherein MHHI (and therefore MHDI) assume no new long-term debt throughout the planning horizon to 2029. Instead new cash needs are serviced by a short-term credit facility until the next planned long-term debt issuance, which is currently anticipated in 2031.



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Based on all of the above, a review of the existing borrowing authorities, as well as MHHI's long term spending and funding requirements, is appropriate. In order to fully inform that process though, a longer forecast period would be beneficial in order to better prepare for future needs of the organization. Given the implementation of a revised financing strategy (which leverages short-term credit facilities as opposed to long-term sources), additional benchmarking within the industry and insights with respect to future credit rating implications (if any) would also be beneficial.

As such, this report recommends that Council request the Board of MHHI to prepare a long-term forecast of future spending needs, funding sources, and financial metrics, and also to provide industry benchmarking with regard to financing strategies and financial metrics. This information is expected to inform any potential future update to the borrowing authorities provided to MHHI and its subsidiaries (in particular MHDl).

Other Considerations

1. Subsequent to the approval of the 2026 Budget, MHDl has further consulted with their auditor with regard to the presentation of their short-term credit facility. As that credit is provided on a three-year agreement, there is the potential to re-classify it as long-term debt, thereby potentially resolving the current ratio challenge for 2026. Council approval is being sought at this time for the waiver in the event that it is required, and also to ensure Council has awareness of the potential need to revisit the borrowing authorities going forward given the broader financial forecasting that is currently available.
2. Through report ES-014-25, Council provided direction for an update to the Shareholder Direction for Milton Hydro, including the endorsement of thirteen (13) proposed amendments to be considered as part of that update. When the borrowing limit updates presented through report ES-044-25 were subsequently approved, a resolution was included to reflect those updates as part of the overall Shareholder Direction update when it came forward.

Staff continue to work through the updates to the overall Shareholder Direction with Milton Hydro and legal Counsel. The newly identified need to potentially further update the borrowing limits for MHHI and MHDl may be considered through the update process.

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3. In the fourth quarter of 2025, the Province of Ontario launched the Panel for Utility Leadership and Service Excellence (PULSE). It is a strategic advisory group that is developing recommendations for the electricity distribution system and the municipally owned local distribution companies. The recommendations are expected in early 2026 for the Province's consideration.

Next Steps

Should Council approve the recommendations contained herein, Town staff will further consult with Milton Hydro to understand the potential timing of the long-term financial review. In addition to consideration of a potential further changes to the borrowing thresholds, Town staff will consider potential outcomes of the PULSE process as the Shareholder Direction update progresses. Based on all of the above, the timing of presentation of the updated Shareholder Direction may be impacted in order to align with any outcomes from these processes, and/or alternatively elements of the Shareholder Update may need to proceed independent of each other should a requirement to do so be identified.

Financial Impact

As the sole shareholder of MHHI, the Town has a direct interest in the financial health of the organization including each subsidiary. The capital structure adopted by MHHI and MHHI has a direct impact on cash flow and valuation associated with each entity and therefore the ability of each to provide a return to the shareholder.

By undertaking the long-term financial planning and related benchmarking that are recommended in this report, Milton Hydro and the Town can ensure that the organization continues to be well positioned to serve the needs of the community and its shareholder.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Glen Cowan

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Attachments

None

Approved by CAO
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.